SANY HEAVY EQUIPMENT INTERNATIONAL HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 631

Annual Report 2010

Contents

Company Profile

Sany Heavy Equipment International Holdings Company Limited (hereinafter "Sany International" or the "Company") was incorporated on 23 July 2009 in the Cayman Islands. The Company and its subsidiaries (hereinafter the "Group") is a major corporation specializing in the coal mining and excavation research and development, manufacturing and sale of whole set of Roadheader, mining and transportation vehicles and a leading provider of comprehensive coal mining equipment in China. On 25 November 2009, Sany International was listed on the Main Board of the Stock Exchange of Hong Kong Limited (hereinafter the "Stock Exchange"), and from the first day of listing until 31 December 2010, our stock price enjoyed a rise of 63.0%. Sany International achieved a revenue of approximately RMB2,683.5 million in 2010, a substantial increase of 41.1% over 2009, and our net profit was approximately RMB670.5 million in 2010, a notable increment of 36.7% over the approximated sum of RMB490.4 million in 2009.

The Group is a coal mining machinery manufacturer with the widest product range and the most abundant product lines in China. At present, the Group's products include the combined coal mining Units ("CCMUs"), semi-coal rock roadheaders, full-rock roadheaders, coal mine transportation vehicles and coal mine used concrete pumps. The Group has pioneered the research and development of the first fully automatic CCMU in China which has integrated design and manufacturing. We are the first company to provide integrated mining equipment and one-stop solutions in China. Not only such solutions fundamentally changed the original mode of manufacturing of coal mining machinery manufacturers in China where machines are designed and manufactured individually, but has also contributed new ideas to the industry such as manufacturing a whole set of coal mining products and intelligent manufacturing operations.

By leveraging the expertises of our coal mining machinery research and development team which is the largest in China in 2010, the Group has successfully launched the world's first "high gradient roadheader", "narrow body roadheader" and China's first "continuous mining machinery", "driving and anchor roadheader", "hard rock roadheader" and whole set coal plough. These products have filled the technological and scientific vacuum in China in this respect. As at 2010, the market share of roadheaders in the domestic market ranked first for three years in a row, of which the large-size roadheaders occupies a dominating market share in the domestic market. By the end of December 2010, we have applied for the national patent of 478 items in total, of which 132 items were patented inventions, and 244 items were franchised patents. The Company has been awarded with numerous prizes such as the First Prize for Technological Advancement in the Coal Industry, the Second Prize for Provincial Technological Advancement and City-level Prize for Provincial Technological Advancement, the Grand Prize in the Twelfth Session of China's Patents and the First Prize for Excellent New Products of Liaoning Province. At present, products of the Group have been successfully applied in over 500 mining sites in Inner Mongolia, Shanxi, Shaanxi, Shandong, Liaoning, Jilin, Heilongjiang, Guizhou, Hebei and Hunan, and have also been exported to countries such as Russia, Ukraine, the Philippines, Indonesia, Vietnam, Mongolia and Iran.

Financial Summary

	2010 (RMB'000)	2009 (RMB'000)	Year-on-year Increase (%)
Sales revenue	**2,683,461**	1,901,376	41.1%
Gross profit	**1,238,450**	905,157	36.8%
Profit before tax	**719,846**	524,827	37.2%
Net profit	**670,512**	490,432	36.7%
Profit attributable to Shareholders of the Company	**670,512**	490,432	36.7%
Profit attributable to Shareholders of the Company (excluding one-off items and revaluation items)[1]	**670,512**	490,432	36.7%
Total assets	**5,883,461**	5,458,927	7.8%
Total equity	**4,751,743**	4,211,743	12.8%
Cash flows from operating activities	**279,940**	505,170	—
Cash flows used in investing activities	**(2,272,991)**	(462)	—
Cash flows from/(used in) financing activities	**(89,284)**	2,302,501	—
Earnings per share (RMB Yuan)			
— Basic[2]	**0.32**	0.32	—
— Diluted	**0.32**	0.32	—

(Percentage)	2010	2009	Increase (%)
Gross profit margin	**46.2%**	47.6%	–1.4%
Percentage of profit attributable to shareholders of the Company[3]	**25.0%**	25.8%	–0.8%
Percentage of profit attributable to shareholders of the Company (excluding one-off items and revaluation items)	**25.0%**	25.8%	–0.8%
Assets turnover	**47.3%**	44.3%	3.0%
Asset — Liability ratio	**19.2%**	22.8%	–3.6%
Average total assets (RMB'000)	**5,671,194**	4,290,632	

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

2 *The weighted average shares up to 31 December 2010 were approximately 2,075 million ordinary shares; the weighted average shares up to 31 December 2009 were approximately 1,554 million ordinary shares.*

3 *Profit attributable to shareholders of the Group divided by sales revenues.*

Important Milestones in Year 2010

JAN

Establishment of the Mining Engineering, Technology and Equipment Research Center

On 16 January 2010, the Mining Engineering, Technology and Equipment Research Center was officially established at the Group. The center is headed by Academician Mr. Song Zhenqi, working closely with the scientific research team. Mr. Song is the only academician in mining from the Chinese Academy of Sciences. The Center aims to promote technological innovations in the coal mining machinery industry and to further expand on the scope of research of the Group and continues to take its leading position further in the industry.

MAR

Establishment of the American Research Institute

On 18 March 2010, the American Research Institute of the Group was established. The Company has fully capitalized on the international first-tier research and development professionals in coal machinery and made use of the well developed local industrial chain of production and learning from the advanced modes of managerial and production practise of the United States of America. By utilising the integrated resources for the research and development of new products to meet the demand of the Company for high-quality products. This propels the Group's coal machinery products to gain their recognition on the international market, thereby further enhancing the international presence of the Group's brand name.

JAN ················ FEB ················ MAR ················ APR ················ MAY ················ JUN ················

APR

Delivery for use of the fully automatic CCMU

In April 2010, the first set of the fully automatic CCMU of China was inspected and accepted by Shenhua Mengxi Coal-Mining Industry Co., Ltd. with highly regarded appraisal. As at today, the set of CCMU is in good operating condition.

Mr. Zhou Wanchun appointed Chief Executive Officer and executive Director of the Company

On 26 April 2010, Mr. Zhou Wanchun was appointed as the chief executive officer of the Company, and was further appointed as an executive Director of the Company on 31 July 2010. Mr. Zhou has over 20 years of experience in the machinery industry. Mr. Zhou has been accorded with numerous awards, he has been selected as the "Sany Personage" in 2004 and awarded as the "Excellent Manager" by the Economic and Technological Development Area Administration Committee of Changsha, China in May 2008. In academic research, Mr. Zhou developed the latest mode of mortgage for the construction machinery industry, and has published numerous articles in provincial journals such as the Entrepreneurs' World. Mr. Zhou has outstanding achievements in machinery manufacturing, jurisprudence and financial studies.

Important Milestones in Year 2010 (Continued)

MAY

The first whole set of fully automatic coal plough equipment in China went into service

On 15 May 2010, China's first set of coal plough equipment for thin seams developed and manufactured by Sany Heavy Equipment Co., Ltd, the Company's wholly-owned subsidiary, ("Sany Heavy Equipment") — the automatic coal plough machines had successfully entered into service. Such equipment is a whole set of automatic coal plough best for the extraction of thin seams of under 1.3m; it can achieve a daily production capacity of over 5,000 tonnes with low dust emissions and can be operated remotely. The introduction of such equipment has restrained the monopoly created by the foreign manufacturers and filled in the erstwhile technology vacuum for domestic manufacturers. Such equipment was delivered to our customer in December 2010 and it has been in good operating condition eversince.

AUG

Grand opening of the Industrial Park for Set Equipment

At 3:18 pm on 18 August 2010, a grand inaugural ceremony was held at the Sany Coal Mining Equipment Industrial Park. The Sany Coal Mining Equipment Industrial Park is situated at No. 16 Kaifa Avenue, Shenyang Economic and Technological Development Zone, occupying an area of 629,015.2 m^2. The total investment amounts to RMB2.2 billion and is estimated to be fully completed in 2012. Upon completion, it will be the largest coal mining set equipment production base in China and will substantially increase the Group's production capacity.

Successful examination and approval of the Shield Carrier

On 28 August 2010, the shield carrier produced by the research and development specialists of Sany Heavy Equipment went through the successful joint inspection and approval by the mine operator and experts in the industry and won their high recognition and commendations. Successful inspection and approval of the shield carrier marks a solid step forward of the Company in the area of ancillary products.

JUL ··· AUG ··· SEP ··· OCT ··· NOV ··· DEC

NOV

Hard rock roadheaders won the Prize of Excellence in Patents of China

On 10 November 2010, the State Intellectual Property Office announced the results of the Twelfth Session of Patents Appraisal, and the invention patent by the Group — "hard rock roadheader" won the Prize of Excellence in Patents of China for the Twelfth Session.

DEC

Underground Survival System on successful show

On 6 December 2010, the Third China National Coal Mining Industrial Machinery Development Forum was jointly hosted by the China National Coal Machinery Industry Association (中國煤炭機械工業協會) and the China Coal Cities Development Union (中國煤炭城市發展聯合促進會) and undertaken by the Group was grandly held in Shenyang. On such occasion, under the Group's independent research and development, the first underground survival system in China was introduced by the Group. The system has attained leading world standard.

Chairman's Statement

Mao Zhongwu
Chairman

Dear Shareholders,

On behalf of the board of Directors of Sany Heavy Equipment International Holdings Company Limited, I am pleased to present the annual report of the Group for the year ended 31 December 2010.

Full Year Review

The Group has ended its first full fiscal year since the Company is listed on the Main Board of the Stock Exchange. During the year, the Group achieved remarkable growth in business. For the year ended 31 December 2010, the Group's sales revenue amounted to RMB2,683.5 million, a year-on-year growth of 41.1%; the Group's profit before tax amounted to RMB719.8 million, a year-on-year growth of 37.2%; the Group's net profit amounted to RMB670.5 million; and the Group's earnings per share amounted to RMB0.32. The growth benefited from the expansion of coal mining machinery industry, as well as increased production capacity, rise in market share, enhanced industry reputation and improved corporate governance of the Group. The share price of the Group has steadily increased, generating attractive returns for investors. The Board recommends to declare dividend of HK7.6 cents per share and 5 bonus shares per 10 shares, subject to the approval of the shareholders of the Company (the "Shareholders") in the annual general meeting.

As China promotes the consolidation of the coal industry, increasing mechanization rate for coal production and strives for higher efficiency in the energy industry, the Group took advantage of these great opportunities and placed greater importance in product development with continuous improvements in quality and engineering levels realized after its listing on the Main Board. The Group has developed and launched the first fully automatic CCMU in China. Such development has fundamentally changed the single-function coal mining machinery

Chairman's Statement (Continued)

design and manufacture mode in China, and led the product development towards an integrated and intelligent approach in the industry. The fully automatic coal plough developed by the Group is best applied in thin-bed mining (thickness of coal seam: <1.3m) in China. It is a breakthrough in domestic market which was monopolized by foreign manufacturers in the past. The Group has also launched the first underground survival system in China. This world-class innovation has enabled the Group to pre-emptively seizing opportunities in the market and maintaining a leading role in the industry.

Part of the proceeds from the Group's initial public offering on 25 November 2009 was used to improve the operating environment and expand the Group's production capacity. Presently, the Group's new plants situated in the Shenyang Economic and Technology Development Area are under construction; part of which was completed. In particular, No.1 Plant was completed and put into production in July 2010, which helped the Group to further expand its production capacity.

The Group places its paramount attention to its research and development capabilities and has invested a significant amount of resources into research and development process. For the year ended 31 December 2010, the Group applied for 188 national patents, of which 71 items were patented inventions. The hard rock roadheader developed by the Group won the Chinese Patent Award in the Twelfth China Patent Award Selection. The American Research Institute of the Group enables the Group to make the best of overseas specialists and resources by enhancing research and development capacities, and elevate the competitiveness of the Group among global competitors.

The Group continues to launch new products. In 2010, the Group launched the world's first high gradient roadheader and narrow body roadheader, making the Group one of the manufacturers that offers the widest range of roadheaders in China. The EBZ200H hard rock roadheader and EBZ132CZ narrow body roadheader developed by the Group won the first prize and the third prize of outstanding new product award in Liaoning China respectively. Manufactured by the Group, the first set of automatic CCMU in China was inspected and approved by Shenhua Mengxi Coal Mining Industry Co., Ltd.. The Group has launched the first set of fully automatic coal plough optimum for thin-seam mining in China, which shifted the status quo in domestic market largely monopolized by foreign manufacturers in the past. The Group has also launched the first underground survival system in China, a world-class system that the Group takes pride in. Presently, the Group is the only manufacturer that has a complete set of underground survival system in China. Besides, the shield carrier developed by the Group was approved by clients and experts of the industry. This indicates the Group has taken steady steps toward the development of auxiliary equipments.

We believe in the principle that "Quality Changes the World". We adhere to customer-oriented solutions and strive for constant improvement in our products and services. The Group has employed a team of world-class experts to reconstruct the production system and improve quality control in every production procedures. Exceeding our customers' expectations is the most important basis for customer development and retention. Our provision of after-sales services cover the top 300 coal enterprises in China. We also serve a majority of large-scale coal mines and offer the best services in China. Currently, our products have been successfully applied in over 500 mining sites within China. We are also exporting products to many countries including Russia, Ukraine, Indonesia and Vietnam. The brand awareness of the Group has further permeated into various markets internationally.

While creating value for our Shareholders, the Group strives to shoulder its social responsibilities as a corporate citizen. In Yushu Earthquake Relief, the Group donated funds and materials to the striken areas generously and sent staff to join the on-site rescue teams immediately after the earthquake.

Outlook

Domestic economy has been growing steadily and the coal demand has been increasing remarkably, resulting in constant rise in coal prices. The coal production volume for 2011 is expected to have a significant increase compared with previous years. To satisfy the need of coal enterprises for production expansion, the Group will strive to expand its production scale. In 2011, the new plants of the Group will be completed and put into production. The Group also intends to acquire land plots in major coal production regions for future expansion of production capacity.

The Group always strives to increase the mechanization of the coal industry by developing high-end technological products of high performance and premium quality. The Group will be investing more resources to improve existing products, integrating research and development resources, and utilizing the expertise of the overseas specialists, so as to offer products that are higher in quality while maintaining their affordability.

To deal with the rise in material and labor costs globally, the Group will further integrate existing production resources and increase the portion of in-house manufactured components, for the purpose of driving product cost control. We strive to improve processing techniques and increase operational capacity by means of business expansion.

The Group will further improve its after-sales services. By means of refining our services approach, the Group strives to maintain well-developed relationship with existing clients, attracting new clients and increase product coverage, so as to increase the general profitability for the Group.

In 2011, the Group will participate in at least three large-scale exhibitions of coal mining machinery in Russia, Ukraine, South Africa, etc. This will help further increase global influence and industry recognition of the Group. The Group will make the best of the American Research Institute and German Research Institute to attract global talents, utilize well-tested industrial production chain in the regions, research into advanced management and production modes from western companies, and accumulate experience in global operations for future development into the overseas market.

The Group's rapid growth would be impossible without support from the capital market. The Group will make the best out of the capital market and seek proper companies for transversal or longitudinal integration, so as to realize a fast-paced and sustainable development of the Group.

On behalf of the Board of the Company, I would like to express my sincere gratitude to our loyal and supportive Shareholders, members of our management and all of our staff.

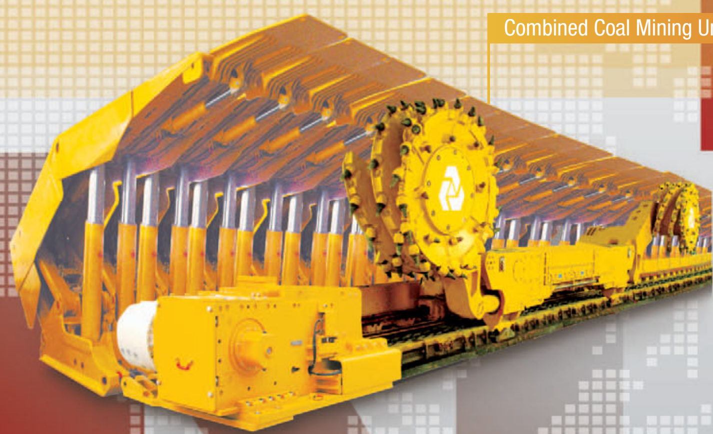
Mao Zhongwu
Chairman
Hong Kong, 31 March 2011

JM11 Bolting Integrated Roadheader

EBZ200H Hard Rock Roadheader

MANAGEMENT DISCUSSION AND ANALYSIS

Coal Ploughing Unit



Combined Coal Mining Unit

Management Discussion and Analysis

The Group has 19 sales branches, 18 service centers and 63 service outlets, covering throughout the main coal production regions in China and are in the proximity of 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, Yongcheng 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)

19 Inner Mongolia (One office: Kangbashi)

Industry Overview

There was a significant growth of the coal-related machinery market in China during the year 2010. One of the main drivers for the growth is the State's encouragement for excavation of thin seams and lifting the mechanization rate. According to statistics from the National Bureau of Statistics of China, investments in excavation and washing equipment by coal enterprises reached a record high of RMB377 billion, representing a growth of 23.3% over the previous year, which, in particular with an increase of over 50% in the last two months in 2010. Meanwhile, about 1,355 small-size coal mines across the country were merged during the year, resulting in a significant increase in the demand for our large-size equipments since all customers of the Group will benefit from coal mine consolidation.

Business Review

Results overview

The Group has achieved outstanding performance in 2010. Due to increasing demand of our customers for our roadheaders and wide recognition of our CCMUs, the Group recorded sales income of approximately RMB2,683.5 million in 2010, representing a significant growth of approximately 41.1% from approximately RMB1,901.4 million in 2009. The increase was well above the growth rate of the market, as a result of the ever-improving competitiveness of the Group. The Group's gross profit reached approximately RMB1,238.5 million, an increase of approximately 36.8% over the same period of last year. The gross margin increased by 1.1% to 46.2% over the first half of 2010. Though the research and development expenses of the Group increased by 97.7% year on year to approximately RMB120.8 million in 2010, the profit attributable to Shareholders recorded a significant growth of approximately 36.7% to approximately RMB670.5 million in 2010 from approximately RMB490.4 million in 2009. On the assumption that the increase of research and development expenses is in line with that of sales, profit attributable to our Shareholders is expected to reach approximately RMB0.7 billion with a sharp increase of 42.6%.

Research and development capability and new products

The Group has continued to increase its investments in research and development in order to establish a competitive research and development team and offer our customers products that are higher in quality but at reasonable prices. The Group aims at improving coal mine safety, product efficiency and mechanization rate. The Group has already set up a general research institute, focusing on the overall planning and co-ordination of research and development projects. The Group has also established five other research institutes, namely roadheader research institute, coal mining machines research institute, hydraulic support structure equipment research institute, coal mine transportation vehicles research institute and Armoured-face Conveyors ("AFCs") research institute. The Group also has invested in the establishment of research and development centers for coal-related machines in the United States and Germany respectively, and employed first-tier experts in order to attain distinctive competitive advantages over both domestic and international competitors. In addition, the Group has set up a Coal Mine Engineering Technology and Equipment Center to push forward innovation of the sector, expand its field in research and development and enhance its leading position in the industry. Meanwhile, training with unlimited budget was invested to enhance the research and development personnel's skills.

As at 31 December 2010, the number of the Group's research and development personnel increased by approximately 21.0% year-on-year to 600. The Group also made substantial investments in research and development. In 2010, research and development expenses increased by approximately RMB59.7 million to approximately RMB120.8 million compared with last year. The ratio of research and development expenses to revenue increased approximately 1.3% to approximately 4.5%. The increased research and development expense was mainly used for developing new equipment such as CCMUs and large-size roadheaders.

Through the Group's strong support and its research and development team's unrelenting efforts, the Group has launched new epoch-making equipment such as semi-automatic/automatic CCMUs and the country's first set of BH38/2×400 coal plough to meet miners' demand of highly mechanized coal mining equipment, filling a gap in this field in China. As a leader in technological innovation in the industry, the Group applied for 188 national patents in 2010, including 71 invention patents. In future, the Group will upgrade its existing products and release brand-new products to further expand its product portfolio, striving to provide customers with one-stop solution for coal-mining.

Capacity expansion and capital expense

In order to satisfy the customers' strongly increasing demand for the Group's products, the Group will continuously enhance and expand existing production capacity. During 2010, the Group spent approximately RMB512.5 million on the construction of new production facility and continuous enhancement of the production capacity of original production plants. The Group's first new production facility was completed on 18 August 2010, and the completion of other three new production facilities is expected to take place in the first half of 2011. Once in operation, the new facility will significantly enhance the Group's production capacity and the advanced equipment in the new facility will help boost the Group's gross margin.

The Group also intends to acquire land plots in major coal production regions for further expansion of production capacity in future.

Apart from developing new production facilities, the Group is committed to enhance the production capacity of its existing production facilities by upgrading equipment and optimizing production processes.

Distribution and service network

Under the operation philosophy of "All for Customers", the Group strives for the objective of "the Quickest Arrival, the Quickest Problem-Solving Process and the Quickest Supply of Spare Parts" in order to deliver high quality services to its customers.

As at 31 December 2010, the Group has 19 sales branches, 18 service centers and 63 service outlets, covering throughout the main coal production regions in China and are in the proximity of major mining sites where its customers operate. The Group has initiated three service patterns, namely, "Mines-stationed Services" ,"Nurse-style Services" and "Patrol Services" to build up intimate relations with its clients. Meanwhile, interactions among customer services, research and development, manufacture, and business linkage of the Group were so established, that positive feedbacks are gained from its customers.

In 2010, the Group began to sell its products to overseas markets such as Ukraine, Indonesia and the Philippines, and achieved substantial increase in sales.

Coal mines in Donetsk, Ukraine are mainly comprised of thin seams containing rich methane gas, which are difficult to exploit. Nonetheless, the Group has managed to become the first supplier in China and also the first company in the world to sell roadheaders in Ukraine, indicating the Group's excellent competitiveness. The Group is also the first Chinese company to sell roadheaders in Indonesia and the Philippines. All these have made the Group the leading coal machinery manufacturer in China in terms of overseas market development, and have built a solid global reputation for the Group to further develop its overseas business.

Financial review

Revenue

In 2010, the Group's sales income was well above industry average level. The Group recorded a revenue of approximately RMB2,683.5 million (2009: approximately RMB1,901.4 million), representing a significant year-on-year growth of approximately 41.4%. Due to our solid customer base and that all of our customers benefited from national policies such as coal mine consolidation, our roadheaders have taken up the largest market share, and its revenue has increased by 34.4% all the same. The growth of our roadheaders has surpassed our major competitors', and the Group's leading position in the industry has been further consolidated. Our CCMUs have gained wide recognition in the market, with sales growth rate reaching approximately 66.6%.

Product categories

	2010 RMB million	**%**	2009 RMB million	%	Change RMB million	Percentage change %
Roadheaders	**1,943.3**	**72.4**	1,445.7	76.0	497.6	34.4
Combined coal mining units	**312.0**	**11.6**	187.3	9.9	124.7	66.6
Coal mine transportation vehicles	**37.7**	**1.4**	24.3	1.3	13.4	55.2
Spare parts	**335.9**	**12.5**	162.2	8.5	173.7	107.1
Others	**54.6**	**2.1**	81.9	4.3	–27.3	–33.4
Total	**2,683.5**	**100.0**	1,901.4	100.0	782.1	41.1

Roadheaders: product sales income increased significantly about 34.4% to approximately RMB1,943.3 million (2009: approximately RMB1,445.7 million), mainly due to the continuous growth of sales volume of roadheaders and customers demanding more large-size roadheaders from the Group at a faster pace. Compared to small and medium-size roadheaders, the gross margin of large-size roadheaders is substantially higher.

CCMUs: sales income increased significantly by about 66.6% to approximately RMB312.0 million (2009: approximately RMB187.3 million), mainly due to the increasing demand for integrated and automatic products from coal mines in China and wide recognition of the Group's CCMUs gained in the market.

Mining vehicles: sales income increased by about 55.2% to approximately RMB37.7 million (2009: approximately RMB24.3 million).

Spare parts: sales income increased significantly by about 107.1% to approximately RMB335.9 million (2009: approximately RMB162.2 million), mainly due to the increase in the accumulative quantities of products sold to the Group's customers.

Other income

In 2010, the Group's other income was approximately RMB89.2 million (2009: approximately RMB50.9 million), representing a year-on-year growth of approximately 75.2%. Other income mainly derived from the Group's interest income, fair value gains, government grants and profit from sale of scrap materials.

Customer composition and regional analysis

Most of the Group's customers are large-size coal enterprises with strong financial position.

In 2010, the Group's main sales income came from Shanxi, Shaanxi, Inner Mongolia, Henan and Anhui. The sales income of these five provinces represented approximately 68.4% of the Group's total sales. In particular, sales income from Shanxi Province achieved significant growth, representing approximately 32.8% of the Group's total sales income (2009: 28.4%).

Financing sales

The ratio of the total financing amount obtained by the Group's customers from China Kangfu International Co., Ltd. ("Kangfu International") to the Group's sales income has substantially decreased by 10.5% from approximately 19.7% in 2009 to approximately 9.2%. In 2010, the Group's financing sales in co-operation with third party financial institutions increased to 2.5% of total sales. Carrying out sales through financing is an internationally common sales model for coal-related machinery. The Group has established partnership with multiple financial institutions in this regard. The Group will continue to promote this sales model under the precondition of rigorous risk control.

COGS

The Group takes various measures to avoid risks caused by price fluctuations of raw materials and critical spare parts. In 2010, the Group's COGS increased by approximately 45.0% to approximately RMB1,445.0 million (2009: approximately RMB966.2 million), mainly attributed to the significant growth of the Group's sales income and changes in the sales structure.

During the period under review, the Group's cost of steel slightly increased by approximately 1.5% to approximately 13.5% of the total cost, mainly due to customers' increasing needs for the Group's medium and large-size roadheaders, which require more steel to produce and partially due to increasing raw materials price. The cost of machinery parts and other raw materials decreased by approximately 0.5% to approximately 75.7% of the total cost, mainly due to the Group's continuous effort in strengthening cost control and establishing healthy relationships with suppliers for more favorable price. The cost of direct labour only increased by approximately 0.1% to approximately 3.9% of the total cost. The cost of manufacture decreased by approximately 1.1% to approximately 6.9% of total cost, mainly due to the Group's rigorous effort to improve production process and control expenses.

Gross profit and gross margin

In 2010, gross profit of the Group was approximately RMB1,238.5 million (2009: approximately RMB905.2 million), representing a year-on-year growth of approximately 36.8%.

The Group's consolidated gross margin in the year was approximately 46.2%, representing a decrease of approximately 1.4% from approximately 47.6% in 2009. But there was an increase of approximately 1.1% compared with 45.1% in the first half of 2010. The slight decrease in gross margin was mainly due to the difference in gross margin between various products and the change of the product mix from 2009.

Profit margin before tax and net profit margin

Profit margin before tax and net profit margin both decreased by 0.8% to approximately 26.8% and approximately 25.0% from approximately 27.6% and approximately 25.8% in 2009. This decrease was lower than that of gross profit margin.

Excluding the effect of substantial increase in research and development expense, profit margin before tax and net profit margin would increase approximately by 1.3% and approximately 1.1% to approximately 28.1% and approximately 26.1% respectively.

Selling and distribution costs

In 2010, the selling and distribution costs of the Group were approximately RMB335.4 million, (2009: approximately RMB232.8 million), representing a year-on-year increase of approximately 44.1%. The selling and distribution costs of the Group increased by approximately 0.3% year-on-year to approximately 12.5% of the revenue (2009: approximately 12.2%). The increase was mainly due to the growth in marketing and promotional expenses for new products, transportation expenses and in after sales service expenses as the Group expanded its scale of sales.

Administrative expenses

In 2010, administrative expenses of the Group were approximately RMB248.8 million (2009: approximately RMB171.3 million), representing a year-on-year growth of approximately 45.2%. The ratio of administrative expenses excluding research and development expenses of the Group to revenue was approximately 4.8% (2009: approximately 5.8%), representing a year-on-year decrease of approximately 1.0%.

Finance costs

In 2010, finance costs of the Group was approximately RMB5.8 million (2009: approximately RMB3.8 million). The finance costs for year 2010 were all related to the interest arising from the discounted bills.

Taxation

Sany Heavy Equipment Co., Ltd., a wholly-owned subsidiary of the Group, is a National High New Technology Enterprise in Liaoning Province and is entitled to preferential tax treatments. Its enterprise income tax rate in 2010 was 11% with effective tax rate being approximately 6.9% (31 December 2009: effective tax rate being approximately 6.6%). Income tax increased by RMB14.9 million from approximately RMB34.4 million for the year ended 31 December 2009 to approximately RMB49.3 million for the year ended 31 December 2010, of which enterprise income tax was approximately RMB60.0 million (31 December 2009: approximately RMB37.1 million) and deferred income tax gain was approximately RMB10.4 million (31 December 2009: approximately RMB2.7 million). For details regarding income tax, please refer to note 10 to the financial statements.

Profit attributable to equity holders of the Company

In 2010, the Group's profit attributable to equity holders was approximately RMB670.5 million (2009: approximately RMB490.4 million), representing a year-on-year growth of approximately 36.7%.

Liquidity and financial resources

As at 31 December 2010, current assets of the Group were approximately RMB4,526.5 million (31 December 2009: approximately RMB4,618.8 million). As of 31 December 2010, current liabilities of the Group were approximately RMB850.4 million (31 December 2009: approximately RMB984.9 million). As at 31 December 2010, the current ratio of the Group was approximately 5.3 times, representing a year-on-year growth of approximately 0.6 times.

As at 31 December 2010, total assets of the Group were approximately RMB5,883.5 million (31 December 2009: approximately RMB5,458.9 million), and total liabilities were approximately RMB1,131.7 million (31 December 2009: approximately RMB1,247.2 million). As at 31 December 2010, the asset to liability ratio of the Group was approximately 19.2% (31 December 2009: approximately 22.8%).

As of 31 December 2010, the Group did not have any bank borrowings and hence, the gearing ratio was not applicable to the Group.

Cash flow

As compared with the beginning of this year, cash and cash equivalents of the Group decreased by approximately RMB2,103.2 million. Excluding term deposits with original maturity of three months or more when acquired and investment deposits, the actual decrease of cash and cash equivalents of the Group were approximately RMB387.4 million. Details are as following:

As at 31 December 2010, the net cash flow from the Group's operating activities was approximately positive RMB279.9 million (31 December 2009: approximately positive RMB505.2 million).

As at 31 December 2010, the cash flows from investing activities was approximately negative RMB2,273.0 million (31 December 2009: approximately negative RMB0.5 million). The decreases were mainly due to: (1) term deposits with original maturity of three months or more when acquired and investment deposits increased by approximately RMB947.3 million and RMB768.6 million respectively; and (2) the Group's increasing investments of RMB588.6 million in the constructions of production facilities.

As at 31 December 2010, the net cash flow from financing activities of the Group was approximately negative RMB89.3 million (31 December 2009: approximately positive RMB2,302.5 million). The decrease was mainly due to the Group's payment of approximately RMB109.6 million as dividend in 2010.

The Group has sufficient resources to meet its working capital needs and foreseeable capital expenditures, and will keep improving its cash flow position.

Turnover days

During the period under review, the average turnover days of inventory as at 31 December 2010 were approximately 121.9, representing a decrease of approximately 52.0 from approximately 173.9 as at 31 December 2009, and a decrease of 27.1 from approximately 149.0 in the first half of 2010, at relatively low level in the industry. This improvement was mainly due to the Group's management continued effort to optimize its inventory management model.

Due to its stringent approval process of customers' credit standings, the Group was able to keep a bad debt loss of near zero. The turnover days of trade and bills receivable as at 31 December 2010 were approximately 138.5, representing a slight increase of about 11.7 from approximately 126.8 as at 31 December 2009, but a decrease of about 10.2 from approximately 148.7 in the first half of 2010, which is an obvious improvement and at relatively low level in the industry. The Group had set up a risk control department to monitor outstanding trade receivables and had also set up an accountability system for tackling overdue receivables and following up on debt collection.

As at 31 December 2010, turnover days of trade and bills payable were approximately 83.0, representing a decrease of 26.5 from approximately 109.5 as at 31 December 2009, but were about the same as the first half of 2010 of 85.7 days. This was mainly attributable to the Group's sufficient working capital and its efforts in strengthening long-term relationships with suppliers for the best possible purchasing price.

Contingent liabilities

As at 31 December 2010, the Group had no contingent liability.

Capital commitment

As at 31 December 2010, the contracted capital commitments of the Group which are not disclosed in the financial statements were approximately RMB500.7 million (31 December 2009: approximately RMB253.0 million). Such capital commitments were mainly for the purchase of property, plant and equipment.

Employees and remuneration policy

As at 31 December 2010, the Group had 3,625 employees (31 December 2009: 3,045 employees). During the period under review, total employee costs increased by approximately 87.6% to approximately RMB260.6 million (2009: approximately RMB138.9 million).

	As at 31 December 2010		As at 31 December 2009		Change	
	Number of employees	**Percentage to total employees**	Number of employees	Percentage to total employees	Number of employees	%
Manufacturing	**1,489**	**41.08%**	1,344	44.14%	145	4.76%
Product research and development	**600**	**16.55%**	496	16.29%	104	3.42%
Sale and services	**606**	**16.72%**	358	11.76%	248	8.14%
Management	**930**	**25.66%**	847	27.82%	83	2.73%
Total employees	**3,625**	**100%**	3,045	100%	580	19.05%

The Group persists in training and developing talents and accordingly provides internal and external trainings and overseas course sponsorship for its staff, with an aim for self-improvement and enhancement of employees' skills relevant to work. In addition, the Group paid year-end bonuses to staff as rewards for their contributions and dedication to the Group. The remuneration of the directors of the Group was determined with reference to their positions, responsibilities and experience and prevailing market conditions. At the same time, the Group also provides its employees with various development opportunities. Through our system of job rotation, transfer, job bidding, competence and qualification assessment and managerial staff rotation, employees can explore their profession potential, improve their skills, and their managerial and professional capabilities.

Material acquisition and disposal

On 30 December 2010, the Group purchased a 72,898.81 m^2 land near the new production facility in Shenyang. The land will be used for construction of facilities to improve employees' housing conditions. As at 31 December 2010, the Group had paid approximately RMB28.0 million in respect of this parcel of land. At the date of this report, the Group had paid approximately RMB52.8 million in addition to the land lease payment it made in 2010.

Pledge of assets

As at 31 December 2010, the Group had bills receivable under pledged of approximately RMB33.1 million (31 December 2009: approximately RMB81.6 million), and pledged deposits of approximately RMB37.7 million (31 December 2009: approximately RMB69.0 million), which were used to obtain credit facilities from banks.

Foreign exchange risk

As at 31 December 2010, the Group's foreign currencies comprise the equivalent of RMB0.9 million in Hong Kong Dollars and the equivalent of RMB312.4 million in US Dollars. The Group has utilized forward currency contracts to mitigate its foreign exchange risks. The Group will monitor the risk exposures and may consider hedging against material currency risk when necessary.

Social responsibility

The Group always bears its social responsibility in mind. In the first half of 2010, the Group donated to the earthquake-stricken Yushu County and immediately dispatched staff to carry out the relief. The Group has also set up the "Aid Foundation for Staff in Special Difficulties"(「特困職工救助基金會」) in an effort to help the staff and their families in special difficulties. The foundation helps them to reduce their difficulties to a minimum and ensures their normal living standards, thus enabling them to feel the loving care from the Group and their colleagues. In future, the Group will continue to assume its social responsibility.

Mission

In only four years from 2004, the market share of the Group for roadheaders grew from zero to that of the top of the industry at a fast rate. From 2008 to 2010, the CAGR of sales income of the Group was 53.0% and the CAGR of net profit was 77.9%, which were significantly higher than the industry average. The outstanding research and development capability of the Group enables it to produce high-quality products which, although the average prices of our products have been the highest in the industry, are still very well sought after by customers. This is also a reflection of our solid customer base. Customers of the Group have all benefited from the consolidation of the coal industry and the national policy to increase the rate of mechanization and improve production safety.

Meanwhile, the underground survival system (井下救生系統) launched by the Group at the end of 2010 is an active response to the State's policy to safe production of coal mine. The "Interim Provisions for the Construction and Management of Emergency Refuge System for Underground Mines" (《煤礦井下緊急避險系統建設管理暫行規定》) issued by the State Administration of Coal Mine Safety(國家煤礦安全監察局) on 25 January 2011, which has specified that underground survival system shall be constructed and improved in accordance with the relevant requirements in all underground coal mines. The State Administration of Coal Mine Safety has also specified that underground survival system shall be installed in all coal mines by the end of June 2013. The introduction of this policy is expected to create a huge market for underground survival system and huge growth potential for coal-related machinery products.

The Group will continue to uphold its mission of "Quality Changes the World" and continue to increase investments in research and development in order to provide its customers with high-quality products and add more value to the society.

Directors and Senior Management

Directors

Our board of directors ("Board") currently consists of nine Directors (each a "Director"), comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. The functions and duties conferred on the Board include convening Shareholders' meetings and reporting on the work of the Board reports at Shareholders' meetings, determining our business and investment plans, preparing our annual financial budgets and final reports; formulating proposals for profit distributions, recovery of losses and for the increase or reduction of our registered capital, as well as exercising other powers, functions and duties conferred to them by the memorandum and articles of association of the Company. The Company has entered into service contracts with each of the executive Directors. Certain information with respect of members of our Board is set out below:

Executive Directors

Mr. Mao Zhongwu (毛中吾), aged 49, 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 has been the managing director and general manager of Sany Heavy Equipment Co., Ltd. ("Sany Heavy Equipment") since July 2006, and has been an executive director of Sany Heavy Integrated Coal Mining Equipment Co., Ltd. ("Sany Zongcai") and Sany Group Shenyang Mining Transportation Equipment Co., Ltd. ("Sany Transportation") since their respective establishments in May 2008 and September 2009. He is mainly responsible for the overall strategic planning and investment decisions of the Group. Mr. Mao has over 25 years of experience in the machinery industry.

Mr. Mao is a non-executive Director of the Sany Group Limited (the "Sany Group") and has held no executive position in the Sany Group. He founded the Sany Group in 1989 and was mainly responsible for its business development. Since then, he held various posts in the subsidiaries of the Sany Group, and he has been a director of the group since 2000. He was appointed as the vice president of the Sany Group from June 2005 to June 2006. During his tenure with the Sany Group, Mr. Mao was awarded the honor 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 the 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 at the National University of Singapore in 1999.

Mr. Zhou Wanchun (周萬春), aged 43, member of Zhigong Party. He was appointed as the Chief Executive Officer of the Company on 26 April 2010, and was further appointed as an executive Director of the Company on 31 July 2010. Mr. Zhou joined the Sany Group in 1991 and worked at Sany Group Materials 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 Co. Ltd. ("Sany Heavy Industry") and held the positions of assistant to the plant manager, officer of the general manager's office, department head of legislative affairs, general manager of Hunan Zhongfa Asset Management Company Limited and deputy general manager of Sany Heavy Industry respectively. In October 2007, he was transferred to the largest operations department in terms of scale of sales of Sany Group — sales of pumping products as the standing deputy general manager and general manager of the sales and marketing division in full engagement of the pumping products operation. In February 2009, he was posted as the vice president of Sany Heavy Industry and standing deputy general of the pumping products operations and is responsible for the day-to-day sales, service and blending equipments. Mr. Zhou has over 20 years of experience in the machinery industry.

From 2003 to 2006, Mr. Zhou studied at the Macau University of Science and Technology and obtained 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 tenure with Sany Heavy Industry, Mr. Zhou was awarded the "Sany Figures" for Year 2004; by virtue of his outstanding management capability, he was presented the title of "Excellent Manager" by the Changsha Economic and Technological Development Zone Administration Committee of the Communist Party of China (中共長沙經濟技術開發區管委會) in May 2008; he has also received the "Outstanding Contribution Prize" for Year 2009 presented by Sany Group in March 2010. After joining Sany International, Mr. Zhou was awarded honors such as the "Model Worker in Shenyang" and the "Excellent Corporate Culture Contribution Prize of Shenyang" for Year 2010. Mr. Zhou played an active role in social development and promotion of the industry. In 2010, he was appointed as the deputy director of Shenyang Market Economy Association (瀋陽市市場經濟協會), deputy director of National Safety Management Association (國家安全管理協會) and deputy director of the China Coal Machinery Industry Association (中國煤炭機械工業協會). At the same time, Mr. Zhou is in active participation in academic education and academic research. In July 2010, he was engaged as a visiting professor of Shenyang Industrial University (瀋陽工業大學). In September 2010, he was engaged as a supervisor for master's degree candidates of Design Art Faculty of Hunan University (湖南大學設計藝術學院). Also, Mr. Zhou published a number of articles in provincial level magazines such as the "World of Entrepreneurs" and took part in the editorship of the book "Guidance by Top Masters on Administration and Administrative Legal Proceedings of the Judicial Examination (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. Liang Jianyi (梁堅毅), aged 54, was appointed as an executive Director of the Company on 23 July 2009. Mr. Liang has been the deputy general manager and chief engineer of Sany Heavy Equipment since June 2009. He has also 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 position nor have any roles in the Sany Group. Mr. Liang has over 25 years of experience in the machinery industry.

Mr. Liang joined Sany Heavy Equipment in May 2004. He was appointed as the assistant general manager and head of the research institute. Between February 1996 and May 2004, Mr. Liang was the assistant general manager of the Sany Group, and he was mainly responsible for the manufacturing 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. By virtue of his introduction of an innovative corporate management system in Shenyang City, he was accorded the title of "Outstanding Corporate Management Worker" (優秀企業管理工作者) in 2008 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 Entrepreneurs Association (瀋陽市企業家協會). In 2009, Mr. Liang also received the honor of "Labour Model" by the Shenyang Tiexi Area Committee of the Shenyang Tiexi Area People's 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 49, was appointed as 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. Xiang has over 20 years of experience in the machinery industry. Mr. Xiang is currently the president and vice-chairman of Sany Heavy Equipment and is responsible for its overall business operations and strategic planning.

Mr. Xiang joined the Sany Group in 1991 and was mainly responsible for production business and marketing. Mr. Xiang held various positions in the Sany Group, such as the standing director and general manager of the marketing department, general manager of Sany Heavy Industry and executive president of the Sany Group. Mr. Xiang has also held a number of social positions such as a representative of the 11th National People's Congress (第十一屆全國人大代表), a council member of China Machinery Industry Confederation (中國機械工業聯合會), vice chairman of China Construction Machinery Industry Association (中國工程機械工業協會) and Industrial and Commercial Union in Hunan Province (湖南省工商聯合會). 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 48, was appointed as a non-executive Director of the Company on 23 July 2009. He has also been an non-executive Director of Sany Heavy Equipment since January 2004. Mr. Huang has over 20 years of experience in the machinery industry. Mr. Huang is currently a director and vice-president of Sany Heavy Industry. Mr. Huang joined the Sany Group in 1992 and was mainly responsible for the financial, production and overseas business. Mr. Huang has served in various positions in the Sany Group, such as manager of the machine plant, manager of the super-hard materials plant, finance manager, assistant to the general manager, deputy general manager and general manager of Sany Heavy Industry. Mr. Huang was the general manager of Sany Development, Middle East branch, in 2007. Prior to joining the 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 from Wuhan University (武漢大學) in June 2008 with a master's degree in Business Administration.

Mr. Wu Jialiang (吳佳梁), aged 49, was appointed a non-executive Director of the Company on 23 July 2009. He has 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 the 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 over 10 years of experience in the machinery industry.

Mr. Wu started his career in the Changzheng Machinery Factory, Aerospace Department (航天部四川長徵機械廠) as a technician from 1982 to 1985. Between 1988 and 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 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. Ngai Wai Fung (魏偉峰), aged 48, was appointed as an independent non-executive Director of the Company on 5 November 2009. Mr. Ngai is currently the managing director of MNCOR Consulting Limited and the vice president of the Hong Kong Institute of Chartered Secretaries.

Mr. Ngai is currently the independent non-executive Director and member or chairman of the audit committee of Bosideng International Holding Limited (波司登國際控股有限公司), China Railway Construction Corporation Limited (中國鐵建股份有限公司), China Coal Energy Company Limited (中國中煤能源股份有限公司), BaWang International (Group) Holdings Limited (霸王國際(集團)控股有限公司), Franshion Properties (China) Limited (方興地產(中國)有限公司), SITC International Holdings Company Limited (海豐國際控股有限公司), Biostime International Holdings Limited (合生元國際控股有限公司) and Powerlong Real Estate Holdings Limited (寶龍地產控股有限公司), which are companies listed on the Stock Exchange.

From 2007 to 2010, Mr. Ngai was a director and head of listing services of KCS Hong Kong Limited (formerly the corporate and commercial divisions of KPMG and Grant Thornton, respectively) and was the chief officer from 2005 to 2007. Prior to this, Mr. Ngai served in various senior management positions, including executive director, company secretary and chief financial officer, of a number of listed companies (including Industrial and Commercial Bank of China (Asia) Ltd. (中國工商銀行(亞洲)有限公司), China Unicom (Hong Kong) Limited (中國聯通) and China COSCO Holdings Co. Ltd. (中遠集團)).

Mr. Ngai has led or participated in major financing projects such as 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 obtained a master's degree in Business Administration from Andrews University of Michigan in 1992 and a master's degree in Corporate Finance from the Hong Kong Polytechnic University in 2002. He is a doctorate candidate in finance at Shanghai University of Finance and Economics. Mr. Ngai is a member of the Association of Chartered 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, a fellow of the Hong Kong Institute of Company Secretaries, a fellow of the Hong Kong Institute of Directors and Hong Kong Securities Institute.

Mr. Xu Yaxiong (許亞雄), aged 64, a professor-level senior engineer, was appointed as 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 the head of 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). Between 1994 and 2007, Mr. Xu worked in the general office of Ministry of Coal Industry (煤炭工業部辦公廳) and subsequently in the State Administration of Work Safety (國家安全生產監督管理總局) and took up positions such as 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 then elected as the president.

Mr. Ng Yuk Keung (吳育強), aged 46, was appointed as an independent non-executive Director of the Company on 5 November 2009. Mr. Ng is currently the standing director and chief financial officer of a private pharmaceutical company and the honorary adviser of China Huiyuan Juice Group Limited (中國匯源果汁集團有限公司).

Mr. Ng worked with PricewaterhouseCoopers for over 12 years from 1988 to 2001. From 2001 to 2003, he was the chief financial officer of Beijing International School, and was the accounting adviser of Australian Commercial Lawyers Agency in 2004. From November 2004 to August 2006, he was the deputy chief financial officer, a joint company secretary and the qualified accountant of Irico Electronics Group Company Limited (彩虹集團電子股份有限公司). He is also the independent non-executive director of Xinjiang Xinxin Mining Industry Company Limited (新疆新鑫礦業股份有限公司), Beijing Capital Land Limited (首創置業股份有限公司), Zhongsheng Group Holdings Limited (中升集團控股有限公司) and Winsway Coking Coal Holdings Limited (永暉焦煤股份有限公司) and the honourable adviser of China Huiyuan Juice Group Limited (中國匯源果汁集團有限公司).

Mr. Ng graduated from The University of Hong Kong with a bachelor's degree in Management Studies and Economics and a master's 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 Accountants and the Association of Chartered Certified Accountants, and a member of the Institute of Chartered Accountants in England and Wales.

Senior Management

Mr. Liu Weili (劉偉立), aged 48, is the general manager of the sales department of the Company. He has been a director of Sany Transportation since September 2009. Mr. Liu has over 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 the Sany Group and held the positions of operator, department head and assistant to the president. Prior to joining the Sany group, Mr. Liu worked in Changsha Clothing Industry Company (長沙市服裝工業公司) as a manager 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 held this position since 2006. Mr. Du has over 10 years of experience in the machinery industry. From 2001 to 2006, Mr. Du held the position of financial manager of the Sany Group. Prior to joining the Sany Group, Mr. Du was the financial manager of 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 Shanghai University of Finance and Economics (上海財經大學) in June 1993 with a bachelor's degree in Economics and has also received MBA training for financial executives from 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).

Mr. Huang Xiangyang (黃向陽), aged 49, deputy general manager and head of our research institute. He has work experience in the electrical and mechanical industry.

From 2001 to June 2010, Mr. Huang was posted at various departments of Sany Heavy Industry (computer room officer, director of automation office and head of research institute). He joined Sany Heavy Equipment in June 2010 as the deputy general manager of the coal mining operation division. Since October 2010, Mr. Huang Xiangyang has been posted as the deputy general manager and head of our research institute.

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 43, 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 ("Tricor"), 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. Other than the company, Ms. Kam is also the company secretary of four companies which are listed on the Stock Exchange. Ms. Kam has over 18 years of experience in corporate secretarial practice.

Directors' Report

The Board is pleased to present the audited financial statements of the Group for the year ended 31 December 2010.

Principal Activities and Subsidiaries

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 1 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 2010 are set out in the financial statements on pages 47 to 112 of this annual report.

The Directors propose to recommend the payment of a final dividend of HK7.6 cents per ordinary share for the year ended 31 December 2010 on 26 May 2011, to the Shareholders whose names appear on the register of members of the Company on 13 May 2011 ("Record Date") at the forth coming annual general meeting of the Company to be held on 13 May 2011, 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 HK7.6 cents per share is subject to approval by the Shareholders in the forthcoming annual general meeting. Such dividend will be distributed from the share premium of the Company. The final dividend for the year ended 31 December 2010 represented an increase of 26.7% from last year. 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 the 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.

Proposed Bonus Issue

The Board has recommended a bonus share issue (the "Proposed Bonus Issue") of new shares (individually a "Bonus Share" and collectively the "Bonus Shares") on 26 May 2011, to the Shareholders on the basis of five (5) Bonus Share of HK$0.1 for every ten (10) issued ordinary shares held by such Shareholders whose names appear on the register of members of the Company on the Record Date. The Bonus Shares will be fully paid at par and will rank pari passu with the existing issued ordinary shares of the Company.

The Proposed Bonus Issue is conditional upon:

(i) an ordinary resolution being passed to approve the Proposed Bonus Issue at the forthcoming annual general meeting being duly passed; and

Proposed Bonus Issue (Continued)

(ii) the listing of and permission to deal in the Bonus Shares being granted by the Listing Committee of the Stock Exchange.

Application will be made to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Bonus Shares to be issued pursuant to the Proposed Bonus Issue after the ordinary resolution referred in (i) above has been duly passed at the forthcoming annual general meeting.

A circular setting out further details of the Proposed Bonus Issue will be despatched to the Shareholders as soon as practicable.

Financial Statements

The summary of the results, assets and liabilities of the Group for the year ended 31 December 2010, and the state of the Company's and the Group's affairs as at 31 December 2010 set out on pages 47 to 112 of this annual report.

Reserves

Details of movements in the reserves of the Group and the Company during the year under review are set out in the consolidated statement of changes in equity and note 30 to the financial statements, respectively.

Distributable Reserves

As at 31 December 2010, 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 RMB3,709.8 million, of which approximately RMB132.7 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

Details of the changes in share capital of the Company during the year ended 31 December 2010 and as at that date are set out in note 29 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 where the Company is incorporated, 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 10.9% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 2.6% of the Group's total sales. The aggregate purchases during the year under review attributable to the Group's five largest suppliers were approximately 30.3% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 9.6% 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.

Banking Facilities

Particulars of banking facilities of the Group as at 31 December 2010 are set out in note 25 to the financial statements.

Donations

Charitable and other donations made by the Group during the year under review amounted to approximately RMB0.2 million (2009: approximately RMB0.3 million).

Property, Plant and Equipment

During the year ended 31 December 2010, the Group held property, plant and equipment of approximately RMB837.7 million. Details of the movements are set out in note 14 to the financial statements.

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 2010. 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 2010.

Directors

The Directors in 2010 comprised:

Executive Directors:

Mr. Mao Zhongwu *(Chairman)*
Mr. Zhou Wanchun *(Chief executive officer and general manager)*
Mr. Liang Jianyi

Non-executive Directors:

Mr. Xiang Wenbo
Mr. Huang Jianlong
Mr. Wu Jialiang

Independent non-executive Directors:

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

In accordance with article 84 of the Company's articles of association, each of Mr. Zhou Wanchun, Mr. Xiang Wenbo and Mr. Ngai Wai Fung will retire from the office of Director by rotation at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

Directors' Service Contracts

Each of the executive and non-executive Directors on the Board during the year ended 31 December 2010 has entered into a service agreement with the Company for an initial term of three years commencing from 25 November 2009 (except Mr. Zhou Wanchun, an executive Director, who has entered into a service agreement with the Company for an initial term of three years commencing from 31 July 2010) whereas each of the independent non-executive Directors on the Board during the year ended 31 December 2010 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 21 to 26 of this 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.

Director's Interests in Competing Business

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2010 and up to and including the date of this annual report.

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 2010, 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 BVI"), respectively, which in turn holds the entire issued share capital of Sany Hongkong 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 2010, 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 2010, 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
Sany HK	Beneficial owner	1,500,000,000	72.29%
Sany BVI (Note 1)	Interest of a controlled corporation	1,500,000,000	72.29%
Mr. Liang Wengen (Note 2)	Interest of a controlled corporation	1,500,000,000	72.29%

Notes:

1. *Sany BVI owns 100% of the issued share capital of Sany HK. Sany BVI is therefore deemed to be interested in all the shares held by Sany HK under the SFO.*

2. *Mr. Liang Wengen is interested in 58.24% of Sany BVI. Mr. Liang Wengen is therefore deemed to be interested in all the shares held by Sany HK under the SFO.*

Deed of Non-Competition

Each of the controlling shareholders has confirmed to the Company of his/her compliance with the deed of non-competition provided to the Company under the Deed of Non-Competition (as defined in the Company's prospectus dated 12 November 2009). The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the controlling shareholders.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float required under the Listing Rules throughout the year ended 31 December 2010.

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 2010, the Group's total contributions to the retirement schemes charged in the income statement amounted to RMB23.4 million (2009: RMB10.8 million). Details of the Group's pension scheme 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. The Company has complied with the CG Code contained in Appendix 14 to the Listing Rules for the year ended 31 December 2010. The Group's principal corporate governance practices are set out on pages 39 to 43 of the annual report.

Connected Transactions

(A) During the year ended 31 December 2010, 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 Investments Company Limited ("Sany Heavy Equipment"), a wholly-owned subsidiary of the Company, entered into a distribution agreement (the "Distribution Agreement") with Sany International Development Ltd. (Hong Kong) ("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.

Connected Transactions (Continued)

(1) Distribution Agreement with Sany Development (Continued)

Sany Development is wholly-owned by Sany Heavy Industry, an associate of Sany HK, Sany BVI and Mr. Liang Wengen, and is therefore a connected person of the Company under the Listing Rules. During the year under review, no transaction incurred under the Distribution Agreement, which was within the approved cap of RMB56,850,000 as disclosed in the Company's prospectus dated 12 November 2009.

(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 Limited ("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 Company's prospectus dated 12 November 2009.

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 approximately RMB38,273,000, which was within the approved cap of RMB105,281,000 as disclosed in the Company's prospectus dated 12 November 2009.

As the Master Purchase Agreement had expired on 31 December 2010, the Company and Sany Group have entered into a master purchase renewal agreement on 24 December 2010 (the "Master Purchase Renewal Agreement") to renew the terms of the Master Purchase Agreement for one year commencing from 1 January 2011 to 31 December 2011 (both days inclusive). The proposed cap amount of such transactions under the Master Purchase Renewal Agreement will not exceed RMB94 million for the financial year ended 31 December 2011.

The cap amount was determined with reference to (i) the historical transactional amounts between the SG Group and the Group for the three years ended 31 December 2009, and the six months ended 30 June 2010, (ii) the prevailing market price for such parts and components, and pumps in the open market in the PRC, and (iii) the anticipated business and production volume of the Group's products taking into account the commencement of operation of the Group's new production facilities and related infrastructure in Shenyang Economic and Technology Development Area in 2011 and the anticipated increases in demand for the Group's products in the coming year. Details of the Master Purchase Renewal Agreement were set out in the Company's announcement dated 24 December 2010.

Connected Transactions (Continued)

(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 Company's prospectus dated 12 November 2009.

Kangfu International is owned as to 75% by Sany Group, an associate of Sany HK, Sany BVI 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 approximately RMB245,642,000, which was within the approved cap of RMB321,830,000 as disclosed in the Company's prospectus dated 12 November 2009.

(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 Co. Ltd. ("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 BVI 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 approximately RMB17,574,000, which was within the approved cap of RMB35,000,000 as disclosed in the Company's prospectus dated 12 November 2009.

(B) During the year ended 31 December 2010, the Group entered into the following one-off transaction with its connected person. The transactions constituted "connected transactions" for the Company under the Listing Rules and subject to the reporting, annual review and announcement requirements but exempt from the requirement of independent shareholders' approval under Rule 14A.34 of the Listing Rules.

Connected Transactions (Continued)

Construction Management Agreement with Hunan Xinxiang Construction

Sany Heavy Integrated Coal Mining Equipment Co., Ltd. ("Sany Zongcai"), a wholly-owned subsidiary of the Company, entered into a construction management agreement (the "Construction Management Agreement") with Hunan Xinxiang Construction Consultancy Co., Ltd ("Hunan Xinxiang Construction"), pursuant to which Hunan Xinxiang Construction agreed to provide certain construction supervisory and project management services including but not limited to the supervision of construction production facilities and related infrastructure at a new site in Shenyang Economic and Technological Development Area to Sany Zongcai on 24 December 2010. Hunan Xinxiang Construction is a company engaged in construction supervisory and project management for property development project and technical consulting business. The service fee for the provision of construction supervisory and project management services by Hunan Xinxiang Construction to Sany Zongcai was determined after negotiations on an arm's length basis with reference to the expected scope of services to be provided and complexity of the construction works to be involved and the prevailing market price for the relevant construction supervisory and project management services. Details of the Mutual Supply Agreement were set out in the Company's announcement dated 24 December 2010.

Hunan Xinxiang Construction is a wholly-owned subsidiary of Sany Group, an associate of Mr. Liang Wengen, a substantial shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. The aggregate fee involve is RMB6 million and the applicable percentage ratios (other than the profits ratio) as defined under Rule 14.07 of the Listing Rules for the Construction Management Agreement are expected to exceed 0.1% but below 5%, the transactions under the Construction Management Agreement will be subject to the reporting, annual review and announcement requirements but exempt from the requirement of independent shareholders' approval under Rule 14A.34 of the Listing Rules.

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 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 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 33 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 2010.

Dividend

The Board has recommended the payment of a final dividend of HK7.6 cents per ordinary share of the Company for the year ended 31 December 2010. 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 26 May 2011.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 9 May 2011 to Friday, 13 May 2011, 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, Proposed Bonus Issue and to attend and vote at the forthcoming annual general meeting of the Company to be held on 13 May 2011, 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 Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 6 May 2011. Subject to Shareholders' approval of the proposed final dividend of shares at the annual general meeting to be held on Friday, 13 May 2011, the relevant dividends will be paid on Thursday, 26 May 2011, to Shareholders whose names appear on the register of members of the Company on the Record Date. The share certificates for the Bonus Shares will be posted to the Shareholders not later than 26 May 2011.

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 2010.

Auditors

The consolidated financial statements for the year ended 31 December 2010 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, 31 March 2011

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 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 2010, 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. Prior to 26 April 2010, the Company did not separate the roles of chairman and chief executive officer. In order to achieve a higher standard of corporate governance within the Company and a better balance of power and authority between the Board and the management of the Company, the Company has appointed Mr. Zhou Wanchun to take up the role of chief executive officer of the Company in place of Mr. Mao Zhongwu on 26 April 2010 in compliance with CG Code Provision A.2.1. Upon such appointment, Mr. Mao Zhongwu will still remain as the chairman of the Company responsible for overseeing the operations of the Group.

The Board

The Board consists of nine Directors, comprising three executive Directors, three non-executive Directors and three 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

Prior to 26 April 2010, Mr. Mao Zhongwu was the chairman and chief executive officer of the Company responsible for overseeing the operations of the Group. Since 26 April 2010, the chairman and chief executive officer of the Company are two distinct and separate positions, which are held by Mr. Mao Zhongwu and Mr. Zhou Wanchun, respectively, both being executive Directors.

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.

The Audit Committee held four meetings in the year ended 31 December 2010 with an average attendance rate of 100% by each of its members.

The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2010, including the accounting principles and practices adopted by the Group, selection and appointment of the external auditors.

Remuneration Committee

The Remuneration Committee was established 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 determine the policies in relation to human resources management, to review the compensation strategies, to determine the remuneration packages of the senior executives and managers, to approve the term of the service contract of the executive Directors, to assess the performance of the executive Directors, to recommend and establish annual and long-term performance criteria and targets as well as to review and supervise the implementation of all executive compensation packages and employee benefit plans. 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.

During the year ended 31 December 2010 the Remuneration Committee held one meeting.

Nomination Committee

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. 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.

During the year ended 31 December 2010 the Nomination Committee held one meeting.

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 2010 is set out below:

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Mao Zhongwu *(Chairman)*	5/5	N/A	1/1	1/1
Mr. Zhou Wanchun	2/5	N/A	N/A	N/A
Mr. Liang Jianyi	5/5	N/A	N/A	N/A
Non-executive Directors				
Mr. Xiang Wenbo	4/5	N/A	N/A	N/A
Mr. Huang Jianlong	4/5	N/A	N/A	N/A
Mr. Wu Jialiang	4/5	N/A	N/A	N/A
Independent non-executive Directors				
Mr. Ngai Wai Fung	5/5	4/4	1/1	1/1
Mr. Ng Yuk Keung	5/5	4/4	1/1	N/A
Mr. Xu Yaxiong	5/5	4/4	N/A	1/1

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 2010.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparation of the financial statements for the financial year ended 31 December 2010 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

The Company has appointed Ernst & Young as the auditors of the Company. The fees for the audit services provided by the auditor to the Group for the year ended 31 December 2010 amounted to RMB2 million.

The statement of the auditors of the Company concerning their responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditors' Report on pages 45 to 46 of this annual report.

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 2010 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 2010. 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 and investors of the Company. 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 of the Company and the Shareholders 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. Zhou Wanchun
Mr. Liang Jianyi

Non-executive Directors

Mr. Xiang Wenbo
Mr. Huang Jianlong
Mr. Wu Jialiang

Independent Non-executive Directors

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

Joint Company Secretaries

Mr. Du Xing
Ms. Kam Mei Ha, Wendy

Audit Committee

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

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
Bank of Communications
China Merchants Bank
Shanghai Pudong Development Bank
The Hongkong and Shanghai Bank
Industrial and Commercial Bank of China
Agricultural Bank of China
Guangdong Development Bank
Construction Bank of China
China Everbright Bank of China
Industrial Bank
Hua Xia Bank
Standard Chartered Bank
CITIC Bank
Bank of Yingkou

Auditors

Ernst & Young
Certified Public Accountants

Legal Advisers

Orrick, Herrington & Sutcliffe (as to Hong Kong law)
Jingtian & Gongcheng (as to PRC law)

Stock Code

00631

Hong Kong Share Registrar

Computershare Hong Kong Investor
Services Limited
Shops 1712—16, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Company Website

http://www.sanyhe.com

Investor Relations

Mr. Hu Tao
Assistant Comany Secretary & Head of
Investor Relations Department

Direct Line	:	+86 24 31808124
Fax	:	+86 24 31808050
Address	:	No. 31 Yansaihu Road, Shenyang Economic and Technological Development Area, Liaoning Province, PRC
Postal 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 consolidated financial statements of Sany Heavy Equipment International Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 47 to 112, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

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

Opinion

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

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central, Hong Kong
31 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	2,683,461	1,901,376
Cost of sales		(1,445,011)	(996,219)
Gross profit		1,238,450	905,157
Other income and gains	5	89,219	50,928
Selling and distribution costs		(335,361)	(232,776)
Administrative expenses		(248,776)	(171,292)
Other expenses		(17,908)	(27,690)
Finance costs	7	(5,778)	(3,825)
Share of profit and loss of an associate		—	4,325
PROFIT BEFORE TAX	6	719,846	524,827
Income tax expense	10	(49,334)	(34,395)
PROFIT FOR THE YEAR		670,512	490,432
Attributable to:			
Owners of the parent		670,512	490,432
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB Yuan)	13	0.32	0.32
Diluted (RMB Yuan)	13	0.32	0.32

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 2010

	2010 RMB'000	2009 RMB'000
PROFIT FOR THE YEAR	670,512	490,432
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	(20,898)	(1,231)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(20,898)	(1,231)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	649,614	489,201
Attributable to:		
Owners of the parent	649,614	489,201

Consolidated Statement of Financial Position

31 December 2010

	notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	837,707	402,271
Prepaid land lease payments	15	326,158	333,084
Non-current prepayments	19	110,659	34,602
Deferred tax assets	28	82,435	70,177
Total non-current assets		1,356,959	840,134
CURRENT ASSETS			
Inventories	17	384,297	558,162
Trade receivables	18	874,417	565,641
Bills receivable	18	281,785	251,742
Prepayments, deposits and other receivables	19	227,708	78,438
Derivative financial instruments	20	12,233	—
Investment deposits	21	768,560	—
Pledged deposits	22	37,718	69,043
Cash and cash equivalents	22	1,939,784	3,095,767
Total current assets		4,526,502	4,618,793
CURRENT LIABILITIES			
Trade and bills payable	23	277,973	379,549
Other payables and accruals	24	446,906	520,773
Tax payable		86,934	54,530
Provision for warranties	26	31,934	28,994
Government grants	27	6,655	1,021
Total current liabilities		850,402	984,867
NET CURRENT ASSETS		3,676,100	3,633,926
TOTAL ASSETS LESS CURRENT LIABILITIES		5,033,059	4,474,060
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,835	—
Government grants	27	279,481	262,317
Total non-current liabilities		281,316	262,317
Net assets		4,751,743	4,211,743
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	182,801	182,801
Reserves	30(a)	4,436,233	3,919,328
Proposed final dividend	12	132,709	109,614
Total equity		4,751,743	4,211,743

Mao Zhongwu
Director

Zhou Wanchun
Director

Consolidated Statement of Changes In Equity

Year ended 31 December 2010

	Attributable to owners of the parent							
	Issued capital *RMB'000* *(note 29)*	Share premium account *RMB'000*	Contributed surplus *RMB'000*	Reserve funds *RMB'000* *(note 30)*	Exchange fluctuation reserve *RMB'000*	Retained profits *RMB'000*	Proposed final dividend *RMB'000* *(note 12)*	Total *RMB'000*
At 1 January 2010	182,801	2,052,643	1,332,316	87,018	(1,231)	448,582	109,614	4,211,743
Total comprehensive income for the year	—	—	—	—	(20,898)	670,512	—	649,614
Final 2009 dividend declared	—	—	—	—	—	—	(109,614)	(109,614)
Proposed final 2010 dividend *(note 12)*	—	(132,709)	—	—	—	—	132,709	—
Transfer from retained profits	—	—	—	67,904	—	(67,904)	—	—
At 31 December 2010	182,801	1,919,934#	1,332,316#	154,922#	(22,129)#	1,051,190#	132,709	4,751,743
At 1 January 2009	—	—	1,332,316	34,629	—	207,626	—	1,574,571
Total comprehensive income for the year	—	—	—	—	(1,231)	490,432	—	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
Issuance of new shares upon exercise of the over-allotment option	6,604	310,404	—	—	—	—	—	317,008
Share issue expenses	—	(86,297)	—	—	—	—	—	(86,297)
Dividends paid by the Company and its subsidiaries to their then shareholders *(note 12)*	—	—	—	—	—	(197,087)	—	(197,087)
Proposed final 2009 dividend *(note 12)*	—	(109,614)	—	—	—	—	109,614	—
Transfer from retained profits	—	—	—	52,389	—	(52,389)	—	—
At 31 December 2009	182,801	2,052,643	1,332,316	87,018	(1,231)	448,582	109,614	4,211,743

\# *These reserve accounts comprise the consolidated reserves of RMB4,436,233,000 (2009: RMB3,919,328,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		719,846	524,827
Adjustments for:			
Finance costs	7	5,778	3,825
Share of profit and loss of an associate		—	(4,325)
Bank interest income	5	(15,336)	(4,458)
Gains from investment deposits	5	(7,773)	—
Loss on disposal of items of property, plant and equipment	6	512	—
Fair value gains on derivative financial instruments			
—transactions not qualifying as hedges	5	(12,233)	—
Depreciation	14	33,943	26,490
Amortisation of land lease prepayments	15	6,926	4,824
Government grants	27	(12,762)	(15,092)
Impairment of trade receivables	18	2,748	20,508
Provision against slow-moving and obsolete inventories	17	9,872	6,607
		731,521	563,206
(Increase)/decrease in inventories		163,993	(190,927)
Increase in trade receivables		(311,524)	(304,426)
Increase in bills receivable		(30,043)	(69,684)
(Increase)/decrease in prepayments, deposits and other receivables		(147,044)	158,819
Decrease in an amount due from a shareholder		—	4,427
Decrease in amounts due from related parties		—	860
Increase/(decrease) in trade and bills payable		(101,576)	161,609
Increase/(decrease) in other payables and accruals		(22,340)	166,142
Increase in provision for warranties		2,940	12,193
Receipt of government grants		6,030	—
Decrease in amounts due to related parties		—	(535)
Cash generated from operations		291,957	501,684

Consolidated Statement of Changes In Equity (Continued)

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Cash generated from operations		291,957	501,684
Interest received		15,336	4,458
PRC tax paid		(27,353)	(972)
Net cash flows from operating activities		279,940	505,170
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(512,544)	(60,093)
Acquisition of assets from a related party		—	(128,081)
Purchase of a land lease prepayment		—	(12,077)
Decrease in non-current prepayments		(76,057)	(14,296)
Proceeds of disposal of items of property, plant and equipment		343	—
Increase in investments in bank deposits		(768,560)	—
Gain from investment deposits		5,547	—
Receipt from an associate		—	285,327
Proceeds from disposal of an associate		—	141,466
Increase in non-pledged deposits with original maturity of three months or more when acquired	22	(947,250)	(230,000)
Receipt of government grants		25,530	17,292
Net cash flows used in investing activities		(2,272,991)	(462)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		—	2,450,240
Listing expense		(9,217)	(95,798)
Repayment of bank loans		—	(385,000)
Interest paid		(5,778)	(3,825)
Dividends paid		(109,614)	(197,087)
Release/(addition) of pledged deposits		31,325	(47,375)
Receipt from related parties		—	581,346
Receipt of government grants		4,000	—
Net cash flows from/(used in) financing activities		(89,284)	2,302,501
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(2,082,335)	2,807,209
Cash and cash equivalents at beginning of year		2,865,767	59,789
Effect of foreign exchange rate changes, net		(20,898)	(1,231)
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	762,534	2,865,767

Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		86	80
Investment in a subsidiary	16	3,366,747	2,076,417
Total non-current assets		3,366,833	2,076,497
CURRENT ASSETS			
Prepayments, deposits and other receivables	19	1,210	197
Investment deposit	21	508,560	—
Cash and cash equivalents	22	3,443	1,936,336
Total current assets		513,213	1,936,533
CURRENT LIABILITIES			
Other payables and accruals	24	6,356	12,026
Due to a subsidiary	16	3,218	4,029
Total current liabilities		9,574	16,055
NET CURRENT ASSETS		503,639	1,920,478
TOTAL ASSETS LESS CURRENT LIABILITIES		3,870,472	3,996,975
Net assets		3,870,472	3,996,975
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	182,801	182,801
Reserves	30(b)	3,554,962	3,704,560
Proposed final dividend	12	132,709	109,614
Total equity		3,870,472	3,996,975

Mao Zhongwu
Director

Zhou Wanchun
Director

Notes to Financial Statements

31 December 2010

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 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.

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 Hongkong Group Limited ("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 except for derivative financial instruments which have been measured at fair value. 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 consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRS 5 Amendments included in Improvements to IFRSs issued in May 2008	Amendment to IFRS 5 *Non-current assets held for sales and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*
Improvements to IFRSs 2009	Amendments to a number of IFRSs issued in April 2009

The analysis of adopting these new and revised IFRSs are as follows

(a) IFRS 1 (Revised) *First-time Adoption of International Financial Reporting Standards*

IFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of IFRSs, IFRS 1 (Revised) is not applicable to the Group.

(b) Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Additional Exemptions for First-time Adopters*

The IFRS 1 Amendments provide relief from the full retrospective application of IFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. As the Group is not a first-time adopter of IFRSs, IFRS 1 Amendments are not applicable to the Group.

(c) Amendments to IFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*

The IFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of an entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2 — Group and Treasury Share Transactions. As the Group has not entered into share-based payment schemes, 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)

(d) *IFRS 3 (Revised) Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 *The Effects of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates* and IAS 31 Interests in Joint Ventures.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010. As the Group did not have any transactions with non-controlling interests during the year, the amendment has had no impact on the financial position or results of operations of the Group.

(e) Amendment to IAS 39 Financial Instruments: *Recognition and Measurement — Eligible Hedged Items*

The IAS 39 Amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. Currently, the Group only uses forward currency contracts to hedge its foreign currency risk, the amendment has had no impact on the financial position or result of operations of the Group.

(f) IFRIC 17 *Distributions of Non-cash Assets to Owners*

IFRIC 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 Events after the Reporting Period and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The interpretation has had no impact on the financial position or result of operations of the Group.

(g) Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*

The amendments to IFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary. As the Group does not have any plan involving loss of control of the subsidiary, the amendments are not applicable to the Group.

2.2 Changes in Accounting Policy And Disclosures (Continued)

(h) *Improvements to IFRSs 2009* issued in April 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the amendments under Improvements to IFRSs 2009 are as follows:

- IFRS 2 *Share-based Payment*: Clarifies that a contribution of a business on the formation of a joint venture and a combination of entities or businesses under common control is not within the scope of IFRS 2 even though it is outside the scope of IFRS 3.

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* Clarifies that (i) the disclosures required in respect of non-current assets (or a disposal group) classified as held for sale or a discontinued operation are those set out in IFRS 5; (ii) the general requirements of IAS 1 still apply (e.g., source of estimation uncertainty); and (iii) the disclosures in other IFRSs are not required unless: (a) those IFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or (b) the disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of measurement requirements of IFRS 5 and disclosures are not provided elsewhere in the financial statements.

- IFRS 8 *Operating Segments:* Clarifies that segment assets and liabilities need only to be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- IAS 1 *Presentation of Financial Statements:* States that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- IAS 7 *Statement of Cash Flows:* Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- IAS 17 *Leases:* Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

- IAS 36 *Impairment of Assets:* Clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in IFRS 8 before aggregation for financial reporting purposes.

- IAS 38 *Intangible Assets:* Clarifies that (i) if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of assets as a single asset provided that the individual assets have similar useful lives; and (ii) the valuation techniques presented in the standard for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

2.2 Changes in Accounting Policy And Disclosures (Continued)

(h) *(Continued)*

- IAS 39 *Financial Instruments:* Recognition and Measurement: Clarifies that (i) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (ii) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (iii) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- IFRIC 9 *Reassessment of Embedded Derivatives:* Clarifies that it does not apply to possible reassessment, at the date of acquisition, of embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation:* Removes the restriction of where the hedging instrument may be held in a hedge of a net investment in a foreign operation, in that qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation, and effective new requirements of IAS 39 that related to a net investment hedge are satisfied.

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 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* [2]
IFRS 1 Amendment	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures –Transfers of Financial Assets* [4]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets* [5]
IFRS 9	*Financial Instruments* [6]
IAS 24 (Revised)	*Related Party Disclosures* [3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* [3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

[1] *Effective for annual periods beginning on or after 1 February 2010*
[2] *Effective for annual periods beginning on or after 1 July 2010*
[3] *Effective for annual periods beginning on or after 1 January 2011*
[4] *Effective for annual periods beginning on or after 1 July 2011*
[5] *Effective for annual periods beginning on or after 1 January 2012*
[6] *Effective for annual periods beginning on or after 1 January 2013*

Apart from the above, the IASB has issued Improvements to IFRSs 2010 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

(a) Amendment to IFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

The IFRS 1 Amendment allows a first-time adopter to utilise the transitional provisions in paragraph 44G of IFRS 7 and not to provide comparative figures for certain disclosures in an entity's first IFRS financial statements. The transitional provisions in IFRS 7 have also been amended to clarify that the disclosures required by Amendments to IFRS 7 Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments issued in March 2009 need not be provided for (i) annual or interim periods, including any statement of financial position presented within an annual comparative period ended before 31 December 2009 and (ii) any statement of financial position as at the beginning of the earliest comparative period as at a date before 31 December 2009.

2.3 Issued But Not Yet Effective International Financial Reporting Standards (Continued)

(a) Amendment to IFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (continued)*

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

The amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. They also remove the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions.*

(b) Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*

The IFRS 7 Amendments introduce more extensive quantitative and qualitative disclosure requirements regarding transfer transactions of financial assets (e.g., securitisations), including information for understanding the possible effects of any risks that may remain with the entity that transferred the assets. The Group expects to adopt the amendments from 1 January 2012 and comparative disclosures are not required for any period beginning before that date.

(c) Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*

The aim of the amendments is to provide a practical solution for jurisdictions where entities currently find it difficult and subjective to determine the expected manner of recovery for investment property that is measured using the fair value model in IAS 40 Investment Property.

(d) IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the this newly added standard were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss. For these liabilities measured at fair value, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. However, bank loan commitments and financial guarantee contracts which have been measured at fair value model are scoped out of this newly added standard.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2013.

2.3 Issued But Not Yet Effective International Financial Reporting Standards (Continued)

(e) IAS 24 (Revised) *Related Party Disclosures*

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt IAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

(f) Amendment to IAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*

The IAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of an entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the IAS 32 Amendment from 1 January 2011.

(g) Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*

The IFRIC 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. The Group expects to adopt the IFRIC 14 Amendments from 1 January 2011. As the Group's has had no defined benefit schemes, the adoption of the amendments will not have any financial impact on the Group.

(h) IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are a consideration paid in accordance with IAS 39 Financial Instruments: *Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished.

2.3 Issued But Not Yet Effective International Financial Reporting Standards (Continued)

(i) Details of amendments under *Improvements to IFRSs 2010*

- IFRS 3 *Business Combinations:* Clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

  In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS. The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- IAS 1 *Presentation of Financial Statements:* Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

- IAS 27 *Consolidated and Separate Financial Statements:* Clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

- IFRS 1 *First-time Adoption of International Financial Reporting Standards:* (i) Clarifies that if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 *Interim Financial Reporting*, it needs to explain those changes and update the reconciliation between the previous GAAP and IFRSs; (ii) allows a first-time adopter to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but during the period covered by the first IFRS financial statements or allows an existing IFRS preparer to apply the amendment retrospectively in the first annual period after the amendment is effective; and (iii) expands the scope of deemed cost for property, plant and equipment or intangible assets to include items subject to rate regulated activities.

- IFRS 7 *Financial Instruments: Disclosures:* (i) Emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risk associated with the financial instruments; (ii) amends several quantitative and credit risk disclosures to simplify the disclosures; and (iii) requires the disclosure of the financial effect of collateral held as security and of other credit enhancements in respect of the amount that best represents the maximum exposure of credit risk.

- IFRIC 13 *Customer Loyalty Programmes:* Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amounts of discounts or incentives otherwise granted to customers not participating in the award credit scheme are to be taken into account.

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.

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 and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is 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.

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 a member of the key management personnel of the Group or its holding company;

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

(d) 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 (b) or (c); or

2.4 Summary of Significant Accounting Policies (Continued)

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.

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%

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, it 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.

2.4 Summary of Significant Accounting Policies (Continued)

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.

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 financial asset at fair value through profit or loss, loans and receivables, and held-to-maturity investment. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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, pledged deposits, trade and bills receivable, other receivables, investment deposits and derivative financial instruments.

Subsequent measurement

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

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes not include any interest earned on these financial assets, which are recognised in accordance with the policy set out for “Revenue recognition” below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management’s intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. 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 income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets (Continued)

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

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. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value.

The Group's financial liabilities include trade and bills payable, and other payables.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

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.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 Summary of Significant Accounting Policies (Continued)

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The derivative instruments entered into by the Group do not qualify for hedge accounting, and changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement within "other income and gains".

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows). Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

Since the Group will hold all the derivative instruments for a period less than 12 months after the end of the reporting period, the Group classifies all the derivative instruments as current assets/liabilities.

Inventories

Inventories are stated 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.

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 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.

2.4 Summary of Significant Accounting Policies (Continued)

Provisions (Continued)

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 country 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, 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.

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, 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.

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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;

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

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

(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.

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)

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.

For Hong Kong employees, the Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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 ceases 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.

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 recorded by the entities in the Group are initially recorded using their respective 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.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

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.

3. Significant Accounting Judgement and Estimates (Continued)

Estimation uncertainty (Continued)

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 28 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 an 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.

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.

Estimation of fair value on derivative financial instruments

The Group's derivatives financial instruments are measured by using valuation techniques similar to forward pricing, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates.

4. Operating Segment Information

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

The heavy equipment segment principally 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 from the sale of products are as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Roadheaders	**1,943,253**	1,445,671
Integrated coal mining equipment	**311,990**	187,275
Coal mining transportation equipment	**37,692**	24,286
Spare parts	**335,930**	162,202
Others	**54,596**	81,942
	2,683,461	1,901,376

The revenues from the sale of products in 2009 have been reclassified as 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.

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, Other Income and Gains

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	
		2010	2009
	Notes	***RMB'000***	*RMB'000*
Revenue			
Sales of goods		**2,663,344**	1,889,856
Rendering of services		**20,117**	11,520
		2,683,461	1,901,376
Other income			
Bank interest income		**15,336**	4,458
Profit from sales of scrap materials		**36,393**	28,854
Government grants	*27*	**12,762**	15,092
Others		**4,722**	2,524
		69,213	50,928
Gains			
Gains from investment deposits		**7,773**	—
Fair value gains on derivative financial instruments	*20*	**12,233**	—
		20,006	—
		89,219	50,928

6. Profit Before Tax

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

		Group	
		2010	2009
	Notes	***RMB'000***	*RMB'000*
Cost of inventories sold		**1,434,259**	991,946
Cost of services provided		**10,752**	4,273
Depreciation	*14*	**33,943**	26,490
Amortisation of land lease prepayments	*15*	**6,926**	4,824
Auditors' remuneration		**2,000**	4,920
Provision for warranties	*26*	**68,429**	36,126
Research and development costs		**120,798**	61,092
Minimum lease payments under operating leases:			
Dormitories for staff		**2,853**	1,465
Warehouses		**1,074**	358
		3,927	1,823

		Group	
		2010	2009
	Notes	***RMB'000***	*RMB'000*
Employee benefit expenses (including directors' remuneration *(note 8)*):			
Wages and salaries		**237,192**	128,130
Pension scheme contributions		**23,445**	10,776
		260,637	138,906
Other expenses:			
Foreign exchange differences, net		**4,776**	575
Impairment of trade receivables	*18*	**2,748**	20,508
Provision against slow-moving and obsolete inventories	*17*	**9,872**	6,607
Loss on disposal of items of property, plant and equipment		**512**	—
		17,908	27,690

7. Finance Costs

	Group 2010 RMB'000	2009 RMB'000
Interest on discounted bills	5,778	—
Interest on bank loans	—	3,825
	5,778	3,825

8. Directors' Remuneration

Details of directors' remuneration are as follows:

	Group 2010 RMB'000	2009 RMB'000
Fees	569	81
Other emoluments:		
Salaries, allowances and benefits in kind	1,717	591
Pension scheme contributions and mandatory provident fund	78	42
	1,795	633
	2,364	714

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. The mandatory provident fund represented the Company's statutory contributions to a defined contribution scheme administered by independent trustees under the Hong Kong Mandatory Provident Fund Schemes Ordinance, and the contributions were determined based on a certain percentage of the fees of the directors.

8. Directors' Remuneration (Continued)

(a) Independent non-executive directors

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

	Fees	Mandatory provident fund	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
2010			
Mr. Xu Yaxiong	180	—	180
Mr. Ngai Wai Fung	209	8	217
Mr. Ng Yuk Keung	180	—	180
	569	8	577
2009			
Mr. Xu Yaxiong	27	—	27
Mr. Ngai Wai Fung	27	—	27
Mr. Ng Yuk Keung	27	—	27
	81	—	81

There were no emoluments payable to the independent non-executive directors during the year (2009: Nil).

8. Directors' Remuneration (Continued)

(b) Executive and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2010				
Executive directors:				
Mr. Mao Zhongwu	—	191	11	202
Mr. Liang Jianyi	—	900	20	920
Mr. Zhou Wanchun	—	194	24	218
	—	1,285	55	1,340
Non-executive directors:				
Mr. Xiang Wenbo	—	—	—	—
Mr. Huang Jianlong	—	—	—	—
Mr. Wu Jialiang	—	432	15	447
	—	432	15	447
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

There was no other arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

9. Five Highest Paid Employees

The five highest paid employees during the year included two (2009: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2009: three) non-director, highest paid employees for the year are as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Salaries and allowances	440	626
Bonuses	2,061	534
Pension scheme contributions	61	42
	2,562	1,202

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

	Group	
	2010	2009
Nil to RMB1,000,000	3	3

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 Co., Ltd. (三一重型裝備有限公司) was subject to Corporate Income Tax ("CIT") at a rate 11% in 2010, and will be subject to tax rates of 24% in 2011 and 25% in 2012.

10. Income Tax (Continued)

	2010 RMB'000	2009 RMB'000
Group:		
Current — Mainland China		
Charge for the year	59,758	37,087
Deferred	(10,424)	(2,692)
Total tax charge for the year	49,334	34,395

A reconciliation of the income tax expense 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 at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

	Group			
	2010		2009	
	RMB'000	%	RMB'000	%
Profit before tax	719,846	524,827		
Tax at the statutory tax rate	179,962	25	131,207	25
Entities subject to lower statutory income tax rates	(98,479)	(13.7)	(88,627)	(16.9)
Profits and losses attributable to an associate	—	—	(1,081)	(0.2)
Expenses not deductible for tax	8,925	1.2	10,686	2.0
Tax effect of change in tax rate when temporary difference is realised	(983)	(0.1)	(518)	(0.1)
Super-deduction of research and development costs	(18,227)	(2.5)	(7,636)	(1.4)
Income not subject to tax	(5,894)	(0.8)	—	—
Tax concession granted	(14,419)	(2.0)	(18,003)	(3.4)
Tax losses not recognised	826	0.1	8,367	1.6
Others	(2,377)	(0.3)	—	—
Tax charge at the Group's effective tax rate	49,334	6.9	34,395	6.6

11. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of RMB4,009,000 (2009: Loss of RMB23,261,000) which has been dealt with in the financial statements of the Company (note 30(b)).

12. Dividends

	2010	2009
	RMB'000	*RMB'000*
Special dividends	—	197,087
Proposed final — HK7.6 cents (2009: HK6 cents) per ordinary share	**132,709**	109,614
	132,709	306,701

The final dividend of HK7.6 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 23 July 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.

In addition to the above dividend, the board of directors proposes to increase the share capital of the Company by capitalising the share premium of the Company, pursuant to which bonus shares will be allotted and issued to the shareholders, whose names appear on the register of members of the Company on a designated date, on the basis of 5 bonus shares for every 10 ordinary shares held by the shareholders. Based on a total of 2,075,000,000 shares in issue as at 31 December 2010, 1,037,500,000 bonus shares will be issued by the Company. The share capital of the Company will increase from RMB182,801,000 to RMB270,110,000 upon completion of the bonus issue. The amount RMB87,309,000 will be capitalised from the Company's share premium account. The bonus issue and the increase in the Company's share capital will be subject to the shareholders' approval at the forthcoming annual general meeting.

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 2,075,000,000 (2009: 1,553,972,603) in issue during the year. No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2010 and 2009 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	Plant and machinery	Office and other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2010						
At 31 December 2009 and at 1 January 2010:						
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
At 1 January 2010, net of accumulated depreciation	150,296	130,031	16,450	23,615	81,879	402,271
Additions	—	102,819	13,558	5,591	348,266	470,234
Disposal	(146)	(98)	(611)	—	—	(855)
Depreciation provided during the year	(9,506)	(17,780)	(3,019)	(3,638)	—	(33,943)
Transfers	95,659	—	—	—	(95,659)	—
At 31 December 2010, net of accumulated depreciation	236,303	214,972	26,378	25,568	334,486	837,707
At 31 December 2010:						
Cost	245,023	263,715	34,531	37,057	334,486	914,812
Accumulated depreciation	(8,720)	(48,743)	(8,153)	(11,489)	—	(77,105)
Net carrying amount	236,303	214,972	26,378	25,568	334,486	837,707

14. Property, Plant and Equipment (Continued)

Included in the carrying amount of the property, plant and equipment as at 31 December 2010 was capitalised interest of RMB6,714,000 (31 December 2009: RMB6,714,000).

The Group's buildings are located in Mainland China.

Certificates of ownership in respect of newly-built buildings of the Group located in Shenyang with a net carrying amount of approximately RMB83,547,000 as at 31 December 2010 (2009: Nil) have not yet been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates.

Group	**Buildings**	**Plant and machinery**	**Office and other equipment**	**Motor vehicles**	**Construction in progress**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

15. Prepaid Land Lease Payments

	Group	
	2010	2009
	RMB'000	*RMB'000*
Carrying amount at 1 January	**340,010**	304,310
Additions	**—**	40,524
Recognised during the year	**(6,926)**	(4,824)
Carrying amount at 31 December	**333,084**	340,010
Current portion included in prepayments, deposits and other receivables	**(6,926)**	(6,926)
Non-current portion	**326,158**	333,084

Certificate of ownership in respect of leasehold land 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 2010 (2009: RMB2,393,000). The Group is in the process of obtaining the relevant certificates of ownership.

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

16. Investments in Subsidiaries

	Company	
	2010	2009
	RMB'000	*RMB'000*
Unlisted shares, at cost	**3,366,747**	2,076,417

The amounts due to a subsidiary included in the Company's current liabilities of RMB3,218,000 (2009: RMB4,029,000) are unsecured, interest-free and are repayable on demand or within one year.

16. Investments in Subsidiaries

Particulars of the 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	Percentage of equity attributable to the Company Indirect	Principal activities
Sany Heavy Equipment Co., Ltd. *	Mainland China 13 January 2004	RMB2,918,070,000	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) *	Mainland China 20 May 2008	RMB500,000,000	–	100	Manufacture and sale of integrated excavation machinery, integrated coal mining equipment and coal mining transportation equipment
Shanxi Sany Coal Mining Equipment Co., Ltd. ("Sany Mining Equipment") (山西三一煤機裝備有限公司) *	Mainland China 12 June 2010	RMB50,000,000	–	100	Provision of maintenance service

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

17. Inventories

	Group 2010 RMB'000	Group 2009 RMB'000
Raw materials	123,706	177,863
Work in progress	120,613	132,233
Finished goods	150,898	259,872
	395,217	569,968
Less: Provision against slow-moving and obsolete inventories	(10,920)	(11,806)
	384,297	558,162

17. Inventories (Continued)

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

		Group	
		2010	2009
	Notes	***RMB'000***	*RMB'000*
At 1 January		**11,806**	5,199
Charge for the year	*6*	**9,872**	6,607
Amount written off		**(10,758)**	—
At 31 December		**10,920**	11,806

18. Trade and Bills Receivable

	Group	
	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**907,346**	595,973
Impairment	**(32,929)**	(30,332)
Trade receivables, net	**874,417**	565,641
Bills receivable	**281,785**	251,742

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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

18. Trade and Bills Receivable (Continued)

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
Within 60 days	**528,159**	376,308
61 to 90 days	**86,431**	46,735
91 to 180 days	**119,464**	30,944
181 to 365 days	**103,950**	95,787
Over 1 year	**36,413**	15,867
	874,417	565,641

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

		Group	
		2010	2009
	Notes	***RMB'000***	*RMB'000*
At 1 January		**30,332**	9,824
Impairment losses recognised	*6*	**2,748**	20,508
Amount written off as uncollectible		**(151)**	—
At 31 December		**32,929**	30,332

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB32,929,000 (2009: RMB30,332,000) with a carrying amount before provision of RMB32,929,000 (2009: RMB30,332,000).

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.

18. Trade and Bills Receivable (Continued)

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

Group

		Neither past	Past due but not impaired		
		due nor	Within 180	181 to 365	Over 1
	Total	impaired	days	days	year
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2010	874,417	801,700	53,654	14,384	4,679
31 December 2009	565,641	465,490	84,291	9,322	6,538

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 of the Company 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.

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
Within 6 months	**281,785**	251,742

Included in the balances of bills receivable are amounts of approximately RMB33,142,000 (2009: RMB81,649,000) which were pledged to secure the issuance of bills payable.

19. Prepayments, Deposits and Other Receivables

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current prepayments	**110,659**	34,602	**—**	—
Current assets				
Prepayments	**151,471**	61,723	**—**	197
Deposits and other receivables	**76,237**	16,715	**1,210**	—
	227,708	78,438	**1,210**	197

20. Derivative Financial Instruments

	2010	2009
	Assets	Assets
Group	***RMB'000***	*RMB'000*
Forward currency contracts	**12,233**	—

The Group has entered into various contracts to manage its exchange rate exposure which did not meet the criteria for hedge accounting. Net changes in the fair value amounting to RMB12,233,000 (2009: Nil) were recognised in the income statement during the year.

21. Investment Deposits

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Investment deposits, in licensed banks in Mainland China, at amortised cost	**768,560**	—	**508,560**	—

The investment deposits were repaid to the Group subsequent to the end of the reporting period.

22. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**1,977,502**	3,164,810	**3,443**	1,936,336
Less: Bank deposits pledged for banking facilities	**(37,718)**	(69,043)	**—**	—
Cash and cash equivalents	**1,939,784**	3,095,767	**3,443**	1,936,336
Less: Non-pledged time deposits with maturity of more than three months as at 31 December 2010	**(1,177,250)**	(230,000)	**—**	—
Cash and cash equivalents in the consolidated statement of cash flows	**762,534**	2,865,767	**3,443**	1,936,336
Cash and bank balances and time deposits denominated in				
— RMB	**1,664,213**	835,728	**2,271**	—
— HK$	**899**	2,329,082	**899**	1,936,336
— United States dollars ("US$")	**312,390**	—	**273**	—
	1,977,502	3,164,810	**3,443**	1,936,336

At the end of the reporting period, the cash and bank balances of the Group were denominated in RMB and US$. 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 represent 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. Time deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. 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	
	2010	2009
	RMB'000	*RMB'000*
Within 30 days	**88,470**	128,996
31 to 90 days	**109,358**	160,645
91 to 180 days	**60,289**	79,561
181 days to 365 days	**10,056**	5,443
Over 1 year	**9,800**	4,904
	277,973	379,549

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

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

24. Other Payables and Accruals

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deposits received from customers	**91,536**	285,640	**—**	—
Other payables	**340,450**	227,556	**3,803**	9,385
Accruals	**14,920**	7,577	**2,553**	2,641
	446,906	520,773	**6,356**	12,026

Included in the deposits received from customers was an amount of RMB2,227,000 as at 31 December 2010 (2009: RMB21,824,000) 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.

25. Undrawn Banking Facilities

The Group has the following undrawn banking facilities:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Floating rate—expiring within one year	**1,090,667**	440,000

26. Provision for Warranties

		Group	
		2010	2009
	Note	***RMB'000***	*RMB'000*
At 1 January		**28,994**	16,801
Additional provision	*6*	**68,429**	36,126
Amounts utilised during the year		**(65,489)**	(23,933)
At 31 December		**31,934**	28,994

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* (the "Controlling Shareholders"). Kangfu International is a finance company engaging in the business of providing finance lease services. Revenue from 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 33(1).

* The Controlling Shareholders refer to the 14 individual shareholders: Liang Wengeng, 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.

27. Government Grants

	Group	
	2010	2009
	RMB'000	*RMB'000*
At 1 January	**263,338**	261,138
Grants recognised during the year	**35,560**	17,292
Amortised as income during the year *(note 5)*	**(12,762)**	(15,092)
At 31 December	**286,136**	263,338
Current portion	**(6,655)**	(1,021)
Non-current portion	**279,481**	262,317

28. Deferred Tax

Deferred tax assets

Group	**Government grants**	**Provision against slow-moving and obsolete inventories**	**Warranty provision**	**Losses available for offsetting against future taxable profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 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 and 1 January 2010	65,689	1,299	3,189	—	70,177
Credited to the consolidated income statement	3,099	339	1,601	7,219	12,258
At 31 December 2010	68,788	1,638	4,790	7,219	82,435

28. Deferred Tax (Continued)

The Group has tax losses mainly arising in Hong Kong of RMB2,961,000 (2009: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. 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.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2010, no defined tax has been recognised for withholding taxes that 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.

29. Share Capital

	2010 ***RMB'000***	2009 *RMB'000*
Authorised:		
3,000,000,000 ordinary shares of HK$0.10 each	**300,000**	300,000
Issued and fully paid:		
2,075,000,000 ordinary shares of HK$0.10 each	**207,500**	207,500
Equivalent to RMB'000	**182,801**	182,801

30. 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.

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 RMB154,901,000 as at 31 December 2010 (2009: RMB87,018,000).

(b) Company

	Notes	Share premium account *RMB'000*	Contributed surplus *RMB'000*	Exchange fluctuation reserve *RMB'000*	Retained profits *RMB'000*	Proposed final dividend *RMB'000*	Total *RMB'000*
On incorporation		—	—	—	—	—	—
Total comprehensive loss for the year		—	—	(1,231)	(23,261)	—	(24,492)
Arising from the Reorganisation		—	1,676,409	—	—	—	1,676,409
Capitalisation issue of shares		(132,149)	—	—	—	—	(132,149)
Issuance of new shares for the global offering		2,070,299	—	—	—	—	2,070,299
Issuance of new shares upon exercise of the over-allotment option		310,404	—	—	—	—	310,404
Listing expenses for issue of new shares		(86,297)	—	—	—	—	(86,297)
Proposed final 2009 dividend	*12*	(109,614)	—	—	—	109,614	—
As at 31 December 2009		2,052,643	1,676,409	(1,231)	(23,261)	109,614	3,814,174
Total comprehensive income for the year		—	—	(20,898)	4,009	—	(16,889)
Final 2009 dividend declared		—	—	—	—	(109,614)	(109,614)
Proposed final 2010 dividend	*12*	(132,709)	—	—	—	132,709	—
As at 31 December 2010		1,919,934	1,676,409	(22,129)	(19,252)	132,709	3,687,671

31. 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 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Within one year	227	—
In the second to third years, inclusive	453	219
Within one year	680	219

During the year, the Group recognised RMB219,000 (2009: RMB219,000) in respect of contingent 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 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Within one year	3,998	1,767
In the second to third years, inclusive	1,379	1,477
	5,377	3,244

32. Commitments

In addition to the operating lease commitments as set out in note 31(b) above, the Group had the following capital commitments as at the end of the reporting period:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Prepaid land lease payments	133,602	—
Buildings	195,245	100,558
Plant and machinery	171,853	152,414
	500,700	252,972

33. 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

	Notes	Group 2010 RMB'000	2009 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)	245,642	374,845
		245,642	377,768
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:			
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)	(iii)	—	38,614
Loudi Zhongxing Hydraulic Parts Co., Ltd. (婁底市中興液壓件有限公司)	(iv)&(vi)	22,201	14,820
Sany Heavy Industry Co., Ltd. (三一重工股份有限公司)	(iv)&(vi)	17,574	43,963
Shanghai Sany Technology Co., Ltd.	(iv)&(vi)	1,915	3,868
Suote Transmission Equipment Co., Ltd. (索特傳動設備有限公司)	(iv)&(vi)	10,298	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)	2,880	12,213
Sany Intelligent Control Equipment Co., Ltd. (三一智能控制設備有限公司)	(iv)&(vi)	954	—
Sany Hoisting Machinery Co., Ltd. (三一汽車起重機械有限公司)	(iv)&(vi)	25	—
Hunan Sany Road Machinery Co., Ltd. (湖南三一路面機械有限公司)	(iv)&(vi)	—	1,053
		55,847	116,301
Operating rental received from:			
Hunan Sany Repair Services Co., Ltd. (湖南三一維修有限公司)	(v)&(vi)	219	219

33. 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 at prices and on conditions as mutually agreed.

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

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

(vi) Sany Development, Kangfu International, Shanghai Sany Technology Co., Ltd., Loudi Zhongxing Hydraulic Parts Co., Ltd., Sany Heavy Industry Co., Ltd., Suote Transmission Equipment Co., Ltd., Sany Port Machinery Co., Ltd., Sany Heavy Machinery Co., Ltd., Hunan Sany Road Machinery Co., Ltd., Hunan Sany Pump Machinery Co., Ltd.,Sany Intelligent Control Equipment Co., Ltd., Sany Hoisting 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.

(2) Non-recurring transactions

			Group
		2010	2009
	Notes	***RMB'000***	*RMB'000*
Sales of raw materials to:			
Hunan Sany Road Machinery Co., Ltd.	*(i)&(ii)*	–	29,647
Hunan Sany Pump Machinery Co., Ltd.	*(i)&(ii)*	–	1,377
Sany Heavy Machinery Co., Ltd.	*(i)&(ii)*	–	105,958
Shanghai Sany Technology Co., Ltd.	*(i)&(ii)*	–	23,811
Sany Heavy Industry Co., Ltd.	*(i)&(ii)*	–	628
		–	161,421
Purchases of raw materials from:			
Synnium Machinery Co., Ltd. (新利恒機械有限公司)	*(i)&(iii)*	–	157,225
Disposal of buildings to:			
Sany Group Limited ("Sany Group") (三一集團有限公司)	*(i)&(iv)*	–	87,684
Acquisition of assets from:			
Sany Group	*(i)&(v)*	–	166,800

33. 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., and Hunan Sany Pump Machinery Co., Ltd. are companies owned and controlled by the Controlling Shareholders.*

(ii) *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 at prices and on conditions as mutually agreed.*

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

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

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

(3) Compensation of key management personnel of the Group

	Group	
	2010	2009
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	2,271	998
Pension scheme contributions	89	69
Total compensation paid to key management personnel	2,360	1,067

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

34. 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:

2010 **Financial assets**	**Group** **Loans and receivables** *RMB'000*
Trade receivables	874,417
Bills receivable	281,785
Financial assets included in deposits and other receivables	76,237
Derivative financial instruments	12,233
Investment deposits	768,560
Pledged deposits	37,718
Cash and cash equivalents	1,939,784
	3,990,734

Financial liabilities	**Financial liabilities at amortised cost** *RMB'000*
Trade and bills payable	277,973
Financial liabilities included in other payables and accruals	340,450
	618,423

34. Financial Instruments by Category (Continued)

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	227,556
	607,105

34. Financial Instruments by Category (Continued)

Company

2010 Financial assets	Loans and receivables *RMB'000*
Financial assets included in deposits and other receivables	1,210
Investment deposit	508,560
Cash and cash equivalents	3,443
	513,213

2010 Financial liabilities	Financial liabilities at amortised cost *RMB'000*
Financial liabilities included in other payables and accruals	3,803
Due to a subsidiary	3,218
	7,021

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

35. Fair Value and Fair Value Hierarchy

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial assets				
Cash and cash equivalents	**1,939,784**	3,095,767	**1,939,784**	3,095,767
Pledged deposits	**37,718**	69,043	**37,718**	69,043
Investment deposits	**768,560**	—	**768,560**	—
Trade receivables	**874,417**	565,641	**874,417**	565,641
Bills receivable	**281,785**	251,742	**281,785**	251,742
Financial assets included in deposits and other receivables	**76,237**	16,715	**76,237**	16,715
Derivative financial instruments	**12,233**	—	**12,233**	—
	3,990,734	3,998,908	**3,990,734**	3,998,908

Group

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial liabilities				
Trade and bills payable	**277,973**	379,549	**277,973**	379,549
Financial liabilities included in other payables and accruals	**340,450**	227,556	**340,450**	227,556
	618,423	607,105	**618,423**	607,105

35. Fair Value and Fair Value Hierarchy (Continued)

Company

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Cash and cash equivalents	3,443	1,936,336	3,443	1,936,336
Investment deposit	508,560	—	508,560	—
Financial assets included in deposits and other receivables	1,210	—	1,210	—
	513,213	1,936,336	513,213	1,936,336

Company

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial liabilities				
Financial liabilities included in other payables and accruals	3,803	9,385	3,803	9,385

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, pledged deposits, investment deposits, trade and bills receivable, derivative financial instruments, trade and bills payable, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and an amount due to a subsidiary approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with AAA credit ratings. Derivatives financial instruments, including forward currency contracts, are measured using valuation techniques similar to forward pricing, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates. The carrying amounts of forward currency contracts are the same as their fair values.

35. Fair Value and Fair Value Hierarchy (Continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value

Group

As at 31 December 2010:

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Derivative financial instruments	–	12,233	–	12,233

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2009: Nil).

36. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and term deposits. 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 Group also enters into derivative transactions, which are all forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

36. Financial Risk Management Objectives and Policies (Continued)

Foreign currency 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 HK$ and US$. The Group use forward currency contracts to manage currency risks.

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 exchange rate %	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in equity* *RMB'000*
31 December 2010			
If RMB weakens against HK$	5	—	—
If RMB strengthens against HK$	(5)	—	—
If RMB weakens against US$	5	4,982	—
If RMB strengthens against US$	(5)	(4,982)	—
31 December 2009			
If RMB weakens against HK$	5	19,637	—
If RMB strengthens against HK$	(5)	(19,637)	—
If RMB weakens against US$	5	—	—
If RMB strengthens against US$	(5)	—	—

* *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 18 and 19 to the financial statements.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, pledged deposits, investment deposits, trade and bills receivable, other receivables and certain derivative instruments, 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 objective is to maintain sufficient cash and cash equivalents and have available funding through capital contribution and financial support from bank borrowings.

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

Group

	31 December 2010			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payable	—	277,973	—	277,973
Other payables	—	340,450	—	340,450
	—	618,423	—	618,423

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	—	227,556	—	227,556
	—	607,105	—	607,105

36. Financial Risk Management Objectives and Policies (Continued)

Company

	31 December 2010			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	—	3,803	—	3,803
Due to a subsidiary	—	3,218	—	3,218
	—	7,021	—	7,021

Company

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

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. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 2009.

37. Events after the Reporting Period

On 31 March 2011, the board of directors declared and approved a cash dividend of HK$157,700,000 and proposed to distribute 5 bonus shares for every 10 existing shares held by shareholders.

38. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 31 March 2011.