SANYI

SANY HEAVY EQUIPMENT INTERNATIONAL HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 631

Annual Report 2012

QUALITY CHANGES THE WORLD

CONTENTS

COMPANY PROFILE

Sany Heavy Equipment International Holdings Company Limited (hereinafter "Sany International" or the "Company") was incorporated on 23 July 2009 in the Cayman Islands. The Company and its subsidiaries (hereinafter the "Group") is a major corporation specializing in 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 RMB3,640.7 million in 2012, representing a slight drop of approximately 3.7% over 2011, and our net profit was approximately RMB500.0 million in 2012, representing a decrease of approximately 35.4% over the approximated sum of RMB774.4 million in 2011.

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 and surface coal mining equipment such as combined coal mining unit ("CCMU"), semi-coal rock roadheader, full-rock roadheader, coal mine transportation vehicle (including underground and surface) and concrete pump 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.

As a leading enterprise spearheading the industry's technological advances, the Group considered research and development ("R&D") as one of its most important competitive strengths. By virtue of its strong R&D ability, the Group achieved remarkable achievements in its R&D and successively launched new product models that led the development direction of the industry, for example, the digital roadheader with 260KW cutting power, the 400B series thinseams coal mining machines, the 1000 series coal mining machines, model ZF13000/22/35 top coal caving hydraulic support, model SGZ764/400 large inclined angle scraper conveyor, slot-width model 764 second-generation scraper conveyor, as well as the ML360 continuous mining machine. At the end of December 2012, the Group had applied for a total of 1,063 state patents, including 366 patented inventions and 14 patents applied for under international Patent Cooperation Treaty (PCT). In addition, the Group was invited to attend the 40th International Exhibition of Inventions of Geneva, sponsored by the World Intellectual Property Right Organization, the Swedish Federal Government, and the Government of Geneva. The exhibit "Machinery for Mining Purposes" won Gold Prize for Invention.

Given the outstanding product quality and friendly after-sales services, the Group's products gain market share in the coal production zones in Shanxi, Shaanxi, Guizhou, Anhui, Inner Mongolia, Henan, Shandong, Xinjiang, Hebei, Liaoning, Jilin and Heilongjiang and are exported to certain countries and regions, including Ukraine, Russia, Australia, Philippines, Indonesia, Laos and Iran.

(RMB'000)	2012 (audited)	2011 (audited)	Increase (%)
Revenue	**3,640,739**	3,780,183	-3.7%
Gross profit	**1,328,691**	1,525,699	-12.9%
Profit before tax	**592,623**	879,669	-32.6%
Net profit	**500,034**	774,355	-35.4%
Profit attributable to owners of the parent	**499,532**	774,355	-35.5%
Profit attributable to owners of the parent (excluding one-off items and revaluation items)[1]	**499,532**	774,355	-35.5%
Total assets	**7,979,222**	7,466,151	6.9%
Total equity	**5,695,658**	5,373,758	6.0%
Cash flows of operating activities	**86,315**	(219,585)	–
Cash flows of investing activities	**237,799**	111,737	–
Cash flows of financing activities	**46,607**	(157,539)	–
Earnings per share[2]			
– Basic (RMB Yuan)	**RMB0.16**	RMB0.25	–
– Diluted (RMB Yuan)	**RMB0.16**	RMB0.25	–

(Percentage)	2012	2011	Increase (points)
Gross profit margin	**36.5%**	40.4%	-3.9
Percentage of profit attributable to shareholders of the Company[3]	**13.7%**	20.5%	-6.8
Percentage of profit attributable to shareholders of the Company (excluding one-off items and revaluation items)	**13.7%**	20.5%	-6.8
Assets turnover	**47.1%**	56.6%	-9.5
Asset – Liability ratio	**28.6%**	28.0%	0.6
Average to total assets (RMB'000)	**7,722,687**	6,674,806	

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 2012 was 3,109,994,137, the weighted average number of ordinary shares for the twelve months ended 31 December 2011 was 3,112,500,000 (details of which are set out in note 13 to financial statements).

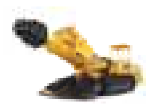
3 Profit attributable to shareholders of the Company divided by revenues.

IMPORTANT MILESTONES IN YEAR 2012

IMPORTANT MILESTONES IN YEAR 2012

March

Sany Heavy Equipment Co., Ltd (hereinafter "Sany Heavy Equipment") and Sany Group Limited (hereinafter "Sany Group") establish Sany Mining Machinery Co., Ltd. (hereinafter "Sany Mining Machinery") as a joint venture to hold the asset and to operate the off-highway mining truck business of the Group. The enterprise is thus equipped with vertically integrated production capability for coal mining equipment, including underground coal mining equipment such as roadheader and CCMU as well as those for open mining.



March

Sany International was invited to host the market opening ceremony by striking the "Gong" of the Stock Exchange and become the first listed company on the Main Board to strike the market opening "Gong" for the Stock Exchange again.

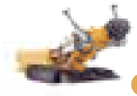
April

Sany Heavy Equipment was named as "National Excellent Enterprise of Coal Industry" by China Coal Machinery Industry Association.

April

Sany Heavy Equipment was invited to participate in the 40th International Exhibition of Inventions in Geneva, and its exhibition project "Mining Machineries" received a Gold Medal.

IMPORTANT MILESTONES IN YEAR 2012



May

The commissioning team of the Sany Heavy Equipment Zongcai Manufacturing Department (綜掘製造部) was named as "National Workers Vanguard", which is the highest honour granted by the All-China Federation of Trade Unions for foundation team.

August

The "technological transformation project on the digitalization of three-machine collaborative manufacturing of integrated coal mining equipment" undertaken by Sany Heavy Integrated Coal Mining Equipment Co., Ltd. (hereinafter "Sany Zongcai"), a wholly-owned subsidiary of Sany Heavy Equipment, was listed in the central budget of the national industrial revitalization and transformation project investment plan.

September

The BH38/2x400 coal plough developed by Sany Heavy Equipment independently which is suitable for thin coal layer excavation and listed under "863 Technology Program" of the Ministry of Science and Technology, was granted Shenyang Science and Technology Progress Award, First Prize. The product challenges the dominance of overseas companies in its field. Its mining efficiency is three times that of traditional thin coal layer mining machines and has great significance in enhancing coal resources utilization of China.

November

Sany Heavy Equipment was recognised as an "enterprise with intellectual-property advantage in Liaoning" for its significant achievement in the use of intellectual property system, increasing capability of independent innovation and implementation of intellectual property strategy, as well as for achieving significant advantage in enhancing competitiveness through the use of intellectual property.

December

The roadheader assembly line of Sany Heavy Equipment was awarded "Five Star Site in the National Site Management Star-rating Assessment" by China Association for Quality, which is the first time for Sany Heavy Equipment to be awarded Five Star Site. In addition, its coal mining machine assembly line and stand and frame parts coating and production line were awarded Four Star Site.

CHAIRMAN'S STATEMENT

Full-Year Review

For the 2012 fiscal year, the Group's sales revenue amounted to approximately RMB3,640.7 million, representing a slight year-on-year decrease of approximately 3.7%; the Group's profit before tax amounted to approximately RMB592.6 million, representing a year-on-year decrease of approximately 32.6%; the Group's net profit amounted to approximately RMB500.0 million, representing a year-on-year decrease of approximately 35.4%; and the Group's earnings per share amounted to approximately RMB0.16 Yuan. The Board recommends to declare dividend of HK$6.4 cents per share, subject to the approval of the shareholders of the Company (the "Shareholders") in the forthcoming annual general meeting.

2012 is a difficult year for real economies around the world. Since May 2012, the growth of coal demand rapidly slowed down and prices pulled back significantly. The growth of fixed assets investment in the coal industry also fell to 7.7% in 2012 from 25.9% of 2011. During 2012, particularly the second half, slowdown in the demand of coal machineries resulted in the drop of the Group's turnover and net profit. The overall gross margin decreased comparing with 2011, with hydraulic supports, which has a low margin, dragging on the margin. Furthermore, as operational and management measures to cope with the deteriorating environment was not taken early enough, we fell short of the target for cost control.

At the end of 2012, there were changes in the senior management of the Group and our business strategy and goals are more clearly defined.

Currently, four plants of the Group in the new industrial park located in the Shenyang Economic and Technology Development Zone have commenced operation which will help satisfy the market demand for coal machineries and equipment in the future. In view of the economic conditions, the Group eased the pace for further capacity expansion with our production aiming at fulfilling orders received to enable full utilization of capacity. For enhancing product quality, a world class constant temperature workshop for rocker arm precise finishing and a three-coordinate testing center were established in the new industrial park to improve the precision of coal shearer rocker arm housing . The Group also strengthened its ability in the self-production of key components, with successful trial production and mass production of some valve blocks. Our emphasis on information management for industrial production was rewarded as the Group was named as model enterprise for integrating industrialisation and computerization by Shenyang in February 2012.

In order to secure the competitiveness of its products, the Group continued to elevate its R&D standard. In 2012, the Group was granted a total of 262 patents, of which 144 were invention patents, and 14 were international patent applications filed under the Patent Cooperation Treaty (PCT), evidencing the Group's excellent achievement in technological upgrade and new product R&D. The coal plough machinery project of the Group was listed in the"863 Technology Program of 2012" of the Ministry of Science and Technology, while BH38/2x400 coal plough was granted Shenyang Science and Technology Progress Award, First Prize by the People's Government of Shenyang. In addition, the Group launched a number of new products representative of integrated mining equipment with the highest standard in China, including SGZ764/400 large inclined angle scraper conveyor, slot-width model 764 second-generation scraper conveyor, 1000 series coal mining machines and ML360 continuous mining machine. The Group's R&D results won numerous awards such as a Gold Medal in the 40th International Exhibition of Inventions in Geneva, the 14th China Patent Excellence Award and Provincial Science and Technology Progress Award, Second Prize.

The Group strived to improve its operation structure to mitigate the negative effect caused by overall slowdown in the demand growth of the underground mining and excavation equipment industry in China. During 2012, the synergy effect between the new-added off-highway dump truck business and the original underground coal mining equipment was emerging. Despite slowdown of the roadheader business, sales of CCMU sustained its high growth rate. In line with the development direction of government for the coal industry in China, the Group actively developed business in Western China. In 2012, the coal production of Shaanxi continued to record a double-digit growth which, in turn, boosted the result of the Group in the region.

In enhancing brand awareness, the Group held 12 exhibitions during a promotional national tour themed "Witness the No.1 Power", and participated in two large scale exhibitions held in Ukraine and Russia during the period under review, which greatly increased the Group's influence in China and abroad. With the aim of securing customers' interest and providing them with better services, the Group has established an extensive network of 87 service offices and 67 warehouses and equipped with 175 service vehicles covering China, which was of the highest standard in terms of scale and efficiency in the industry.

During the period under review, the Group did not limit its achievement to the domestic market, but also continued to step up its development effort in the overseas market. In 2012, sales of high power roadheader and integrated mining products from overseas increased largely.

The Group promotes that "Contribution to the country is more important than the profit of an enterprise" and fulfills its social responsibility by making notable contribution to economic and social development. Meanwhile, the Group treats the development of teenagers and children with utmost importance. On the Children's Day on 1 June 2012, the Group's staff volunteer team paid a visit to a children's asylum and donated necessities such as clothes, toys and books to the children. The Group persisted in the principle of "helping employee to success" by visiting staff with family difficulties and providing them with consolation money and items, while also raised funds for staff requiring assistance and spread love and care to staff who are in need of support.

Outlook

In the 4th quarter of 2012, there were signs indicating the stabilization and recovery of China's economy as evidenced by macroeconomic data such as PMI and total power consumption. Therefore, we are cautiously optimistic on the economic condition of 2013. On this backdrop, the Group is confident of increasing its market share with the help of its advantage in the accumulative quantity of products sold to customers. Leveraging on its excellent reputation and top class after-sales services, the Group will reinforce its position in the industry in a market dominated by the demand for renewal of equipment, and fulfill its mission of "Quality Changes the World". From the perspective of industrial cycle, the rebound of coal industry will likely happen in the second half of 2013. The Group will grasp opportunities of such rebound proactively and secure its lead in market share through its strength in product R&D and marketing capability.

From a mid and long term perspective, coal will remain the dominant non-renewable energy source of China. The increase of coal production per well, mechanization of coal mining and emphasis on mine safety will be the key drivers for the demand of coal machineries. The increasing concentration of the coal industry will also promote the sustaining trend of using more large-scale and intelligent coal machineries, and there is huge potential for replacing such high-end products in the coal mines of China which are imported.

Meanwhile, as one of the players with the top R&D capability in the industry, the Group will not limit itself just to coal mining, but will work towards becoming a world leading comprehensive solution provider for the mining industry. The Group is confident in satisfying the needs of customers and launching new products timely. The Group has maintained a leading position in the roadheader industry for years and achieved an expansion rate far higher than industrial average in other product lines. In 2013, the Group will secure its absolute competitive advantage in roadheader and make breakthrough in high power hard rock roadheader and its digitization; focus on technological innovation, quality improvement and upgrade of coal plough machines to cultivate new source of profit growth; promote its new generation light-weight supports made of high strength steel in the domestic market; and increase global market share by the export of continuing mining machinery and CCMU.

Lastly, on behalf of the board ("Board") of directors ("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.

Zhao Xiangzhang
Chairman

Hong Kong, 25 February 2013

Businesses Review

Major products

The products of the Group are majorly categorized into roadheader, CCMU, coal mine transportation vehicle (including underground and surface), spare parts, services and other new products. The roadheader includes all sorts of soft rock, hard rock roadheader and drilling machinery; CCMU includes coal mining machine (shearer), hydraulic support system (hydraulic support), scraper conveyor (Armored-Face Conveyer) and centralized control system; coal mine transportation vehicle includes mechanical drive off-highway dump truck, electric drive off-highway dump truck, articulated truck and underground coal mining vehicle; and other new products include continuous mining machinery and washing equipment.

Research and development capability

As a leading enterprise spearheading the industry's technological advances, the Group considered R&D as one of its most important competitive strengths, which is key for our provision of product differentiation to customers and sets us apart from other industry competitors. The Group offers products at a reasonable price that are of higher quality compared to its competitors in the same price range. During the year, the Group achieved remarkable achievements in its R&D and successively launched new product models that led the development direction of the industry, for example, the digital roadheader with 260KW cutting power, the 400B series thin-seams coal mining machines, the 1000 series coal mining machines, model ZF13000/22/35 top coal caving hydraulic support, model SGZ764/400 large inclined angle scraper conveyor, slot-width model 764 second-generation scraper conveyor, as well as the ML360 continuous mining machine. For the year ended 31 December 2012, the Group had obtained a total of 262 R&D patents, including 144 patented inventions and 14 patents applied for under the international Patent Cooperation Treaty (PCT).

Production and manufacturing

Currently, four plants of the Group in the new industrial park located in the Economic and Technological Development Zone of Shenyang City have successively commenced production, in order to fulfill the market demands for coal mining machines in the future. The Group is also committed to enhancing production capability in the old production site at the Shenyang industrial park through equipment upgrade and optimization of production process.

Distribution and service

The Group will adhere to its service philosophy of "All For Customers, All From Innovations", by providing first-class service and highly efficient response to make every effort in meeting customers' needs and raising customers' satisfaction, to free customers away from worries. The Group's superior product quality, attentive after-sales service and efficient response have achieved a high degree of recognition from our customers.

Financial Review

Revenue

For the year ended 31 December 2012, the Group recorded revenue of approximately RMB3,640.7 million (2011: approximately RMB3,780.2 million), representing a slight decrease of approximately 3.7% as compared with the year ended 31 December 2011. The decrease was mainly attributable to the economic restructuring in China, which significantly dampened demand for coal mining machines from the second quarter of 2012 and led to the negative growth in sale revenue of the Group in 2012 (in particular the second half of the year).

Other income

For the year ended 31 December 2012, the Group's other income was approximately RMB231.4 million (2011: approximately RMB217.1 million), representing a year-on-year growth of approximately 6.6%. The growth was mainly attributable to government's grants to support R&D projects and establishment of industrial parks.

Cost of goods sales

For the year ended 31 December 2012, the Group's cost of sales was approximately RMB2,312.0 million (2011: approximately RMB2,254.5 million), representing an increase of approximately 2.6%. The increase was mainly due to the reason that the gross margin of hydraulic support products, the proportion of which to sales revenue increased significantly, could not be improved as expected.

Gross profit and gross margin

For the year ended 31 December 2012, the gross profit of the Group was approximately RMB1,328.7 million (2011: approximately RMB1,525.7 million), representing a year-on-year decline of approximately 12.9%. Gross margin was approximately 36.5% (2011: approximately 40.4%), representing a decrease of approximately 3.9 percent points year-on-year. The decrease was mainly due to the change in the product mix.

Profit margin before tax

For the year ended 31 December 2012, the Group's profit margin before tax was approximately 16.3%, which decreased by approximately 7.0 percent points as compared to the year ended 31 December 2011. The decrease was mainly due to (1) the decrease in sales income; (2) the increase in the sales income from negative profit margin products and (3) that the cost control management could not be adjusted timely.

Selling and distribution expenses

For the year ended 31 December 2012, the selling and distribution costs of the Group were approximately RMB566.0 million (2011: approximately RMB465.3 million), representing a year-on-year increase of approximately 21.6%. For the year ended 31 December 2012, the ratio of the Group's selling and distribution costs to revenue increased by approximately 3.2 percent point year-on-year to approximately 15.5%. The increase was mainly due to the reconstruction of the Group's sales network.

Research and development expenses

For the year ended 31 December 2012, research and development expenses of the Group were approximately RMB170.1 million, and its ratio to revenue was approximately 4.7%, representing a decrease of approximately 0.2 percent point from approximately 4.9% of 2011. The research and development expenses were mainly used for the Group's new product development.

Administrative expenses

For the year ended 31 December 2012, administrative expenses of the Group were approximately RMB375.0 million. The ratio of administrative expenses excluding research and development expenses to revenue increased by approximately 0.4 percent point to approximately 5.6% from approximately 5.2% of 2011. The increase was mainly due to the decrease in turnover of the Group and increase in expenses due to the set up of a new subsidiary.

Finance costs

For the year ended 31 December 2012, finance costs of the Group were approximately RMB4.7 million (2011: approximately RMB4.7 million).

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 2012 was approximately 15.6% (2011: effective tax rate approximately 12.0%). For details regarding income tax, please refer to note 10 to the financial statements.

Profit attributable to owners of the parent

For the year ended 31 December 2012, the Group's profit attributable to owners of the parent was approximately RMB499.5 million (2011: approximately RMB774.4 million), representing a year-on-year decline of approximately 35.5%. For the main reasons of the decrease, please refer to the above paragraph titled "Profit margin before tax".

Liquidity and financial resources

As at 31 December 2012, current assets of the Group were approximately RMB4,608.4 million (31 December 2011: approximately RMB4,825.5 million). As at 31 December 2012, current liabilities of the Group were approximately RMB1,809.5 million (31 December 2011: approximately RMB1,762.8 million).

As at 31 December 2012, total assets of the Group were approximately RMB7,979.2 million (31 December 2011: approximately RMB7,466.2 million), and total liabilities were approximately RMB2,283.6 million (31 December 2011: approximately RMB2,092.4 million). As at 31 December 2012, the asset to liability ratio of the Group was approximately 28.6% (31 December 2011: approximately 28.0%). As at 31 December 2012, the Group had only a small amount of bank borrowings.

As at 31 December 2012, 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 2012, the Group's trade and bills receivables were approximately RMB2,334.0 million, representing an increase of approximately 1.6% from approximately RMB2,298.1 million as at 31 December 2011, of which trade receivables were approximately RMB1,726.6 million, representing an increase of approximately 13.1% from approximately RMB1,526.4 million as at 31 December 2011 and bills receivable were approximately RMB607.3 million, representing a decrease of approximately 21.3% from approximately RMB771.7 million as at 31 December 2011. The increase was mainly due to that the Group extended the credit period of trade receivables of certain high-quality long-term customers with good reputation. The Group had also established a specific department to carry out the strict control of outstanding receivables and follow up on debt collection to minimise the credit risk.

Cash flow

As compared with the beginning of this year, cash and cash equivalents of the Group increased by approximately RMB371.1 million to approximately RMB848.6 million. The cash and cash equivalents of the Group and time deposits with maturity of three months or more were approximately RMB948.6 million in total.

The cash flow of operating activities of the Group improved significantly during the year. For the year ended 31 December 2012, the net cash inflow of the Group from operating activities was approximately RMB86.3 million (2011: net cash outflow of approximately RMB219.6 million).

For the year ended 31 December 2012, the net cash inflow of the Group from investing activities was approximately RMB237.8 million (2011: net cash inflow of approximately RMB111.7 million).

For the year ended 31 December 2012, the net cash inflow of the Group from financing activities was approximately RMB46.6 million (2011: net cash outflow of approximately RMB157.5 million).

Turnover days

The Group's average turnover days of inventory were approximately 126.8 days in 2012, representing an increase of approximately 35.5 days from 91.3 days in 2011, mainly because more raw materials and finished products were reserved according to the forecast of the management on the future market demand.

The turnover days of trade and bills receivables in 2012 were approximately 236.0 days, representing an increase of approximately 66.0 days from approximately 170.0 days in 2011. Please refer to above paragraph titled "Trade and bills receivables" for the reasons of such increase.

Turnover days of trade and bills payables increased by approximately 33.1 days from approximately 82.2 days in 2011 to approximately 115.3 days in 2012, mainly due to the strengthening of supply chain management by the Group.

Contingent liabilities

As at 31 December 2012, the Group had no material contingent liability (2011: nil).

Capital commitment

As at 31 December 2012, the contracted capital commitments of the Group which are not provided for in the financial statements were approximately RMB396.8 million (31 December 2011: approximately RMB626.3 million).

Employees and remuneration policy

The Group persists in training and developing talents. Accordingly, it provides internal training, external training and correspondence courses to 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 senses of belonging. 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.

In order to rapidly upgrade the research and development capability of R&D team, the Group provides R&D team with the opportunities of equipment operation, disassembly and maintenance, so as that employees have a more in-depth understanding of machinery. During the year, the Group strived to input significant human and material resources, thus R&D team can create superior design.

Material acquisition and disposal

For the year ended 31 December 2012, neither the Company nor its subsidiaries had material acquisitions or disposals.

Pledge of assets

As at 31 December 2012, pledged deposits and pledged bills with aggregate value of approximately RMB192.5 million (2011: approximately RMB96.4 million), which were for the purpose of obtaining the banking facility granted to the Group.

Foreign exchange risk

As at 31 December 2012, the Group's cash and bank balances denominated in HK$ and US$ were equivalent to approximately RMB201.1 million. The Group will monitor the risk exposures and may consider hedging against material currency risk if required.

Social responsibility

The Group promotes that "contribution to the country is more important than the profit of an enterprise" and fulfills its social responsibility by making notable contribution to economic and social development. Meanwhile, the Group treats the development of teenagers and children with utmost importance. On the Children's Day on 1 June 2012, the Group's staff volunteer team paid a visit to a children's asylum and donated necessities such as clothes, toys and books to the children. The Group persisted in the principle of "helping employee to success" by visiting staff with family difficulties and providing them with consolation money and items, while also raised funds for staff requiring assistance and spread love and care to staff who are in need of support.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhao Xiangzhang (趙想章), aged 47, has been the Chairman of the Board of the Company since 12 October 2012, Mr. Zhao has over 20 years of experience working in the machinery industry. Mr. Zhao has been a director of Sany Group Limited ("Sany Group") since 2007, and a director and the senior vice president of Sany Heavy Industry Co., Ltd. ("Sany Heavy Industry") since 2010.

Mr. Zhao joined Sany Group in 2000 and has since worked in various positions in Sany Group and its subsidiaries, including the financial controller of Sany Heavy Industry from 2000 to 2004 and the secretary of the board of directors of Sany Heavy Industry from 2001 to 2008. Before joining Sany Group, Mr. Zhao served as a director, the vice general manager and chief accountant of Zhongqi Changdian Company Limited from July 1985 to September 2000. Mr. Zhao is the vice president of Hunan Youth Federation and a director of the China Machinery Industry Accounting Society. Mr. Zhao graduated from Hunan College of Finance and Economics with a bachelor's degree in Economics in July 1985 and graduated from Hunan University with a master's degree in Business Administration in December 2000.

Mr. Mao Zhongwu (毛中吾), aged 51, was the chairman of the Company from 23 July 2009 to 12 October 2012. 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 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 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 (國務院發展研究中心). 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. Kuang Canghao (匡蒼豪), aged 42, has been an executive director of the Company since 6 December 2012. He has nearly 20 years of experience in the machinery industry and over 10 years of experience in business procurement and international trade. Mr. Kuang has been the standing vice general manager of the Company since September 2012.

Mr. Kuang Canghao joined Sany Group in 1993, and has since worked in various positions in Sany Group and its subsidiaries, including the standing vice general manager of the pump business department and the general manager of sales department of Sany Heavy Industry from February 2012 to September 2012, the standing vice general manager of the pump business department and the director of manufacturing operations of Sany Heavy Industry from September 2011 to February

2012, the general manager of Loudi Zhongxing Hydraulic Parts Co., Ltd. from January 2010 to June 2011, and the director of commercial department of Sany Heavy Industry from July 2008 to January 2010. From October 1993 to July 2008, Mr. Kuang held various positions in Sany Group including operator, department head and director of commercial department.

Mr. Kuang obtained a bachelor's degree in Chinese Language and Literature and obtained a master's degree in Business Administration from Wuhan University in January 2007 and December 2008, respectively.

Mr. Huang Xiangyang (黃向陽), aged 51, deputy general manager and head of our research institute. Mr. Huang has been appointed as an executive Director of the Company since 18 May 2012. He has 30 years of work experience in the electrical and mechanical industry. From 2001 to June 2010, Mr. Huang had held various positions in Sany Heavy Industry (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 working as the deputy general manager and head of the research institute of the Group.

During the period serving in 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, "First Prize in Sichuan Technological Innovation" and "First Prize in Hunan Technological Innovation" whereas the "Q/OKTW 044-2007 asphalt cement motor semi-trailers", another project directed by Mr. Huang, won "Second Prize in China Standard Innovation Award". In 2008, Mr. Huang was selected as the "Most innovative person in Hunan province".

Mr. Liu Weili (劉偉立), aged 50, is the general manager of the sales department of the Company. Mr. Liu has been appointed as an executive Director of the Company since 18 May 2012. He was a director of Sany Transportation from September 2009 to December 2010. 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 various positions, including operator, department head and deputy general manager. Prior to joining the Sany Group, Mr. Liu had 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.

Non-executive Director

Mr. Xiang Wenbo (向文波), aged 51, 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 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.

Independent non-executive Directors

Dr. Ngai Wai Fung (魏偉峰), aged 51, 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 and Adjunct Professor of Department of Law in Hong Kong Shue Yan University. Dr. Ngai recently was appointed by Chief Executive of Hong Kong Special Administrative Region of the People's Republic of China as non-official member of Working Group on Professional Services of Economic Development Commission and obtained professional qualifications from Hongkong Institute of Certified Public Accountants and committee member of Examinations Board.

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/chairman of audit committee of LDK Solar Co., Ltd, which is listed on the New York Stock Exchange.

Dr. Ngai was a director and head of listing services of an independent operation enterprise service provider (formerly the corporate services divisions and commercial divisions of KPMG and Grant Thornton). 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(香港)有限公司) and China COSCO Holdings Co. Ltd. (中國遠洋控股股份有限公司).

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 redchip 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 obtained his doctor's degree in Finance at Shanghai University of Finance and Economics in 2011. Dr. Ngai is a fellow 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 a member of the Hong Kong Securities Institute.

Mr. Xu Yaxiong (許亞雄), aged 66, a professor-level senior engineer, was appointed as an independent non-executive Director of the Company on 5 November 2009. Mr. Xu is currently the President of the China National Coal Machinery Industry Association (中國煤炭機械工業協會).

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

Mr. Ng Yuk Keung (吳育強), aged 48, 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 Kingsoft Corporation Limited (金山軟件有限公司) 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 Group Electronics 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 was the executive director, chief financial officer and company secretary of China NT Pharma Group (中國泰凌醫藥集團) from March 2010 to 1 July 2012. 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 Public Accountants and the Association of Chartered Certified Accountants, and a member of the Institute of Chartered Accountants in England and Wales.

Senior Management

Mr. Du Xing (杜興), aged 44, 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 business administration training for financial management 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).

Joint Company Secretaries

Mr. Hu Tao (胡濤), aged 31, prior to his appointment as joint company secretaries of the Company, he had been appointed since June 2009 as an assistant company secretary of the Company responsible for information disclosure and investor relations management. Prior to his appointment as an assistant company secretary of the Company, he had worked as the investment manager of Sany Group and as the manager of securities affairs of Sany Heavy Industry from March 2008 to June 2009, mainly responsible for investment management. Given the background of Mr. Hu, he has extensive practical experience in investment management and handling compliance matters of a Hong Kong listed company. Mr. Hu received a bachelor's degree in Information and Computer Science (also known as Computational Mathematics) from Xiangtan University in 2004 and a master's degree in Finance from the University of Wollongong in 2006 (with Distinction).

Ms. Kam Mei Ha Wendy (甘美霞), aged 45, was appointed as one of the joint company secretaries of our Company. Ms. Kam is a director 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 Fellow member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. She holds a Practitioner's Endorsement Certificate from the Hong Kong Institute of Chartered Secretaries. She has extensive experience in a diversified range of corporate services and has been providing professional secretarial services for over 19 years. Other than our company, Ms. Kam had been appointed as company secretary of three other listed companies in Hong Kong.

The Board is pleased to present their report and the audited financial statements of the Group for the year ended 31 December 2012.

Principal Activities and Subsidiaries

The principal activity of the Company is investment holding. Details of the subsidiaries and their principal activities 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 2012 are set out in the financial statements on pages 48 to 111 of this annual report.

The Directors propose to recommend the payment of a final dividend of HK$6.4 cents per ordinary share for the year ended 31 December 2012 to the Shareholders whose names appear on the register of members of the Company on 4 July 2013 ("Record Date") at the forth coming annual general meeting of the Company to be held on 21 June 2013, 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 HK$6.4 cents per share is subject to approval by the Shareholders in the forthcoming annual general meeting. Such dividend will be distributed from the undistributed profit of the Company. The final dividend for the year ended 31 December 2012 represented an increase of approximately 14.3% 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 112. 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.

Borrowings

Details of bank borrowing of the Group as at 31 December 2012 are set out in note 25 to the financial statements.

Distributable Reserves

As at 31 December 2012, 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 RMB3,344.7 million, of which approximately RMB161.1 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 2012 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

The Company did not have any share option scheme during the year ended 31 December 2012.

The Company has adopted the share option scheme (the "Share Option Scheme") on 16 February 2013 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 50,000,000 shares, representing approximately 1.61% of the issued share capital as at the date of this report.

No option may be granted to any participant of the Share Option Scheme such that the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company RMB1.0 upon acceptance of the grant on or before the 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the nominal value of a share;

(b) the closing price of a share as stated in the Stock Exchange's daily quotations sheets on the offer date; and

(c) the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the adoption date, after which no further options will be granted or offered.

During the year ended 31 December 2012, no options have been granted.

On 26 February 2013, 28,524,000 share options to subscribe for the ordinary shares of HK$0.1 each in the share capital of the Company were granted, subject to acceptance of the grantees, under the share option scheme adopted by the Company on 16 February 2013, among which 5,315,000 share options, 1,711,000 share options, 1,116,000 share options, 1,032,000 share options, 404,000 share options were granted to Mr. Zhao Xiangzhang, Mr. Kuang Canghao, Mr. Liu Weili, Mr. Huang Xiangyang and Mr. Mao Zhongwu, respectively. For further details, please refer to the announcement of the Company dated 26 February 2013.

Major Suppliers and Customers

During the year under review, the aggregate sales attributable to the Group's five largest customers comprised approximately 12.2% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 3.7% of the Group's total sales. The aggregate purchases during the year under review attributable to the Group's five largest suppliers were approximately 23.6% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 8.5% of the Group's total purchases.

So far as is known to the Directors, at no time during the year under review did the Directors, their associates or substantial shareholders own 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

During the year under review, there was no charitable and other donations made by the Group (2011: approximately RMB1.7 million).

Property, Plant and Equipment

During the year ended 31 December 2012, the Group held property, plant and equipment of approximately RMB2,233.7 million. Details of the movements are set out in note 14 to the financial statements.

Purchase, Sale or Redemption of the Company's Shares

On 30 July 2012, the Company announced that Directors had approved a plan to repurchase no more than 10% Company's shares in issue by cash through the Stock Exchange during the coming six-month period and validity period of repurchase mandate.

For the year ended 31 December 2012, the Company repurchased 7,365,000 shares through the Stock Exchange (2011: nil) at a total amount of approximately HK$29.5 million (approximately RMB24.1 million) (2011: nil). Such shares have been cancelled afterwards. Details of repurchase are as follows:

Month of repurchase	Number of ordinary shares repurchased	Purchasing price for each share Highest HK$	Lowest HK$	Total amount of payment HK$ Million	RMB Million
August 2012	2,700,000	4.39	4.19	11.7	9.5
September 2012	4,665,000	3.99	3.67	17.8	14.6
Total	7,365,000			29.5	24.1

Save as disclosed above, during the year ended 31 December 2012, neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the listed shares of the Company.

Directors

The Directors in 2012 comprised:

Executive Directors:
Mr. Zhao Xiangzhang *(Chairman of the Board and Chief Executive Officer)*
(appointed on 12 October 2012)
Mr. Mao Zhongwu
Mr. Kuang Canghao
Mr. Huang Xiangyang
Mr. Liu Weili

Non-executive Director:
Mr. Xiang Wenbo

Independent non-executive Directors:
Dr. Ngai Wai Fung
Mr. Xu Yaxiong
Mr. Ng Yuk Keung

Notes:

Mr. Zhou Wanchun has resigned as an executive Director, a member of the strategic investment committee and the Chief Executive Officer of the Company with effect from 12 October 2012.

Mr. Mao Zhongwu has resigned as the chairman of the Board, the chairman of the strategic investment committee and the chairman of the nomination committee of the Company with effect from 12 October 2012 but remains an executive Director, a member of the strategic investment committee and the nomination committee of the Company.

Mr. Zhao Xiangzhang has been appointed as an executive Director, the Chief Executive Officer, the chairman of the Board and the chairman of the strategic investment committee of the Company with effect from 12 October 2012.

In accordance with article 84 of the Company's articles of association, each of Mr. Zhao Xiangzhang, Mr. Mao Zhongwu, Mr. Kuang Canghao and Mr. Ng Yuk Keung will retire from the office of Director by rotation at the forthcoming annual general meeting. Eligible Directors will offer themselves for re-election.

Directors' Service Contracts

The executive Directors on the Board during the year ended 31 December 2012 have entered into a service agreement with the Company for an initial term of three years commencing from 12 October 2012 for Mr. Zhao Xiangzhang, 25 November 2012 for Mr. Mao Zhongwu, 6 December 2012 for Mr. Kuang Canghao and 18 May 2012 for Mr. Huang Xiangyang and Mr. Liu Weili respectively and the non-executive Directors on the Board have entered service agreement with the Company for an initial term of three years commencing from 25 November 2012 whereas each of the independent non-executive Directors on the Board during the year ended 31 December 2012 have entered into letters of appointment with the Company and are appointed for an initial term of three years commencing from 25 November 2012.

The above service contracts/letters of appointment are subject to retirement by rotation and re-election at an annual general meeting at least every three years in accordance with the articles of association of the Company.

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. None of the Directors waived any emoluments during the year ended 31 December 2012. 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 14 to 19 of this annual report.

Controlling Shareholders and 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 or a controlling shareholder had a material interest in, whether directly or indirectly, and subsisted at the end of the financial year under review or at any time during the financial year under review save as disclosed under the section headed "Connected Transactions" below and "Related party transactions" in note 33 to the financial statements.

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 2012 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 2012, 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 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. Zhao Xiangzhang (Note)	Beneficial owner	100	1.00%
Mr. Mao Zhongwu (Note)	Beneficial owner	800	8.00%
Mr. Xiang Wenbo (Note)	Beneficial owner	800	8.00%

Note: Each of Mr. Zhao Xiangzhang, Mr. Mao Zhongwu and Mr. Xiang Wenbo holds 1.00%, 8.00% and 8.00% 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", a controlling shareholder of the Company).

Save as disclosed above, as at 31 December 2012, 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 2012, 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	2,270,274,000	73.11%
Sany BVI (Note 1)	Interest of a controlled corporation	2,270,274,000	73.11%
Mr. Liang Wengen (Note 2)	Interest of a controlled corporation	2,270,274,000	73.11%

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 of the Company held by Sany HK under the SFO.

2. Mr. Liang Wengen is interested in 57.12% of Sany BVI. Mr. Liang Wengen is therefore deemed to be interested in all the shares of the Company 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 for the year ended 31 December 2012 and up to 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 (HK$25,000 effective from 1 June 2012.) 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 2012, the Group's total contributions to the retirement schemes charged in the income statement amounted to RMB41.8 million (2011: RMB42.0 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. Except for the deviation from code A.2.1 of the Old Code and the New Code and A.6.7 of the New Code, the Company has complied with the CG Code contained in Appendix 14 to the Listing Rules for the year ended 31 December 2012. The Group's principal corporate governance practices are set out on pages 34 to 44 of the annual report.

Connected Transactions and Continuing Connected Transactions

(A) During the year ended 31 December 2012, 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) *Formation of a joint venture, Sany Coal Chemical, with SG Group*

On 20 February 2012, Sany Heavy Equipment, a wholly-owned subsidiary of the Company, entered into the Sany Coal Chemical JV Articles with Sany Group and Sany Electric Co., Ltd. ("Sany Electric"), pursuant to which Sany Heavy Equipment, Sany Group and Sany Electric established a joint venture, Sany Coal Chemical Technology Co., Ltd ("Sany Coal Chemical"). The registered capital of Sany Coal Chemical is RMB531.8 million, of which Sany Group, Sany Electric and Sany Heavy Equipment contributed RMB425,440,000, RMB53,180,000 and RMB53,180,000, respectively. Upon the establishment of Sany Coal Chemical, Sany Group, Sany Electric and Sany Heavy Equipment hold 80%, 10%, and 10%, respectively, of the equity interest in Sany Coal Chemical. Further details of JV Articles are set out in the announcement of the Company dated 20 February 2012.

(2) *Formation of a joint venture, Sany Mining Machinery, with SG Group*

On 26 March 2012, Sany Heavy Equipment, a wholly-owned subsidiary of the Company, entered into the Sany Mining Machinery JV Articles with Sany Group, pursuant to which Sany Heavy Equipment and Sany Group established Sany Mining Machinery Co., Ltd. (三一礦機有限公司) ("Sany Mining Machinery") as a joint venture under the laws of the PRC to hold the asset and to operate the off-highway mining truck business of the Group. The registered capital of Sany Mining Machinery is RMB180,864,600, of which Sany Heavy Equipment and Sany Group contributed RMB164,584,600 and RMB16,280,000, respectively. Upon the establishment of Sany Mining Machinery, Sany Heavy Equipment and Sany Group hold 91%, and 9%, respectively, of the equity interest in Sany Mining Machinery. Further details of JV Articles are set out in the announcement of the Company dated 26 March 2012.

(3) *Formation of a joint venture Zhongjing Property Development with Shengyang Zhu Sheng Yuan*

On 5 April 2012, Sany Heavy Equipment, a wholly-owned subsidiary of the Company, entered into the JV Articles with Shenyang Zhu Sheng Yuan Co., Ltd. ("Shenyang Zhu Sheng Yuan"), pursuant to which Sany Heavy Equipment and Shenyang Zhu Sheng Yuan agreed to jointly establish Shenyang Zhongjing Property Development Co., Ltd. ("Shenyang Zhongjing"). Sany Heavy Equipment and Shenyang Zhu Sheng Yuan hold 51% and 49% of the registered capital of Shengyang Zhongjing, respectively. The registered capital of Shenyang Zhongjing is RMB238,400,000. Pursuant to the JV Articles, Sany Heavy Equipment contributed RMB121,600,000 in specie as registered capital of Shenyang Zhongjing and Shenyang Zhu Sheng Yuan contributed RMB116,800,000 in cash as registered capital of Shenyang Zhongjing. Further details of JV Articles are set out in the announcement of the Company dated 5 April 2012.

(B) During the year ended 31 December 2012, 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.

(4) *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. Further 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. Further details of the Master Purchase Renewal Agreement were set out in the Company's announcement dated 24 December 2010.

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. Further details of the Supplemental Agreement were set out in the Company's announcement dated 14 November 2011.

Reference is made to the announcements dated 24 December 2010 and 14 November 2011. As the Master Purchase Agreement (as amended by the Supplemental Agreement) expired on 31 December 2011, the Company entered into the Master Purchase Agreement with Sany Group on 25 November 2011. The Company has purchased from members of the SG Group certain parts and components at cash considerations of RMB357,680,000, RMB 654,938,000 and RMB927,011,000 for a period of three years since 1 January 2012 to 31 December 2014 (both days inclusive). As disclosed in the announcement dated 25 November 2011, the proposed annual cap amount for the under the Master Purchase Agreement for financial years ending 31 December 2012 would not exceed RMB357.7 million.

Sany Group is owned as to 57.12% 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 RMB138.4 million, which was within the annual cap of RMB357.7 million. Details of the Master Purchase Agreement are set out in the announcement of the Company dated 25 November 2011.

(5) *Purchase of Equipment from Sany Jingji*

On 14 November 2011, the Company (for itself and on behalf of its subsidiaries) entered into the equipment purchase agreement (the "Equipment Purchase Agreement") with Shanghai Sany Jingji Co., Ltd. ("Sany Jingji"), pursuant to which the Group has purchased certain equipment at cash considerations of RMB110,560,000, RMB120,000,000, RMB130,000,000 for a period of three years since 1 January 2012 to 31 December 2014 (both days inclusive). As disclosed in the announcement dated 14 November 2011, the proposed annual cap amount under the Equipment Purchase Agreement for financial years ending 31 December 2012 would not exceed RMB110.6 million. During the year under review, the aggregate amount of the transactions under the Equipment Purchase Agreement was approximately RMB23.7 million, which was within the annual cap of RMB110.6 million. Sany Jingji is a subsidiary of Sany Group. Sany Group is owned as to 57.12% 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 Equipment Purchase Agreement are set out in the announcement of the Company dated 14 November 2011.

(6) *Master Transportation Agreement*

Reference is made to the announcement of the Company dated 9 June 2011. As the existing master transportation agreement expired on 31 December 2011, on 14 November 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 at cash considerations not exceeding RMB100,000,000, RMB120,000,000 and RMB130,000,000 respectively for a term commencing from 1 January 2012 to 31 December 2014 (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 14 November 2011, the annual cap amount for the transactions under the Master Transportation Agreement for the financial years ending 31 December 2012 is RMB100 million. During the year under review, the aggregate amount of the transactions under the Master Transportation Agreement was approximately RMB41.6 million, which was within the annual cap of RMB100 million. Details of the Master Transportation Agreement have been set out in the Company's announcement dated 14 November 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.

The auditors of the Company have reported to the Directors that during the financial year:

(i) the above continuing connected transactions have been approved by the board of Directors;

(ii) the above continuing connected transactions are in accordance with the pricing policies of the Company;

(iii) the above continuing connected transactions have been entered into in accordance with the terms of the agreements governing such transactions; and

(iv) the respective cap amounts set out in the relevant agreements referred to above have not been exceeded.

(C) Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under note 33 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.

Management Contracts

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 18 June 2013 to Friday, 21 June 2013, 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 21 June 2013, 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 Monday, 17 June 2013.

The register of members of the Company will be closed from Friday, 28 June 2013 to Thursday, 4 July 2013, 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 Thursday, 27 June 2013.

Subject to Shareholders' approval of the proposed final dividend at the annual general meeting to be held on Friday, 21 June 2013, the relevant dividends will be paid on or before Tuesday, 16 July 2013, to Shareholders whose names appear on the register of members of the Company on 4 July 2013.

Events After the Reporting Period

Details of the significant events after the reporting period of the Group are set out in Note 37 to the financial statement.

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 2012.

Auditors

The consolidated financial statements for the year ended 31 December 2012 have been audited by Ernst & Young. Ernst & Young will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed by the Company at the forthcoming annual general meeting to re-appoint Ernst & Young as auditors of the Company.

By Order of the Board

Zhao Xiangzhang
Chairman

Hong Kong, 25 February 2013

Corporate Governance

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has made various amendments to the Code on Corporate Governance Practices (the "Old Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and renamed it the Corporate Governance Code (the "New Code", together with the "Old Code", the "CG Code"). The New Code took effect on 1 April 2012.

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.

Except for the following deviations from code provision A.2.1 of both the Old Code and the New Code and code provision A.6.7 of the New Code, during the period from 1 January 2012 to 31 March 2012, the Company has complied with the Old Code and the New Code for the period from 1 April 2012 to 31 December 2012:

1. **CG Code A2.1**
   In accordance with code provision A.2.1 of the Old Code and the New Code, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Further, the division of responsibilities between the chairman and chief executive officer should be clearly established. The Board considers vesting the role of both the chairman of the Board and the managing Director in Mr. Zhao provides the Company with consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies. The Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company. As the Board comprises of experienced and quality calibers (including sufficient number of independent non-executive Director), balance between duty and right can be assured.

2. **CG Code A6.7**
   In accordance with code provision A6.7 of the New Code, Independent non-executive Directors and non-executive Directors shall be present at the general meeting of the Company. Mr. Xiang Wenbo, a non-executive Director of the Company was absent from the annual general meeting held on 18 May 2012 due to other prior commitment.

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 2012.

The Board

The Board consists of nine Directors, comprising five executive Directors, one non-executive Director and three independent non-executive Directors. The executive Directors are Mr. Zhao Xiangzhang, Mr. Mao Zhongwu, Mr. Kuang Canghao, Mr. Huang Xiangyang and Mr. Liu Weili. The non-executive Directors is Mr. Xiang Wenbo. The independent non-executive Directors are Dr. Ngai Wai Fung (possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(2) of the Listing Rules), Mr. Xu Yaxiong and Mr. Ng Yuk Keung. 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.

All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director is suitably qualified for his position, and has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Biographical information of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

To the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three independent non-executive Directors. In addition, at least one independent non-executive Director possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Company has appointed three independent non-executive Directors representing one-third of the Board and is in compliance with Rule 3.10A of the Listing Rules.

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

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

The Company has subscribed appropriate and sufficient insurance coverage on directors' liabilities in respect of legal actions taken against directors arising out of corporate activities. The Board meets regularly to review the financial and operating performance of the Company, and considers and approves the overall strategies and policies of the Company.

Chairman and Chief Executive Officer

Under provision A.2.1 of the Old Code and the New Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. For the period between 1 January 2012 and 12 October 2012, Mr. Mao Zhongwu and Mr. Zhou Wanchun acted as the chairman of the Board and the chief executive officer, respectively, both of whom were executive Directors. Since Mr. Zhao Xiangzhang was appointed as the chairman of the Board and the chief executive officer on 12 October 2012, Mr. Mao Zhongwu and Mr. Zhou Wanchun resigned as the chairman and the chief executive officer, respectively. For the period between 12 October 2012 and 31 December 2012, Mr. Zhao Xiangzhang acted as the chairman of the Board and the chief executive officer of the Company and was responsible for monitoring the operation of the Group. The Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which comprise experienced and high caliber individuals. The Board will keep reviewing the effectiveness of the Group's corporate governance structure to access whether it is necessary to separate two positions, i.e. Chairman and Chief Executive Officer of the Company.

Joint Company Secretaries

Ms. Kam Mei Ha Wendy of Tricor Services Limited, external service provider, has been engaged by the Company as its company secretary to act jointly with Mr. Hu Tao (William Hu) (appointed on 17 July 2012). Its primary contact person at the Company is Mr. Hu Tao. Please refer to the paragraph headed "Investor Relations" under the section headed "Corporate Governance Practices" in this annual report. 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. In accordance with Rule 3.29 of the Listing Rules, the Company has received training information from the joint company secretaries of the Company, pursuant to the content of which, the Company considers that the training of those two joint company secretaries was in compliance with the requirements under Rule 3.29 of the Listing Rules. Please see below for the details:

	Corporate Governance/ Updates on Laws, Rules and Regulations		Accounting/Financial/ Management or Other Professional Skills	
Name of company secretaries	**Read materials**	**Attend Seminars (Times)/Briefings**	**Read materials**	**Attend Seminars (Times)/Briefings**
Mr. Hu Tao		4 (20.5 hours in total)		1 (2.5 hours in total)
Ms. Kam Mei Ha Wendy		2 (9.5 hours in total)		1 (8.5 hours in total)

Appointments and Re-election of Directors

Each of the executive Directors, non-executive Directors and independent non-executive Directors has entered into a service contract or a letter of appointment with the Company for a specific term, and is subject to retirement by rotation and re-election at an annual general meeting in accordance with the articles of association of the Company. The articles of association of the Company provide that 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.

The articles of association provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

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. The terms of reference of the board committees which explain their respective role and the authority delegated to them by the Board are available on the website of the Company at www.sanyhe.com and the website of the Stock Exchange at www.hkexnews.hk. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company's expenses.

Audit Committee

The audit committee of the Company ("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 Dr. Ngai Wai Fung, Mr. Xu Yaxiong and Mr. Ng Yuk Keung, of which are all independent non-executive Directors. Dr. Ngai Wai Fung, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

The Group's unaudited interim results for the six months ended 30 June 2012 and the audited annual results for the year ended 31 December 2012 have been reviewed by the Audit Committee, which was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors.

Remuneration Committee

The remuneration committee ("Remuneration Committee") was established with written terms of reference in compliance with the CG Code. For the period between 1 January 2012 and 21 March 2012, 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 2012 the Remuneration Committee held three meetings. During the year ended 31 December 2012, the remuneration Committee reviewed the remuneration packages of the Directors and the senior management and recommended the remuneration of Mr. Zhao Xiangzhang, Mr. Kuang Canghao, Mr. Huang Xiangyang and Mr. Liu Weili to the Board.

Nomination Committee

The nomination committee ("Nomination Committee") was established with written terms of reference in compliance with the CG Code. 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. For the period between 1 January 2012 and 12 October 2012, Mr. Mao Zhongwu acted as the Chairman of the Nomination Committee and Mr. Xu Yaxiong and Mr. Ngai Wai Fung were members, both of whom were Independent Non-executive Directors. On 12 October 2012, Mr. Xu Yaxiong was appointed as the chairman of the Nomination Committee in place of Mr. Mao Zhongwu. Mr. Mao Zhongwu is still a member of the Remuneration Committee.

During the year ended 31 December 2012 the Nomination Committee held three meetings. The Nomination Committee reviewed and recommended the appointment of Mr. Zhao Xiangzhang, Mr. Kuang Canghao, Mr. Huang Xiangyang and Mr. Liu Weili as the Director to the Board, the appointment of Mr. Hu Tao as the company secretary and reviewed the structure, size and composition of the Board, during the year of 2012.

Strategic Investment Committee

The strategic investment committee of the Company (the "Strategic Investment Committee") was established on 4 October 2012. Mr. Mao Zhongwu has been appointed as the chairman while other six members are Mr. Zhou Wanchun, Mr. Huang Xiangyang, Mr. Liu Weili, Dr. Ngai Wai Fung, Mr. Xu Yaxiong and Mr. Ng Yuk Keung. On 12 October 2012, Mr. Zhao Xiangzhang was appointed as the chairman of the Strategic Investment Committee in place of Mr. Mao Zhongwu. Mr. Mao Zhongwu is still a member of the Strategic Investment Committee. On 12 October 2012, Mr. Zhou Wanchun resigned from a member of the Strategic Investment Committee. On 6 December 2012, Mr. Kuang Canghao was appointed as a member of the Strategic Investment Committee. The Strategic Investment Committee is responsible for the proposal and analysis of the business development and investment of the Company.

As the Strategic Investment Committee was just established on 4 October 2012, no meeting has been held for the period under review.

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 New 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. During the year of 2012, the Board determined the policy for the corporate governance of the Company.

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, Strategic Investment Committee and general meetings of the Company during the year ended 31 December 2012 is set out below:

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Strategic Investment Committee	General Meeting
Executive Directors						
Mr. Zhao Xiangzhang *(appointed on 12 October 2012)* *(Chairman of the Board)*	1/5	N/A	N/A	N/A	N/A	0/1
Mr. Mao Zhongwu	5/5	N/A	N/A	3/3	N/A	1/1
Mr. Kuang Canghao	0/5	N/A	N/A	N/A	N/A	0/1
Mr. Huang Xiangyang	3/5	N/A	N/A	N/A	N/A	1/1
Mr. Liu Weili	2/5	N/A	N/A	N/A	N/A	1/1
Non-executive Director						
Mr. Xiang Wenbo	5/5	N/A	N/A	N/A	N/A	0/1
Independent non-executive Directors						
Dr. Ngai Wai Fung	5/5	3/3	3/3	3/3	N/A	1/1
Mr. Xu Yaxiong	5/5	3/3	3/3	3/3	N/A	1/1
Mr. Ng Yuk Keung	5/5	3/3	3/3	N/A	N/A	1/1

Notes:

Mr. Zhao Xiangzhang has been appointed as an executive Director, the Chief Executive Officer, the chairman of the Board with effect from 12 October 2012.

Mr. Kuang Canghao has been appointed as an executive Director with effect from 6 December 2012.

Mr. Huang Xiangyang has been appointed as an executive Director with effect from 18 May 2012.

Mr. Liu Weili has been appointed as an executive Director with effect from 18 May 2012.

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

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all time and may seek independent professional advice at the Company's expense. All Directors have the opportunity to include matters in the agenda for Board meetings. Notices of Board meetings are given to the Directors at least before 14 days before and Board procedures comply with the articles of association of the Company, as well as relevant rules and regulations.

Continuous Professional Development

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company.

The Directors have been informed of the requirement under Code Provision A.6.5 of the CG Code regarding continuous professional development. For the year ended 31 December 2012, the Company has received training information from each Director, pursuant to the content of which, the Company considers that the training of Directors was in compliance with the requirements under Rule A.6.5 of the Listing Rules.

According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the CG Code on continuous professional development during the period from 1 April 2012 to 31 December 2012:

	Corporate Governance/Updates on Laws, Rules and Regulations		Accounting/Financial/Management or Other Professional Skills	
Name of Director	Read materials	Attend Seminars/ Briefings	Read materials	Attend Seminars/ Briefings
Executive Directors				
Mr. Zhao Xiangzhang	✓		✓	✓
Mr. Mao Zhongwu	✓			✓
Mr. Kuang Canghao	✓		✓	
Mr. Huang Xiangyang	✓		✓	✓
Mr. Liu Weili	✓		✓	✓
Non-executive Director				
Mr. Xiang Wenbo	✓		✓	
Independent non-executive Directors				
Dr. Ngai Wai Fung	✓	✓	✓	✓
Mr. Xu Yaxiong	✓	✓		✓
Mr. Ng Yuk Keung	✓	✓	✓	✓

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.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparation of the financial statements for the financial year ended 31 December 2012 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 Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern. 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 audit committee of the Board is responsible for making recommendations to the Board on the appointment, re-appointment and removal of the authorized external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors. The Company has appointed Ernst & Young as the auditors of the Company. The fees for the audit services and non-audit services provided by the auditor to the Group for the year ended 31 December 2012 amounted to RMB2.29 million, details of which are as follows:

Types of service	RMB'000
Audit service	2,280
Non-audit service	13

Note: The non-audit service mainly represented the tax compliance service provided to the Company.

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 46 to 47 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 2012 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 2012. 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.

Shareholders' Rights

Procedures for Shareholders to convene an extraordinary general meeting and putting forward proposals at Shareholders' meetings

Pursuant to the article 58 of the articles of association of the Company, 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 secretary 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 company secretary 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 2012, 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.

Directors

Executive Directors
Mr. Zhao Xiangzhang
Mr. Mao Zhongwu
Mr. Kuang Canghao
Mr. Huang Xiangyang
Mr. Liu Weili

Non-executive Director
Mr. Xiang Wenbo

Independent Non-executive Directors
Dr. Ngai Wai Fung
Mr. Xu Yaxiong
Mr. Ng Yuk Keung

Joint Company Secretaries
Mr. Hu Tao (William Hu)
Ms. Kam Mei Ha, Wendy

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

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

Nomination Committee
Mr. Xu Yaxiong *(Chairman)*
Mr. Mao Zhongwu
Dr. Ngai Wai Fung

Strategic Investment Committee
Mr. Zhao Xiangzhang *(Chairman)*
Mr. Mao Zhongwu
Mr. Kuang Canghao
Mr. Huang Xiangyang
Mr. Liu Weili
Dr. Ngai Wai Fung
Mr. Xu Yaxiong
Mr. Ng Yuk Keung

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 Banks
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
www.sanyhe.com

Investor Relations
Mr. Hu Tao (William Hu)
Direct Line : +86 24 31808124
Fax : +86 24 31808050
Address : No. 31 Yansaihu Road, Shenyang Economic and Technological Development Zone, Shenyang, Liaoning Province, PRC
Postal code : 110027

ERNST & YOUNG
安 永

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

We have audited the consolidated financial statements of Sany Heavy Equipment International Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 48 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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.

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 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
25 February 2013

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	5	**3,640,739**	3,780,183
Cost of sales		**(2,312,048)**	(2,254,484)
Gross profit		**1,328,691**	1,525,699
Other income and gains	5	**231,424**	217,130
Selling and distribution expenses		**(566,041)**	(465,253)
Administrative expenses		**(375,040)**	(382,015)
Other expenses		**(21,733)**	(11,213)
Finance costs	7	**(4,678)**	(4,679)
PROFIT BEFORE TAX	6	**592,623**	879,669
Income tax expense	10	**(92,589)**	(105,314)
PROFIT FOR THE YEAR		**500,034**	774,355
Attributable to:			
Owners of the parent	11	**499,532**	774,355
Non-controlling interests		**502**	–
		500,034	774,355
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB Yuan)	13	**0.16**	0.25
Diluted (RMB Yuan)	13	**0.16**	0.25

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 2012

	2012 RMB'000	2011 RMB'000
PROFIT FOR THE YEAR	**500,034**	774,355
OTHER COMPREHENSIVE INCOME		
Available-for-sale investments:		
Changes in fair value	**(95,145)**	–
Income tax effect	**15,699**	–
	(79,446)	–
Exchange differences on translation of foreign operations	**341**	(19,631)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(79,105)**	(19,631)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**420,929**	754,724
Attributable to:		
Owners of the parent	**420,427**	754,724
Non-controlling interests	**502**	–
	420,929	754,724

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,233,706**	1,656,800
Prepaid land lease payments	15	**501,271**	434,913
Intangible assets	16	**127,951**	42,774
Available-for-sale investments	18	**106,552**	–
Non-current prepayments	21	**226,057**	392,665
Deferred tax assets	28	**175,249**	113,458
Total non-current assets		**3,370,786**	2,640,610
CURRENT ASSETS			
Inventories	19	**859,988**	719,049
Trade receivables	20	**1,726,624**	1,526,352
Bills receivable	20	**607,338**	771,738
Prepayments, deposits and other receivables	21	**372,268**	402,999
Financial assets at fair value through profit or loss		**–**	12,490
Investment deposits		**–**	535,670
Time deposits	22	**100,000**	324,296
Pledged deposits	22	**93,640**	55,431
Cash and cash equivalents	22	**848,578**	477,516
Total current assets		**4,608,436**	4,825,541
CURRENT LIABILITIES			
Trade and bills payables	23	**723,133**	737,992
Other payables and accruals	24	**703,830**	725,614
Interest-bearing bank borrowings	25	**188,523**	–
Due to a fellow subsidiary		**–**	134,405
Tax payable		**124,943**	99,944
Provision for warranties	26	**50,779**	47,583
Government grants	27	**18,288**	17,308
Total current liabilities		**1,809,496**	1,762,846
NET CURRENT ASSETS		**2,798,940**	3,062,695
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,169,726**	5,703,305

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	28	**16,114**	–
Government grants	27	**457,954**	329,547
Total non-current liabilities		**474,068**	329,547
Net assets		**5,695,658**	5,373,758
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	**269,509**	270,110
Reserves	30(a)	**5,198,228**	4,962,484
Proposed final dividend	12	**161,139**	141,164
		5,628,876	5,373,758
Non-controlling interests		**66,782**	–
Total equity		**5,695,658**	5,373,758

Zhao Xiangzhang
Director

Mao Zhongwu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	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	Available-for-sale investments revaluation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000 (note 12)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012	270,110	1,691,461#	1,332,316#	233,275#	(41,760)#	–#	1,747,192#	141,164	5,373,758	–	5,373,758
Profit for the year	–	–	–	–	–	–	499,532	–	499,532	502	500,034
Other comprehensive income for the year:											
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	(79,446)	–	–	(79,446)	–	(79,446)
Exchange differences on translation of foreign operations	–	–	–	–	341	–	–	–	341	–	341
Total comprehensive income for the year	–	–	–	–	341	(79,446)	499,532	–	420,427	502	420,929
Capital injection from a minority shareholder	–	–	–	–	–	–	–	–	–	66,280	66,280
Repurchase of issued shares (note 29)	(601)	(23,544)	–	–	–	–	–	–	(24,145)	–	(24,145)
Final 2011 dividend declared	–	–	–	–	–	–	–	(141,164)	(141,164)	–	(141,164)
Proposed final 2012 dividend	–	–	–	–	–	–	(161,139)	161,139	–	–	–
Transfer from retained profits	–	–	–	55,280	–	–	(55,280)	–	–	–	–
At 31 December 2012	269,509	1,667,917#	1,332,316#	288,555#	(41,419)#	(79,446)#	2,030,305#	161,139	5,628,876	66,782	5,695,658

These reserve accounts comprise the consolidated reserves of RMB5,198,228,000 (2011: RMB4,962,484,000) in the consolidated statement of financial position.

	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	87,309	(87,309)	–	–	–	–	–	–
Final 2010 dividend declared	–	–	–	–	–	–	(132,709)	(132,709)
Proposed final 2011 dividend	–	(141,164)	–	–	–	–	141,164	–
Transfer from retained profits	–	–	–	78,353	–	(78,353)	–	–
At 31 December 2011	270,110	1,691,461	1,332,316	233,275	(41,760)	1,747,192	141,164	5,373,758

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**592,623**	879,669
Adjustments for:			
Finance costs	7	**4,678**	4,679
Interest income	5	**(5,048)**	(10,416)
Gains from investment deposits	5	**(8,566)**	(33,371)
Loss on disposal of items of property, plant and equipment	6	**4,084**	894
Depreciation	14	**110,526**	58,188
Amortisation of land lease prepayments	15	**11,148**	6,926
Government grants	27	**(145,095)**	(83,304)
Impairment of trade receivables	20	**11,587**	6,121
Amortisation of intangible assets	16	**1,476**	–
Amortisation of deferred expenses		**15,521**	11,969
Provision against slow-moving and obsolete inventories	19	**6,461**	4,198
		599,395	845,553
Increase in inventories		**(147,400)**	(251,432)
Increase in trade receivables		**(211,859)**	(640,256)
Increase in bills receivable		**(127,357)**	(489,953)
Decrease/(increase) in prepayments, deposits and other receivables		**9,610**	(186,162)
Decrease in derivative financial instruments		**–**	12,233
(Decrease)/increase in trade and bills payables		**(95,775)**	460,019
Increase in other payables and accruals		**69,736**	26,163
Increase in provision for warranties		**3,196**	15,649
Receipt of government grants	27	**84,391**	113,763
Cash generated from/(used in) operations		**183,937**	(94,423)
PRC tax paid		**(97,622)**	(125,162)
Net cash flows generated from/(used in) operating activities		**86,315**	(219,585)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Net cash flows generated from/(used in) operating activities		**86,315**	(219,585)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**5,048**	10,913
Purchases of items of property, plant and equipment		**(296,155)**	(693,313)
Acquisition of a business from a related party		**(100,005)**	(10,000)
Decrease/(increase) in financial assets through fair value		**12,490**	(12,490)
Purchase of a parcel of land		**(30,955)**	(118,043)
Deposit paid for acquisition of a parcel of land		**(29,713)**	(181,712)
Additions to intangible assets		**(86,653)**	(33,914)
Proceeds from disposal of items of property, plant and equipment		**2,164**	54
Decrease in investments in bank deposits		**535,670**	232,890
Gains from investment deposits		**13,164**	34,138
Purchase of available-for-sale investments		**(201,643)**	–
Decrease in non-pledged deposits with original maturity of three months or more when acquired	22	**224,296**	852,954
Receipt of government grants	27	**190,091**	30,260
Net cash flows from investing activities		**237,799**	111,737
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection from a minority shareholder		**66,280**	–
Repurchase of issued shares		**(24,145)**	–
Listing expenses paid		**–**	(2,438)
New bank loans		**368,367**	–
Repayment of bank loans		**(179,844)**	–
Interest paid	7	**(4,678)**	(4,679)
Dividends paid		**(141,164)**	(132,709)
Addition of pledged deposits	22	**(38,209)**	(17,713)
Net cash flows generated from/(used in) financing activities		**46,607**	(157,539)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**370,721**	(265,387)
Cash and cash equivalents at beginning of year		**477,516**	762,534
Effect of foreign exchange rate changes, net		**341**	(19,631)
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	**848,578**	477,516

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**68**	71
Available-for-sale investments	18	**95,916**	–
Deferred tax assets	28	**15,645**	–
Investment in a subsidiary	17	**3,366,747**	3,366,747
Total non-current assets		**3,478,376**	3,366,818
CURRENT ASSETS			
Prepayments, deposits and other receivables	21	**434**	513
Due from a subsidiary	17	**34,127**	32,250
Investment deposits		**–**	345,670
Cash and cash equivalents	22	**168,906**	2,916
Total current assets		**203,467**	381,349
CURRENT LIABILITIES			
Other payables and accruals	24	**–**	677
Interest-bearing bank borrowings	25	**188,523**	–
Total current liabilities		**188,523**	677
NET CURRENT ASSETS		**14,944**	380,672
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,493,320**	3,747,490
Net assets		**3,493,320**	3,747,490
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	**269,509**	270,110
Reserves	30(b)	**3,062,672**	3,336,216
Proposed final dividend	12	**161,139**	141,164
Total equity		**3,493,320**	3,747,490

Zhao Xiangzhang
Director

Mao Zhongwu
Director

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, Shenyang Economic and Technological Development Zone, 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 roadheader, combined coal mining unit ("CCMU") and coal mine transportation vehicles (including underground and surface) 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"), a company incorporated in Hong Kong and Sany Heavy Equipment Investments Company Limited ("Sany BVI"), a company incorporated in the British Virgin Islands, 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 available-for-sale investments and financial assets at fair value through profit or loss, 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 2012. 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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

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 – Government Loans* [2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [2]
IFRS 9	*Financial Instruments* [4]
IFRS 10	*Consolidated Financial Statements* [2]
IFRS 11	*Joint Arrangements* [2]
IFRS 12	*Disclosure of Interests in Other Entities* [2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance* [2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities* [3]
IFRS 13	*Fair Value Measurement* [2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* [1]
IAS 19 Amendments	*Employee Benefits* [2]
IAS 27 (Revised)	*Separate Financial Statements* [2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures* [2]
IAS 32 Amendments	Amendments to IAS32 *Financial Instruments: Presentation – Offsetting Financial Assets And Financial Liabilities* [3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine* [2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012 [2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 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 IFRSs that are expected to be applicable to affect the Group is as follows:

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from 1 January 2013.

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. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

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 addresses the issues raised in SIC 12. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

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

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities 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.

In July 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or SIC 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (Revised). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

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, IAS 27 (Revised), IAS 28 (Revised), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

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.

The IAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

IAS 19 Amendments include a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces 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 IAS 19 Amendments from 1 January 2013.

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

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. 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 are expected to have a significant financial impact on the Group. The amendment that is expected to have a significant impact on the Group's policies is as follow:

IAS 32 *Financial Instruments: Presentation:* Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

2.4 Summary of Significant Accounting Policies

Subsidiaries

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 Summary of Significant Accounting Policies (continued

Impairment of non-financial assets (continued)

An assessment is made at the end of the reporting period as to whether there is an 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

(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).

2.4 Summary of Significant Accounting Policies (continued

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of that asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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	20-40 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 including, any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

2.4 Summary of Significant Accounting Policies (continued

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 five years.

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.

2.4 Summary of Significant Accounting Policies (continued

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, held-to-maturity investments, and available-for-sale financial 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.

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 positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance cost 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 policies 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 them. 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.

2.4 Summary of Significant Accounting Policies (continued

Investments and other financial assets (continued)

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 other income and gains 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.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate.

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.

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.

2.4 Summary of Significant Accounting Policies (continued

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or ''prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 Summary of Significant Accounting Policies (continued

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings and an amount due to a fellow subsidiary.

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 in IAS 39 are satisfied.

Loans and borrowings

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

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

2.4 Summary of Significant Accounting Policies (continued

Financial liabilities (continued)

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. These 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.

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.

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

2.4 Summary of Significant Accounting Policies (continued

Income tax (continued)

- 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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

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

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

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

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

2.4 Summary of Significant Accounting Policies (continued

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.

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.

2.4 Summary of Significant Accounting Policies (continued

Dividends

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

Foreign currencies

The Company, which was incorporated in the Cayman Islands, uses 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 prevailing 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. Differences arising on settlement or translation of monetary items are recognised in 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 translation of a non-monetary item measured at fair value 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 the 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.

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 their accompanying disclosures, and the disclosure of contingent liabilities. 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 (continued)

Estimation uncertainty

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

Impairment of property, plant and equipment

The Group assesses whether there are any indicators of impairment for an asset at each financial year end. The asset is tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, an estimation of the value in use of the cash-generating units to which the asset is allocated will be required. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

Useful lives and residual values of property, plant and equipment

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

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2012, no impairment losses have been recognised for available-for-sale assets (2011: not applicable). The carrying amount of available-for-sale assets was RMB106,552,000 (2011: not applicable).

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 2012, the best estimate of the carrying amount of capitalised development costs was RMB120,567,000 (2011: RMB33,914,000).

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Provision for product warranties

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

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management's judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, the 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 the 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, the difference will affect the carrying amount of trade receivables and thus the impairment loss in the period in which the estimate is changed. The Group reassesses the provisions at the end of the reporting period.

4. Operating Segment Information

During the year, the Group is principally engaged in the manufacture and sale of heavy equipment including roadheader, CCMU and coal mine transportation vehicles (including underground and surface). For management purposes, the Group operates in one business unit based on its products, and has one reportable operating segment.

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

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

Information about a major customer

Revenue of approximately RMB903,043,000 (2011: RMB666,047,000) 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 rendered, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

		Group	
	Note	2012 RMB'000	2011 RMB'000
Revenue			
Sale of goods		3,590,135	3,736,906
Rendering of services		50,604	43,277
		3,640,739	3,780,183
Other income			
Bank interest income		5,048	10,416
Profit from the sale of scrap materials		67,715	69,373
Government grants	27	145,095	83,304
Others		5,000	222
		222,858	163,315
Gains			
Gains from investment deposits		8,566	33,371
Exchange gains		–	20,444
		8,566	53,815
		231,424	217,130

6. Profit before Tax

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

		Group	
		2012	2011
	Notes	RMB'000	RMB'000
Cost of inventories sold		2,272,601	2,225,722
Cost of services provided		39,447	28,762
Depreciation	14	110,526	58,188
Amortisation of land lease prepayments	15	11,148	6,926
Auditors' remuneration		2,280	2,000
Provision for warranties*	26	45,001	61,961
Research and development costs**		170,057	185,800
Minimum lease payments under operating leases:			
Dormitories for staff		323	2,399
Warehouses		6,888	2,644
Office equipment		515	–
		7,726	5,043
Employee benefit expenses (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		272,958	304,090
Pension scheme contributions		41,765	41,994
Other staff welfare		22,826	19,591
		337,549	365,675
Foreign exchange differences, net***		5,400	–
Impairment of trade receivables	20	11,587	6,121
Impairment of other receivables		662	–
Provision against slow-moving and obsolete inventories****	19	6,461	4,198
Loss on disposal of items of property, plant and equipment		4,084	894

* Included in "Selling and distribution expenses" in the consolidated income statement.

** Included in "Administrative expenses" in the consolidated income statement.

*** Included in "Other expenses" in the consolidated income statement.

**** Included in "Cost of sales" in the consolidated income statement.

7. Finance Costs

	Group 2012 RMB'000	2011 RMB'000
Interest on interest-bearing bank borrowings	**2,073**	–
Interest on documentary bills	**1,972**	–
Interest on discounted bills	**633**	4,679
	4,678	4,679

8. Directors' and Chief Executive's Remuneration

Details of directors' and chief executive's remuneration are as follows:

	Group 2012 RMB'000	2011 RMB'000
Fees	**553**	573
Other emoluments:		
Salaries, allowances and benefits in kind	**3,237**	4,490
Pension scheme contributions and other staff welfare	**312**	204
	3,549	4,694
	4,102	5,267

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

8. Directors' and Chief Executive's 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
2012			
Mr. Xu Yaxiong	**179**	**–**	**179**
Mr. Ngai Wai Fung	**195**	**7**	**202**
Mr. Ng Yuk Keung	**179**	**–**	**179**
	553	**7**	**560**
2011			
Mr. Xu Yaxiong	212	–	212
Mr. Ngai Wai Fung	149	7	156
Mr. Ng Yuk Keung	212	–	212
	573	7	580

There were no emoluments payable to the independent non-executive directors during the year (2011: Nil).

8. Directors' and Chief Executive's Remuneration (continued)

(b) Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions and other staff welfare RMB'000	Total remuneration RMB'000
2012				
Executive directors:				
Mr. Mao Zhongwu	**–**	**287**	**81**	**368**
Mr. Kuang Canghao	**–**	**511**	**4**	**515**
Mr. Huang Xiangyang	**–**	**861**	**51**	**912**
Mr. Liu Weili	**–**	**651**	**43**	**694**
Mr. Liang Jianyi	**–**	**114**	**–**	**114**
Mr. Zhou Wanchun (Chief executive before 12 October 2012)	**–**	**539**	**68**	**607**
Mr. Zhao Xiangzhang (Chief executive from 12 October 2012)	**–**	**76**	**13**	**89**
	–	**3,039**	**260**	**3,299**
Non-executive directors:				
Mr. Xiang Wenbo	**–**	**–**	**–**	**–**
Mr. Huang Jianlong	**–**	**–**	**–**	**–**
Mr. Wu Jialiang	**–**	**198**	**45**	**243**
	–	**198**	**45**	**243**
2011				
Executive directors:				
Mr. Mao Zhongwu	–	1,155	56	1,211
Mr. Liang Jianyi	–	1,842	52	1,894
Mr. Zhou Wanchun (Chief executive)	–	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

There was no other arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2011: Nil).

9. Five Highest Paid Employees

The five highest paid employees during the year included four directors (2011: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2011: two) highest paid employee who is neither a director nor chief executive of the Company is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Salaries and allowances	**158**	423
Bonuses	**240**	1,373
Pension scheme contributions and other staff welfare	**36**	98
	434	1,894

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

	Group	
	2012	2011
Nil to RMB1,000,000	**1**	1
RMB1,000,001 to RMB2,000,000	**–**	1
	1	2

10. Income Tax

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

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

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 2012.

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 2012.

10. Income Tax (continued)

	Group	
	2012	2011
	RMB'000	RMB'000
Current – Mainland China		
Charge for the year	**122,621**	138,172
Deferred	**(30,032)**	(32,858)
Total tax charge for the year	**92,589**	105,314

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			
	2012		2011	
	RMB'000	**%**	RMB'000	%
Profit before tax	**592,623**		879,669	
Tax at the statutory tax rate	**148,156**	**25.0**	219,917	25.0
Entities subject to lower statutory income tax rates	**(61,247)**	**(10.3)**	(94,353)	(10.7)
Expenses not deductible for tax	**16,394**	**2.7**	8,419	1.0
Different tax rate when temporary difference is realised	**(12,863)**	**(2.2)**	109	0.0
Super-deduction of research and development costs	**(5,513)**	**(0.9)**	(17,064)	(1.9)
Income not subject to tax	**(12,646)**	**(2.1)**	(12,935)	(1.5)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**16,114**	**2.7**	–	–
Tax losses not recognised	**4,194**	**0.7**	1,221	0.1
Tax charge at the Group's effective tax rate	**92,589**	**15.6**	105,314	12.0

11. Profit/(Loss) attributable to owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of RMB9,756,000 (2011: profit RMB29,358,000) which has been dealt with in the financial statements of the Company (note 30(b)).

12. Dividend

	2012 RMB'000	2011 RMB'000
Proposed final – HK6.4 cents (2011: HK5.6 cents) per ordinary share	**161,139**	141,164

The final dividend of HK6.4 cents per share is subject to approval of the Company's shareholders at the forthcoming annual general meeting.

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 2012 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,109,994,137 (2011: 3,112,500,000) in issue during the year, as adjusted to reflect the repurchase of 7,365,000 issued shares during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2012 and 2011 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 2012						
At 31 December 2011 and at 1 January 2012:						
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
At 1 January 2012, net of accumulated depreciation	594,044	506,320	51,134	24,465	480,837	1,656,800
Additions	–	120,394	16,709	750	555,827	693,680
Disposals	(102)	(1,712)	(756)	(3,678)	–	(6,248)
Depreciation provided during the year	(21,377)	(76,991)	(8,225)	(3,933)	–	(110,526)
Transfers	43,300	117,007	1,643	–	(161,950)	–
At 31 December 2012, net of accumulated depreciation	615,865	665,018	60,505	17,604	874,714	2,233,706
At 31 December 2012:						
Cost	658,964	822,918	83,248	32,974	874,714	2,472,818
Accumulated depreciation	(43,099)	(157,900)	(22,743)	(15,370)	–	(239,112)
Net carrying amount	615,865	665,018	60,505	17,604	874,714	2,233,706

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 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 RMB456,502,000 as at 31 December 2012 (2011: RMB435,769,000) have not yet been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates.

15. Prepaid Land Lease Payments

	Group	
	2012 RMB'000	2011 RMB'000
Carrying amount at 1 January	444,201	333,084
Addition	79,064	118,043
Recognised during the year (note 6)	(11,148)	(6,926)
Carrying amount at 31 December	512,117	444,201
Current portion included in prepayments, deposits and other receivables	(10,846)	(9,288)
Non-current portion	501,271	434,913

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

16. Intangible Assets

Group	Patents and licences RMB'000	Deferred development cost RMB'000	Total RMB'000
Cost at 1 January 2012, net of accumulated amortisation	8,860	33,914	42,774
Additions – internal development	–	86,653	86,653
Recognised during the year	(1,476)	–	(1,476)
At 31 December 2012	7,384	120,567	127,951
At 31 December 2012:			
Cost	8,860	120,567	129,427
Accumulated amortisation	(1,476)	–	(1,476)
Net carrying amount	7,384	120,567	127,951

17. Investment in a Subsidiary

	Company	
	2012 RMB'000	2011 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 RMB34,127,000 (2011: RMB32,250,000) are unsecured, interest-free and repayable on demand.

17. Investment in a Subsidiary (continued)

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
Sany Mining Machinery Co., Ltd. ("Sany Mining Machinery") (三一礦機有限公司) *	PRC/Mainland China 26 March 2012	RMB180,864,600	–	91	Manufacture and sale of off-highway mining trucks
Shenyang Zhongjing Property Development Co., Ltd. ("Shenyang Zhongjing") (沈陽中璟房地產開發有限公司) *#	PRC/Mainland China 11 July 2012	RMB50,000,000	–	51	Property development

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

\# The company has not yet commenced operation.

18. Available-for-sale Investments

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Listed equity investments, at fair value:				
Hong Kong	**95,916**	–	**95,916**	–
Unlisted equity investments, at cost less impairment	**10,636**	–	**–**	–
	106,552	–	**95,916**	–

During the year, the net loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB95,145,000. The fair values of listed equity investment are based on quoted market prices.

The unlisted equity investment of the Group is not stated at fair value but at cost less any accumulated impairment losses, because it do not have a quoted market price in an active market, the range of reasonable fair values estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. The Group does not intend to dispose of it in the near future.

19. Inventories

	Group	
	2012	2011
	RMB'000	RMB'000
Raw materials	**336,902**	247,018
Work in progress	**180,936**	235,589
Finished goods	**355,712**	249,827
	873,550	732,434
Less: Provision against slow-moving and obsolete Inventories	**(13,562)**	(13,385)
	859,988	719,049

19. Inventories (continued)

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

		Group	
	Note	**2012** **RMB'000**	2011 RMB'000
At 1 January		**13,385**	10,920
Charge for the year	6	**6,461**	4,198
Amount written off		**(6,284)**	(1,733)
At 31 December		**13,562**	13,385

20. Trade and Bills Receivables

	Group	
	2012 **RMB'000**	2011 RMB'000
Trade receivables	**1,768,701**	1,560,473
Impairment	**(42,077)**	(34,121)
Trade receivables, net	**1,726,624**	1,526,352
Bills receivable	**607,338**	771,738

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 a 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	
	2012 **RMB'000**	2011 RMB'000
Within 60 days	**786,605**	597,244
61 to 90 days	**189,436**	388,913
91 to 180 days	**189,547**	202,559
181 to 365 days	**373,127**	202,240
Over 1 year	**187,909**	135,396
	1,726,624	1,526,352

20. Trade and Bills Receivables (continued)

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

	Note	Group 2012 RMB'000	Group 2011 RMB'000
At 1 January		**34,121**	32,929
Impairment losses recognised	6	**11,587**	6,121
Amount written off as uncollectible		**(3,631)**	(4,929)
At 31 December		**42,077**	34,121

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB42,077,000 (2011: RMB34,121,000) with a carrying amount before provision of RMB42,077,000 (2011: RMB34,121,000).

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 2012	1,726,624	1,548,490	137,055	33,528	7,551
31 December 2011	1,526,352	1,416,170	100,985	6,135	3,062

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.

20. 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	
	2012	2011
	RMB'000	RMB'000
Within six months	**462,508**	771,738
Over six months	**144,830**	–
	607,338	771,738

Included in the balances of bills receivable are amounts of approximately RMB98,813,000 (2011: RMB41,000,000) which were pledged to secure the issuance of bills payable.

Included in the bills receivable was an amount of RMB9,000,000 as at 31 December 2012 (2011: Nil) paid to a fellow subsidiary for purchasing raw materials by the Group.

21. Prepayments, Deposits and Other Receivables

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current prepayments	**226,057**	392,665	**–**	–
Current assets:				
Prepayments	**105,680**	151,507	**–**	–
Deposits and other receivables	**266,588**	251,492	**434**	513
	372,268	402,999	**434**	513

No amount was included in the non-current prepayments as at 31 December 2012 (2011: RMB90,580,000) paid to a fellow subsidiary for purchasing equipment by the Group.

Included in the prepayments was an amount of RMB1,300,000 as at 31 December 2012 (2011: RMB1,000,000) paid to a fellow subsidiary for purchasing raw materials by the Group.

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and cash equivalents	**848,578**	477,516	**168,906**	2,916
Time deposits	**193,640**	379,727	**–**	–
	1,042,218	857,243	**168,906**	2,916
Less: Non-pledged time deposits with original maturity of three months or more when acquired as at 31 December 2012	**(100,000)**	(324,296)	**–**	–
Pledged time deposits for banking facilities	**(93,640)**	(55,431)	**–**	–
Cash and cash equivalents in the consolidated statement of cash flows	**848,578**	477,516	**168,906**	2,916
Cash and cash equivalents, time deposits and pledged deposits denominated in				
– RMB	**841,160**	855,858	**6,088**	1,531
– HK$	**44,788**	1,385	**156,270**	1,385
– United States dollars ("US$")	**156,270**	–	**6,548**	–
	1,042,218	857,243	**168,906**	2,916

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.

23. 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	
	2012	2011
	RMB'000	RMB'000
Within 30 days	**194,859**	247,812
31 to 90 days	**181,633**	236,512
91 to 180 days	**161,383**	225,104
181 days to 365 days	**172,467**	17,326
Over 1 year	**12,791**	11,238
	723,133	737,992

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.

Included in the trade and bills payables was an amount of RMB4,100,000 as at 31 December 2012 (2011: Nil) payable to a fellow subsidiary for purchasing raw materials by the Group.

24. Other Payables and Accruals

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits received from customers	**275,494**	308,908	**–**	–
Other payables	**407,364**	404,710	**–**	–
Accruals	**20,972**	11,996	**–**	677
	703,830	725,614	**–**	677

Included in the accruals was an amount of RMB12,228,000 as at 31 December 2012 (2011: RMB8,925,000) 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.

25. Interest-Bearing Bank Borrowings

	2012			2011		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	2.24%	2013	188,523	–	–	–

All borrowings are denominated in United States dollars.

26. Provision for Warranties

		Group	
	Note	2012 RMB'000	2011 RMB'000
At 1 January		47,583	31,934
Additional provision	6	45,001	61,961
Amounts utilised during the year		(41,805)	(46,312)
At 31 December		50,779	47,583

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	
	2012 RMB'000	2011 RMB'000
At 1 January	346,855	286,136
Grants recognised during the year	274,482	144,023
Amortised as income during the year (note 5)	(145,095)	(83,304)
At 31 December	476,242	346,855
Current portion	(18,288)	(17,308)
Non-current portion	457,954	329,547

28. Deferred Tax

Deferred tax assets

Group	Government grants	Provision against slow-moving and obsolete inventories	Warranty provision	Losses available for offsetting against future taxable profits	Fair value adjustment arising from available-for-sale investments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 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 and 1 January 2012	70,631	918	7,137	34,772	–	113,458
Credited to the consolidated income statement (note 10)	43,786	1,116	480	764	–	46,146
Credited to the consolidated comprehensive income statement	–	–	–	–	15,699	15,699
Exchange differences	–	–	–	–	(54)	(54)
At 31 December 2012	114,417	2,034	7,617	35,536	15,645	175,249

Company	Fair value adjustment arising from available-for-sale investments
	RMB'000
At 1 January 2012	–
Credited to the consolidated comprehensive income statement	15,699
Exchange differences	(54)
At 31 December 2012	15,645

The Group has tax losses mainly arising in Hong Kong of RMB12,085,000 (2011: RMB5,426,000) 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.

28. Deferred Tax (continued)

Deferred tax liabilities

Group	Withholding taxes on dividend RMB'000
At 1 January 2012	–
Credited to the consolidated income statement (note 10)	16,114
At 31 December 2012	16,114

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. As at 31 December 2012, the Group has not recognised deferred tax liabilities of RMB34,815,000 (2011: RMB74,500,000) in respect of temporary differences relating to the unremitted profits of subsidiaries amounting to RMB348,150,000 (2011: RMB744,997,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed 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

	2012 HK$'000	2011 HK$'000
Authorised: 5,000,000,000 ordinary shares (2011: 5,000,000,000 ordinary shares) of HK$0.10 each	500,000	500,000
Issued and fully paid: 3,105,135,000 ordinary shares (2011: 3,112,500,000 ordinary shares) of HK$0.10 each	310,514	311,250
Equivalent to RMB'000	269,509	270,110

Pursuant to the resolution on repurchase mandate granted by the shareholders of the Company at the annual general meeting held on 18 May 2012, the Company repurchased and cancelled 7,365,000 issued shares at a consideration of RMB24,145,000. The issued share capital was decreased to HK$310,513,500 divided into 3,105,135,000 ordinary shares of HK$0.10 each.

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 the 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 RMB288,555,000 as at 31 December 2012 (2011: RMB233,275,000).

(b) Company

	Notes	Share premium account RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Available-for-sale investments revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000
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		(87,309)	–	–	–	–	(87,309)
Proposed final 2011 dividend		(141,164)	–	–	–	–	(141,164)
As at 31 December 2011		1,691,461	1,676,409	(41,760)	–	10,106	3,336,216
Profit for the year		–	–	–	–	(9,756)	(9,756)
Other comprehensive income for the year:							
Changes in fair value of available-for-sale investments, net of tax		–	–	–	(79,446)	–	(79,446)
Exchange differences on translation of foreign operations		–	–	341	–	–	341
Total comprehensive income for the year		–	–	341	(79,446)	(9,756)	(88,861)
Repurchase of issued shares	29	(23,544)	–	–	–	–	(23,544)
Proposed final 2012 dividend	12	–	–	–	–	(161,139)	(161,139)
As at 31 December 2012		1,667,917	1,676,409	(41,419)	(79,446)	(160,789)	3,062,672

31. Operating Lease Arrangements

(a) As lessor

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

At 31 December 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Within one year	**236**	227
In the second to fifth years, inclusive	**366**	227
	602	454

(b) As lessee

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

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Within one year	**3,308**	1,811
In the second to third years, inclusive	**524**	1,873
	3,832	3,684

32. Commitments

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

	Group 2012 RMB'000	Group 2011 RMB'000
Contracted, but not provided for:		
Prepaid land lease payments	**699**	27,190
Buildings	**251,423**	389,763
Plant and machinery	**144,718**	209,302
	396,840	626,255

33. Related Party Transactions and Balances

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

(1) Recurring transactions

	Notes	Group 2012 RMB'000	Group 2011 RMB'000
Purchases of raw materials from:			
Loudi Zhongxing Hydraulic Parts Co., Ltd. (婁底市中興液壓件有限公司)	(i) & (iii)	**45,490**	58,123
Sany Heavy Industry Co., Ltd. (三一重工股份有限公司)	(i) & (iii)	**15,906**	5,632
Shanghai Sany Technology Co., Ltd. (上海三一科技有限公司)	(i) & (iii)	**–**	442
Suote Transmission Equipment Co., Ltd. (索特傳動設備有限公司)	(i) & (iii)	**54,403**	36,615
Beijing Sany Electric Motor System Co., Ltd. (北京三一電機系統有限責任公司)	(i) & (iii)	**–**	181
Sany Intelligent Control Equipment Co., Ltd. (三一智能控制設備有限公司)	(i) & (iii)	**6,723**	2,139
Sany Hoisting Machinery Co., Ltd. (三一汽車起重機械有限公司)	(i) & (iii)	**–**	520
Sany Electric Co., Ltd. (三一電氣有限責任公司)	(i) & (iii)	**15,563**	–
Hunan Sany Road Machinery Co., Ltd. (湖南三一路面機械有限公司)	(i) & (iii)	**61**	21
Loudi Zhongyuan New Material Co., Ltd. (婁底市中源新材料有限公司)	(i) & (iii)	**254**	–
Beijing Sany Machinery Co., Ltd. (北京市三一重機有限公司)	(i) & (iii)	**5**	–
		138,405	103,673

33. Related Party Transactions and Balances (continued)

(1) Recurring transactions (continued)

	Notes	Group 2012 RMB'000	2011 RMB'000
Operating rental received from:			
Hunan Sany Repair Services Co., Ltd. (湖南三一維修有限公司)	(ii) & (iii)	**132**	227
Service fee paid to:			
Hunan Xingxiang Construction Consultation Co., Ltd. (湖南興湘建設監理諮詢有限公司)	(i) & (iii)	**2,022**	1,597
Purchases of logistics service from:			
Hunan Sany Logistics Co., Ltd. (湖南三一物流有限責任公司)	(i) & (iii)	**41,562**	27,499

Notes:

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

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

(iii) 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., Loudi Zhongyuan New Material Co., Ltd., Beijing Sany Machinery Co., Ltd., Sany Electric 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 15 individual shareholders: Liang Wengen, Tang Xiuguo, Xiang Wenbo, Mao Zhongwu, Yuan Jinhua, Zhou Fugui, Wang Haiyan, Yi Xiaogang, Zhao Xiangzhang, Wang Zuochun, Zhai Xian, Liang Linhe, Zhai Chun, Duan Dawei and Huang Jianlong, who hold 57.12%, 8.75%, 8.00%, 8.00%, 4.75%, 3.50%, 3.00%, 3.00%, 1.00%, 1.00%, 0.60%, 0.50%, 0.40%, 0.30% and 0.08% of the equity interests in Sany BVI, respectively.

** Hunan Sany Repair Services Co., Ltd. was deregistered in July 2012.

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.

33. Related Party Transactions and Balances (continued)

(2) Non-recurring transaction:

		Group	
	Note	2012 RMB'000	2011 RMB'000
Purchases of equipment from:			
Shanghai Sany Jingji Co., Ltd. (上海三一精機有限公司)	(i)	23,701	11,795

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

(3) Commitments with related parties:

Pursuant to the Company's announcement dated 14 November 2011, the Group entered into a three-year agreement, which will end on 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 33(1) to the financial statements. The Group estimated the total purchases from Hunan Sany Logistics Co., Ltd. in 2013 and 2014 will not exceed RMB120,000,000 and RMB130,000,000, respectively.

Pursuant to the Company's announcement dated 25 November 2011, the Group entered into a three-year agreement, which will end on 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 33(1) to the financial statements. The Group estimated the total purchases from Sany Group in 2013 and 2014 will not exceed RMB654,938,000 and RMB927,011,000, respectively.

Pursuant to the Company's announcement dated 14 November 2011, the Group entered into a three-year agreement, which will end on 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 33(2) to the financial statements. The Group estimated the total purchases from Shanghai Sany Jingji Co., Ltd. in 2013 and 2014 will not exceed RMB120,000,000 and RMB130,000,000, respectively.

33. Related Party Transactions and Balances (continued)

(3) Commitments with related parties: (continued)

On 24 December 2010, the Group entered into a three-year lease agreement, which will end on 31 December 2013 with Hunan Sany Repair Services Co., Ltd.. Because the company was deregistered in July 2012, the lease agreement was early terminated in July 2012. The amount of the operating rental received from Hunan Sany Repair Services Co., Ltd. for the year is included in note 33(1) to the financial statements.

Pursuant to the Company's announcement dated 24 December 2010, the Group entered into a three-year agreement, which will end on 31 December 2013, with Hunan Xingxiang Construction Consultation Co., Ltd., to purchase construction management service for the Group's future production. The Group estimated 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 33(1) to the financial statements.

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

	Group	
	2012	2011
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**3,150**	5,266
Pension scheme contributions and other staff welfare	**214**	204
Total compensation paid to key management personnel	**3,364**	5,470

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

34. Financial Instruments by Category

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

2012 Financial assets	Loans and receivables RMB'000	Group Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	–	106,552	106,552
Trade receivables	1,726,624	–	1,726,624
Bills receivable	607,338	–	607,338
Financial assets included in prepayments, deposits and other receivables	266,588	–	266,588
Time deposits	100,000	–	100,000
Pledged deposits	93,640	–	93,640
Cash and cash equivalents	848,578	–	848,578
	3,642,768	106,552	3,749,320

2012 Financial liabilities	Group Financial liabilities at amortised cost RMB'000
Trade and bills payables	723,133
Financial liabilities included in other payables and accruals	428,336
Interest-bearing bank borrowings	188,523
	1,339,992

34. Financial Instruments by Category (continued)

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

34. Financial Instruments by Category (continued)

2012 Financial assets	Company Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	–	95,916	95,916
Financial assets included in prepayments, deposits and other receivables	434	–	434
Due from a subsidiary	34,127	–	34,127
Cash and cash equivalents	168,906	–	168,906
	203,467	95,916	299,383

2012 Financial liabilities	Company Financial liabilities at amortised cost RMB'000
Interest-bearing bank borrowings	188,523

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

35. Fair Value and Fair Value Hierarchy

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, Interest-bearing bank borrowings 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 listed equity investments are based on quoted market prices.

Fair value hierarchy

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

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

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

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

2012	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments	95,916	–	–	95,916

36. Financial Risk Management Objectives and Policies

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

The main risks arising from the Group's financial instruments are 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.

36. Financial Risk Management Objectives and Policies (continued)

Interest rate risk

The interest rate risk of the Group is mainly due to the interest rate fluctuations of its bank borrowings. Interest on these bank borrowings is computed based on market rates.

The Group will constantly assess the interest rate risk it encounters to decide whether it is required to hedge against the possible interest rate risk that may arise. As at 31 December 2012, assuming the interest rate of bank borrowings increased/decreased by 5% and all other factors remained unchanged, then profit after tax for the year of the Group and the Company should decrease/increase by approximately RMB210,000 (2011: Nil).

Foreign currency risk

The Group's businesses are located in Mainland China and most of transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB, except for certain monetary assets and liabilities denominated in the Euro, HK$ and US$. The Group has not adopted any financial instruments for hedging purposes. However, the Group will constantly assess the foreign exchange risk it encounters so as to immediately decide the hedging policy required to hedge against the possible foreign exchange risk that may arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Euro, 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	Increase/ (decrease) in equity*
	%	RMB'000	RMB'000
31 December 2012			
If RMB weakens against US$	**5**	**(1,817)**	**–**
If RMB strengthens against US$	**(5)**	**1,817**	**–**
If RMB weakens against Euro	**5**	**1,008**	**–**
If RMB strengthens against Euro	**(5)**	**(1,008)**	**–**
If RMB weakens against HK$	**5**	**9,795**	**4,421**
If RMB strengthens against HK$	**(5)**	**(9,795)**	**(4,421)**
31 December 2011			
If RMB weakens against HK$	5	69	–
If RMB strengthens against HK$	(5)	(69)	–

* Excluding retained profits

36. 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 20 and 21 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 2012			
Group	**On demand RMB'000**	**Less than 1 year RMB'000**	**Over 1 year RMB'000**	**Total RMB'000**
Trade and bills payables	**–**	**723,133**	**–**	**723,133**
Financial liabilities included in other payables and accruals	**–**	**428,336**	**–**	**428,336**
Interest-bearing bank borrowings	**–**	**192,012**	**–**	**192,012**
	–	**1,343,481**	**–**	**1,343,481**

	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

36. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

Company	31 December 2012 On demand RMB'000	Less than 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	192,012	–	192,012

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

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 2012 and 2011.

37. EVENTS AFTER THE REPORTING PERIOD

In the general meeting held on 16 February 2013, the shareholders approved and adopted the Share Option Scheme in which selected employees of the Group are entitled to participate. The total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme, and any other schemes of the Company must not in aggregate exceed 50,000,000 Shares (representing approximately 1.6% of total number of Shares in issue as at the Adoption Date) unless the Company obtains a fresh approval from Shareholders to renew the limit (representing 10% of the total Shares in issue as at the date of approval in general meeting where such limit is refreshed) on the basis that the maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme, and any other schemes of the Company shall not exceed 30 per cent of the Shares in issue from time to time.

38. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 25 February 2013.

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				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**3,640,739**	3,780,183	2,683,461	1,901,376	1,146,789
Cost of sales	**(2,312,048)**	(2,254,484)	(1,445,011)	(996,219)	(612,414)
Gross profit	**1,328,691**	1,525,699	1,238,450	905,157	534,375
Other income and gains	**231,424**	217,130	89,219	50,928	23,676
Selling and distribution expenses	**(566,041)**	(465,253)	(335,361)	(232,776)	(165,601)
Administrative expenses	**(375,040)**	(382,015)	(248,776)	(171,292)	(113,621)
Other expenses	**(21,733)**	(11,213)	(17,908)	(27,690)	(33,535)
Finance costs	**(4,678)**	(4,679)	(5,778)	(3,825)	(21,247)
Share of profit and loss of an associate	**–**	–	–	4,325	(57)
PROFIT BEFORE TAX	**592,623**	879,669	719,846	524,827	223,990
Income tax expense	**(92,589)**	(105,314)	(49,334)	(34,395)	(12,121)
PROFIT FOR THE YEAR	**500,034**	774,355	670,512	490,432	211,869
Attributable to:					
Owners of the parent	**499,532**	774,355	670,512	490,432	189,044
Non-controlling interests	**502**	–	–	–	22,825
	500,034	774,355	670,512	490,432	211,869

Assets, Liabilities and Non-Controlling Interests

	As at 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**7,979,222**	7,466,151	5,883,461	5,458,927	3,122,337
TOTAL LIABILITIES	**(2,283,564)**	(2,092,393)	(1,131,718)	(1,247,184)	(1,547,766)
NON-CONTROLLING INTERESTS	**66,782**	–	–	–	–