SANYI

SANY HEAVY EQUIPMENT INTERNATIONAL HOLDINGS COMPANY LIMITED

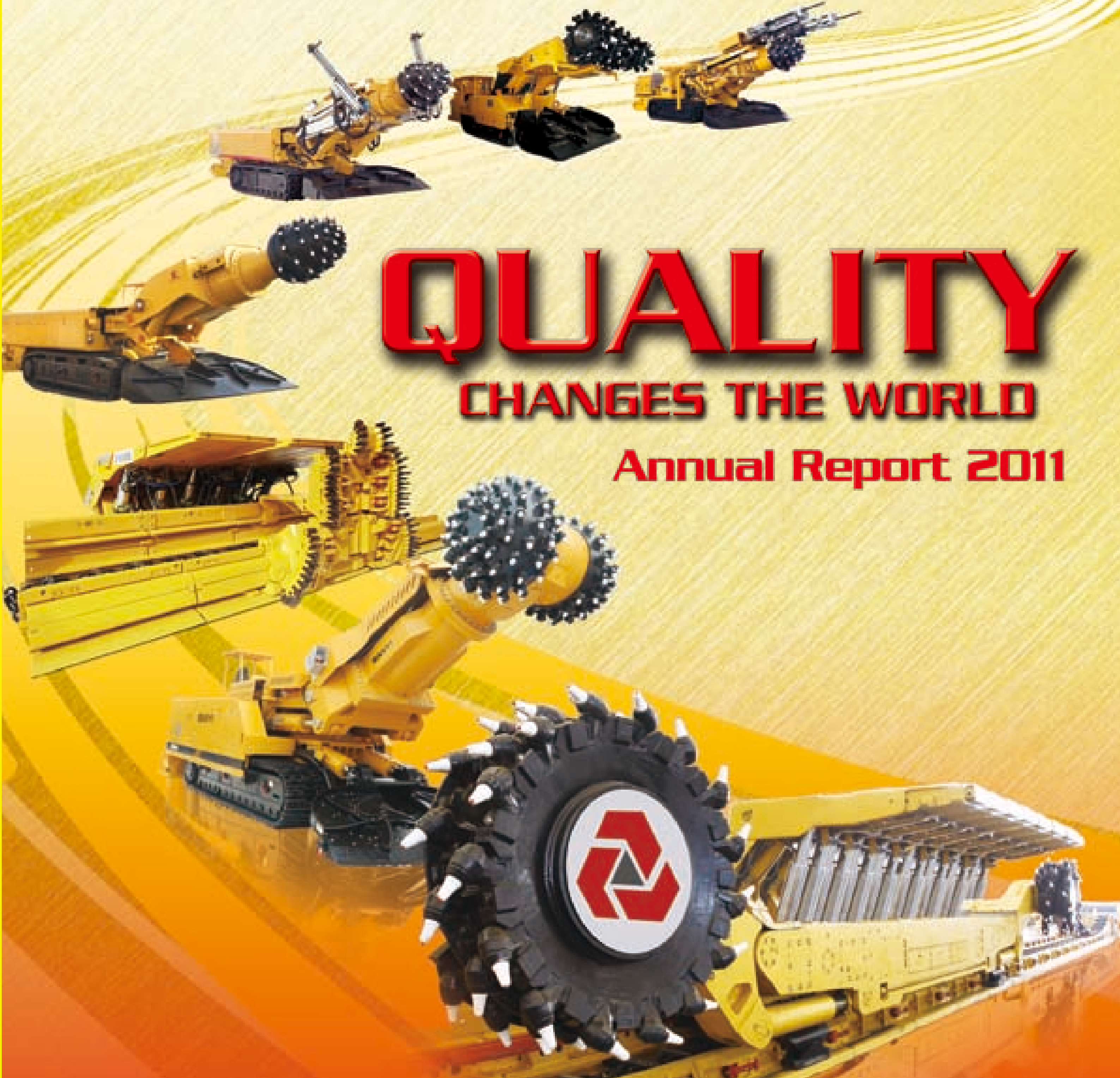
(Incorporated in the Cayman Islands with limited liability)

Stock Code : 631

QUALITY

CHANGES THE WORLD

Annual Report 2011



CONTENTS

Company Profile	2
Financial Summary	3
Important Milestones in Year 2011	4
Chairman's Statement	5
Management Discussion and Analysis	9
Directors and Senior Management	20
Directors' Report	26
Corporate Governance Report	37
Corporate Information	43
Independent Auditors' Report	44
Consolidated Income Statement	46
Consolidated Statement of Comprehensive Income	47
Consolidated Statement of Financial Position	48
Consolidated Statement of Changes in Equity	50
Consolidated Statement of Cash Flows	52
Statement of Financial Position	54
Notes to Financial Statements	55
Five Year Financial Summary	116

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 coal mining and excavation research and development, manufacturing and sale of whole set of roadheaders, 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"). Sany International achieved sales revenue of approximately RMB3,780.2 million in 2011, a substantial increase of approximately 40.9% over 2010, and our net profit was approximately RMB774.4 million in 2011, a notable gain of approximately 15.5% over the approximated sum of RMB670.5 million in 2010.

The Group is a coal mining machinery manufacturer with the widest product range and the most comprehensive product lines in China. At present, the Group's products include underground coal mining equipment such as combined coal mining units ("CCMUs"), semi-coal rock roadheaders, full-rock roadheaders, coal mine transportation vehicles and concrete pumps for coal mines. 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 also contributed new ideas to the industry such as manufacturing in whole-set coal mining products and intelligent manufacturing operations.

By leveraging the expertise of our coal mining machinery research and development team which is the largest in China, the Group has successfully launched the roadheader with the largest cutting surface and power of 418KW cutting power and China's first packed-space drilling machine and excavating-drilling machine in 2011. These products have filled the technological and scientific vacuum in the industry in this respect. Our market share of roadheaders in the domestic market ranked first in 2011 for four years in a row, of which the most dominant models in the domestic market were our large-size roadheaders. By the end of December 2011, we have applied for national patents of 801 items in total, of which 222 items were patented inventions, and in aggregate 506 items were franchised patents. In 2011, the Group received National May 1st Labor Award and was named State-Level Enterprise Technology Centre; its tunnel roadheader was awarded the State's Highest Honour in Patent – Golden Award in Exterior Design, and its hard rock roadheader was even named one of the State Major Scientific And Technological Achievements Transformation Projects by the Ministry of Industry and Information Technology. In addition, the Group received numerous prizes including the Third Class Award of Quality and Technology by China Quality Association. At present, products of the Group have been successfully applied in mining sites in Inner Mongolia, Shanxi, Shaanxi, Shandong, Liaoning, Jilin, Heilongjiang, Guizhou, Hebei and Hunan, and are also exported to countries and regions such as Ukraine, Russia, Australia, the Philippines, Indonesia, Laos and Iran.

According to the strategic positioning of the Group as a world-class manufacturer of energy machinery, on 30 December 2011, through acquisition of assets of Sany Heavy Machinery Co., Ltd. ("Sany Heavy Machinery") which was owned by Sany Heavy Industry Co., Ltd. ("Sany Heavy Industry"), the Group entered into the business of surface mining equipment. This extension from existing underground mining equipment to surface mining equipment allowed the Group to become an integrated one-stop supplier of comprehensive coal equipment. The Group's products cover three main categories, namely mechanical drive off-highway dump trucks, electric drive off-highway dump trucks and articulated trucks, with load capacity from 33 to 230 tonnes. Our in-house innovation research and development also accelerated the pace of substituting imported high-tonnage mining dump trucks by domestic products in China.

FINANCIAL SUMMARY

(RMB'000)	**2011**	2010	Increase (%)
Revenue	**3,780,183**	2,683,461	40.9%
Gross profit	**1,525,699**	1,238,450	23.2%
Profit before tax	**879,669**	719,846	22.2%
Net profit	**774,355**	670,512	15.5%
Profit attributable to shareholders of the Company	**774,355**	670,512	15.5%
Profit attributable to shareholders of the Company (excluding one-off items and revaluation items)[1]	**774,355**	670,512	15.5%
Total assets	**7,466,151**	5,883,461	26.9%
Total equity	**5,373,758**	4,751,743	13.1%
Cash flows of operating activities	**(219,585)**	279,940	–
Cash flows of investing activities	**111,737**	(2,272,991)	–
Cash flows of financing activities	**(157,539)**	(89,284)	–
Earnings per share[2]			
– Basic (RMB Yuan)	**RMB0.25**	RMB0.22	–
– Diluted (RMB Yuan)	**RMB0.25**	RMB0.22	–

(Percentage)	**2011**	2010	Increase (points)
Gross profit margin	**40.4%**	46.2%	-5.8
Percentage of profit attributable to shareholders of the Company[3]	**20.5%**	25.0%	-4.5
Percentage of profit attributable to shareholders of the Company (excluding one-off items and revaluation items)	**20.5%**	25.0%	-4.5
Assets turnover	**56.6%**	47.3%	9.3
Asset – Liability ratio	**28.0%**	19.2%	8.8
Average to total assets (RMB'000)	**6,674,806**	5,671,194	

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

2 The weighted average number of ordinary shares for the twelve months ended 31 December 2011 was 3,112,500,000, the restated weighted average number of ordinary shares for the twelve months ended 31 December 2010 was 3,112,500,000 (details of which are set out in note 13 to financial statements).

3 Profit attributable to shareholders of the Company divided by revenues.

IMPORTANT MILESTONES IN YEAR 2011

Major events in 2011

April
The market capitalization of the Group (stock code: 00631.HK) exceeded HK$30 billion for the first time.

May
The Group received the National Labour Award of 2011, being the only private equipment enterprise of Liaoning Province, and the only private enterprise from the coal machinery industry obtaining the award.

June
The Group was ranked second among Top 50 Coal Mining Industrial Machinery Enterprises of China.

July
A roadheader with 418KW cutting power was launched, which is currently the most efficient roadheader model with the highest cutting power in the world.

October
The "hard rock roadheader" of the Group was listed as a State Major Scientific and Technological Achievements Transformation Project.

October
The Group was acclaimed by the Ministry of Industry and Information Technology as "one of the first undertaking units of key promotional projects for integrating industrialisation and computerization in the promotion of safety production", being the only coal machinery enterprise receiving such honour in the equipment industry.

November
The "tunneling roadheader" of the Group received gold award for patent design from the Chinese Patent Award which is the highest honour in respect of patent in China.

November
The Group was validated as a "State-level Enterprise Technology Center".

November
The Group signed a master framework agreement on cooperation for the coming two years with DTEK group, the largest private coal mine in Ukraine.

December
The whole set coal plough equipment of the Group, BH38/2x400 coal plough, went into service and a grand ceremony was held for its completion and delivery at our new industrial park. It marked a major breakthrough of the Group in the coal plough equipment market.

CHAIRMAN'S STATEMENT

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 from 1 January 2011 to 31 December 2011.

Mao Zhongwu
Chairman

Full-Year Review

The Group has ended its second full fiscal year since the Company is listed. During the year, the Company gained a steady growth in its performance. For the 2011 fiscal year, the Group's sales revenue amounted to approximately RMB3,780.2 million, a year-on-year growth of approximately 40.9%; the Group's profit before tax amounted to approximately RMB879.7 million, a year-on-year growth of approximately 22.2%; the Group's net profit amounted to approximately RMB774.4 million, a year-on-year growth of approximately 15.5%; and the Group's earnings per share amounted to approximately RMB0.25 Yuan. The Group had no bank borrowings. The Board recommends to declare dividend of HK5.6 cents per share, subject to the approval of the shareholders of the Company (the "Shareholders") in the annual general meeting.

Leveraging on its strong research and development ("R&D") and innovation capabilities and its high-quality products, the Group has been fulfilling its mission of "Quality Changes the World", led the technological advancements and developments in our industry and is well-deserved for the title of a "State-Level Enterprise Technology Center". This was another honour of national-level after the Group received the National Labour Award. In 2011, the Group was granted a total of 204 patents, of which 14 items were patented of inventions. "Roadheader" received the highest award in the field of patents in China — Outlook Design Golden Award and "Hard Rock Roadheader" was included in the state major scientific and technological achievements transformation projects by the Ministry of Industry and Information Technology. In order to further enhance its R&D capabilities, the Group has made the best of overseas intellectual resources, established American and German Research Institute successively to introduce international design concepts and methods. Based on the characteristics of coal mines at home and abroad, we have successfully launched a series of coal mining and excavation machinery and equipment, and filled a number of technological gaps, thus further consolidating our leading position in the industry.

CHAIRMAN'S STATEMENT

The Group's proceeds raised by listing on 25 November 2009 were partially utilized for improving the operating environment and expanding the production capacity. Currently, the construction of the new industrial park located at Shenyang Economic & Technological Development Area is in progress. 4 plants has been built and put into production, contributing to a further enhancement in production capacity.

During the period under review, the Group achieved remarkable achievements in its R&D, and exclusively changed the world. The Group has successfully developed many high-tech products, including leading whole set of automated plough coal units and CCMUs in the world, as well as new generation of armoured-face conveyors and leading 8-meter hydraulic roof supports. The Group has been constantly upgrading its CCMUs. The whole set of fully-automated plough coal units for thin coal seams mining, has successfully completed the industrial trials and achieved sales, and the on-going improvement and upgrade on our products were fully recognised by the market. Leveraging on the advantages of "safer, more efficient, more intelligent and more cost-effective" products, we continued to amaze our customers. The Group's products continued to fill the gaps for the field of the coal-mining machinery sector in China, set a new benchmark for the industry and realised our dream of changing the world.

The Group's constant launch of new products, many of which were firstly produced in the industry, has led the coal-mining machinery industry to a new level, thereby exclusively changing the world. The Group successfully produced its self-developed drilling machine used in narrow tunnels, which plays an important role to facilitate the mechanization process of hard rock tunnels excavation, being widely recognised by the market, while providing a new direction for the development of excavation and mining equipment; the Group changed traditional mode of manual operation by applying wireless remote control system in the newest generation of prototype, thereby realising full remote control and distant operations, greatly elevating the safety coefficients of operators and providing new solutions for safety mining at coal mines; "world leading roadheader", a roadheader with 418KW cutting power, which is the most efficient roadheader model with the highest cutting power currently in the world; high gradient roadheaders self-developed by the Group are able to excavate while moving along downward gradients of up to 25 degrees, filling the gap both in China and in the world with mining efficiency increasing more than twice than blast mining. These products not only demonstrate the Group's unflagging exploration in its way of innovation, but also another new milestone in our journey of changing the world.

The Group proactively explored the application of informatization as a means to promote the safety management of industry enterprise and to enhance its control and guarantee capabilities. We were recognized as the "First Batch of Undertaking Units for the Key Projects on Promotion of Safety Production By Way of Integration of Between Industrialization and Informatization" (首批兩化融合促進安全生產重點推進項目承擔單位) by the Ministry of Industry and Information Technology, becoming the sole enterprise of coal-mining machinery winning such an honour in the equipment industry.

The Group upholds the operation notion of "All For Customers, All From Innovations", and is committed to constantly improving its products and services to provide services that are beyond our customers' expectations as an important basis on which we will expand and maintain our customer base. The Group participated in various large-scale exhibitions of coal mining machinery in China and overseas, including the 14th International (Beijing) Coal Mining Machinery Exhibition. Through successful participated in the exhibition, the Group's products have become the most attention-getting "hot products" in those exhibitions, thus facilitating communications with our customers while effectively enhancing our brand popularity and reputation and leading the fast development and rapid growth in the whole coal-mining machinery industry.

Outlook

As a result of the sovereign debt crisis in the United States and Europe in 2011, the global economic environment worsened, the international financial markets remained sluggish and the manufacturing industry across the world lacked impetus to growth. Under these circumstances, the manufacturing industries with relatively strong economic cycles have generally had a tapering of growth towards the end of the year. Because coal occupies a dominant position in energy consumption structure in China, the coal-mining machinery industry is immune during times of economic distress for its being relatively less affected by economic cycles. In the future, with the accelerating process of the resources integration, the medium and small-sized coal mines, which have completed title process and been checked and accepted, are about to commence the modification and expansion projects, which will swiftly elevate the growth rate in fixed assets investment in the coal industry. The increase in the barrier in terms of mines scale will result in large-scale, intelligent and special products. With sustained high coal prices, coal enterprises increase investment to expand their production capacities and are more willing to enhance their production efficiency, which will bring strong demand to the coal-mining machinery market.

The Group still faces the restraint of production capacity and craftsmanship of new products on its way moving forward. Thus the high cost of CCMUs is sustained, resulting in a lower gross profit margin for CCMUs. The Group strives to accelerate in addressing the issue of production capacity. In 2011, four plants have been successively completed and commenced operation in Shenyang new industrial park. The new industrial park for CCMUs will be completed and commence operation in 2012, and the production capacity for CCMUs will be fully released. In addition to the nearly completed new industrial park in Shenyang, the Taiyuan industrial park of the Group has formally commenced construction on 11 August 2011 and is expected to be completed in two years, production capacity will be significantly increased by that time. With the continued expansion of production capacity and enhancement of craftsmanship, the economies of scale will gradually surface, unit production costs for products will be lowered and the gross profit margin for CCMUs will be significantly improved.

In the future, the Group will adopt the product strategy of maintaining the absolute leading position of its roadheader series while taking vigorous measures to promote CCMUs, so as to realize an integrated design, manufacturing and marketing and avoid the problems of mismatch in the products and difficulties in services arising from supplies from different manufactures to the fullest possible extent. The Group will make great efforts to promote a quantum leap growth in the production and sales of CCMUs, be determined to be the world's best supplier of whole set of coal mining machinery and write a new chapter in the Company's development. To secure our industry leadership, we will continuously improve and upgrade our existing products in pursuit of excellent quality and services. As the domestic coal-mining machinery industry underwent its initial stage of development and approached maturity, CCMUs designed and manufactured based on an integrated concept pioneered by the Group has been widely recognized and respected by customers. Since 2009, the Group has accumulated a lot of successful cases for our CCMUs, which lays a solid foundation for the fast development of sales in CCMUs. The significant input for the initial stage by the Group will speak for itself and generate substantial returns to the Group in the future.

CHAIRMAN'S STATEMENT

The Group has successfully transformed its mode of marketing. Continuous good news of winning the bids from the independent agency after restructuring came in with excellent results in the invitation for bids by large coal mine enterprises. The Group will continue to strengthen communication with customers, expand areas of cooperation, solidify the cooperation achievements to realise strong tying up with strong and win-win development. Leveraging on our brand popularity in the international market based on our excellent quality, sophisticated craftsmanship and professional services, the Group is exporting its products to many countries such as Ukraine, Russia, Vietnam, Laos, and Australia, etc., and gradually builds an established system of overseas marketing networks, laying a solid foundation for expansion into the overseas markets on a large scale.

The Group is striding forward towards the world's top manufacturer of energy machinery in the world. On 30 December 2011, Sany Heavy Equipment Co., Ltd ("Sany Heavy Equipment"), a wholly-owned subsidiary of the Group, purchased all the assets related to the off-highway mining truck business of Sany Heavy Machinery. By purchasing the asset, the Group will be equipped with the capabilities to manufacture surface mining equipment, which are complementary to and create synergy with our existing underground mining equipment business and are conducive for the Group to lower the operation risks. On 20 February 2012, leveraging on its energy industry platform, the Group tapped into the coal-based chemical technology business by establishing Sany Coal Chemical Technology Co., Ltd. as a joint venture with Sany Group Limited ("Sany Group") and Sany Electric Co., Ltd. ("Sany Electric"). The Group will gradually develop into a flagship company with two major sectors, namely energy and machinery, and ride out and lead in the economic waves at home and abroad.

The Group never forget to take upon itself the corporate social responsibility. On 11 March 2011, an earthquake in Japan gave rise to nuclear leak crisis, the Group and its affiliate Sany Group took action immediately and donated rescue equipment to the nuclear power plant at Fukushima and sent rescue personnel to assist the rescue work. On 18 July 2011, Nanshan tunnel in Dalian collapsed, the Group promptly mobilized a roadheader nearby to the spot to provide assistance to the rescue campaign. The Group has involved in several rescue campaigns in both local and international disasters, displaying the spirit of humanitarianism in the capacity of a corporation. The Group persisted in the principle of "Enable staff's success" and provided "Golden Autumn Grants" to the children of staff in need, demonstrating our care to staff. The Group upheld a culture of poverty alleviation and helping the poor, donated money to sanitation workers in Shenyang and visited the elderly and orphanages, bringing love and care to needy people and displaying an international enterprise with sense of social responsibility and commitment for enterprise with concrete actions.

In 2011, leveraging on the perseverant stamina and the down-to-earth attitude, the Group further consolidated its industry leadership and generated substantial returns to shareholders. Looking into the future, we always believe that with the wisdom and hard work of the staff, we can maximize the shareholders' value driven by innovation and excellent management.

Lastly, on behalf of the board of Directors of the Company, I would like to express my gratitude to our shareholders and customers for their trust and support as well as my deep appreciation to our management and staff for their untiring efforts and contribution.

Mao Zhongwu
Chairman

Hong Kong, 26 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

As the coal industry is less susceptible to economic cycles, the impact of the gloomy global economy in 2011 on the coal-related machinery industry was limited. Furthermore, benefited from government's encouragement of mechanization in coal mining and the renewal and replacement of coal machinery and equipment, the coal-related machinery market of China maintained a steady growth momentum in 2011. The demand for new equipment from merged coal mines as well as the demand for renewal and upgrade of equipment in production are also expected to create strong potential demand for the Group's products.

Business Review

Results overview

Despite the limitation in the Group's production capacity, the Group achieved remarkable results by adopting a market-oriented approach, aiming at satisfying customers' demand and following the core philosophy of leading the industry with technological innovation. The leading position of the Group's main product, roadheaders, was further solidified, while our CCMUs, a new product in the industry, gained wide recognition in the market. Sales of these products, combined with a sharp growth in revenue from after sale services and spare parts, drove a significant rise in the Group's revenue. The Group recorded revenue of approximately RMB3,780.2 million in 2011, representing a significant growth of approximately 40.9% from approximately RMB2,683.5 million in 2010. Gross profit reached approximately RMB1,525.7 million, an increase of approximately 23.2% year-on-year, while gross profit margin decreased by approximately 5.8 percent points from 2010 to approximately 40.4% and net profit grew by approximately 15.5% year-on-year to approximately RMB774.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Major products

The products of the Group may be broadly categorised into roadheaders, CCMUs, spare parts and services and other products. Roadheaders include all sorts of soft rock and hard rock roadheaders; CCMUs include coal mining machines (shearer), hydraulic support system (hydraulic support), scraper conveyors (Armored-Face Conveyers) and centralised control system; and other products include underground vehicles such as shuttle car, shield carrier and material vehicle, and continuous mining machinery and coal mine concrete pumps which are not the three foregoing major products. During the period under review, the product mix of the Group extended to surface mining transport equipment by adding off-highway mining trucks with carrying capacity of 33 to 230 tonnes. The addition of off-highway mining trucks further enriches the Group's product portfolio, rendering the Group a complete one-stop supplier of integrated coal mining equipment and services for its customers.

Research and development capability

As a leading enterprise spearheading the industry's technological advances, the Group always sets its eyes on state-of-the-art technology, and has continuously been increasing investments in research and development ("R&D") in order to establish a top of the industry and world-class R&D team. The Group offers products at a reasonable price that are of higher quality compared to its competition in the same price range. In addition to raising the R&D standard in China, the Group has invested and established R&D centers in the United States and Germany and recruited experienced foreign research experts. These overseas R&D centers enable the Group to keep abreast of the most advanced R&D concepts in the world, which the Group can use to enhance its R&D capability and manufacturing standard, and also promote the Group's brand overseas. As a pioneer in innovative technologies in the industry, the Group obtained 204 patents, of which 14 were patented inventions in 2011.

As of 31 December 2011, the number of the Group's R&D personnel increased by approximately 52.5% to 915, representing approximately 18.5% of the Group's employees. R&D expenses increased by approximately RMB65.0 million to approximately RMB185.8 million year-on-year. The ratio of R&D expenses to revenue increased by approximately 0.4 percent point to approximately 4.9%.

MANAGEMENT DISCUSSION AND ANALYSIS

New products

Leveraging on its excellent R&D capability, the Group has launched a number of products which are first of its kind in the industry based on market needs, and has been continuously upgrading its existing products. The innovation of the Group has had a profound impact on the development direction of the industry and changed the world. During 2011, the Group researched and developed a horizontal shaft roadheader with 418KW cutting power which is specially designed for drilling wide tunnels in coal mines. The Group also successfully produced its self-developed drilling machine used in narrow tunnels, which plays an important role to facilitate the mechanization process of hard rock tunnels excavation while providing a new direction for the development of excavation and mining equipment. Wireless remote control system is used in pilot models of a new generation of roadheaders which allows comprehensive remote operation and greatly improves the safety of operation personnel. The offering of CCMUs has addressed the issue of compatibility among equipment produced by different manufacturers for integrated coal mining as well as the lack of consideration for the overall system design when the equipment are separately developed. These new products will also enjoy the upgrade support from the Group. The Group has launched various high-new technology products and as a new generation of armoured-face conveyors and leading 8-meters hydraulic roof supports. The overall technological level of the Group's products has reached a world-class level and is leading the coal machinery industry to scale new heights, which represents a new stage in our mission of changing the world.

MANAGEMENT DISCUSSION AND ANALYSIS

1	Liaoning	12	Northern Shandong
2	Heilongjiang and Jilin ("Longji")	13	Southern Shandong
3	Inner Mongolia	14	Henan
4	Beijing	15	Shaanxi
5	Jinbei	16	Eastern China
6	Hebei	17	Chongqing
7	Taiyuan	18	Gansu and Ningxia ("Ganning")
8	Yulin	19	Sichuan
9	Xinjiang	20	Jiangxi
10	Ningwu	21	Xianggui
11	Jinnan	22	Xinan

MANAGEMENT DISCUSSION AND ANALYSIS

Capacity expansion

In order to satisfy the market's growing demand, the Group will further improve and strengthen its production ability and expedite the full utilization of capacity. Currently, four plants have been completed in the Group's new industrial park located in the Shenyang Economic and Technology Development Zone. It is expected that the construction of the new industrial park will be fully completed in 2012, and the capacity for CCMUs will be further increased. In addition to the new industrial park in Shenyang, the Group's industrial park in Taiyuan formally commenced construction on 11 August 2011 and is expected to be completed in two years. After the completion and operation of the industrial park in Taiyuan, the Group's production capacity will be significantly increased. The Group also intends to acquire land plots in major coal production regions for further expansion of production capacity in future. The Group is also committed to enhancing production capacity in the production site at the Shenyang industrial park through equipment upgrade and optimization of production process.

Distribution and service

The Group optimised its management system in accordance with the market condition in China to realise strategic targets such as eliminating risks and reducing costs. The Group has implemented a new policy to adopt the independent distributor model since August 2010. The Group succeeded in transforming its marketing model and the independent distributors with transformed model continuously gained successful bids, attaining remarkable achievements in project bidding among state-owned coal mining enterprises. The Group will continue to strengthen the communication with its customers, extend the scope of collaboration, consolidate the achievements of collaboration, realize the alliance between leading companies and attain win-win development.

The Group has been developing overseas market to seek more growth opportunities, and has achieved remarkable result in this respect. During the period under review, the Group participated in international exhibitions held in Vietnam, Korea, Russia, Asia-Europe Expo, etc. Through participation in high level forums and representative exhibitions, holding product promotion conferences and using advertisements, the Group constantly increases communication with customers, industry associations and authoritative personnel in the industry to promote the awareness of our products and brand. The Group successfully signed service agent agreement in Ukraine and distributor agreement in Australia, in an effort to develop the high-end coal-mining machineries market of major coal producing countries, signifying an important development in the establishment of the Group's international distribution network. After development in recent years, the fine quality of the Group's product has now been widely recognized by the global market and our brand's influence in the world has grown significantly, which, we believe, has helped change the perception of "made in China" among business and consumers around the world.

Mr. Zhou Wanchun, taken in a Ukrainian coal mine under DTEK Group on 23 November 2011

MANAGEMENT DISCUSSION AND ANALYSIS

The Group adheres to the business philosophy of "All for Customers" and aims at providing the best services in the industry. We continued in innovating our services. After initiating the "Mines-stationed Services", "Nurse-style Services" and "Patrol Services", we launched quantifiable service commitment, which is unique in the industry. The Group takes "the Quickest Arrival, the Quickest Supply of Spare Parts and the Quickest Problem-Solving Process" as the target of its services, and vows to commit to "Three Quickness, Spare Parts Supply, Life-long Worry-free", which is manifested through our quantifiable service commitment of "Personnel Arrival within 2 Hours, Spare Parts Arrival within 8 Hours, and Solving Problems within 12 Hours". The Group focuses on customers' needs and strives to satisfy their production demands. At the same time, the Group introduced the unique service concepts of "one stop service" and "one policy for one situation, and one policy for one district". Pursuant to such concepts, the point to point service model is customised to suit particular districts and customers, taking a further step in putting the "All for Customers" philosophy into practice. As at 31 December 2011, the Group had 75 warehouses, 19 maintenance centers, 84 service offices and 66 mine-stationed service outlets, covering throughout the main coal production regions in 19 provinces of China and located in the neighbourhood of its customers, demonstrating the Group's leadership in quality and service in the industry.

Financial review

Revenue

During the 2011 financial year, the Group's sales income grew steadily to approximately RMB3,780.2 million (2010: approximately RMB2,683.5 million), representing a growth of approximately 40.9%. The growth rate of our sales income was higher than that of our major competitive partners. Roadheaders continued to capture the largest market share, consolidating its leading position further. CCMUs was highly recognized by our customers and attained remarkable growth in sales income. Following sustaining sales of the product, the accumulative quantity sold to customers keeps increasing, which led to a sharp increase in sales of spare parts.

Product categories

	2011 RMB million	2010 RMB million	Percentage growth %
Roadheaders	**2,544.2**	1,943.3	30.9%
CCMUs	**599.1**	312.0	92.0%
Spare parts and services	**573.1**	335.9	70.6%
Other products	**63.8**	92.3	-30.9%
	3,780.2	2,683.5	40.9%

Roadheaders

For the year ended 31 December 2011, revenue from the sales of roadheaders increased significantly by about 30.9% to approximately RMB2,544.2 million (2010: approximately RMB1,943.3 million), mainly due to the continuous growth of roadheaders sales and growing demand for large roadheaders with high gross profit margin from customers.

CCMUs

For the year ended 31 December 2011, revenue from the sales of CCMUs increased significantly by about 92.0% to approximately RMB599.1 million (2010: approximately RMB312.0 million), mainly due to the fact that the Group succeeded in shaping demand from customers and the technology level and quality of our products gained wide recognition from customers.

Spare parts and services

For the year ended 31 December 2011, revenue from the sales of spare parts and services increased significantly by about 70.6% to approximately RMB573.1 million (2010: approximately RMB335.9 million), mainly due to the increase in the accumulative quantities of products sold to the Group's customers, and the Group's excellent services have created higher than expected value added for customers.

Other products

For the year ended 31 December 2011, revenue from the sales of other products decreased by about 30.9% to approximately RMB63.8 million (2010: approximately RMB92.3 million), mainly due to the restriction of capacity as the Group gave priority to the development of roadheaders and CCMUs.

Other income

For the year ended 31 December 2011, the Group's other income was approximately RMB217.1 million (2010: approximately RMB89.2 million), representing a year-on-year growth of approximately 143.4%. The growth was mainly due to (1) government's grants of approximately RMB83.3 million to support R&D projects and establishment of industrial parks; (2) gains of approximately RMB69.4 million from sale of scarp materials; and (3) bank interest income and gains from investment deposits of approximately RMB43.8 million.

Customer composition and regional analysis

For the year ended 31 December 2011, the Group's income mainly came from Shanxi, Anhui, Shaanxi, Inner Mongolia and Henan. Income from these five provinces represented approximately 74.0% of the Group's total sales, an increase of approximately 5.6 percent points over last year. Benefited from mergers of coal mines, sales income from Shanxi Province accounted for approximately 38.0% of the Group's total income (2010: approximately 32.8%). For the year ended 31 December 2011, the proportion of sales to large state-owned coal enterprises increased further.

Cost of sales

For the year ended 31 December 2011, the Group's cost of sales were approximately RMB2,254.5 million (2010: approximately RMB1,445.0 million), representing an increase of approximately 56.0%. The increase was mainly due to the significant increase in the Group's sales revenue.

Gross profit and gross margin

For the year ended 31 December 2011, the gross profit of the Group was approximately RMB1,525.7 million (2010: approximately RMB1,238.5 million), representing a year-on-year growth of approximately 23.2%. Gross margin was approximately 40.4% (2010: approximately 46.2%), representing a decrease of approximately 5.8 percent points year-on-year. The decrease was mainly due to the difference in gross margin between various products and the change in the product mix. To satisfy the large increase in market demand for CCMUs, the Group strived to increase capacity and as a result, significant fixed costs was invested during the period which led to a low gross margin for CCMUs. However, as the capacity has been increasing, the economy of scale will be achieved gradually which will bring unit production cost down and the gross margin for CCMUs as well as the overall gross margin will be improved significantly.

Profit margin before tax

For the year ended 31 December 2011, the Group's profit margin before tax was approximately 23.3% which decreased approximately 3.5 percent points from 2010. The decrease was mainly due to the Group's continual increase in R&D investment and marketing effort. In addition, the Group also continuously increased investments in services, upgraded software and hardware facilities as to provide services which exceed customers' expectation and provide customer with life-long worry-free after sales services.

Selling and distribution costs

For the year ended 31 December 2011, the selling and distribution costs of the Group were approximately RMB465.3 million (2010: approximately RMB335.4 million), representing a year-on-year increase of approximately 38.7%. For the year ended 31 December 2011, the ratio of the Group's selling and distribution costs to revenue decreased by approximately 0.2 percent point year-on-year to approximately 12.3%. The decrease was mainly due to the economy scale being gradually benefited the selling and distribution costs along with the expansion of Group's sales volume.

Research and development expenses

For the year ended 31 December 2011, research and development expenses of the Group were approximately RMB185.8 million, and its ratio to revenue was approximately 4.9%, representing an increase of approximately 0.4 percent point from approximately 4.5% of 2010. The Group is committed to building a highly competitive and first-class R&D team, and fully utilizing overseas talent resources. It seeks to break traditional concepts and lower production costs further through developing standardized products that can be used generally.

Administrative expenses

For the year ended 31 December 2011, administrative expenses of the Group were approximately RMB382.0 million. The ratio of administrative expenses excluding research and development expenses to revenue increased approximately 0.4 percent point to approximately 5.2% from approximately 4.8% of 2010. The increase was mainly due to the change in national tax law and as a result, foreign enterprises cease to enjoy reduction or relief of urban construction tax and education surcharge.

Finance costs

For the year ended 31 December 2011, finance costs of the Group were approximately RMB4.7 million (2010: approximately RMB5.8 million). The main cause of the decrease is a reduction of discounted bills receivable under the rational and coordinated arrangement of the Group.

Taxation

Sany Heavy Equipment, a wholly-owned subsidiary of the Group, is a National High New Technology Enterprise in Liaoning Province and is entitled to preferential tax treatments. The Group's effective tax rate in 2011 was

MANAGEMENT DISCUSSION AND ANALYSIS

approximately 12.0% (2010: effective tax rate approximately 6.9%). The increase was mainly due to the fact that the income tax rate of Sany Heavy Equipment increased to 15%. The income tax increased from approximately RMB49.3 million for the year ended 31 December 2010 to approximately RMB105.3 million for the year ended 31 December 2011, of which current income tax was approximately RMB138.2 million (2010: approximately RMB59.8 million) and deferred income tax gain was approximately RMB32.9 million (2010: approximately RMB10.4 million). For details regarding income tax, please refer to note 10 to the financial statements.

Profit attributable to equity holders of the Company

For the year ended 31 December 2011, the Group's profit attributable to equity holders was approximately RMB774.4 million (2010: approximately RMB670.5 million), representing a year-on-year growth of approximately 15.5%.

Liquidity and financial resources

As at 31 December 2011, current assets of the Group were approximately RMB4,825.5 million (31 December 2010: approximately RMB4,526.5 million). As of 31 December 2011, current liabilities of the Group were approximately RMB1,762.8 million (31 December 2010: approximately RMB850.4 million).

As at 31 December 2011, total assets of the Group were approximately RMB7,466.2 million (31 December 2010: approximately RMB5,883.5 million), and total liabilities were approximately RMB2,092.4 million (31 December 2010: approximately RMB1,131.7 million). As at 31 December 2011, the asset to liability ratio of the Group was approximately 28.0%.

As of 31 December 2011, the Group did not have any bank borrowings.

As at 31 December 2011, the Group had sufficient cash and a large amount of credit facility at banks that had not been utilized.

Trade and bills receivables

As at 31 December 2011, the Group's trade and bills receivables was approximately RMB2,298.1 million, representing an increase of approximately 98.8% from approximately RMB1,156.2 million as of 31 December 2010, of which trade receivables was approximately RMB1,526.4 million, representing an increase of approximately 74.6% from approximately RMB874.4 million as of 31 December 2010 and bills receivable was approximately RMB771.7 million, representing an increase of approximately 173.8% from approximately RMB281.8 million as of 31 December 2010. This was mainly due to (i) increase in retention money and receivables in line with the significant increase in sales income; (ii) the fact that the proportion of financing sales in sales income substantially decreased from approximately 11.7% to approximately 2.1%; and (iii) increase in the proportion of sales to major customers.

Cash flow

As compared with the beginning of this year, cash and cash equivalents of the Group decreased by approximately RMB285.0 million to approximately RMB477.5 million. The cash and cash equivalents of the Group, investment deposits and time deposits with maturity of three months or more were approximately RMB1,337.5 million in total.

For the year ended 31 December 2011, the net cash outflow from operating activities was approximately RMB219.6 million (2010: the net cash inflow of approximately RMB279.9 million). For the main reason of the decrease, please see the above paragraph "Trade and bills receivables".

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2011, the net cash inflow from investing activities was approximately RMB111.7 million (2010: the net cash outflow from of approximately RMB2,273.0 million). The decreases were mainly due to term deposits with original maturity of three months or more when acquired and investment deposits expired.

For the year ended 31 December 2011, the net cash outflow from financing activities of the Group was approximately RMB157.5 million (2010: the net cash outflow of approximately RMB89.3 million). The decrease was mainly due to the Group's payment of approximately RMB132.7 million as dividend in 2011.

Turnover days

The average turnover days of inventory in 2011 was approximately 91.3 days, representing a decrease of approximately 30.6 days from approximately 121.9 days in 2010. The improvement was mainly due to: (i) the effort made by the Group's management to optimize its inventory management model, and formulated rational production plan in accordance with the market demand of different products; (ii) a matured and stable customer base has been established for roadheaders which enabled planned production; and (iii) sales of CCMUs increased significantly, but its supply was not able to meet demand due to capacity limitation.

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 receivables in 2011 were approximately 170.0 days, representing an increase of approximately 31.5 days from approximately 138.5 days in 2010. For the main reason of the increase, please see the above paragraph "Trade and bills receivables".

Turnover days of trade and bills payables slightly decreased by approximately 0.8 day from approximately 83.0 days in 2010 to approximately 82.2 days in 2011.

Contingent liabilities

As at 31 December 2011, the Group had no material contingent liability.

Capital commitment

As at 31 December 2011, the contracted capital commitments of the Group which are not provided for in the financial statements were approximately RMB626.3 million (31 December 2010: approximately RMB500.7 million).

Employees and remuneration policy

As at 31 December 2011, the Group had 4,958 employees (31 December 2010: 3,625 employees).

	31 December 2011		31 December 2010		
	Number of employees	Percentage to total employees	Number of employees	Percentage to total employees	Change in percentage
Manufacturing	2,747	55.4%	1,489	41.1%	14.3 points
Product research and development	915	18.5%	600	16.5%	2.0 points
Sale and services	388	7.8%	606	16.7%	-8.9 points
Management	908	18.3%	930	25.7%	-7.4 points
Total employees	4,958	100%	3,625	100%	

MANAGEMENT DISCUSSION AND ANALYSIS

To keep up with the planned expansion of production capacity, the Group actively built up its pool of technical talents in manufacturing during the period under review. As an innovative enterprise, the Group emphasizes on the introduction of high-caliber research and development talents to expand its existing R&D team, ensuring the standard and innovation pace of core products and leading the industry's development. Meanwhile, the Group continually improves its management standard, adjusts distribution model and optimizes staff structure to reduce staff costs further.

The Group persists in training and developing talents. Accordingly, it provides internal training, external training and correspondence courses for its staff according to their ranking and at different times with an aim to self-improving and enhancing their skills relevant to work as well as strengthening their stability and loyalty. In addition, the Group paid year-end bonuses to staff to reward them for their contributions and dedication to the Group. The remuneration of the directors of the Group was determined with reference to their positions, responsibilities and experience and prevailing market conditions.

Material acquisition and disposal

On 30 December 2011, Sany Heavy Equipment, acquired all the assets related to the off-highway mining truck business of Sany Heavy Machinery.

Pledge of assets

As at 31 December 2011, pledged deposits and bills receivable with aggregate value of approximately RMB96.4 million (2010: approximately RMB70.9 million), which were for the purpose of obtaining the banking facility granted to the Group.

Foreign exchange risk

As at 31 December 2011, the Group's foreign currencies were equivalent to approximately RMB1.4 million. The Group has utilized forwards to mitigate its exchange fluctuation risk. The Group will monitor the risk exposures and may consider hedging against material currency risk if required.

Social responsibility

The Group is committed to take upon itself the corporate social responsibility. After the earthquake on 11 March 2011 stroked Japan, the Group and its affiliate Sany Group took action immediately and donated rescue equipment to the nuclear power plant at Fukushima and sent rescue personnel to assist the rescue work. On 18 July 2011, the Nanshan tunnel in Dalian collapsed and the Group promptly mobilized a hard rock roadheader nearby to the spot to provide assistance to the rescue campaign. The Group has participated in several rescue campaigns in both local and international disasters, displaying the spirit of humanitarianism in the capacity of a corporation. The Group persists in "helping employee to success" and provides "Golden Autumn Grants" to children of employees with financial difficulty, which demonstrates our earnest care for the staff. The Group also helps the poor and needy. We made donation for sanitation workers of Shenyang and visited homes for the elderly and orphanages, offering love and care to those who are in need. The Group's concrete acts are representative of a global enterprise with social responsibility and corporate mission.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Mao Zhongwu (毛中吾), aged 50, 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 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 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 45, 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 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 February 2009, he was posted as the vice president of Sany Heavy Industry and standing deputy general manager of the pumping products operations and is responsible for the sales, service and blending equipments. Mr. Zhou has over 20 years of experience in the machinery industry.

Mr. Zhou possessed a master's degree in Law. He graduated with a degree of Executive Master of Business Administration (EMBA) from Wuhan University (武漢大學) and also obtained an EMBA in Guanghua School of Management, Peking University.

DIRECTORS AND SENIOR MANAGEMENT

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). Mr. Zhou has achieved remarkable accomplishments in mechanical manufacturing, law and finance.

Mr. Liang Jianyi (梁堅毅), aged 55, 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).

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. Xiang Wenbo (向文波), aged 50, 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 Industry 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 49, 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 50, 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, 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.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Dr. Ngai Wai Fung (魏偉峰), aged 50, was appointed as an independent non-executive Director of the Company on 5 November 2009. Dr. Ngai is currently the managing director of MNCOR Consulting Limited, the managing director of SW Corporate Services Group Limited and the vice president of the Hong Kong Institute of Chartered Secretaries.

From 2006 to 2009, Dr. Ngai was an independent non-executive director and a member of the audit committee of China Life Insurance Company Ltd. (中國人壽保險股份有限公司) which is listed on the Stock Exchange, the Shanghai Stock Exchange and the New York Stock Exchange. From 2007 to 2011, Dr. Ngai was also an independent non-executive director and a member of audit committee of Franshion Properties (China) Limited (方興地產（中國）有限公司) which is listed on the Stock Exchange. Dr. Ngai is currently an 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), 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. Dr. Ngai is currently also an independent non-executive director and a member of audit committee of LDK Solar Co., Ltd which is listed on the New York Stock Exchange.

From 2007 to 2010, Dr. 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, Dr. 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)).

Dr. 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.

Dr. 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. Dr. 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 65, 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).

DIRECTORS AND SENIOR MANAGEMENT

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 47, was appointed as an independent non-executive Director of the Company on 5 November 2009. Mr. Ng is currently the executive director and chief financial officer of China NT Pharma Group (中國泰凌醫藥集團) 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 was the independent non-executive director of Xinjiang Xinxin Mining Industry Company Limited (新疆新鑫礦業股份有限公司) from February 2007 to October 2011. He is also the independent non-executive director of 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).

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 49, 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 deputy general manager. 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.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Du Xing (杜興), aged 43, 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 50, deputy general manager and head of our research institute. He has 30-year 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.

During the period serving in the Sany Group, Mr. Huang was granted 6 technological awards at provincial level or above, 1 award at city level and obtained 60 patents, 4 of which were patented inventions. "Construction technology and critical equipment for plate-type rail without fragments of stone for high speed railway (350 km/h) CRTS II)", a project directed by Mr. Huang, won "Special Prize" from China Railway Engineering Corporation and "First Prize in Sichun Technological Innovation" whereas the "Q/OKTW 044-2007 asphalt cement motor semi-trailers", another project directed by Mr. Huang, won "Second Prize in China Standardizing Innovation Award". In 2008, Mr. Huang was selected as the "Most innovative person in Hunan province".

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 44, was appointed as one of the joint company secretaries of our Company. Ms. Kam is a senior manager of corporate services at Tricor Services Limited ("Tricor"). Tricor is 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 Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. She has extensive experience in a diversified range of corporate services and has been providing professional secretarial services for over 18 years. Other than our company, Ms. Kam had been appointed as company secretary of three other listed companies in Hong Kong.

DIRECTORS' REPORT

The Board is pleased to present their report and the audited financial statements of the Group for the year ended 31 December 2011.

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 Dividends

The results of the Group for the year ended 31 December 2011 are set out in the financial statements on pages 46 to 115 of this annual report.

The Directors propose to recommend the payment of a final dividend of HK5.6 cents per ordinary share for the year ended 31 December 2011 to the Shareholders whose names appear on the register of members of the Company on 22 May 2012 ("Record Date") at the forth coming annual general meeting of the Company to be held on 10 May 2012, and the payment of final dividends will be in cash. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

The final dividend of HK5.6 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 2011 represented an increase of approximately 6.4% 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.

Summary Financial Information

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and the prospectus, is set out on page 116. This summary does not form part of the audited financial statements.

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(b) to the financial statements, respectively.

Distributable Reserves

As at 31 December 2011, 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 RMB3,519.1 million, of which approximately RMB141.2 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 2011 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 15.1% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 4.2% of the Group's total sales. The aggregate purchases during the year under review attributable to the Group's five largest suppliers were approximately 23.5% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 6.0% 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.

Donations

Charitable and other donations made by the Group during the year under review amounted to approximately RMB1.7 (2010: approximately RMB0.2 million).

DIRECTORS' REPORT

Property, Plant and Equipment

During the year ended 31 December 2011, the Group held property, plant and equipment of approximately RMB1,656.8 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 2011. 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 2011.

Directors

The Directors in 2011 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. Liang Jianyi, Mr. Huang Jianlong and Mr. Xu Yaxiong will retire from the office of Director by rotation at the forthcoming annual general meeting. Mr. Xu Yaxiong, being eligible, will offer himself for re-election at the forthcoming annual general meeting. Each of Mr. Liang Jiangyi and Mr. Huang Jianlong will not 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 2011 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 2011 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 20 to 25 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 2011 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 of the Company or any of its associated corporation

As at 31 December 2011, the interests or short positions of each Director and chief executive in the shares, underlying shares or debentures of the Company or any of its 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 Sany Heavy Equipment Investments Company Limited ("Sany BVI") (being the ultimate holding company of the Company)

Name of Director	Nature of interest	Number of shares held	Percentage of issued share capital
Mr. Mao Zhongwu (Note)	Beneficial owner	800	8.00%
Mr. Xiang Wenbo (Note)	Beneficial owner	800	8.00%
Mr. Huang Jianlong (Note)	Beneficial owner	8	0.08%

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 BVI, respectively, which in turn holds the entire issued share capital of Sany Hongkong Group Limited ("Sany HK").

Save as disclosed above, as at 31 December 2011, 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 of the Company

As at 31 December 2011, 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	2,250,000,000	72.29%
Sany BVI (Note 1)	Interest of a controlled corporation	2,250,000,000	72.29%
Mr. Liang Wengen (Note 2)	Interest of a controlled corporation	2,250,000,000	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 al 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 as at the date of this report.

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 2011, the Group's total contributions to the retirement schemes charged in the income statement amounted to RMB61.6 million (2010: RMB23.4 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 2011. The Group's principal corporate governance practices are set out on pages 37 to 42 of the annual report.

Connected Transactions and Continuing Connected Transactions

(A) During the year ended 31 December 2011, the Group entered into the following connected transactions which are subject to the reporting requirements set out in Chapter 14A of the Listing Rules.

(1) Purchase of Equipment from Sany Jingji

On 3 November 2011, the Company (for itself and on behalf of its subsidiaries) entered into an equipment purchase agreement (the "Equipment Purchase Agreement") with Shanghai Sany Jingji Co., Ltd. ("Sany Jingji") to acquire certain equipment at a cash consideration of RMB104,380,000. The equipment acquired by the Company under the Equipment Purchase Agreement which are products of Sany Jingji, including vertical machining center, horizontal machining center, stage loader, pentahedral gantry machining center, CNC floor-type milling and boring machine and double column vertical lathe. Sany Jingji is a subsidiary of Sany Group. Sany Group is owned as to 58.24% by Mr. Liang Wengen, a substantial shareholder of the Company. Sany Jingji, being an associate of Mr. Liang Wengen, the controlling shareholder of the Company, is therefore a connected person of the Company under Rule 14A.11(1) of the Listing Rules. Accordingly, the purchase made under the Equipment Purchase Agreement constitutes a connected transaction of the Company under the Listing Rules. Details of the Asset Purchase Agreement are set out in the announcement of the Company dated 3 November 2011.

(2) Purchase of Assets from Sany Heavy Machinery

On 30 December 2011, Sany Heavy Equipment, a wholly-owned subsidiary of the Company, entered into an asset purchase agreement (the "Asset Purchase Agreement") with Sany Heavy Machinery to purchase all the assets related to the off-highway mining truck business of Sany Heavy Machinery for a cash consideration of RMB144,404,600, which is determined by reference to the carrying value of the relevant assets of Sany Heavy Machinery as at 10 December 2011, being the valuation date. Sany Heavy Machinery is a wholly-owned subsidiary of Sany Heavy Industry. Sany Heavy Industry is a subsidiary of Sany Group, which is owned as to 58.24% by Mr. Liang Wengen, a substantial shareholder of the Company. Sany Heavy Machinery, being an associate of Mr. Liang Wengen, the controlling shareholder of the Company, is therefore a connected person of the Company under Rule 14A.11(4) of the Listing Rules. Accordingly, the Purchase made under the Asset Purchase Agreement constitutes a connected transaction of the Company under the Listing Rules. Details of the Asset Purchase Agreement are set out in the announcement of the Company dated 30 December 2011.

(B) During the year ended 31 December 2011, the Group entered into the following continuing connected transactions which are subject to the reporting and annual review requirements set out in Chapter 14A of the Listing Rules.

(3) 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 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.

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 RMB94.0 million for the financial year ended 31 December 2011. Details of the Master Purchase Renewal Agreement were set out in the Company's announcement dated 24 December 2010.

DIRECTORS' REPORT

On 14 November 2011, the Company and Sany Group entered into a supplemental agreement (the "Supplemental Agreement"), pursuant to which the maximum annual transaction amount under the Master Purchase Renewal Agreement for the year ending 31 December 2011 has been increased by RMB30.0 million to RMB124.0 million (the "Revised Cap"). Other terms and conditions of the Master Purchase Renewal Agreement remain unchanged. The Revised Cap is calculated and determined after taking into account (i) the amount of purchases made under the Master Purchase Renewal Agreement as at 31 October 2011 of approximately RMB84.9 million based on the unaudited management accounts of the Group; and (ii) the forecast amount of purchases to be placed with Sany Group by the Company under the Master Purchase Renewal Agreement for the two months ending 31 December 2011, which is based on the Company's sales projection and production plans. Details of the Supplemental Agreement were set out in the Company's announcement dated 14 November 2011.

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 RMB103,673,000, which was within the Revised Cap of RMB124.0 million as disclosed in the Company's announcement dated 14 November 2011.

(4) Master Transportation Agreement

On 9 June 2011, Sany Heavy Equipment and Sany Zongcai, wholly-owned subsidiaries of the Company, entered into a master transportation agreement (the "Master Transportation Agreement") with Hunan Sany Logistics Co., Ltd. ("Sany Logistics") pursuant to which Sany Logistics agreed to provide certain logistics services to Sany Heavy Equipment and Sany Zongcai for a term commencing from 9 June 2011 to 31 December 2011 (both days inclusive). Sany Logistics is a wholly-owned subsidiary of Sany Group, and therefore is an associate of Mr. Liang Wengen and a connected person of the Company. As disclosed in the announcement of the Company dated 9 June 2011, the annual cap amount for the transactions under the Master Transportation Agreement for the financial years ending 31 December 2011 is RMB30.0 million. During the year under review, the aggregate amount of the transactions under the Master Transportation Agreement was approximately RMB27,499,000, which was within the annual cap of RMB30.0 million. Details of the Master Purchase Agreement have been set out in the Company's announcement dated 9 June 2011.

Pursuant to Rule 14A.38 of the Listing Rules, the Board has engaged the auditors of the Company to report on the aforesaid continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group.

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

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

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

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

(C) Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under note 34 to the financial statements. None of these related party transactions constitutes a connected transaction as defined under the Listing Rules that is required to be disclosed, except for those described in the section of "Connected Transactions and Continuing Connected Transactions", in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 7 May 2012 to Thursday, 10 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on 10 May 2012, 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, 4 May 2012.

The register of members of the Company will be closed from Thursday, 17 May 2012 to Tuesday, 22 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to the proposed final dividend, 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 Wednesday, 16 May 2012.

Subject to Shareholders' approval of the proposed final dividend at the annual general meeting to be held on Thursday, 10 May 2012, the relevant dividends will be paid on or before Friday, 1 June 2012, to Shareholders whose names appear on the register of members of the Company on 22, May 2012.

Events After the Reporting Period

Details of the significant events after the reporting period of the Group are set out in note 38 to the financial statements.

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 2011.

Auditors

The consolidated financial statements for the year ended 31 December 2011 have been audited by Ernst & Young who shall retire and a resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Ernst & Young as auditors of the Company.

By order of the Board

Mao Zhongwu
Chairman

Hong Kong, 26 March 2012

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 2011.

The Board

The Board consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. The executive Directors are Mr. Mao Zhongwu and Mr. Zhou Wanchun and Mr. Liang Jianyi. The non-executive Directors are Mr. Xiang Wenbo, Mr. Huang Jianlong, Mr. Wu Jialiang. The independent non-executive Directors are Mr. Ngai Wai Fung, Mr. Ng Yuk Keung and Mr. Xu Yaxiong. 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.

CORPORATE GOVERNANCE REPORT

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

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.

Joint Company Secretaries

The joint company secretaries (the "Joint Company Secretaries") of the Company are Mr. Du Xing and Ms. Kam Mei Ha Wendy. Details of the biographies of the Joint Company Secretaries are set out in the section headed "Directors and Senior Management" of the annual report of which this corporate governance report forms part. The Joint Company Secretaries have been informed of the requirements under Rule 3.29 of the Listing Rules and their compliance with such requirement for the near ending 31 December 2012 will be reported in the corporate governance report in the 2012 annual report of the Company.

Non-executive Directors

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

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

Board Committees

As an integral part of sound corporate governance practices, the Board has established the following Board committees to oversee the particular aspects of the Group's affairs. Each of these committees comprises independent non-executive Directors who have been 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 has reviewed the consolidated financial statements of the Group for the year ended 31 December 2011, including the accounting principles and practices adopted by the Group, selection and appointment of the external auditors. During the year ended 31 December 2011, the Audit Committee held four meetings.

Remuneration Committee

The Remuneration Committee was established with written terms of reference in compliance with the CG Code. During the year ended 31 December 2011, the Remuneration Committee had been chaired by Mr. Mao Zhongwu with two independent non-executive Directors, namely Mr. Ngai Wai Fung and Mr. Ng Yuk Keung, as members. On 21 March 2012, Mr. Xu Yaxiong has been appointed as the chairman of the Remuneration Committee in place of Mr. Mao Zhongwu. Mr. Mao Zhongwu has ceased to be a member of the Remuneration Committee. 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 2011 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 2011 the Nomination Committee held one meeting.

Corporate Governance Function

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with Code Provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report. Details of the work of the Board in relation to the corporate governance function for the year ending 31 December 2012 will be disclosed in the corporate governance report in the Company's 2012 annual report.

Number of Meetings and Directors' Attendance

The individual attendance record of each Director at the meetings of the Board, Audit Committee, Remuneration Committee, Nomination Committee and general meetings of the Company during the year ended 31 December 2011 is set out below:

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Executive Directors					
Mr. Mao Zhongwu *(Chairman of the Board)*	9/9	N/A	1/1	1/1	N/A
Mr. Zhou Wanchun	9/9	N/A	N/A	N/A	2/2
Mr. Liang Jianyi	9/9	N/A	N/A	N/A	2/2
Non-executive Directors					
Mr. Xiang Wenbo	8/9	N/A	N/A	N/A	N/A
Mr. Huang Jianlong	8/9	N/A	N/A	N/A	N/A
Mr. Wu Jialiang	8/9	N/A	N/A	N/A	N/A
Independent non-executive Directors					
Mr. Ngai Wai Fung	9/9	4/4	1/1	1/1	N/A
Mr. Xu Yaxiong	8/9	4/4	N/A	1/1	1/2
Mr. Ng Yuk Keung	9/9	4/4	1/1	N/A	N/A

None of the meetings set out above was attended by any alternate Director.

Continuous Professional Development

The Directors have been informed of the requirement under Code Provision A.6.5 of the CG Code regarding continuous professional development. Details of how each Director complies with such requirement for the year ending 31 December 2012 will be set out in the corporate governance report in the Company's 2012 annual report.

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 2011.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparation of the financial statements for the financial year ended 31 December 2011 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 2011 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 44 to 45 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 2011 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 2011. 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.

CORPORATE GOVERNANCE REPORT

Shareholders' Rights

How Shareholders can convene an extraordinary general meeting and putting forward proposals at Shareholders' meetings

Pursuant to the Articles, any one or more Shareholder holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company by mail at hut2@sany.com.cn to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the head of the Investor Relations department of the Company by mail at 31 Yansaihu Street, Shenyang Economic & Technological Development Zone, Shenyang, Liaoning, China or by email at hut2@sany.com.cn. The head of the Investor Relations department of the Company forwards communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the chief executive officer of the Company.

During the year ended 31 December 2011, there has been no significant change in the Company's constitutional documents.

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 to answer questions raised by the Shareholders. The resolution of every important proposal will be proposed at general meetings separately.

Voting at general meetings of the Company are conducted by way of poll in accordance with the Listing Rules. 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 *(Chairman)*
Mr. Xu Yaxiong
Mr. Ng Yuk Keung

Remuneration Committee
Mr. Xu Yaxiong *(Chairman)*
Mr. Ngai Wai Fung
Mr. Ng Yuk Keung

Nomination Committee
Mr. Mao Zhongwu *(Chairman)*
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
Bank of Communications
Shanghai Pudong Development Bank
Industrial and Commercial Bank of China
Agricultural Bank of China
China Guangfa Bank
China Construction Bank
China Everbright Bank
Industrial Bank
Hua Xia 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
Director of board secretary bureau &
Director of securities and investment 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

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 46 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 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.

INDEPENDENT AUDITORS' REPORT

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
26 March 2012

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	5	**3,780,183**	2,683,461
Cost of sales		**(2,254,484)**	(1,445,011)
Gross profit		**1,525,699**	1,238,450
Other income and gains	5	**217,130**	89,219
Selling and distribution costs		**(465,253)**	(335,361)
Administrative expenses		**(382,015)**	(248,776)
Other expenses	6	**(11,213)**	(17,908)
Finance costs	7	**(4,679)**	(5,778)
PROFIT BEFORE TAX	6	**879,669**	719,846
Income tax expense	10	**(105,314)**	(49,334)
PROFIT FOR THE YEAR		**774,355**	670,512
Attributable to:			
Owners of the parent		**774,355**	670,512
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
			(Restated)
Basic (RMB Yuan)	13	**0.25**	0.22
			(Restated)
Diluted (RMB Yuan)	13	**0.25**	0.22

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
PROFIT FOR THE YEAR	**774,355**	670,512
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**(19,631)**	(20,898)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(19,631)**	(20,898)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**754,724**	649,614
Attributable to:		
Owners of the parent	**754,724**	649,614

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,656,800**	837,707
Prepaid land lease payments	15	**434,913**	326,158
Intangible assets	16	**42,774**	–
Non-current prepayments	20	**392,665**	110,659
Deferred tax assets	28	**113,458**	82,435
Total non-current assets		**2,640,610**	1,356,959
CURRENT ASSETS			
Inventories	18	**719,049**	384,297
Trade receivables	19	**1,526,352**	874,417
Bills receivable	19	**771,738**	281,785
Prepayments, deposits and other receivables	20	**402,999**	227,708
Financial assets at fair value through profit or loss	21	**12,490**	12,233
Investment deposits	22	**535,670**	768,560
Time deposits	23	**324,296**	1,177,250
Pledged deposits	23	**55,431**	37,718
Cash and cash equivalents	23	**477,516**	762,534
Total current assets		**4,825,541**	4,526,502
CURRENT LIABILITIES			
Trade and bills payables	24	**737,992**	277,973
Other payables and accruals	25	**725,614**	446,906
Due to a fellow subsidiary	34(4)	**134,405**	–
Tax payable		**99,944**	86,934
Provision for warranties	26	**47,583**	31,934
Government grants	27	**17,308**	6,655
Total current liabilities		**1,762,846**	850,402
NET CURRENT ASSETS		**3,062,695**	3,676,100
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,703,305**	5,033,059

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	28	–	1,835
Government grants	27	329,547	279,481
Total non-current liabilities		329,547	281,316
Net assets		5,373,758	4,751,743
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	270,110	182,801
Reserves	30(a)	4,962,484	4,436,233
Proposed final dividend	12	141,164	132,709
Total equity		5,373,758	4,751,743

Mao Zhongwu
Director

Zhou Wanchun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2011

	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(a))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000 (note 12)	Total RMB'000
At 1 January 2011	182,801	1,919,934#	1,332,316#	154,922#	(22,129)#	1,051,190#	132,709	4,751,743
Profit for the year	–	–	–	–	–	774,355	–	774,355
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations	–	–	–	–	(19,631)	–	–	(19,631)
Total comprehensive income for the year	–	–	–	–	(19,631)	774,355	–	754,724
Issue of bonus shares (note 29)	87,309	(87,309)	–	–	–	–	–	–
Final 2010 dividend declared	–	–	–	–	–	–	(132,709)	(132,709)
Proposed final 2011 dividend (note 12)	–	–	–	–	–	(141,164)	141,164	–
Transfer from retained profits	–	–	–	78,353	–	(78,353)	–	–
At 31 December 2011	270,110	1,832,625#	1,332,316#	233,275#	(41,760)#	1,606,028#	141,164	5,373,758

These reserve accounts comprise the consolidated reserves of RMB4,962,484,000 (2010: RMB4,436,233,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2011

	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(a))	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
Profit for the year	–	–	–	–	–	670,512	–	670,512
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations	–	–	–	–	(20,898)	–	–	(20,898)
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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**879,669**	719,846
Adjustments for:			
Finance costs	7	**4,679**	5,778
Interest income	5	**(10,416)**	(15,336)
Gains from investment deposits	5	**(33,371)**	(7,773)
Loss on disposal of items of property, plant and equipment	6	**894**	512
Fair value gains on derivative financial instruments	5	**–**	(12,233)
Depreciation	14	**58,188**	33,943
Amortisation of land lease prepayments	15	**6,926**	6,926
Government grants	27	**(83,304)**	(12,762)
Impairment of trade receivables	19	**6,121**	2,748
Provision against slow-moving and obsolete inventories	18	**4,198**	9,872
		833,584	731,521
(Increase)/decrease in inventories		**(251,432)**	163,993
Increase in trade receivables		**(640,256)**	(311,524)
Increase in bills receivable		**(489,953)**	(30,043)
Increase in prepayments, deposits and other receivables		**(174,193)**	(147,044)
Decrease in derivative financial instruments		**12,233**	–
Increase/(decrease) in trade and bills payables		**460,019**	(101,576)
Increase/(decrease) in other payables and accruals		**26,163**	(22,340)
Increase in provision for warranties		**15,649**	2,940
Receipt of government grants		**113,763**	6,030
Cash (used in)/generated from operations		**(94,423)**	291,957
Interest received		**–**	15,336
PRC tax paid		**(125,162)**	(27,353)
Net cash flows (used in)/generated from operating activities		**(219,585)**	279,940

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Net cash flows (used in)/generated from operating activities		**(219,585)**	279,940
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**10,913**	–
Purchases of items of property, plant and equipment		**(693,313)**	(560,601)
Acquisition of a business from a related party	31	**(10,000)**	–
Purchase of a parcel of land		**(118,043)**	–
Deposit paid for acquisition of a parcel of land		**(181,712)**	(28,000)
Additions to intangible assets		**(33,914)**	–
Proceeds from disposal of items of property, plant and equipment		**54**	343
Decrease/(increase) in investments in bank deposits		**232,890**	(768,560)
Gains from investment deposits		**34,138**	5,547
Investment in financial assets at fair value through profit or loss		**(12,490)**	–
Decrease/(increase) in non-pledged deposits with original maturity of three months or more when acquired	23	**852,954**	(947,250)
Receipt of government grants		**30,260**	25,530
Net cash flows from/(used in) investing activities		**111,737**	(2,272,991)
CASH FLOWS FROM FINANCING ACTIVITIES			
Listing expenses paid		**(2,438)**	(9,217)
Interest paid		**(4,679)**	(5,778)
Dividends paid		**(132,709)**	(109,614)
(Addition)/release of pledged deposits		**(17,713)**	31,325
Receipt of government grants		**–**	4,000
Net cash flows used in financing activities		**(157,539)**	(89,284)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(265,387)**	(2,082,335)
Cash and cash equivalents at beginning of year		**762,534**	2,865,767
Effect of foreign exchange rate changes, net		**(19,631)**	(20,898)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**477,516**	762,534

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**71**	86
Investment in a subsidiary	17	**3,366,747**	3,366,747
Total non-current assets		**3,366,818**	3,366,833
CURRENT ASSETS			
Prepayments, deposits and other receivables	20	**513**	1,210
Due from a subsidiary	17	**32,250**	–
Investment deposits	22	**345,670**	508,560
Cash and cash equivalents	23	**2,916**	3,443
Total current assets		**381,349**	513,213
CURRENT LIABILITIES			
Other payables and accruals	25	**677**	6,356
Due to a subsidiary	17	**–**	3,218
Total current liabilities		**677**	9,574
NET CURRENT ASSETS		**380,672**	503,639
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,747,490**	3,870,472
Net assets		**3,747,490**	3,870,472
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	**270,110**	182,801
Reserves	30(b)	**3,336,216**	3,554,962
Proposed final dividend	12	**141,164**	132,709
Total equity		**3,747,490**	3,870,472

Mao Zhongwu
Director

Zhou Wanchun
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 KY1-1111, 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 roadheaders, combined coal mine units ("CCMUs") and coal mine transportation vehicles 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 the 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 financial assets at fair value through profit or loss and 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 Group for the year ended 31 December 2011. 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 Amendment	Amendment to IFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

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

(a) 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. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

(b) IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group as the Company is not a government-controlled entity.

(c) 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 amendment will not have any financial impact on the Group.

2.2 Changes in Accounting Policy and Disclosures (continued)

(d) 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. As the Group has had no defined benefit schemes, the adoption of the amendments will not have any financial impact on the Group.

(e) 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 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. The interpretation will not have any financial impact on the Group.

(f) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS *3 Business Combinations*: The amendment 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 amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.2 Changes in Accounting Policy and Disclosures (continued)

(f) (continued)

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

- IAS 27 *Consolidated and Separate Financial Statements*: The amendment 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.

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 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [4]
IFRS 9	*Financial Instruments* [6]
IFRS 10	*Consolidated Financial Statements* [4]
IFRS 11	*Joint Arrangements* [4]
IFRS 12	*Disclosure of Interests in Other Entities* [4]
IFRS 13	*Fair Value Measurement* [4]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* [3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [2]
IAS 32 Amendments	Amendments to IAS32 *Financial Instruments: Presentation – Offsetting Financial Assets And Financial Liabilities* [5]
IAS 19 Amendments	*Employee Benefits* [4]
IAS 27 (Revised)	*Separate Financial Statements* [4]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures* [4]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine* [4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

2.3 Issued but not yet effective International Financial Reporting Standards (continued)

Further information about those changes that are expected to significantly affect the Group is as follows:

(a) 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 (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions 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 using the fair value option ("FVO"). For these FVO liabilities, 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 ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

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 2015.

(b) IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12.

(c) IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.3 Issued but not yet effective International Financial Reporting Standards (continued)

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, and the consequential amendments to IAS 27 and IAS 28 from 1 January 2013.

(d) IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

(e) IAS 19 Amendments include a number of amendments that range from fundamental changes to simple clarifications and re-wording. The amendments introduce significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt the amendments from 1 January 2013.

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.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4 Summary of Significant Accounting Policies (continued)

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 is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 Summary of Significant Accounting Policies (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

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

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

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

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

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 depreciates them accordingly.

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

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

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

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.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 years.

2.4 Summary of Significant Accounting Policies (continued)

Intangible assets (other than goodwill) (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.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

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

The Group's financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and held-to-maturity investments. 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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 cash equivalents, time deposits, pledged deposits, investment deposits, financial assets included in prepayments, deposits and other receivables, financial assets at fair value through profit or loss and trade and bills receivables.

2.4 Summary of Significant Accounting Policies (continued)

Intangible assets (other than goodwill) (continued)

Subsequent measurement

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

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. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. These net fair value changes do not include any interest earned on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below. Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied.

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, in rare circumstances, 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. 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 as these instruments cannot be reclassified after initial recognition.

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 finance costs for loans and in other expenses for receivables.

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 them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method 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.

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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 occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or 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 payables, financial liabilities included in other payables and accruals and an amount due to a fellow subsidiary.

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities (continued)

Subsequent measurement

The subsequent 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.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of IAS 39 are satisfied.

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 of 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 with original maturity of less than three months, which are not restricted as to use.

2.4 Summary of Significant Accounting Policies (continued)

Provisions

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

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

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

Income tax

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

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

- when 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, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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 unused tax losses can be utilised, except:

- when 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.

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.

2.4 Summary of Significant Accounting Policies (continued)

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 benefit 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 the annual 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 arising on settlement or translation of monetary items 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. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. Significant Accounting Judgements 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, 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.

Tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

3. Significant Accounting Judgements and Estimates

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.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2011, the best estimate of the carrying amount of capitalised development costs was RMB33,914,000 (2010: Nil).

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.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

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.

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 roadheaders, combined coal mining units ("CCMUs") and coal mine transportation vehicles.

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

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 the PRC.

Information about a major customer

Revenue of approximately RMB666,047,000 (2010: Nil) was derived from sales to a single customer, including sales to a group of entities which are known to be under common control with that customer.

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, other income and gains is as follows:

		Group	
		2011	2010
	Note	**RMB'000**	RMB'000
Revenue			
Sale of goods		**3,736,906**	2,663,344
Rendering of services		**43,277**	20,117
		3,780,183	2,683,461
Other income			
Bank interest income		**10,416**	15,336
Profit from the sale of scrap materials		**69,373**	36,393
Government grants	27	**83,304**	12,762
Others		**222**	4,722
		163,315	69,213
Gains			
Gains from investment deposits		**33,371**	7,773
Exchange gains		**20,444**	–
Fair value gains on derivative financial instruments		**–**	12,233
		53,815	20,006
		217,130	89,219

NOTES TO FINANCIAL STATEMENTS

31 December 2011

6. Profit before Tax

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

		Group	
	Notes	**2011 RMB'000**	2010 RMB'000
Cost of inventories sold		**2,225,722**	1,434,259
Cost of services provided		**28,762**	10,752
Depreciation	14	**58,188**	33,943
Amortisation of land lease prepayments	15	**6,926**	6,926
Auditors' remuneration		**2,000**	2,000
Provision for warranties*	26	**61,961**	68,429
Research and development costs**		**185,800**	120,798
Minimum lease payments under operating leases:			
Dormitories for staff		**2,399**	2,853
Warehouses		**2,644**	1,074
		5,043	3,927
Employee benefit expenses (including directors' remuneration (note 8)):			
Wages and salaries		**304,090**	237,192
Pension scheme contributions		**41,994**	14,265
Other staff welfare		**19,591**	9,180
		365,675	260,637
Other expenses:			
Foreign exchange differences, net		**–**	4,776
Impairment of trade receivables	19	**6,121**	2,748
Provision against slow-moving and obsolete inventories	18	**4,198**	9,872
Loss on disposal of items of property, plant and equipment		**894**	512
		11,213	17,908

* Provision for warranties is included in "Selling and distribution costs" in the consolidated income statement.

** Research and development costs are included in "Administrative expenses" in the consolidated income statement.

7. Finance Costs

	Group	
	2011	2010
	RMB'000	RMB'000
Interest on discounted bills	**4,679**	5,778

8. Directors' Remuneration

Details of directors' remuneration are as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Fees	**573**	569
Other emoluments:		
Salaries, allowances and benefits in kind	**4,490**	1,717
Pension scheme contributions and other staff welfare	**204**	78
	4,694	1,795
	5,267	2,364

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 RMB'000	Mandatory provident fund RMB'000	Total remuneration RMB'000
2011			
Mr. Xu Yaxiong	**212**	**–**	**212**
Mr. Ngai Wai Fung	**149**	**7**	**156**
Mr. Ng Yuk Keung	**212**	**–**	**212**
	573	**7**	**580**
2010			
Mr. Xu Yaxiong	180	–	180
Mr. Ngai Wai Fung	209	8	217
Mr. Ng Yuk Keung	180	–	180
	569	8	577

There were no emoluments payable to the independent non-executive directors during the year (2010: Nil).

8. Directors' Remuneration (continued)

(b) Executive and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions and other staff welfare RMB'000	Total remuneration RMB'000
2011				
Executive directors:				
Mr. Mao Zhongwu	–	1,155	56	1,211
Mr. Liang Jianyi	–	1,842	52	1,894
Mr. Zhou Wanchun	–	1,294	54	1,348
	–	4,291	162	4,453
Non-executive directors:				
Mr. Xiang Wenbo	–	–	–	–
Mr. Huang Jianlong	–	–	–	–
Mr. Wu Jialiang	–	199	35	234
	–	199	35	234
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

There was no other arrangement under which a director waived or agreed to waive any remuneration during the year (2010: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2011

9. Five Highest Paid Employees

The five highest paid employees during the year included three (2010: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2010: three) non-director, highest paid employees for the year are as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Salaries and allowances	**423**	440
Bonuses	**1,373**	2,061
Pension scheme contributions and other staff welfare	**98**	61
	1,894	2,562

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

	Group	
	2011	2010
Nil to RMB1,000,000	**1**	3
RMB1,000,001 to RMB2,000,000	**1**	–
	2	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 period.

Pursuant to the PRC Income Tax Law and the respective regulations, except for certain preferential tax treatment available to certain subsidiaries operating in Mainland China, the companies of the Group which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on their respective taxable income for the year ended 31 December 2011.

The Group's principal operating company, Sany Heavy Equipment Co., Ltd. (三一重型裝備有限公司) ("Sany Heavy Equipment"), obtained the high technology enterprise accreditation and hence was subject to CIT at a rate of 15% in 2011.

10. Income Tax (continued)

	Group	
	2011	2010
	RMB'000	RMB'000
Group:		
Current – Mainland China		
Charge for the year	**138,172**	59,758
Deferred	**(32,858)**	(10,424)
Total tax charge for the year	**105,314**	49,334

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			
	2011		2010	
	RMB'000	**%**	RMB'000	%
Profit before tax	**879,669**		719,846	
Tax at the statutory tax rate	**219,917**	**25.0**	179,962	25.0
Entities subject to lower statutory income tax rates	**(94,353)**	**(10.7)**	(98,479)	(13.7)
Expenses not deductible for tax	**8,419**	**1.0**	8,925	1.2
Tax effect of change in tax rate when temporary difference is realised	**109**	**0.0**	(983)	(0.1)
Super-deduction of research and development costs	**(17,064)**	**(1.9)**	(18,227)	(2.5)
Income not subject to tax	**(12,935)**	**(1.5)**	(5,894)	(0.8)
Tax concession granted	**–**	**–**	(14,419)	(2.0)
Tax losses not recognised	**1,221**	**0.1**	826	0.1
Others	**–**	**–**	(2,377)	(0.3)
Tax charge at the Group's effective tax rate	**105,314**	**12.0**	49,334	6.9

NOTES TO FINANCIAL STATEMENTS

31 December 2011

11. Profit Attributable to owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a profit of RMB29,358,000 (2010: RMB4,009,000) which has been dealt with in the financial statements of the Company (note 30(b)).

12. Dividend

	2011 **RMB'000**	2010 RMB'000
Proposed final – HK5.6 cents (2010: HK7.6 cents) per ordinary share	**141,164**	132,709

The final dividend of HK5.6 cents per share is subject to approval by the shareholders in the annual 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.

13. Earnings per Share attributable to Ordinary Equity Holders of the Parent

The calculation of the basic earnings per share is based on the profit for the year ended 31 December 2011 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,112,500,000 in issue during the year, as adjusted to reflect the issue of bonus shares on 26 May 2011. The weighted average number of ordinary shares in issue during the year ended 31 December 2010 has been retrospectively restated to 3,112,500,000 ordinary shares to reflect the issue of bonus shares.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2011 and 2010 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

14. Property, Plant and Equipment

Group	Buildings RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011						
At 31 December 2010 and at 1 January 2011:						
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
At 1 January 2011, net of accumulated depreciation	236,303	214,972	26,378	25,568	334,486	837,707
Acquired from business combination	–	29,243	984	–	–	30,227
Additions	–	144,539	30,468	2,484	670,511	848,002
Disposals	(806)	(8)	–	(134)	–	(948)
Depreciation provided during the year	(13,115)	(34,032)	(7,588)	(3,453)	–	(58,188)
Transfers	371,662	151,606	892	–	(524,160)	–
At 31 December 2011, net of accumulated depreciation	594,044	506,320	51,134	24,465	480,837	1,656,800
At 31 December 2011:						
Cost	615,777	588,754	66,826	39,341	480,837	1,791,535
Accumulated depreciation	(21,733)	(82,434)	(15,692)	(14,876)	–	(134,735)
Net carrying amount	594,044	506,320	51,134	24,465	480,837	1,656,800

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 RMB435,769,000 as at 31 December 2011 (2010: RMB83,547,000) have not yet been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

14. Property, Plant and Equipment (continued)

Group	Buildings RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 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
Disposals	(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

15. Prepaid Land Lease Payments

	Group	
	2011	2010
	RMB'000	RMB'000
Carrying amount at 1 January	**333,084**	340,010
Addition	**118,043**	–
Recognised during the year (note 6)	**(6,926)**	(6,926)
Carrying amount at 31 December	**444,201**	333,084
Current portion included in prepayments, deposits and other receivables	**(9,288)**	(6,926)
Non-current portion	**434,913**	326,158

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

The Group is in the process of applying for the land use right certificate for land lease prepayment with an aggregate carrying amount of approximately RMB118,043,000 as at 31 December 2011.

16. Intangible Assets

Group	**Patents and licences RMB'000**	**Deferred development cost RMB'000**	**Total RMB'000**
Cost at 1 January 2011, net of accumulated amortisation	**–**	**–**	**–**
Acquired from business combination	**8,860**	**–**	**8,860**
Additions – internal development	**–**	**33,914**	**33,914**
At 31 December 2011	**8,860**	**33,914**	**42,774**
At 31 December 2011:			
Cost	**8,860**	**33,914**	**42,774**
Accumulated amortisation	**–**	**–**	**–**
Net carrying amount	**8,860**	**33,914**	**42,774**

17. Investments in Subsidiaries

	Company	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**3,366,747**	3,366,747

The amounts due from a subsidiary included in the Company's current assets of RMB32,250,000 (2010: due to a subsidiary of RMB3,218,000) are unsecured, interest-free and are repayable on demand.

Particulars of the subsidiaries are as follows:

Company name	Place and date of registration and place of operations	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Sany Heavy Equipment*	PRC/Mainland China 13 January 2004	RMB2,918,070,000	100	–	Manufacture and sale of integrated excavation machinery, integrated coal mining equipment and coal mine transportation equipment
Sany Heavy Integrated Coal Mining Equipment Co., Ltd. ("Sany Zongcai") (三一重型綜採成套裝備有限公司) *	PRC/Mainland China 20 May 2008	RMB500,000,000	–	100	Manufacture and sale of integrated excavation machinery, integrated coal mining equipment and coal mine transportation equipment
Shanxi Sany Coal Mining Equipment Co., Ltd. ("Sany Mining Equipment") (山西三一煤機裝備有限公司) *	PRC/Mainland China 12 June 2010	RMB50,000,000	–	100	Provision of maintenance service
Xinjiang Sany Heavy Equipment Co., Ltd. ("Xinjiang Sany") (新疆三一重型裝備有限公司) * #	PRC/Mainland China 7 July 2011	RMB20,000,000	–	100	Provision of maintenance service

* Companies incorporated as limited liability companies under PRC law.

\# The company has not yet commenced operation.

18. Inventories

	Group 2011 RMB'000	2010 RMB'000
Raw materials	**247,018**	123,706
Work in progress	**235,589**	120,613
Finished goods	**249,827**	150,898
	732,434	395,217
Less: Provision against slow-moving and obsolete inventories	**(13,385)**	(10,920)
	719,049	384,297

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

	Note	Group 2011 RMB'000	2010 RMB'000
At 1 January		**10,920**	11,806
Charge for the year	6	**4,198**	9,872
Amount written off		**(1,733)**	(10,758)
At 31 December		**13,385**	10,920

19. Trade and Bills Receivables

	Group	
	2011	2010
	RMB'000	RMB'000
Trade receivables	**1,560,473**	907,346
Impairment	**(34,121)**	(32,929)
Trade receivables, net	**1,526,352**	874,417
Bills receivable	**771,738**	281,785

The Group generally requires its customers to make payments at various stages of the sales transactions, however, the Group grants certain credit periods to old customers with good payment history. The credit periods of individual customers are considered on a case-by-case basis and are 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.

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	
	2011	2010
	RMB'000	RMB'000
Within 60 days	**597,244**	528,159
61 to 90 days	**388,913**	86,431
91 to 180 days	**202,559**	119,464
181 to 365 days	**202,240**	103,950
Over 1 year	**135,396**	36,413
	1,526,352	874,417

19. Trade and Bills Receivables (continued)

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

		Group	
	Note	**2011 RMB'000**	2010 RMB'000
At 1 January		**32,929**	30,332
Impairment losses recognised	6	**6,121**	2,748
Amount written off as uncollectible		**(4,929)**	(151)
At 31 December		**34,121**	32,929

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB34,121,000 (2010: RMB32,929,000) with a carrying amount before provision of RMB34,121,000 (2010: RMB32,929,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or in default in payments. The Group does not hold any collateral or other credit enhancements over these balances.

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

			Past due but not impaired		
Group	**Total** RMB'000	**Neither past due nor impaired** RMB'000	**Within 180 days** RMB'000	**181 to 365 days** RMB'000	**Over 1 year** RMB'000
31 December 2011	1,526,352	1,416,170	100,985	6,135	3,062
31 December 2010	874,417	801,700	53,654	14,384	4,679

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.

19. Trade and Bills Receivables (continued)

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

	Group	
	2011	2010
	RMB'000	RMB'000
Within 6 months	**771,738**	281,785

Included in the balances of bills receivable are amounts of approximately RMB41,000,000 (2010: RMB33,142,000) which were pledged to secure the issuance of bills payable.

20. Prepayments, Deposits and Other Receivables

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current prepayments	**392,665**	110,659	**–**	–
Current assets:				
Prepayments	**151,507**	151,471	**–**	–
Deposits and other receivables	**251,492**	76,237	**513**	1,210
	402,999	227,708	**513**	1,210

Included in the non-current prepayments was an amount of RMB90,580,000 as at 31 December 2011 (2010: Nil) paid to a fellow subsidiary for purchasing equipment by the Group. Further details of the transaction are included in note 34(2) to the financial statements.

Included in the prepayments was an amount of RMB1,000,000 as at 31 December 2011 (2010: Nil) paid to a fellow subsidiary for purchasing raw materials by the Group.

21. Financial Assets at Fair Value Through Profit or Loss

	Group	
	2011	2010
	RMB'000	RMB'000
Investment in financial products in Mainland China, at fair value	**12,490**	–
Derivative financial instruments	**–**	12,233
	12,490	12,233

Investment in financial products as at 31 December 2011 were acquired or incurred principally for the purpose of selling or repurchasing in the near term and were upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss.

22. Investment Deposits

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Investment deposits, in licensed banks in Mainland China, at amortised cost	**535,670**	768,560	**345,670**	508,560

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

23. Cash and Cash Equivalents, Time Deposits and Pledged Deposits

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and cash equivalents	**477,516**	762,534	**2,916**	3,443
Time deposits	**379,727**	1,214,968	**–**	–
	857,243	1,977,502	**2,916**	3,443
Less: Non-pledged time deposits with original maturity of three months or more when acquired as at 31 December 2011	**(324,296)**	(1,177,250)	**–**	–
Pledged time deposits for banking facilities	**(55,431)**	(37,718)	**–**	–
Cash and cash equivalents in the consolidated statement of cash flows	**477,516**	762,534	**2,916**	3,443
Cash and cash equivalents, time deposits and pledged deposits denominated in				
– RMB	**855,858**	1,664,213	**1,531**	2,271
– HK$	**1,385**	899	**1,385**	899
– United States dollars ("US$")	**–**	312,390	**–**	273
	857,243	1,977,502	**2,916**	3,443

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

Pledged bank deposits 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.

24. Trade and Bills Payables

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

	Group	
	2011	2010
	RMB'000	RMB'000
Within 30 days	**247,812**	88,470
31 to 90 days	**236,512**	109,358
91 to 180 days	**225,104**	60,289
181 days to 365 days	**17,326**	10,056
Over 1 year	**11,238**	9,800
	737,992	277,973

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

The bills payable are all due within 180 days.

25. Other Payables and Accruals

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits received from customers	**308,908**	91,536	**–**	–
Other payables	**404,710**	340,450	**–**	3,803
Accruals	**11,996**	14,920	**677**	2,553
	725,614	446,906	**677**	6,356

Included in the accruals was an amount of RMB8,925,000 as at 31 December 2011 (2010: Nil) payable to a fellow subsidiary for purchasing logistics services by the Group.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

26. Provision for warranties

		Group	
	Note	**2011 RMB'000**	2010 RMB'000
At 1 January		**31,934**	28,994
Additional provision	6	**61,961**	68,429
Amounts utilised during the year		**(46,312)**	(65,489)
At 31 December		**47,583**	31,934

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.

27. Government grants

	Group	
	2011 RMB'000	2010 RMB'000
At 1 January	**286,136**	263,338
Grants recognised during the year	**144,023**	35,560
Amortised as income during the year (note 5)	**(83,304)**	(12,762)
At 31 December	**346,855**	286,136
Current portion	**(17,308)**	(6,655)
Non-current portion	**329,547**	279,481

28. Deferred Tax

Deferred tax assets

Group	Government grants RMB'000	Provision against slow-moving and obsolete inventories RMB'000	Warranty provision RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2010	65,689	1,299	3,189	–	70,177
Credited to the consolidated income statement (note 10)	3,099	339	1,601	7,219	12,258
At 31 December 2010 and 1 January 2011	68,788	1,638	4,790	7,219	82,435
Credited to the consolidated income statement (note 10)	1,843	(720)	2,347	27,553	31,023
At 31 December 2011	70,631	918	7,137	34,772	113,458

The Group has tax losses mainly arising in Hong Kong of RMB5,426,000 (2010: RMB2,961,000) 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.

Deferred tax liabilities

Group	Fair value changes in derivative financial instruments RMB'000
At 1 January 2010	–
Charged to the consolidated income statement (note 10)	1,835
At 31 December 2010 and 1 January 2011	1,835
Credited to the consolidated income statement (note 10)	(1,835)
At 31 December 2011	–

28. Deferred Tax (continued)

Deferred tax liabilities (continued)

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 2011, no deferred 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

	2011 HK$'000	2010 HK$'000
Authorised: 5,000,000,000 ordinary shares (31 December 2010: 3,000,000,000 ordinary shares) of HK$0.10 each	**500,000**	300,000
Issued and fully paid: 3,112,500,000 ordinary shares (31 December 2010: 2,075,000,000 ordinary shares) of HK$0.10 each	**311,250**	207,500
Equivalent to RMB'000	**270,110**	182,801

Pursuant to the resolution on the issue of bonus shares and the increase in the Company's share capital at the annual general meeting held on 13 May 2011, the authorised share capital of the Company was increased to HK$500,000,000 divided into 5,000,000,000 ordinary shares of HK$0.10 each, and the Company's issued share capital was increased to HK$311,250,000 divided into 3,112,500,000 ordinary shares of HK$0.10 each by capitalising the share premium of the Company, pursuant to which 1,037,500,000 bonus shares have been allotted and issued.

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 funds 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 funds 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 funds of the PRC subsidiaries amounted to RMB233,499,000 as at 31 December 2011 (2010: RMB154,922,000).

(b) Company

	Notes	Share premium account RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
As at 31 December 2009		2,052,643	1,676,409	(1,231)	(23,261)	3,704,560
Profit for the year		–	–	–	4,009	4,009
Other comprehensive income for the year:						
Exchange differences on translation of foreign operations		–	–	(20,898)	–	(20,898)
Total comprehensive income for the year		–	–	(20,898)	4,009	(16,889)
Proposed final 2010 dividend		(132,709)	–	–	–	(132,709)
As at 31 December 2010		1,919,934	1,676,409	(22,129)	(19,252)	3,554,962
Profit for the year		**–**	**–**	**–**	**29,358**	**29,358**
Other comprehensive income for the year:						
Exchange differences on translation of foreign operations		**–**	**–**	**(19,631)**	**–**	**(19,631)**
Total comprehensive income for the year		**–**	**–**	**(19,631)**	**29,358**	**9,727**
Issue of bonus shares	29	**(87,309)**	**–**	**–**	**–**	**(87,309)**
Proposed final 2011 dividend	12	**(141,164)**	**–**	**–**	**–**	**(141,164)**
As at 31 December 2011		**1,691,461**	**1,676,409**	**(41,760)**	**10,106**	**3,336,216**

31. Business Combination

On 30 December 2011, Sany Heavy Equipment entered into an agreement with Sany Heavy Machinery Co., Ltd. (三一重機有限公司), a fellow subsidiary of the Company, to acquire a group of assets at a consideration of RMB144,404,600. The group of assets consists of equipment, intangible assets, trade receivables and inventories, which represent all assets related to off-highway mining trucks business. Further details of the transaction are included in note 34(2) to the financial statements. The acquisition will enable the Group be equipped with the capabilities to manufacture surface mining equipment, which are complementary to and create synergy with the Group's existing underground mining equipment business. The purchase consideration for the acquisition was in the form of cash, with RMB10,000,000 paid at 31 December 2011 and the remaining RMB134,404,600 will be paid in 2012.

The fair values of the acquired assets as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** RMB'000
Equipment	14	30,227
Intangible assets	16	8,860
Trade receivables		17,800
Inventories		87,518
Total identifiable net assets at fair value		144,405
Goodwill on acquisition		–
Satisfied by cash		144,405

The fair values of the trade receivables as at the date of acquisition amounted to RMB17,800,000, which are all expected to be collectible.

No goodwill was recognised as the consideration was determined by reference to the fair value of the relevant assets as at the acquisition date.

Since the acquisition, the acquired business contributed RMB4,872,000 to the Group's turnover and RMB1,087,000 to the consolidated profit for the year ended 31 December 2011.

As the acquired business was not separately accounted for in Sany Heavy Machinery Co., Ltd. before the acquisition date, it's impracticable to quantify the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for the business combination that occurred during the year had been as of the beginning of the annual reporting period.

32. Operating Lease Arrangements

(a) As lessor

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

At 31 December 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within one year	**227**	227
In the second to third years, inclusive	**227**	453
	454	680

During the year, the Group recognised RMB227,000 (2010: RMB219,000) in respect of contingent rentals receivable.

(b) As lessee

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

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within one year	**1,811**	3,998
In the second to third years, inclusive	**1,873**	1,379
	3,684	5,377

NOTES TO FINANCIAL STATEMENTS

31 December 2011

33. Commitments

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

	Group	
	2011	2010
	RMB'000	RMB'000
Contracted, but not provided for:		
Prepaid land lease payments	**27,190**	133,602
Buildings	**389,763**	195,245
Plant and machinery	**209,302**	171,853
	626,255	500,700

34. Related Party Transactions and Balances

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

(1) Recurring transactions

		Group	
		2011	2010
	Notes	**RMB'000**	RMB'000
Sales of products to:			
China Kangfu International Leasing Co., Ltd. ("Kangfu International") (中國康富國際租賃有限公司)	(i) & (iv)	**–**	245,642
Purchases of raw materials from:			
Loudi Zhongxing Hydraulic Parts Co., Ltd. (婁底市中興液壓件有限公司)	(ii) & (iv)	**58,123**	22,201
Sany Heavy Industry Co., Ltd. (三一重工股份有限公司)	(ii) & (iv)	**5,632**	20,454
Shanghai Sany Technology Co., Ltd. (上海三一科技有限公司)	(ii) & (iv)	**442**	1,915
Suote Transmission Equipment Co., Ltd. (索特傳動設備有限公司)	(ii) & (iv)	**36,615**	10,298
Beijing Sany Electric Motor System Co., Ltd. (北京三一電機系統有限責任公司)	(ii) & (iv)	**181**	–
Sany Intelligent Control Equipment Co., Ltd. (三一智能控制設備有限公司)	(ii) & (iv)	**2,139**	954
Sany Hoisting Machinery Co., Ltd. (三一汽車起重機械有限公司)	(ii) & (iv)	**520**	25
Hunan Sany Road Machinery Co., Ltd. (湖南三一路面機械有限公司)	(ii) & (iv)	**21**	–
		103,673	55,847

34. Related Party Transactions and Balances (continued)

(1) Recurring transactions (continued)

	Notes	Group 2011 RMB'000	2010 RMB'000
Operating rental received from:			
Hunan Sany Repair Services Co., Ltd. (湖南三一維修有限公司)	(iii) & (iv)	227	219
Service fee paid to:			
Hunan Xingxiang Construction Consultation Co., Ltd. (湖南興湘建設監理諮詢有限公司)	(ii) & (iv)	1,597	–
Purchases of logistics service from:			
Hunan Sany Logistics Co., Ltd. (湖南三一物流有限責任公司)	(ii) & (iv)	27,499	–

Notes:

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

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

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

(iv) Kangfu International, Loudi Zhongxing Hydraulic Parts Co., Ltd., Sany Heavy Industry Co., Ltd., Shanghai Sany Technology Co., Ltd., Suote Transmission Equipment Co., Ltd., Beijing Sany Electric Motor System Co., Ltd., Sany Intelligent Control Equipment Co., Ltd., Sany Hoisting Machinery Co., Ltd., Hunan Sany Road Machinery Co., Ltd., Hunan Sany Repair Services Co., Ltd., Hunan Xingxiang Construction Consultation Co., Ltd., and Hunan Sany Logistics Co., Ltd. are companies which are owned and controlled by the Controlling Shareholders*.

* 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

34. Related Party Transactions and Balances (continued)

(2) Other transactions with related parties:

On 3 November 2011, the Group entered into an agreement with Shanghai Sany Jingji Co., Ltd. (上海三一精機有限公司), a fellow subsidiary of the Company, pursuant to which the Group acquired a series of equipment at a cash consideration of RMB104,380,000, including in which was an amount of RMB90,580,000 paid to Shanghai Sany Jingji Co., Ltd. as deposits for purchasing equipment as at 31 December 2011. The consideration was made at prices and on conditions as mutually agreed.

On 30 December 2011, the Group acquired a business from a fellow subsidiary at a consideration of RMB144,404,600, which was based on an external valuation of the business performed by an independent valuer. Further details of the transaction are included in note 31 to the financial statements.

(3) Commitments with related parties:

Pursuant to the announcement dated on 14 November 2011, the Group entered into a three-year agreement ending 31 December 2014 with Hunan Sany Logistics Co., Ltd., to purchase logistics service for the Group's future production. The amount of the total purchases from Hunan Sany Logistics Co., Ltd. for the year is included in note 34(1) to the financial statements. The Group expects the total purchases from Hunan Sany Logistics Co., Ltd. in 2012, 2013 and 2014 will not exceed RMB100,000,000, RMB120,000,000 and RMB130,000,000, respectively.

Pursuant to the announcement dated on 25 November 2011, the Group entered into a three-year agreement ending 31 December 2014 with Sany Group Limited (三一集團有限公司) ("Sany Group"), to purchase raw materials for the Group's future production from members of Sany Group. The amount of the total purchases from members of Sany Group for the year is included in note 34(1) to the financial statements. The Group expects the total purchases from Sany Group in 2012, 2013 and 2014 will not exceed RMB357,680,000, RMB654,938,000 and RMB927,011,000, respectively.

Pursuant to the announcement dated on 14 November 2011, the Group entered into a three-year agreement ending 31 December 2014 with Shanghai Sany Jingji Co., Ltd., to purchase equipment for the Group's future production. The amount of the total purchases from Shanghai Sany Jingji Co., Ltd. for the year is included in note 34(2) to the financial statements. The Group expects the total purchases from Shanghai Sany Jingji Co., Ltd. in 2012, 2013 and 2014 will not exceed RMB110,560,000, RMB120,000,000 and RMB130,000,000, respectively.

On 24 December 2010, the Group entered into a three-year lease agreement ending 31 December 2013 with Hunan Sany Repair Services Co., Ltd.. The amount of the operating rental received from Hunan Sany Repair Services Co., Ltd. for the year is included in note 34(1) to the financial statements. The Group expects the total operating rental received from Sany Repair Services Co., Ltd. in 2012 and 2013 will not exceed RMB227,000 and RMB227,000, respectively.

34. Related Party Transactions and Balances (continued)

(3) Commitments with related parties: (continued)

Pursuant to the announcement dated on 24 December 2010, the Group entered into a three-year agreement ending 31 December 2013 with Hunan Xingxiang Construction Consultation Co., Ltd. to purchase construction management service for the Group's future production. The Group expects the total purchases from Hunan Xingxiang Construction Consultation Co., Ltd for the three years ending 31 December 2013 will not exceed RMB6,000,000, which will be paid on terms to be agreed between the Group and Hunan Xinxiang Construction Consultation Co., Ltd. The amount of the total purchases from Hunan Xingxiang Construction Consultation Co., Ltd. for the year is included in note 34(1) to the financial statements.

(4) Outstanding balances with related parties:

As disclosed in note 31 to the financial statements, the Group had an outstanding balance due to Sany Heavy Machinery Co., Ltd. of RMB134,404,600 as at the end of the reporting period. The outstanding balance is unsecured, interest-free, and repayable within 30 days after the acquisition date.

(5) Compensation of key management personnel of the Group:

	Group	
	2011	2010
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**5,266**	2,271
Pension scheme contributions and other staff welfare	**204**	89
Total compensation paid to key management personnel	**5,470**	2,360

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

35. Financial Instruments by Category

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

2011 Financial assets	Group Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade receivables	–	1,526,352	1,526,352
Bills receivable	–	771,738	771,738
Financial assets included in prepayments, deposits and other receivables	–	251,492	251,492
Financial assets at fair value through profit or loss	12,490	–	12,490
Investment deposits	–	535,670	535,670
Time deposits	–	324,296	324,296
Pledged deposits	–	55,431	55,431
Cash and cash equivalents	–	477,516	477,516
	12,490	3,942,495	3,954,985

2011 Financial liabilities	Group Financial liabilities at amortised cost RMB'000
Trade and bills payables	737,992
Financial liabilities included in other payables and accruals	416,706
Due to a fellow subsidiary	134,405
	1,289,103

35. Financial Instruments by Category (continued)

2010 Financial assets	Group Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade receivables	–	874,417	874,417
Bills receivable	–	281,785	281,785
Financial assets included in prepayments, deposits and other receivables	–	76,237	76,237
Financial assets at fair value through profit or loss	12,233	–	12,233
Investment deposits	–	768,560	768,560
Time deposits	–	1,177,250	1,177,250
Pledged deposits	–	37,718	37,718
Cash and cash equivalents	–	762,534	762,534
	12,233	3,978,501	3,990,734

2010 Financial liabilities	Group Financial liabilities at amortised cost RMB'000
Trade and bills payables	277,973
Financial liabilities included in other payables and accruals	355,370
	633,343

NOTES TO FINANCIAL STATEMENTS

31 December 2011

35. Financial Instruments by Category (continued)

2011 **Financial assets**	**Company** **Loans and receivables** **RMB'000**
Financial assets included in prepayments, deposits and other receivables	**513**
Due from a subsidiary	**32,250**
Investment deposits	**345,670**
Cash and cash equivalents	**2,916**
	381,349

2011 **Financial liabilities**	**Company** **Financial liabilities at amortised cost** **RMB'000**
Financial liabilities included in other payables and accruals	**677**

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

Financial liabilities	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	6,356
Due to a subsidiary	3,218
	9,574

36. Fair Value

The carrying amounts of the Group's financial instruments recorded at amortised cost in the financial statements approximated to their fair values as at the end of the reporting period. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments.

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:

- The fair values of cash and cash equivalents, pledged deposits, time deposits, investment deposits, trade and bills receivables, financial assets at fair value through profit or loss, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, an amount due to a fellow subsidiary and an amount due to a subsidiary approximate to their carrying amounts largely due to the short term maturities of these instruments.

- The fair values of unlisted financial assets at fair value through profit or loss have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future proceeds on subsequent disposal of the financial products, which are discounted at the current rate of 6.6%. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in income statement, are reasonable, and that they were the most appropriate values at the end of the reporting period.

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with AAA credit ratings. Derivative 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.

37. 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.

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 risk.

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 2011			
If RMB weakens against HK$	**5**	**69**	**–**
If RMB strengthens against HK$	**(5)**	**(69)**	**–**
31 December 2010			
If RMB weakens against US$	5	4,982	–
If RMB strengthens against US$	(5)	(4,982)	–

* Excluding retained profits

37. Financial Risk Management Objectives and Policies (continued)

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 receivables, 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.

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 the end of the reporting period, based on contractual undiscounted payments, is as follows:

	31 December 2011			
Group	**On demand RMB'000**	**Less than 1 year RMB'000**	**Over 1 year RMB'000**	**Total RMB'000**
Trade and bills payables	**–**	**737,992**	**–**	**737,992**
Financial liabilities included in other payables and accruals	**–**	**416,706**	**–**	**416,706**
Due to a fellow subsidiary	**–**	**134,405**	**–**	**134,405**
	–	**1,289,103**	**–**	**1,289,103**

	31 December 2010			
Group	On demand RMB'000	Less than 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	–	277,973	–	277,973
Financial liabilities included in other payables and accruals	–	355,370	–	355,370
	–	633,343	–	633,343

NOTES TO FINANCIAL STATEMENTS

31 December 2011

37. Financial Risk Management Objectives and Policies (continued)

Company	**31 December 2011** **On demand** **RMB'000**	**Less than 1 year** **RMB'000**	**Over 1 year** **RMB'000**	**Total** **RMB'000**
Financial liabilities included in other payables and accruals	**–**	**677**	**–**	**677**

Company	31 December 2010 On demand RMB'000	Less than 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Financial liabilities included in other payables and accruals	–	6,356	–	6,356
Due to a subsidiary	–	3,218	–	3,218
	–	9,574	–	9,574

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 2011 and 2010.

38. Events after the Reporting Period

(a) On 20 February 2012, Sany Heavy Equipment entered into an agreement with Sany Group and Sany Electric Co., Ltd. (三一電氣有限責任公司), pursuant to which Sany Group, Sany Heavy Equipment and Sany Electric Co., Ltd. will contribute RMB425,440,000, RMB53,180,000 and RMB53,180,000, respectively, to establish Sany Coal Chemical Technology Co., Ltd. (三一煤化工有限公司) ("Sany Coal Chemical") as a joint venture under the laws of the PRC. Upon the establishment of Sany Coal Chemical, Sany Group, Sany Electric Co., Ltd. and Sany Heavy Equipment will hold 80%, 10%, and 10%, respectively, of the equity interests in Sany Coal Chemical.

(b) On 9 March 2012, the Company announced that it has entered into a corporate investment agreement with Kinetic Mines and Energy Limited ("Kinetic") and The Hongkong and Shanghai Banking Corporation Limited. Pursuant to which the Company invested US$30,000,000 in Kinetic as part of the international offering of Kinetic in connection with the listing of the shares of Kinetic on the Stock Exchange on 23 March 2012.

(c) On 26 March 2012, Sany Heavy Equipment entered into an agreement with Sany Group, pursuant to which Sany Heavy Equipment and Sany Group will contribute RMB164,584,600, and RMB16,280,000, respectively, to establish Sany Mining Vehicles Co., Ltd. (三一礦機有限公司) as a joint venture under the laws of the PRC. Upon the establishment of Sany Mining Vehicles Co., Ltd., Sany Heavy Equipment and Sany Group will hold 91% and 9%, respectively, of the equity interest in Sany Mining Vehicles Co., Ltd.

(d) On 26 March 2012, the board of directors declared and approved a cash dividend of HK$174,300,000 (equivalent to RMB141,164,000).

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 26 March 2012.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and the Prospectus, is set out below.

	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**3,780,183**	2,683,461	1,901,376	1,146,789	461,600
Cost of sales	**(2,254,484)**	(1,445,011)	(996,219)	(612,414)	(233,312)
Gross profit	**1,525,699**	1,238,450	905,157	534,375	228,288
Other income and gains	**217,130**	89,219	50,928	23,676	12,793
Selling and distribution costs	**(465,253)**	(335,361)	(232,776)	(165,601)	(71,657)
Administrative expenses	**(382,015)**	(248,776)	(171,292)	(113,621)	(69,735)
Other expenses	**(11,213)**	(17,908)	(27,690)	(33,535)	(14,868)
Finance costs	**(4,679)**	(5,778)	(3,825)	(21,247)	(6,908)
Share of profit and loss of an associate	**–**	–	4,325	(57)	4,479
PROFIT BEFORE TAX	**879,669**	719,846	524,827	223,990	82,392
Income tax expense	**(105,314)**	(49,334)	(34,395)	(12,121)	59,030
PROFIT FOR THE YEAR	**774,355**	670,512	490,432	211,869	141,422
Attributable to:					
Owners of the parent	**774,355**	670,512	490,432	189,044	106,066
Non-controlling interests	**–**	–	–	22,825	35,356
	774,355	670,512	490,432	211,869	141,422

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**7,466,151**	5,883,461	5,458,927	3,122,337	1,683,259
TOTAL LIABILITIES	**(2,092,393)**	(1,131,718)	(1,247,184)	(1,547,766)	(1,448,925)
NON-CONTROLLING INTERESTS	**–**	–	–	–	(58,584)
	5,373,758	4,751,743	4,211,743	1,574,571	175,750