SANY HEAVY EQUIPMENT INTERNATIONAL HOLDINGS COMPANY LIMITED

三一重裝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 631)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL SUMMARY

- Turnover increased from approximately RMB1,901.4 million in 2009 to approximately RMB2,683.5 million in 2010, representing a year-on-year increase of approximately 41.1%.
- Net profit attributable to shareholders of the Company increased from approximately RMB490.4 million in 2009 to approximately RMB670.5 million in 2010, representing a year-on-year increase of approximately 36.7%.
- The basic earnings per ordinary share were RMB0.32 Yuan in 2010 (2009: RMB0.32 Yuan).
- The Board proposed the payment of a final dividend of HK7.6 cents (before taxation) per ordinary share of the Company (2009: HK6.0 cents (before taxation)). The Board also proposed a bonus issue to all shareholders of the Company on the basis of five (5) bonus shares for every ten (10) ordinary shares (2009: nil), held by capitalization of certain amount standing to the credit of the Company's share premium account. Further announcement relating to the arrangement for the aforesaid bonus issue will be made by the Company in due course.

The board of directors (the "Board") of Sany Heavy Equipment International Holdings Company Limited (the "Company") is pleased to announce the annual consolidated results of the Company and its subsidiaries (collectively, referred to as the "Group") for the year ended 31 December 2010, together with comparative figures for the preceding financial year ended 31 December 2009.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	**2010** *RMB'000*	2009 *RMB'000*
REVENUE	*4*	**2,683,461**	1,901,376
Cost of sales		**(1,445,011)**	(996,219)
Gross profit		**1,238,450**	905,157
Other income and gains	*4*	**89,219**	50,928
Selling and distribution costs		**(335,361)**	(232,776)
Administrative expenses		**(248,776)**	(171,292)
Other expenses		**(17,908)**	(27,690)
Finance costs	*6*	**(5,778)**	(3,825)
Share of profit and loss of an associate		**—**	4,325
PROFIT BEFORE TAX	*5*	**719,846**	524,827
Income tax expense	*7*	**(49,334)**	(34,395)
PROFIT FOR THE YEAR		**670,512**	490,432
Attributable to:			
Owners of the parent		**670,512**	490,432
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic *(RMB Yuan)*	*9*	**0.32**	0.32
Diluted *(RMB Yuan)*	*9*	**0.32**	0.32

Details of the dividends paid and proposed for the year are disclosed in note 8 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**837,707**	402,271
Prepaid land lease payments		**326,158**	333,084
Non-current prepayments		**110,659**	34,602
Deferred tax assets		**82,435**	70,177
Total non-current assets		**1,356,959**	840,134
CURRENT ASSETS			
Inventories	*10*	**384,297**	558,162
Trade receivables	*11*	**874,417**	565,641
Bills receivable	*11*	**281,785**	251,742
Prepayments, deposits and other receivables		**227,708**	78,438
Derivative financial instruments		**12,233**	—
Investment deposits		**768,560**	—
Pledged deposits		**37,718**	69,043
Cash and cash equivalents		**1,939,784**	3,095,767
Total current assets		**4,526,502**	4,618,793
CURRENT LIABILITIES			
Trade and bills payable	*12*	**277,973**	379,549
Other payables and accruals		**446,906**	520,773
Tax payable		**86,934**	54,530
Provision for warranties		**31,934**	28,994
Government grants		**6,655**	1,021
Total current liabilities		**850,402**	984,867
NET CURRENT ASSETS		**3,676,100**	3,633,926
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,033,059**	4,474,060

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**1,835**	—-
Government grants		**279,481**	262,317
Total non-current liabilities		**281,316**	262,317
Net assets		**4,751,743**	4,211,743
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**182,801**	182,801
Reserves		**4,436,233**	3,919,328
Proposed final dividend	*8*	**132,709**	109,614
Total equity		**4,751,743**	4,211,743

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION

The consolidated financial statements of the Group are presented in Renminbi ("RMB").

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments which are measured at fair value.

The annual consolidated financial statements for the year ended 31 December 2010 have been prepared in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

The Directors anticipate that the application of other new or revised standards and interpretation will have no material impact on the results and the financial position of the Group.

3. OPERATING SEGMENT INFORMATION

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

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

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

Information about products

The revenues from the sale of the major products are as follows:

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

The revenues from the sale of products in 2009 have been reclassified as to conform to the current year's presentation. The reclassification of the amount has had no impact on the Group's net profit and equity.

Geographical information

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

4. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue and other income is as follows:

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

5. PROFIT BEFORE TAX

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

		Group	
		2010	2009
	Notes	***RMB'000***	*RMB'000*
Cost of inventories sold		**1,434,259**	991,946
Cost of services provided		**10,752**	4,273
Depreciation		**33,943**	26,490
Amortisation of land lease prepayments		**6,926**	4,824
Auditors' remuneration		**2,000**	4,920
Provision for warranties		**68,429**	36,126
Research and development costs		**120,798**	61,092
Minimum lease payments under operating leases:			
Dormitories for staff		**2,853**	1,465
Warehouses		**1,074**	358
		3,927	1,823
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		**237,192**	128,130
Pension scheme contributions		**23,445**	10,776
		260,637	138,906
Other expenses:			
Foreign exchange differences, net		**4,776**	575
Impairment of trade receivables	*11*	**2,748**	20,508
Provision against slow-moving and obsolete inventories	*10*	**9,872**	6,607
Loss on disposal of items of property, plant and equipment		**512**	—
		17,908	27,690

6. FINANCE COSTS

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

7. INCOME TAX

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

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

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

Pursuant to the State Council Circular on the Implementation of the Transitional Concession Policies for Corporate Income Tax (Guo Fa 2007 No. 39), enterprises previously entitled to a reduced tax rate shall have a grace period of five years regarding the tax reduction commencing on 1 January 2008; the enterprises entitled to a 15% corporate income tax rate will be subject to tax rates of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012 and thereafter.

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

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

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

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

8. DIVIDENDS

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

The final dividend of HK7.6 cents per share is subject to approval by the shareholders of the Company in the annual general meeting. Such dividend will be distributed from the share premium of the Company. In the opinion of the Directors, such distribution is in compliance with the articles of association adopted by the Company on 23 July 2009, which states that dividend may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividend may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law of the Cayman Islands; subject to the provisions of its memorandum of association or articles of association and provided that immediately following the distribution or paying dividend the Company will be able to pay its debts as they fall due in the ordinary course of business.

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

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,075,000,000 (2009: 1,553,972,603) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

10. INVENTORIES

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

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

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

11. TRADE AND BILLS RECEIVABLE

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

The Group generally requires its customers to make payments at various stages of the sales transaction, however, the Group grants certain credit periods to old customers with good payment history. The credit period of individual customers is considered on a case-by-case basis and is set out in the sales contracts, as appropriate. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

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

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

		Group	
		2010	2009
	Notes	***RMB'000***	*RMB'000*
At 1 January		**30,332**	9,824
Impairment losses recognised	*5*	**2,748**	20,508
Amount written off as uncollectible		**(151)**	—
At 31 December		**32,929**	30,332

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

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

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**	**Neither past due nor impaired**	**Within 180 days**	**181 to 365 days**	**Over 1 year**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2010	874,417	801,700	53,654	14,384	4,679
31 December 2009	565,641	465,490	84,291	9,322	6,538

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default.

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

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

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

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

12. TRADE AND BILLS PAYABLE

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

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

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

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

13. COMMITMENTS

The Group had the following capital commitments as at the end of the reporting period:

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

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

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

Business Review

Results overview

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

Research and development capability and new products

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

As at 31 December 2010, the number of the Group's research and development personnel increased by approximately 21.0% year-on-year to 600. The Group also made substantial investments in research and development. In 2010, research and development expenses increased by approximately RMB59.7 million to approximately RMB120.8 million compared with the corresponding period of last year.

The ratio of research and development expenses to revenue increased approximately 1.3% to approximately 4.5%. The increased research and development expense was mainly used for new equipment such as CCMUs and large-size roadheaders.

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

Capacity expansion and capital expense

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

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

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

Distribution and service network

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

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

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

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

Financial review

Revenue

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

Product categories

	2010		2009		Change	Percentage change
	RMB million	*%*	*RMB million*	*%*	*RMB million*	*%*
Roadheaders	1,943.3	72.4	1,445.7	76.0	497.6	34.4
Combined coal mining units	312.0	11.6	187.3	9.9	124.7	66.6
Coal mine transportation vehicles	37.7	1.4	24.3	1.3	13.4	55.2
Spare parts	335.9	12.5	162.2	8.5	173.7	107.1
Others	54.6	2.1	81.9	4.3	(27.3)	(33.4)
Total	2,683.5	100.0	1,901.3	100.0	782.1	41.1

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

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

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

Spare parts: sales income increased significantly by about 107.1% to approximately RMB335.9 million (2009: approximately RMB162.2 million), mainly due to the installment base of various products of the Group.

Other income

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

Customer composition and regional analysis

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

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

Financing sales

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

COGS

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

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

Gross profit and gross margin

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

The Group's consolidated gross margin in the year was approximately 46.2%, representing a decrease of approximately 1.4% from approximately 47.6% in 2009. But there was an increase of approximately1.1% compared with 45.1% in the first half of 2010. The slight decrease in gross margin was mainly due to the difference in gross margin between various products and the change of the product mix from 2009.

Profit margin before tax and net profit margin

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

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

Selling and distribution costs

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

Administrative expenses

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

Finance costs

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

Taxation

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

Profit attributable to equity holders of the Company

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

Liquidity and financial resources

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

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

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

Cash flow

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

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

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

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

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

Turnover days

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

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

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

Contingent liabilities

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

Capital commitment

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

Employees and remuneration policy

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

	As at 31 December 2010		**As at 31 December 2009**		**Change**	
	Number of employees	*Percentage to total employees*	*Number of employees*	*Percentage to total employees*	*Number of employees*	*%*
Manufacturing	1,489	41.08%	1,344	44.14%	145	4.76%
Product research and development	600	16.55%	496	16.29%	104	3.42%
Sale and services	606	16.72%	358	11.76%	218	8.14%
Management	930	25.66%	847	27.82%	83	2.73%
Total employees	3,625	100%	3,045	100%	580	19.05%

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

Material acquisition and disposal

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

Pledge of assets

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

Foreign exchange risk

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

Social Responsibility

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

Mission

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

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

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

DIVIDEND

The Board has recommended the payment of a final dividend of HKD7.6 cents per ordinary share of the Company for the year ended 31 December 2010. The proposed final dividend, if approved by the shareholders in the forthcoming annual general meeting, will be paid to the shareholders on the register of members of the Company on 26 May 2011.

ISSUE OF BONUS SHARES

The Board proposed to make a bonus issue, credited as fully paid, on the basis of five (5) bonus shares for every ten (10) ordinary shares of the Company held by the shareholders whose names appear on the register of members of the Company on the date of reference to which entitlements to the bonus issue are to be determined. The bonus issue will be funded by way of capitalization of certain amount standing to the credit of the Company's share premium account. Further announcement relating to the arrangement for the aforesaid bonus issue will be made by the Company in due course.

CORPORATE GOVERNANCE

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

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2010, except for the following deviation:

Code Provision A.2.1

Under CG Code Provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Prior to 26 April 2010, the Company did not separate the roles of chairman and chief executive officer. Mr. Mao Zhongwu is the chairman and chief executive officer of the Company responsible for overseeing the operations of the Group. Although the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company, however, in order to comply with CG Code Provision A.2.1, the Company appointed Mr. Zhou Wanchun to take up the role of chief executive officer in place of Mr. Mao Zhongwu in April 2010. Upon such appointment, Mr. Mao Zhongwu will still remain as the chairman of the Company responsible for overseeing the operations of the Group.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 13 May 2011. A notice convening the annual general meeting will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 9 May 2011 to Friday, 13 May 2011, both days inclusive, during which period no transfer of shares will be registered. In order to be qualified for the entitlement of the proposed bonus issue and proposed final dividend and to attend and vote at the forthcoming annual general meeting of the Company to be held on Friday, 13 May 2011, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 10:00 a.m. on Friday, 11 May 2011. Subject to shareholders' approval of the proposed final dividends at the annual general meeting to be held on Friday, 13 May 2011, the relevant dividends will be paid to shareholders whose names appear on the register of members of the Company on Thursday, 26 May 2011.

Dealings in the bonus shares are now expected to commence on 30 May 2011.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its listed shares during the year ended 31 December 2010. Neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the listed shares of the Company during the year ended 31 December 2010.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, during the period under review, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they have complied with the Model Code for the year ended 31 December 2010.

AUDIT COMMITTEE

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

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

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

The annual report of the Company for the year ended 31 December 2010 containing all the information required by the Listing Rules is to be despatched to shareholders of the Company and made available on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.sanyhe.com in due course.

By the order of the Board of Directors
Sany Heavy Equipment International Holdings Company Limited
Mao Zhongwu
Chairman

Hong Kong, 31 March 2011

As at the date of this announcement, the executive Directors are Mr. Mao Zhongwu, Mr. Zhou Wanchun and Mr. Liang Jianyi, the non-executive Directors are Mr. Xiang Wenbo, Mr. Huang Jianlong and Mr. Wu Jialiang, and the independent non-executive Directors are Mr. Ngai Wai Fung, Mr. Xu Yaxiong and Mr. Ng Yuk Keung.