SANYI

SANY HEAVY EQUIPMENT INTERNATIONAL HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 631

SANYI

ANNUAL REPORT 2016

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, together with its subsidiaries (hereinafter the "Group") is a heavy machinery manufacturer specializing in research and development, manufacturing and sale of port machinery and marine heavy machinery as well as coal mining and excavation equipment, whole set of roadheaders and coal mining and transportation vehicles. On 25 November 2009, Sany International was listed on the Main Board of The Stock Exchange of Hong Kong Limited (hereinafter the "Stock Exchange").

The Group is the supplier of whole set of port machinery with the largest, most complete technologically advanced vessel products in China. Meanwhile, the Group is also a coal mining machinery manufacturer with the widest product range and the most comprehensive product lines in China, and is a leading supplier of comprehensive coal mining equipment in China. Currently, port machinery and engineering vessel products of the Group's comprise of three major business segments, namely port machinery, engineering vessel and marine engineering equipment, consisting of 16 major types with more than 150 specifications, including front loader, container stacking machine, heavy-duty forklift truck, rubber-tyred crane, drive off-highway dump truck, quayside container crane, portal crane, transtainer, elevated hoisting arm and concrete mixers. The Group's coal mining machinery 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 promoted the CCMU and coal ploughing units which have integrated design and manufacturing. We are the first company to provide integrated mining equipment and one stop solutions and whole-set coal mining products 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 considers research and development ("R&D") as one of its most important competitive strengths and a main drive to provide customers with products of higher quality at a more reasonable price, which differentiates the Group from the peers in the industry. During the year under review, the Group made remarkable R&D achievements and launched a number of new product models which led the development direction of the industry. The port machinery sector of the Group has completed the development including 7 front loaders, 6 container stacking machines and 7 heavy-duty forklift trucks as well as the H type machine change between front loaders and container stacking machines. The Group has achieved breakthroughs in three core techniques including mobile APP for the products, weighing and printing system for containers, and weighing and printing system for uneven loading. Field bridge single machine automation project has made significant progress and advanced technology verification of remote control, container scanning, automatic boxing and track optimization has been completed; the application of self-developed CMS technology has also begun application promotion. In respect of coal machinery sector, the first generation of STR260 tunnel roadheaders was launched and achieved impressive sales. The improved version of STR260 tunnel roadheaders were also successfully used in mining industry. Design of STR200 tunnel roadheaders was finalized and put into operation. Inspection of a small batch of the 1202 coal-mining machinery project was completed. The testing for pure water hydraulic support (純

水液壓支架) was completed and its inspection was up to the satisfaction of the customers. The electric system solution and drawing designs for pure water treatment equipment were completed while the prototype was put into operation; the top design, general proposal, construction drawing designs and the initiation of the automatic comprehensive mining projects were completed. For the year ended 31 December 2016, the Group obtained 62 invention patents, 27 utility model patents and 4 exterior design patents and was granted 1 national outstanding patent award.

Given the outstanding product quality and friendly after-sales services, the Group's port machinery and engineering vessels have gained favourable market share in the large ports in mainland China, and are exported to certain countries and regions, including USA, Germany, Brazil, Russia, South Africa and Australia. The Group's energy equipment products have gained favourable market share in major coal production zones in mainland China and each coal mining group, and are exported to certain countries and regions, including Ukraine, Russia, Australia, the Philippines, Indonesia and Laos.

Financial Summary

(RMB'000)	**2016 (audited)**	2015 (audited)	Increase (%)
Revenue	**1,841,834**	2,201,801	(16.3)
Gross profit	**276,164**	629,336	(56.1)
Gross profit (excluding the effect of provision for write-down of inventories)	**596,555**	650,331	(8.3)
(Loss)/profit before tax	**(708,012)**	35,775	(2,079.1)
Net (loss)/profit	**(658,280)**	18,557	(3,647.3)
(Loss)/profit attributable to owners of the parent	**(644,375)**	18,064	(3,667.2)
(Loss)/profit attributable to owners of the parent (excluding one-off items and revaluation items)[1]	**(644,375)**	18,064	(3,667.2)
Total assets	**10,139,079**	11,331,186	(10.5)
Total equity	**6,134,136**	6,788,968	(9.6)
Cash flows of operating activities	**1,327,028**	152,812	768.4
Cash flows of investing activities	**(531,996)**	400,180	(232.9)
Cash flows of financing activities	**(486,774)**	(311,809)	56.1
(Loss)/earnings per share[2]			
– Basic (RMB Yuan)	**(0.21)**	0.01	
– Diluted (RMB Yuan)	**(0.18)**	0.01	

(Percentage)	**2016**	2015	Increase (points)
Gross profit margin	**15.0%**	28.6%	(13.6)
Gross profit margin (excluding the effect of provision for write-down of inventories)	**32.4%**	29.5%	2.9
Percentage of (loss)/profit attributable to shareholders of the Company[3]	**(35.0%)**	0.8%	(35.8)
Percentage of (loss)/profit attributable to shareholders of the Company (excluding one-off items and revaluation items)	**(35.0%)**	0.8%	(35.8)
Assets turnover	**17.2%**	18.3%	(1.1)
Asset – Liability ratio	**39.5%**	40.1%	(0.6)
Average total assets (RMB'000)	**10,735,133**	12,042,215	

1 The Group has no one-off item and revaluation item (2015: nil).

2 The weighted average number of ordinary shares for the year ended 31 December 2016 was 3,041,025,000 shares, and the weighted average number of ordinary shares for the year ended 31 December 2015 was 3,041,025,000 shares, details of which are set out in note 12 to the Financial Statements.

3 Loss/profit attributable to shareholders of the Company divided by revenue.

Important Milestones in Year 2016

Sany Heavy Equipment Co., Ltd. ("Sany Heavy Equipment") was included in the recommendation list of techniques and equipment for green development of coals

In March 2016, the National Energy Administration published the "Recommendation List of Advanced Techniques and Equipment for The Safe and Green Development and Clean and Efficient Utilization of Coals (First Batch)" (《煤炭安全綠色開發和清潔高效利用先進技術與裝備推薦目錄（第一批）), and Sany Heavy Equipment was included in the list with its automated whole-set equipment for coal ploughing units.

First delivery through shipping by Sany Marine Heavy Industry Co., Ltd. ("Sany Marine Heavy Industry")

In March 2016, 2 quayside container cranes and a rubber-tired container gantry crane of Sany Marine Heavy Industry were shipped to Saudi Arabia at the wharf of Sany in Zhuhai. This was the first delivery through shipping at the wharf of Sany Marine Heavy Industry, and Sany International officially becomes a leading construction machinery enterprise with 50,000 DWT jetty.

Delivery for use of a 100 DWT port overhead crane

In June 2016, the first domestic 100 DWT port overhead crane produced by Sany Marine Heavy Industry with full intellectual property rights was delivered for use, which successfully filled the gap in China of such type of products and broke the long-term monopoly by European enterprises.

Hunan Sany Port Equipment Co., Ltd. ("Hunan Sany Port Equipment") secured a port machinery order with the largest amount

In August 2016, Hunan Sany Port Equipment secured an order of 31 port machineries from Saudi Arabia which is by for the largest port machinery order of Hunan Sany Port Equipment. The entering of this order marked another breakthrough of Hunan Sany Port Equipment in the Middle East market.

The showcase of new front loader crane in Bauma

In November 2016, the first SRSC45H8A front loader crane pioneered by Hunan Sany Port Equipment with energy regeneration system was displayed in Bauma Shanghai and became the focus in the exhibition attracting orders of RMB100 million in the first day of the exhibition.

Roadheaders made rapid progress

In 2016, the new roadheaders of Sany Heavy made rapid progress, with the sales of 10 STR260 roadheaders were completed and put into use in the metro projects in Urumqi and Guiyang and the bauxites project in Sanmenxia.

Chairman's Statement

Dear Shareholders,

In 2016, as the growth of China's GDP and fixed assets investment continued to slow down and global trade kept growing slowly, both domestic and foreign conditions were complicated and stringent and the industry was facing unprecedented challenges. In face of the mixed and changing external environment, the Company overcame difficulties and moved forward without fears, strongly promoted management and control over operational risks and continuously enhanced its operating quality, going through a hard but splendid year.

In an ever-changing world, only those pursuing growth can survive. We are inspired that the key to stay competitive in the market is keep enhancing our capability in the midst of industry transformation. In 2016, the Company adhered to the "transformation and upgrading" policy in order to push forward international development and carried out value sales while strengthening its management of external financing. The Company also adopted measures to control costs and expenses, enhance cost control and risk management ability, which has enabled the Company to achieve an effective, healthy and sustainable management and operation.

Braving challenges is a crucial element to survive in this fiercely competitive industry. With high-quality products and services, the Company has been able to maintain a strong position and increase its market shares in the industry over the years. In 2016, the Company maintained its forerunner position in the industry in terms of market share of the domestic mobilised port machinery market and enjoyed the largest share in the domestic roadheader market. Sales of industrial drilling products made substantial breakthrough due to increasing sales in the tunnel, subway, hydraulic and non-coal mine sectors. Meanwhile, the result of international sales of the port machinery was satisfactory with a year-on-year increase of over 70% in terms of international sales of mobilised port machinery.

Grasp opportunities by riding the trend. Although 2016 was a year of challenges, we embraced those challenges with courage and commitment. As the equipment manufacturing industry has recovered from the thoughest period, we are ready to grasp new industrial development opportunities with a positive attitude. Facing favorable situation with signs of recovery, we are confident to grasp the opportunities by riding the trend under the strong Board leadership with the support of our employees. We also believe that we are well prepared for a bright and prosperous future.

In face of the new economic environment, the Company's development also enters into a new era. All employees of the Company will unite together to embrace the challenges, strengthen governance, strive for excellence and create a better future with diligence and wisdom.

Finally, I would like to take this opportunity to express my sincere gratitude to all the shareholders, members of the community, our valued customers and our hard working staff for their care and support.

Qi Jian
Chairman

Hong Kong, 22 March 2017

Management Discussion and Analysis

Business Review

In the past year of 2016, the growth of international import and export trading had slowed down with the continuous impact on the domestic industrial supply-side reform, and thus, the equipment manufacturing industry experienced severe challenges. In the face of complex and changeable external environment, the Company braved all difficulties and moved forward to continue promoting transformation, enhancement and management reform and improve operation quality during this tough but amazing year.

Major products

With the ongoing transformation, the Group divided its products into four categories, namely (1) the marine engineering business, which includes port machinery products (reach stacker, empty container handler and quayside gantry crane) and offshore heavy machineries; (2) the coal mining business, which includes roadheaders (all types of soft rock, hard rock roadheader, mining roadheader and drilling machinery) and CCMU (coal mining machines (shearer), hydraulic support system, scraper conveyor (Armored-Face Conveyer) and centralized control system); (3) the non-coal related business, which includes mining transport equipment (mechanical drive off-highway dump truck, electric drive off-highway dump truck, articulated truck and underground coal mining vehicle) and excavation equipment (tunnel series, potash mine series and drilling series equipment); and (4) new energy equipment business, which includes natural gas equipment (full-line products of filling station and gasification station).

Research and development capability

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 and a main drive to provide customers with products of higher quality at a more reasonable price, which differentiates the Group from the peers in the industry. During the year under review, the Group achieved remarkable achievements in its R&D and successively launched new product models which led the development direction of the industry. The port machinery sector of the Group has completed the development including 7 front loaders, 6 container stacking machines and 7 heavy-duty forklift trucks as well as the H type machine change between front loaders and container stacking machines. The Group has achieved breakthroughs in three core techniques including mobile APP for the products, weighing and printing system for containers, weighing and printing system for uneven loading. Field bridge single machine automation project has made a significant progress and advanced technology verification of remote control, container scanning, automatic boxing and track optimization has been completed; the application of self-developed CMS technology has also begun application promotion. In respect of coal machinery sector, the first version of STR260 tunnel roadheaders has launched and achieved impressive sales. The improved version of STR260 tunnel roadheaders were also successfully used in mining industry. Design of STR200 tunnel roadheaders was finalized and put into operation. Inspection of a small batch of the 1202 coal-mining machinery project was completed. The testing for pure water hydraulic support (純水液壓支架) was completed and its inspection was up to the satisfaction of the customers. The electric system solution and drawing designs for pure water treatment equipment were completed while the prototype was put into operation; the top design, general proposal, construction drawing designs and the initiation of the automatic comprehensive mining projects were completed. For the year ended 31 December 2016, the Group obtained 62 invention patents, 27 utility model patents and 4 exterior design patents and was granted 1 national outstanding patent award.

Production and Manufacturing

The Group has production and manufacturing bases in Shenyang, Zhuhai and Changsha, respectively. There are 8 plants in the coal machinery industrial park located in the Economic and Technological Development Zone of Shenyang with a total area of approximately 629,000 sq.m. The industrial park for large port machinery is located in Gaolan Port Economic Area of Zhuhai and commenced operation on 6 May 2015. Phase 1 of the project occupies an area of 800 mu, equipped with a deep-water dock with a coastline of 3.5 km which has currently reached the production capability of full range large-scale port machinery. The industrial park for small port equipment is located in the Changsha Industrial Zone with an area of approximately 100,000 sq.m., with several plants and commissioning fields. The Group focused on enhancement of processing and assembly techniques, and adopted various measures to cut production costs in order to establish cost reduction mechanism for systems including research and development and business.

Marketing 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 meet customers' needs and raise customers' satisfaction and addressing any concerns of our customers. The Group's superior product quality, attentive after-sales service and efficient response have achieved a high recognition from our customers.

Financial Review

Revenue

For the year ended 31 December 2016, the Group recorded revenue of approximately RMB1,841.8 million (the year ended 31 December 2015: approximately RMB2,201.8 million), representing a decrease of approximately 16.3% as compared with the year ended 31 December 2015. The decrease was mainly due to the continued adjustment of coal industry, which affected the sales of coal machinery products. Nevertheless, the increasing proportion of sales attributable to marine engineering business to total sales of the Group, the gradual recovery of coal machinery market and the steady implementation of the Group's international strategy laid a solid foundation for the Group's long-term development.

Other income and gains

For the year ended 31 December 2016, the Group's other income and gains was approximately RMB179.4 million (the year ended 31 December 2015: approximately RMB222.0 million), representing a year-on-year decrease of approximately 19.2%. The decrease was mainly due to the reduction of government subsidies received by the Group.

Cost of sales

For the year ended 31 December 2016, the Group's cost of sales was approximately RMB1,565.7 million (the year ended 31 December 2015: approximately RMB1,572.5 million), representing a year-on-year decrease of approximately 0.4%. The decrease was mainly due to: (1) the increase of provision for inventory under the principle of prudence by RMB320.4 million; and (2) the decrease in sales during the year.

Gross profit and gross profit margin

For the year ended 31 December 2016, the gross profit of the Group was approximately RMB276.2 million (the year ended 31 December 2015: approximately RMB629.3 million). The gross profit excluding the provisions for inventory provided during the current year was approximately RMB596.6 million (the year ended 31 December 2015: approximately RMB650.3 million) and the gross profit margin excluding the provisions for inventory provided during the current year was approximately 32.4%, representing a year-on-year increase of approximately 2.9 percentage point (the year ended 31 December 2015: approximately 29.5%). Such changes were mainly due to: (1) the Group's strengthened cost control and various measures to reduce cost and increase profitability of the products; and (2) change of sales structure during the year.

Selling and distribution expenses

For the year ended 31 December 2016, the selling and distribution expenses of the Group were approximately RMB321.1 million (the year ended 31 December 2015: approximately RMB276.1 million), representing a year-on-year increase of approximately 16.3%. For the year ended 31 December 2016, the ratio of the Group's selling and distribution expenses to revenue was approximately 17.4%, representing a year-on-year increase of approximately 4.9 percentage points as compared to the year ended 31 December 2015 (the year ended 31 December 2015: approximately 12.5%). Such change was mainly due to the fact that the Group increased its marketing input to port machinery in overseas market.

Research and development expenses

For the year ended 31 December 2016, the research and development expenses of the Group were approximately RMB106.7 million (the year ended 31 December 2015: approximately RMB154.3 million), representing a year-on-year decrease of approximately 30.8%. For the year ended 31 December 2016, its ratio to revenue was approximately 5.8%, representing a year-on-year decrease of approximately 1.2 percentage points as compared to the year ended 31 December 2015 (the year ended 31 December 2015: approximately 7.0%). Such decrease was mainly due to: (1) the Group has strengthened its cost control and lowered its research and development input to nonprofit products; and (2) a significant decrease in the Group's R&D, design and technological transformation costs resulting from the continuous improvement of its product technology and the well-developed coal machinery products. In order to adapt to the Group's strategic transformation, the Group allocated research and development resources for port machinery products, excavation equipment, mining transport equipment and natural gas equipment, which laid a solid foundation for the Group's long-term development.

Administrative expenses

For the year ended 31 December 2016, administrative expenses of the Group were approximately RMB314.0 million (the year ended 31 December 2015: approximately RMB371.7 million). The administrative expenses excluding research and development expenses were approximately RMB207.4 million (the year ended 31 December 2015: approximately RMB217.4 million), representing a year-on-year increase in the proportion of sales revenue by approximately 1.4 percentage points to approximately 11.3% (the year ended 31 December 2015: approximately 9.9%). Such changes were mainly due to a decrease in sales during the year but certain fixed costs remained the same with prior year.

Finance costs

For the year ended 31 December 2016, finance costs of the Group were approximately RMB2.2 million (the year ended 31 December 2015: approximately RMB10.5 million), and the decrease was mainly due to a decrease in bank loans of the Group and the other borrowings from National Development Fund which bears a lower interest rate.

(Loss)/profit before tax

For the year ended 31 December 2016, the Group's loss before tax ratio was approximately 38.4%, representing a year-on-year decrease of approximately 40.0 percentage points as compared to profit before tax ratio of approximately 1.6% for the year ended 31 December 2015. The change was mainly due to the bad debt provision for trade and other receivables of RMB521.6 million and the provision for inventory of RMB320.4 million under the principle of prudence.

Taxation

For the year ended 31 December 2016, the Group's effective tax rate was approximately 7.0% (the year ended 31 December 2015: approximately 48.1%). For details regarding income tax, please refer to note 10.

(Loss)/profit attributable to owners of the parent

For the year ended 31 December 2016, loss attributable to owners of the parent recorded by the Group was approximately RMB644.4 million, as compared to the profit attributable to owners of the parent recorded by the Group of RMB18.1 million for the year ended 31 December 2015, which was mainly attributable to the increase of provision of trade receivables and inventories. For the main reasons of such change, please refer to the above paragraphs headed "Revenue", "Gross profit and gross profit margin" and "(Loss)/profit before tax".

Liquidity and financial resources

As at 31 December 2016, total current assets of the Group were approximately RMB4,246.4 million (31 December 2015: approximately RMB5,418.8 million). As at 31 December 2016, total current liabilities of the Group were approximately RMB2,268.5 million (31 December 2015: approximately RMB2,898.6 million).

As at 31 December 2016, total assets of the Group were approximately RMB10,139.1 million (31 December 2015: approximately RMB11,331.2 million), and total liabilities were approximately RMB4,004.9 million (31 December 2015: approximately RMB4,542.2 million). As at 31 December 2016, the gearing ratio (the asset to liability ratio) of the Group was approximately 39.5% (31 December 2015: 40.1%).

Trade and bills receivables

As at 31 December 2016, the Group's trade receivables and bills receivable recorded a decrease of approximately 45.2% to approximately RMB1,852.2 million as compared to approximately RMB3,378.1 million as at 31 December 2015, among which trade receivables decreased by approximately 47.4% to approximately RMB1,638.9 million as compared to approximately RMB3,115.3 million as at 31 December 2015; and bills receivable decreased by approximately 18.8% to approximately RMB213.3 million as compared to approximately RMB262.8 million as at 31 December 2015. Such changes were mainly due to: (1) the Group factored certain trade receivables without recourse resulted in decrease in the balance by RMB1,001.2 million; (2) the management of the Group strengthened its risk management and control of receivables and implemented the "one policy for one client" policy to improve its collectibility; and (3) the Group increased its provision for bad debts of trade receivables as at 31 December 2016 under the principle of prudence, which led to decrease in the balance by RMB462.1 million.

Other borrowings

As at 31 December 2016, other borrowings of the Group were approximately RMB161.4 million (31 December 2015: nil). Such change was due to the fact that the Group obtained an investment from National Development Fund. For further details, please refer to the circular of the Company dated 6 May 2016.

Cash flow

As at 31 December 2016, cash and cash equivalents of the Group, investment deposits and deposits with maturity of three months or more were approximately RMB833.2 million in total.

For the year ended 31 December 2016, the net cash inflow of the Group from operating activities was approximately RMB1,327.0 million (the year ended 31 December 2015: net cash inflow of approximately RMB152.8 million). Such change was mainly due to: (1) the Group factored certain trade receivables without recourse; (2) the management of the Group strengthened its risk management and control of receivables and implemented the "one policy for one client" policy to improve its collectability; and (3) the Group slowed down the settlement of trade payables for stricter control on working capital.

For the year ended 31 December 2016, the net cash outflow from investing activities of the Group was approximately RMB532.0 million (the year ended 31 December 2015: net cash inflow of approximately RMB400.2 million). Such change was mainly due to an increase in external investment of the Group and a decrease in gain from matured investment and disposal of assets.

For the year ended 31 December 2016, the net cash outflow of the Group from financing activities was approximately RMB486.8 million (the year ended 31 December 2015: net cash outflow of approximately RMB311.8 million). Such change was mainly due to the repayment of affiliates borrowings.

Turnover days

The Group's average turnover days of inventory were approximately 289.8 days as at 31 December 2016, representing a decrease of approximately 29.7 days from 319.5 days as at 31 December 2015, mainly because the Group had strengthened its inventory control.

The turnover days of trade and bills receivables as at 31 December 2016 were approximately 595.0 days, representing an increase of approximately 16.4 days from approximately 578.6 days as at 31 December 2015. Please refer to the above paragraphs headed "Revenue" and "Trade and bills receivables" for the main reasons of such increase.

Turnover days of trade and bills payables decreased by approximately 52.1 days from approximately 261.6 days as at 31 December 2015 to approximately 209.5 days as at 31 December 2016, which was mainly due to the Group slowed down settlement for stricter control on working capital.

Contingent liabilities

As at 31 December 2016, the Group had contingent liability of RMB156.8 million, being the financial guarantee provided by Hunan Sany Port Equipment under financing lease arrangement (31 December 2015: RMB139.3 million).

Capital commitment

As at 31 December 2016, the contracted capital commitments of the Group which are not provided for in the financial statements were approximately RMB3,941.8 million (31 December 2015: approximately RMB4,231.1 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.

Material Acquisition and Disposal

There were no significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year, nor was there any plan authorized by the Board for other material investments or additions of capital assets at the date of this report.

Pledge on assets

As at 31 December 2016, the Group recorded pledged deposits with an aggregate value of approximately RMB27.2 million (31 December 2015: approximately RMB14.7 million), for the purpose of issuing bills payable. As at 31 December 2016, none of the Group's bank loans were secured by property, plant and equipment and prepaid land lease payments (31 December 2015: nil).

Foreign exchange risk

As at 31 December 2016, the Group's cash and bank balances denominated in HK$ and US$ were equivalent to approximately RMB28.3 million. The Group will monitor the risk exposures and may consider hedging against material currency risk if required.

Social responsibility

The Group promotes good values of fraternity, mutual assistance and selfless contribution, and it advocates more people to get involved in charity activities with love and care. During the Spring Festival, the Group launched activities to give warmth and help staff mitigate their financial stress. The management visited staff with family difficulties and provided them with consolation money and items; presented family package insurance to staff; and organised staff health check. The Group also raised funds for staff requiring assistance and spread love and care to staff who were in need of support.

FUTURE DEVELOPMENT

China's economy has entered into the new normal and the future development of the industry will face unprecedented challenges. The Company will continue to adhere to the "dual-transition approach" strategy, which will allow the Group to develop its current operation from the single business of energy mechanical to the fields of port machinery and non-coal mechanical products and expand its sales network from single Chinese market to international market, leading to the diversified profit growth. With the strategy of "Addition in one field, subtraction in two fields, reduction in three fields and growth in four fields", the Group will actively promote the 4.0 plant construction in Zhuhai Industry Park by gradual intelligentization and digitalization upgrading and will continue to cut off inventory and production capacity in order to reduce costs, expenses and payment overdue and increase the Group's profitability.

In future, we will continue to focus on our primary objectives, including internationalization, cost control and borrowing risk control. The Group will insist on providing better products to customers and maintain a healthy and stable operating company in the interests of the shareholders of the Company (the "Shareholders").

DIVIDENDS

The Board does not recommend any final dividend for the year ended 31 December 2016.

Directors and Senior Management

Executive Directors

Mr. Qi Jian (戚建), aged 57, was appointed as an executive Director, chairman of the Board and chief executive officer of the Company on 6 August 2015.

Mr. Qi joined Sany Group Co., Ltd. ("Sany Group") since May 2001. He served as the deputy dean of the research institute of Sany Heavy Industry Co., Ltd. ("Sany Heavy Industry", a listed company on the Shanghai Stock Exchange, stock code: 600031), from May 2001 to May 2003, overseeing the research and development of road machinery products. He served as the deputy general manager of Sany Automobile Manufacturing Co., Ltd., from May 2003 to November 2006, overseeing the research and development and the production and manufacturing of commercial vehicles and passenger vehicles. From November 2006 to July 2015, he served as the general manager of Sany Automobile Lifting Machinery Co., Ltd. ("Sany Lifting Machinery"). During his term of service, Sany Automobile Lifting grew rapidly and became a core business of Sany Group with a sales amount ranked second in lifting machinery industry in 2014.

From 1982 to May 2001, Mr. Qi had taken positions such as the deputy chief engineer and the deputy director of China BlueStar Changsha Design and Research Institute, engaged in product design and contracting of engineering projects. He participated in over 30 projects of chemical engineering, light industry and mechanical engineering designs. He was in charge of and completed over 20 engineering designs, which received various provincial and ministerial excellent achievement awards. Mr. Qi is a senior engineer at the level of researcher, who has over 30 years of experience in design and technical management and over 10 years of experience as senior management.

Mr. Qi graduated from Qingdao Chemical Engineering Academy (青島化工學院) in 1982 with a bachelor degree in chemical machinery. He also received a degree of executive master of business administration at Wuhan University (武漢大學) in 2005.

Mr. Wu Likun (吳立昆), aged 49, vice president of Sany Group, was appointed as an executive Director of the Company on 12 September 2016. He is the general manager of Sany Heavy Equipment Co., Ltd ("Sany Heavy Equipment", 三一重型裝備有限公司).

Mr. Wu joined Sany Group in 2003 and he had served as the manager of Huanan Branch of Sany Heavy Industry Road Machinery Company (三一重工路機華南分公司), the general manager of Sany Heavy Industry Road Machinery Marketing Company (三一重工路機營銷公司), the general manager of Road Machinery Asphalt Mixing Company (路機瀝青攪拌公司), the general manager of operation department of road machinery (路機事業部), the general manager of Changde Sany Machinery Co., Ltd. (常德市三一機械有限公司), the general manager of Shanghai Sany Technology Co., Ltd. (上海三一科技有限公司) and the general manager of Zhejiang Sany Equipment Co., Ltd (浙江三一裝備有限公司). Since August 2015, he has served as the general manager of Sany Heavy Equipment Co., Ltd (三一重型裝備有限公司).

Mr. Wu has comprehensive knowledge in technology, manufacturing and marketing of enterprise product, practical experience in capital market operation, and rich managerial experience in the Company's overall development strategy, product and market selection, manufacturing process and expansion of market channel.

Mr. Wu graduated from the South China University of Technology (華南理工大學) in 1990 with the bachelor's degree in engineering and obtained a master's degree in business administration from China Europe International Business School (中歐國際工商學院) in 2012.

Non-executive Directors

Mr. Tang Xiuguo (唐修國), aged 54, was appointed as a non-executive Director of the Company on 28 September 2014. Mr. Tang was one of the four founders of Sany Group, and has been the director and president of Sany Group since 2002. From 1997 to 2002, Mr. Tang worked in Sany Group as general administration manager. From 1992 to 1997, he was the deputy general manager of Sany Group and the director of Sany Heavy Industry. From 1991 to 1992, Mr. Tang participated in the foundation of Sany Group. From 1989 to 1991, he participated in the foundation of Hunan Lianyuan Special Welding Materials Factory (湖南漣源特種焊接材料廠) and from 1986 to 1988, he specialized in the development and manufacture of special welding materials.

Mr. Tang has been granted numerous awards, including "Sany Group Distinguished Contribution Award of the Year" for 8 successive years, "Top Ten Outstanding Contribution Private Corporation Entrepreneur in Hunan Province" and "Excellent Entrepreneur of the State". Also, he is a director of China Institute for Quality Excellence.

Mr. Tang graduated with a bachelor degree in metallic materials from Central South University (中南大學) in July 1983. He is now a senior engineer.

Mr. Xiang Wenbo (向文波), aged 55, 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 joined Sany Group in 1991 and was a standing deputy general manager and general manager of the marketing department and executive president of Sany Group. He is currently the president and vice-chairman of Sany Heavy Industry.

Mr. Xiang graduated in 1982 from the Department of Casting of Hunan University (湖南大學) with a Bachelor's degree in Engineering Science and graduated from Materials Department of Dalian University of Technology (大連理工大學) with a master's degree in Engineering in 1988. Mr. Xiang holds the title of senior engineer and is an expert entitled to government allowance from the State Council.

Mr. Xiang has also held a number of social positions such as vice president of China International Chamber of Commerce for Private Sector (中國民營經濟國際合作商會), a council member of China Machinery Industry Confederation (中國機械工業聯合會), a 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 was awarded "2002 Bauhinia Cup Outstanding Entrepreneur Awards (2002年紫荊花杯傑出企業家獎)", "2007 China's top ten leaders in manufacturing (2007中國製造業十大領袖)", "2008 Top Ten Outstanding CEO in China (2008年度中國十大傑出CEO)", "Forbes 2010 Best CEO in China (福布斯2010年中國最佳CEO)" and "Forbes 2011 A-share listed companies non-state Best CEO (福布斯2011年A股非國有上市公司最佳CEO)".

Mr. Mao Zhongwu (毛中吾), aged 55, was resigned from an executive Director to a non-executive Director of the Company from 28 September 2014. He was the executive Director of the Company from 12 October 2012 to 28 September 2014 and 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 Group Shenyang Mining Transportation Equipment Co., Ltd. ("Sany Transportation") since its establishment in September 2009. 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 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 Sany 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.

Independent non-executive Directors

Mr. Ng Yuk Keung (吳育強), aged 52, 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) both of which are listed on the Hong Kong Stock Exchange. Mr. Wu is a director of Cheetah Mobile Inc. (獵豹移動公司), which is listed on the New York Stock Exchange.

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 (北京國際學校), 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 Company Limited (中國泰凌醫藥集團有限公司) from March 2010 to 1 July 2012. He had also served as an 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.

Mr. Poon Chiu Kwok (潘昭國), aged 54, was appointed as an independent non-executive Director of the Company on 18 December 2015.

Mr. Poon has over 26 years of experience in regulatory affairs, corporate finance, listed companies governance and management. He is also an executive director and the company secretary of Huabao International Holdings Limited (華寶國際控股有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 336). As at the latest practicable date, he serves as an independent non-executive director of the following public companies listed on the Stock Exchange: Sunac China Holdings Limited (融創中國控股有限公司) (stock code: 1918), Yuanda China Holdings Limited (遠大中國控股有限公司) (stock code: 2789), Changan Minsheng APLL Logistics Co., Ltd. (重慶長安民生物流股份有限公司) (stock code: 1292), Tonly Electronics Holdings Limited (通力電子控股有限公司) (stock code: 1249), Aux International Holdings Limited (奧克斯國際控股有限公司) (formerly known as Magnum Entertainment Group Holdings Limited) (stock code: 2080), Jincheng Automotive Safety Technology Holdings Limited (錦恒汽車安全技術控股有限公司) (stock code: 872) and Jinchuan Group International Resources Co. Ltd. (金川集團國際資源有限公司) (stock code: 2362, with effect from 21 March 2017). In addition, within the past three years since the latest practicable date, he also acted but has retired as an independent non-executive director of the following public companies: China Tianrui Group Cement Company Limited (中國天瑞集團水泥有限公司) (stock code: 1252), CSSC Offshore & Marine Engineering (Group) Company Limited (中船海洋與防務裝備股份有限公司) (listed on the Stock Exchange) (stock code: 317) and Ningbo Port Company Limited (寧波港股份有限公司) (listed on the Shanghai Stock Exchange) (stock code: 601018).

Mr. Poon is a fellow member of the Hong Kong Securities and Investment Institute, a fellow member of both the Institute of Chartered Secretaries and Administrators, and the Hong Kong Institute of Chartered Secretaries and a member of its Technical Consultation Panel and Professional Development Committee. Mr. Poon was awarded the postgraduate diploma in laws by the University of London (倫敦大學) in December 2010 and also received a bachelor's degree in laws at University of Wolverhampton (沃爾沃漢普敦大學) in October 2004, a bachelor's degree in business studies at City University of Hong Kong (香港城市大學) in December 1994 and a master's degree in international accounting at City University of Hong Kong (香港城市大學) in November 1997.

Hu Jiquan (胡吉全), aged 59, was appointed as an independent non-executive Director of the Company on 11 December 2016.

Mr. Hu is a researcher (professor) and a tutor of doctorate candidate. Currently, he is the director of the engineering center of department of education for port logistic technology and equipment and the associate dean of the institute of logistic engineering of Wuhan University of Technology (武漢理工大學).

Mr. Hu graduated from Wuhan School of Marine Transportation Engineering (武漢水運工程學院) with a diploma in lifting transportation machinery in January 1982. He was an assistant lecturer, a lecturer and an associate professor in Wuhan School of Marine Transportation Engineering (武漢水運工程學院), Wuhan Transportation University (武漢交通科技大學) and Wuhan University of Technology (武漢理工大學) respectively between 1982 and 2004. He served as a researcher (professor) in the institute of logistics engineering of Wuhan University of Technology (武漢理工大學) in 2005, a tutor of doctorate candidate in 2006, and was appointed as a distinguished professor for production academic and research and served as a member of academic committee by Wuhan University of Technology (武漢理工大學) in 2012. Currently, he also serves as the managing director of the port machinery branch of the Chinese Mechanical Engineering Society (中國工程機械學會), the director of the Logistics Technology Committee of the Mechanical Engineering Society of Hubei (湖北省機械工程學會物流技術專業委員會) and a member of National Standardised Technology of Lifting Machinery Committee (全國起重機標準化技術委員會). He principally engaged in the research of design theory and method of modern port loading and unloading, research on port logistic equipment and logistics system automation. He participated in a number of projects supported by the State, the National Transportation Readiness and Military Key Project, Science and Technology Key Project of Hubei Province, production, academic and research cooperation projects of Guangdong Province, enterprise science and technology cooperation projects. He presided over the development of various types of port machinery products. He won 6 awards of scientific and technological progress at the provincial and ministerial level and obtained more than 20 invention patents and utility model patents. He published more than 40 SCI/EI papers and participated in preparing 3 teaching materials and 4 mechanical design manuals.

Joint Company Secretaries

Mr. Zhu Xiangjun (朱向軍), aged 33, was appointed as the Chief Financial Officer and the Joint Company Secretaries of the Company on 12 September 2016. He joined the Company in November 2008 and fully participated in the initial public offering of the Company on the Hong Kong Stock Exchange in 2009 and the Putzmeister acquisition project of Sany Heavy Industry in 2012. Mr. Zhu served as the general leger accountant of the Company from April 2009 to March 2010, mainly responsible for the preparation of the financial statements and budgets of the Company. He then served as the manager and head of the accounting department of the Company from April 2010 to March 2012, mainly responsible for the budget, performance assessment, financial analysis and information disclosure of the Company. He also served as the head of the marketing finance department and the assistant director of the finance department of the Company from April 2012 to September 2016. Mr. Zhu obtained the bachelor's degree and the master's degree in accounting from Shenyang University of Technology (瀋陽工業大學) in July 2006 and April 2009, respectively. Mr. Zhu obtained his qualification as a certified public accountant of China in June 2009.

Mr. Yu Leung Fai (余亮暉), aged 39, has extensive experience in the corporate services field. Mr. Yu has joined the Fung, Yu & Co. CPA Limited since 2011 and is currently the company's partner. He holds a Degree of Bachelor of Commerce (Hon.) from the University of Toronto (多倫多大學) and a Degree of Bachelor of Laws from the University of London (倫敦大學), and is a member of the American Institute of Certified Public Accountants, Certified Public Accountants of Australia and the Hong Kong Institute of Certified Public Accountants.

Mr. Yu has also been the joint company secretary and authorised representative of China National Materials Company Limited (中國中材股份有限公司) (stock code: 1893) since May 2009; the company secretary and alternative authorised representative of Beijing Media Corporation Limited (北青傳媒股份有公司) (stock code: 1000) since March 2010; the company secretary and authorised representative of Yuanda China Holdings Limited (遠大中國控股有限公司) (stock code: 2789) since June 2012; the independent non-executive directors of Realord Group Holdings Limited (偉祿集團控股有限公司) (stock code: 1196) since June 2014; the company secretary and authorised representative of Haichang Holdings Ltd. (海昌控股有限公司) (stock code: 2255) from March 2014 to March 2015; the company secretary of Group Sense (International) Limited (權智(國際)有限公司) (stock code: 601) from August 2014 to August 2015; the company secretary and authorised representative of Vale S.A. (淡水河谷) (stock code: 6210 for Common Depositary Receipts and 6230 for Class A Preferred Depositary Receipts) from 2010 to 2016, all of which are listed companies in Hong Kong, except that Vale S.A. was delisted from the Hong Kong Stock Exchange in July 2016.

Directors' Report

The Board is pleased to present their report and the audited financial statements of the Group for the year ended 31 December 2016.

Principal Activities and Subsidiaries

The principal activity of the Company is investment holding. Details of the principal 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 2016 are set out in the financial statements on pages 59 to 137 of this annual report.

The Company has not declared any dividend during the year ended 31 December 2016. The Board resolved not to declare any final dividend for the year ended 31 December 2016.

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 is set out on page 138 of this annual report.

Reserves

Details of movements in the reserves of the Group and the Company during the year under review are set out in the consolidated statement of changes in equity and note 32 to the financial statements, respectively.

Borrowings

Details of borrowings (inclusive of interest-bearing bank and other borrowings) of the Group as at 31 December 2016 are set out in note 25 and note 29 to the financial statements, respectively.

Distributable Reserves

As at 31 December 2016, 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 RMB3,905.0 million, and no final dividend has been proposed 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 the share capital of the Company during the year ended 31 December 2016 are set out in note 30 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 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 16 February 2013, being the date of adoption of the Share Option Scheme and representing approximately 1.64% 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.

Details of the movement of share options granted under the Share Option Scheme as at 31 December 2016 are as follows:

Name or class of participant(s)	Date of Grant [1]	Exercise price per Share	Exercise period	As at 1 January 2016	Granted during the period	Exercised during the period	Lapsed during the period[2]	As at 31 December 2016
Directors								
Mao Zhongwu	26 February 2013	HK$4.18	26 February 2013 – 25 February 2023	222,200	–	–	222,200	–
Other staff				11,438,350	–	–	11,438,350	–
Total				11,660,550	–	–	11,660,550	–

Notes:

(1) *The closing price per Share on 26 February 2013 (being the date of grant) was HK$3.23, and the average closing price per Share for the five business days immediately preceding the date of grant was HK$3.39.*

(2) *For details, please refer to the vesting schedule as below.*

The vesting schedule is as follows:

Vesting date	Percentage of the share option to vest
If the audited net profit for the year ending 31 December 2013 has an increase of 10% or more as compared to that of the year ended 31 December 2012 ("Target Performance I"), starting from the later of 1 March 2014 or the dispatch date of the Company's 2013 annual report[1]	10%
If the audited net profit for the year ending 31 December 2014 has an increase of 10% or more as compared to the audited net profit of the year ended 31 December 2013 ("Target Performance II"), starting from the later of 1 March 2015 or the dispatch date of the Company's 2014 annual report[2][4]	35%
If the audited net profit for the year ending 31 December 2015 has an increase of 10% or more as compared to the audited net profit of the year ended 31 December 2014 ("Target Performance III"), starting from the later of 1 March 2016 or the dispatch date of the Company's 2015 annual report[3][4]	55%

Notes:

(1) *If the Target Performance I is not achieved, then the 10% Share Options (the "First Tranche Options") cannot be exercised in the year of 2014. However, if Target Performance II is achieved, then the First Tranche Options will vest starting from the later of 1 March 2015 or the dispatch date of the Company's 2014 annual report. If neither of the Target Performance I or Target Performance II is achieved, then the First Tranche Options shall lapse;*

(2) *If the Target Performance II is not achieved, then the 35% Share Options (the "Second Tranche Options") cannot be exercised in the year of 2015. However, if the Target Performance III is achieved, then the Second Tranche Options will vest starting from the later of 1 March 2016 or the dispatch date of the Company's 2015 annual report. If neither of the Target Performance II or Target Performance III is achieved, then the Second Tranche Options shall lapse;*

(3) *If the Target Performance III is not achieved, then the 55% Share Options (the "Third Tranche Options") cannot be exercised in the year of 2016. However, if the audited net profit for the year ending 31 December 2016 has an increase of 10% or more as compared to the audited net profit of the year ending 31 December 2015 ("Target Performance IV")[(4)], then the Third Tranche Options will vest starting from the later of 1 March 2017 or the dispatch date of the Company's 2016 annual report. If neither of the Target Performance III or Target Performance IV is achieved, then the Third Tranche Options shall lapse; and*

(4) *The audited net profit for the year ended 31 December 2013, 2014 and 2015 under the Target Performance II, the Target Performance III and the Target Performance IV, respectively, refers to the lower of (i) the actual audited net profit of such year; and (ii) the amount equals to the actual audited net profit for the year ended 31 December 2012 compounded annually at a rate of 10%.*

As at the date of this annual report, there is no outstanding share option which had been granted and yet to be exercised under the Share Option Scheme.

Major Suppliers and Customers

During the year under review, the aggregate sales attributable to the Group's five largest customers comprised approximately 57.9% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 26.1% of the Group's total sales. The aggregate purchases during the year under review attributable to the Group's five largest suppliers were approximately 18.5% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 4.8% 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 (2015: Nil).

Property, Plant and Equipment

During the year ended 31 December 2016, the Group held property, plant and equipment of approximately RMB2,756.8 million. Details of the movements are set out in note 13 to the financial statements.

Repurchase, Sale or Redemption of the Company's Shares

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the listed shares of the Company (2015: nil).

Business Review

A fair review of the Group's business has been set out in the section headed "Management Discussion and Analysis" of this annual report. Discussions and information therein forms part of this Directors' Report.

Future Development

China's economy has entered into the new normal and the future development of the industry will face unprecedented challenges. The Company will continue to adhere to the "dual-transition approach" strategy, which will allow the Group to develop its current operation from the single business of energy mechanical to the fields of port machinery and non-coal mechanical products and expand its sales network from single Chinese market to international market, leading to the diversified profit growth. With the strategy of "Addition in one field, subtraction in two fields, reduction in three fields and growth in four fields", the Group will actively promote the 4.0 plant construction in Zhuhai Industrial Park by gradual intelligentization and digitalization and will continue to cut off inventory and production capacity in order to reduce costs, expenses and payment overdue and increase the Group's profitability.

In future, we will continue to focus on our primary objectives, including internationalization, cost control and borrowing risk control. The Group will insist on providing better products to customers and maintain a healthy and stable operating company in the interests of the shareholders of the Company.

Principal Risks and Uncertainties:

The principal risks and uncertainties for the Company include the followings:

(1) Reliance on the Chinese economy

A significant portion of the Group's revenue is derived from sales in China. The Group is therefore heavily dependent on general economic conditions in China for the Group's continued growth. It cannot be assured that China's economy will continue to grow or that its growth will be steady or occur in the geographical regions or economic sectors that related to the Group. In addition, it is anticipated that sales to customers based in China will continue to represent a significant proportion of the Group's revenue. Any continued slowdown in China's economic growth or a decline in the general economic environment could have an adverse effect on the Group's business, financial position and result of operations.

(2) Fluctuation in the Prices of Steel and Other Raw Materials

The Group's production process depends on reliable sources of large quantities of raw materials, particularly steel. The prices of these raw materials are subject to volatility caused by external conditions, such as fluctuations in the prices of commodities and changes in economic conditions and government policies. The Group expects the volatility and uncertainty of steel prices to continue. It cannot be assured that that the Group will be able to transfer any incremental cost increases to the customers. In addition, it cannot be assured that the Group's key suppliers will continue to provide the Group with raw materials at reasonable prices or at all. As a result, any increase in the prices of the raw materials used to make the products may adversely affect the Group's results of operations.

(3) Cooperation with Third Party Suppliers

The Group procures some of the parts and components from external suppliers. Any unexpected shortage, delay in delivery, price fluctuations, or other factors beyond control may result in an interruption in such supply of raw materials and components. Such interruption may affect the Group's manufacturing schedule and the Group may need to source materials, components and services from alternative suppliers at higher prices, which may harm the Group's reputation and affect profitability. In particular, to the extent that the Group is dependent on a limited number of suppliers for certain parts, it may be difficult to replace them on similar terms in a timely manner. Failure to secure sufficient quantities of raw materials and machinery components at the required standards for the Group's existing operations and the planned business expansion at reasonable prices, or at all, may have a material and adverse impact on the Group's business, financial position and results of operations.

(4) Uncertainty of PRC government incentives

The Group has certain subsidiaries in China which are entitled to certain government incentives relating to the development of our products. However, it cannot be assured that the Group will be able to continue to enjoy such preferential treatment, incentives and favourable support on the same terms, or at all, in the future. Unfavourable changes to the Group's preferential treatment and incentives in the future may adversely affect its business, financial position and results of operations.

Key Relationships

1. Employees

Human resources are one of the greatest assets of the Group and the Group considers the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees.

The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides on-the-job training and development opportunities to the staff members. The training programs cover areas such as managerial skills, sales and production, customer services, quality control and training of other areas relevant to the industry.

The Group conducts employee engagement survey across mainland China operations once a year. It seriously considers all those valuable feedback from the employees for enhancing workplace productivity and harmony.

The Group has also adopted a share option scheme to recognize and reward the contribution of the employees to the growth and development of the Group. In addition, the Group also actively performs its social responsibility by helping staff with family difficulties. For further information, please refer to the paragraph headed "Social Responsibility" under the section headed "Management Discussion and Analysis".

2. Suppliers

The Group has developed long-standing relationships with a number of the suppliers and taken great care to ensure that they share the Group's commitment to quality and ethics. The Group carefully selects the suppliers and requires them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

3. Customers

The Group is dedicated to providing first class products and service to customers. The Group adheres to its service philosophy of "All For Customers, All From Innovations", by providing first-class service and highly efficient response to meet customers' needs and raise customers' satisfaction and to address any concerns of our customers. The Group's superior product quality, attentive after-sales service and efficient response have achieved a high recognition from our customers.

Environmental Policies

We are committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycle of office supplies and other materials. We also require our factories to operate in strict compliance with the relevant environmental regulations and rules and possess all necessary permission and approval from the relevant Chinese regulators.

Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China. During the year ended 31 December 2016 and up to the date of this report, we have complied with the relevant laws and regulations in the mainland China in all material aspects.

Directors

As at the date of this report, the Directors comprise:

Executive Directors:
Mr. Qi Jian *(Chairman of the Board)*
Mr. Wu Likun *(appointed on 12 September 2016)*

Non-executive Directors:
Mr. Tang Xiuguo
Mr. Xiang Wenbo
Mr. Mao Zhongwu

Independent non-executive Directors:
Mr. Ng Yuk Keung
Mr. Poon Chiu Kwok
Mr. Hu Jiquan *(appointed on 11 December 2016)*

Notes: Each of Mr. Fu Weizhong and Mr. Xiao Huishu resigned as executive Director, with effect from 12 September 2016. Mr. Xu Yaxiong resigned as an independent non-executive Director, with effect from 12 September 2016. Mr. Hu Jiquan was appointed as an independent non-executive Director, with effect from 11 December 2016. Mr. Wu Likun was appointed as an executive Director, with effect from 12 September 2016.

In accordance with article 83(3) of the Company's articles of association, Mr. Wu Likun and Mr. Hu Jiquan shall hold office until the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

In accordance with article 84(1) of the Company's articles of association, each of Mr. Tang Xiuguo, Mr. Mao Zhongwu and Mr. Ng Yuk Keung will retire from the office of Director by rotation at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

Directors' Service Contracts

Each of the current executive Directors on the Board has entered into a service agreement with the Company for an initial term of three years commencing from 6 August 2015 for Mr. Qi Jian and 12 September 2016 for Mr. Wu Likun. The non-executive Directors on the Board have entered into a service agreement with the Company for an initial term of three years commencing from 28 September 2014 for Mr. Tang Xiuguo, 25 December 2015 for Mr. Xiang Wenbo and 28 September 2014 for Mr. Mao Zhongwu, respectively. Each of the independent non-executive Directors has entered into a service agreement with the Company. The service agreements of Mr. Ng Yuk Keung, Mr. Poon Chiu Kwok and Mr. Hu Jiquan commenced from 25 November 2015, 18 December 2015 and 11 December 2016, respectively, for an initial term of three years.

The above service contracts 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 Directors 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.

Permitted Indemnity Provision

Article 164 of the Company's articles of association provides that the Directors, secretary and other officers acting in relation to any of the affairs of the Company and everyone of them, and everyone of their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; and none of them shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

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 of the Company 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 2016. 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' 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 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 sub-section headed "Connected Transaction" below and "Related party transactions" in note 37 to the financial statements.

Directors' Interests in Transactions, Arrangements, Contracts of Significance

No transaction, arrangement or contract of significance in relation to the Group's business to which the Company, or any of its subsidiaries was a party, and in which a Director of the Company or an entity connected with a Director had a material interest in, whether directly or indirectly, subsisted at the end of the financial year under review or at any time during the financial year. Save as disclosed under the sub-section headed "Connected Transaction" below and "Related Party Transactions" in note 37 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 2016 and up to and including the date of this annual report.

Directors' Rights to Purchase Shares or Debentures

Save as disclosed in the sub-section headed "Share Option Scheme" above, 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 2016, 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. Tang Xiuguo (Note)	Beneficial owner	875	8.75%
Mr. Mao Zhongwu (Note)	Beneficial owner	800	8.00%
Mr. Xiang Wenbo (Note)	Beneficial owner	800	8.00%

Note: Each of Mr. Tang Xiuguo, Mr. Mao Zhongwu and Mr. Xiang Wenbo holds 8.75%, 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).

Long positions in shares of the Company

Name of Director	Nature of interest	Number of shares/underlying shares held	Percentage of issued share capital
Mr. Mao Zhongwu (Note)	Beneficial owner	222,200	0.007%

Note: Mr. Mao Zhongwu is deemed to be interested in 222,200 shares which may be issued to him upon the exercise of the share options granted to him on 23 February 2013. For details of the movements of share options granted under the Share Option Scheme, please refer to the paragraph headed "Share Option Scheme".

Save as disclosed above, as at 31 December 2016, 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 2016, 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/underlying shares held	Approximate percentage of issued share capital
Sany HK (Note 1)	Beneficial owner	2,614,361,222	85.97%
Sany BVI (Note 2)	Interest of a controlled corporation	2,614,361,222	85.97%
Mr. Liang Wengen (Note 3)	Interest of a controlled corporation	2,614,361,222	85.97%

Notes:

1. *The 2,614,361,222 shares and underlying shares consist of 2,134,580,188 ordinary shares and 479,781,034 underlying shares which may be issued pursuant to the conversion of the 479,781,034 convertible preference shares issued to Sany HK.*

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

3. *Mr. Liang Wengen is interested in 56.42% of Sany BVI. Mr. Liang Wengen is therefore deemed to be interested in all the shares and underlying shares of the Company held by Sany HK under the SFO.*

Save as disclosed above, as at 31 December 2016, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of 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 as at the date of this annual report, the Company has maintained sufficient public float required under the Listing Rules for the year ended 31 December 2016 and up to as at the date of this annual 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$30,000. Contributions made to the scheme are vested immediately.

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

For the year ended 31 December 2016, the Group's total contributions to the retirement schemes charged in the income statement amounted to RMB20.4 million (2015: RMB28.8 million). Details of the Group's pension scheme are set out in note 6 to the financial statements.

Code on Corporate Governance Practices

The Company is committed to the establishment of good corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company therefore strives to attain and maintain effective corporate governance practices and procedures. Except for the deviation from code A.2.1 and A.5.1 of the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company has complied with the CG Code contained in Appendix 14 to the Listing Rules for the year ended 31 December 2016. The Group's principal corporate governance practices are set out on pages 41 to 51 of the annual report.

Connected Transaction

During the year ended 31 December 2016, the Group has the following continuing connected transactions with Sany Group or its subsidiaries which are subject to the reporting requirements set out in Chapter 14A of the Listing Rules.

Mr. Liang Wengen is a controlling shareholder of the Company by virtue of his 56.42% indirect interests in Sany Hong Kong, which in turn holds 85.97% of the total issued share capital of the Company, among which 70.19% is ordinary shares and 15.78% is convertible preference shares. Sany Group, being held by Mr. Liang Wengen as to 56.42%, is therefore an associate of Mr. Liang Wengen under Rule 14A.12(1)(c) and hence a connected person of the Company under the Listing Rules. Accordingly, the below mentioned transaction constitute continuing connected transactions of the Group.

Continuing Connected Transactions

(1) Supplemental Master Purchase Agreement (2016)

On 7 January 2016, the Company and Sany Group entered into the supplemental master purchase agreement (the "Supplemental Master Purchase Agreement (2016)") with a fixed term commencing from 7 January 2016 to 31 December 2016 (both days inclusive), pursuant to which the Company agreed to purchase or procure its subsidiaries to purchase from Sany Group or its subsidiaries certain parts and components produced by Sany Group or its subsidiaries and certain second-hand manufacturing equipment, including but not limited to machine tools, for the manufacturing of the Group.

Parts and Components

For those tailor-made parts and components for the Group manufactured by Sany Group, the basis of determining prices of the parts and components produced by Sany Group and its subsidiaries would be determined on arm's length negotiation and with reference to the manufacturing costs involved in the relevant parts and components plus a gross margin ranging from 10% to 20%, with reference to the usual gross margin of the Group's procurement of other similar parts and components from independent third parties, which should be in any event no less favorable to the Group than was available to independent third parties. Due to confidentiality concern of certain technical information, the Group only procured tailor-made parts and components from Sany Group rather than other third-party suppliers. However, the Group is able to operate independently from Sany Group. The Group's procurement of tailor-made parts and components from Sany Group only accounted for approximately 3% of the Group's total procurement for each of the three years ended 31 December 2015 and it was expected that such procurement would remain to the same extent for the year ended 31 December 2016. Even under the remote possibility that Sany Group ceases to supply tailor-made parts and complements to the Group, the Group can still engage other third-party suppliers to manufacture tailor-made parts and components imposing confidentiality obligations on them. However, under such arrangement, the Group will need to disclose the confidential technical information to third parties, which is not in the best interest of the Company.

For those common parts and components which could be easily accessible in the market, the Group followed the pricing as determined during the Group's commercial procurement tender process.

Second-hand Manufacturing Equipment

The basis of determining prices of the second-hand manufacturing equipment was determined on arm's length negotiation and with reference to the below formula, which was a default formula set by the Group's SAP financial software following the Group's accounting policy for depreciation and valuation on equipment and also applicable to the valuation of all equipments of the Group, no matter whether they were procured from independent third parties or Sany Group, and should be in any event no less favorable to the Group than was available to independent third parties.

Price = Original Purchase Price – Original Purchase Price (1-3%) x (number of years since the machine tool was purchased by Sany Group/10 years)

"3%" represented the minimum residual value of equipment and "10 years" represented the maximum durable years of equipment and both of them were set according to the Group's accounting policy.

The Company should purchase second-hand machine tools which had been acquired by Sany Group for no more than three years.

It was proposed that the cap amount under the Supplemental Master Purchase Agreement (2016) for the financial year ended 31 December 2016 would not exceed RMB143,948,000, which was based on the Company's sales projection and production plans taking into account the additional self-manufacturing capacity of parts and components in Zhuhai Industrial Park which was newly established in May 2015 and a relatively conservative anticipation on market trend and the growth in sales in port machinery and marine heavy equipment business in 2016.

During the year under review, the actual transactions under the Supplemental Master Purchase Agreement (2016) amounted to RMB142,311,000, which was within the annual cap amount of RMB143,948,000. Further details of the Supplemental Master Purchase Agreement (2016) were set out in the announcement of the Company dated on 7 January 2016.

(2) Supplemental Master Transportation Agreement (2016)

On 7 January 2016, the Company and Hunan Sany Logistics Co., Ltd. (湖南三一物流有限責任公司) ("Sany Logistics") entered into the supplemental master transportation agreement (the "Supplemental Master Transportation Agreement (2016)") with a fixed term commencing from 7 January 2016 to 31 December 2016 (both days inclusive), pursuant to which Sany Logistics agreed to provide certain logistics services to the Company or its subsidiaries in connection with the transportation of coal mining machinery, port equipment and parts and components. The service fees payable under the Supplemental Master Transportation Agreement (2016) should be determined based on arm's length negotiation with reference to (i) means of transportation, (ii) transportation distance, (iii) transportation location, (iv) weight of the goods transported and (v) gasoline price, which should be in any event no less favorable to the Group than was available to independent third parties.

It is proposed that the cap amount for the transactions contemplated under the Supplemental Master Transportation Agreement (2016) would be set at RMB38,946,000. The proposed cap under the Supplemental Master Transportation Agreement (2016) was determined with reference to (i) the historical transaction amounts, (ii) prevailing market price for logistics service fees in the open market in the PRC, and (iii) the anticipated business volume of the Group's products and the expected logistics services to be involved.

During the year under review, the actual transactions under the Supplemental Master Transportation Agreement (2016) amounted to RMB37,691,000, which was within the annual cap amount of RMB38,946,000. Further details of the Supplemental Master Transportation Agreement (2016) were set out in the announcement of the Company dated on 7 January 2016.

(3) Supplemental Master Sales Agreement (2016)

On 7 January 2016, the Company and Sany Group entered into the supplemental master sales agreement (the "Supplemental Master Sales Agreement (2016)") with a fixed term commencing from 7 January 2016 to 31 December 2016, pursuant to which the Company or its subsidiaries agreed to sell to Sany Group or its subsidiaries certain parts and components produced by the Group and certain second-hand manufacturing equipment for the production of Sany Group's products.

Parts and Components

The basis of determining prices of the parts and components produced by the Group would be determined based on the arm's length negotiation and with reference to the manufacturing costs involved in the relevant part and component plus a gross margin of approximately 30%, which should be in any event no less favorable to the Group than was available to independent third parties.

Second-hand Manufacturing Equipment

The basis of determining prices of the second-hand manufacturing equipment would be determined on arm's length negotiation and with reference to the below formula, which was a default formula set by the Group's SAP financial software following the Group's accounting policy for depreciation and valuation on equipment and also applicable to the valuation of all equipments of the Group, and should be in any event no less favorable to the Group than was available to independent third parties.

Price = Original Purchase Price – Original Purchase Price (1-3%) x (number of years since the machine tool was purchased by our Group/10 years)

"3%" represented the minimum residual value of equipment and "10 years" represented the maximum durable years of equipment and both of them were set according to the Group's accounting policy.

The Group should sell second-hand manufacturing equipment which had been acquired by the Group for no less than three years.

It was proposed that the cap amount for the transactions contemplated under the Supplemental Master Sales Agreement (2016) would be set at RMB95,397,000. The proposed cap under the Supplemental Master Sales Agreement (2016) was determined with reference to (i) the historical transaction amount of parts and components, (ii) anticipated operation volume and the sales volume of the Group's parts and components, (iii) the amount of redundant second-hand manufacturing equipment of the Group, and (iv) Sany Group's anticipated demand for parts and components during the term of the Supplemental Master Sales Agreement (2016).

During the year under review, the actual transactions under the Supplemental Master Sales Agreement (2016) amounted to RMB43,992,000, which was within the annual cap amount of RMB95,397,000. Further details of the Supplemental Master Sales Agreement (2016) were set out in the announcement of the Company dated on 7 January 2016.

(4) Supplemental Hunan Lease (2016)

On 7 January 2016, Hunan Sany Port Equipment and Sany Auto Manufacturing Co., Ltd. (三一汽車製造有限公司) ("Sany Auto Manufacturing") entered into the supplemental hunan lease (the "Supplemental Hunan Lease (2016)") with a fixed term commencing from 7 January 2016 to 31 December 2016 (both days inclusive), pursuant to which Sany Auto Manufacturing agreed to lease the Hunan Property and the Hunan R&D Property to Hunan Sany Port Equipment.

Hunan Property: certain premises of the factory buildings owned by Sany Auto Manufacturing with a total floor area of 28,487.64 sq.m. located in Sany Industry Town, Xingsha Town, Changsha County, Hunan Province, the PRC. The rental was RMB257,749 per month, which was determined based on arm's length negotiation between the parties and by reference to market rates, payable monthly within the first week of each month.

Hunan R&D Property: certain R&D premises owned by Sany Auto Manufacturing with a total floor area of 4,300 sq.m. located in Sany Industry Town, Xingsha Town, Changsha County, Hunan Province, the PRC. The rental was RMB51,710.48 per month, which was determined based on arm's length negotiation between the parties and by reference to market rates, payable monthly within the first week of each month.

For the fixed term commencing from 7 January 2016 to 31 December 2016, the maximum aggregate amount of rental under the Supplemental Hunan Lease (2016) is RMB3,714,000, determined based on the rental payable by Hunan Sany Port Equipment pursuant to the Supplemental Hunan Lease (2016).

During the year under review, the actual transactions under the Supplemental Hunan Lease (2016) amounted to RMB3,704,000, which was within the annual cap amount of RMB3,714,000. Further details of the Supplemental Hunan Lease (2016) were set out in the announcement of the Company dated on 7 January 2016.

(5) Supplemental Utility Charges Payment Agreement (2016)

On 7 January 2016, Hunan Sany Port Equipment and Sany Auto Manufacturing entered into the supplemental utility charges payment agreement (the "Supplemental Utility Charges Payment Agreement (2016)") with a fixed term commencing from 7 January 2016 to 31 December 2016 (both days inclusive), pursuant to which Hunan Sany Port Equipment should pay the electricity and water charges incurred by it under the Supplemental Hunan Lease (2016) to Sany Auto Manufacturing, which in turn should pay such charges to the relevant authorities.

The relevant electricity and water charges should be charged on an "as incurred" basis in accordance with the prices set forth by the relevant authorities calculated based on the actual usage by Hunan Sany Port Equipment under the Supplemental Utility Charges Payment Agreement (2016).

It is proposed that the cap amount for the transactions contemplated under the Supplemental Utility Charges Payment Agreement (2016) would be set at RMB4,930,000. The proposed cap was calculated and determined after taking into account (i) the historical transaction amount, and (ii) the expected use of water and electricity in relation to the Supplemental Hunan Lease (2016).

During the year under review, the actual transactions under the Supplemental Utility Changes Payment Agreement (2016) amounted to RMB4,898,000 which was within the annual cap amount of RMB4,930,000. Further details of the Supplemental Utility Charges Payment Agreement (2016) were set out in the announcement of the Company dated on 7 January 2016.

(6) Supplemental Products Sales Agreement (2016)

On 7 January 2016, the Company and Sany Group entered into the supplemental products sales agreement (2016) (the "Supplemental Product Sales Agreement (2016)") with a fixed term commencing from 7 January 2016 to 31 December 2016 (both days inclusive), pursuant to which the Company agreed to sell or procure its subsidiaries to sell its finished products to Sany Group or its subsidiaries for sales to the end customers.

Since the Supplemental Products Sales Agreement (2016) served the purpose for the Company to take advantage of Sany Group's sales network to sell its finished products to end-customers, and in other words, the Group just sold the finished products to end-customers through Sany Group's sales network, under an arrangement which Sany Group did not actually receive any mark-up against the prices under the Supplemental Sales Agreement (2016), the prices of the finished products were determined according to the costs involved (raw material costs, labour costs and manufacturing expenses) plus the margin, ranging from 37% to 41% for domestic sales and from 25% to 29% for overseas sales (considering the overseas sales involve higher transportation costs). Such margin was the same as that the Group charges on independent third party customers when the Group sold the finished products to them directly. In any event, the prices at which the Company or its subsidiaries sold its products to Sany Group or its subsidiaries should not be less than the price at which the Company or its subsidiaries sold the same products to other distributors.

It was proposed that the cap amount for the transactions contemplated under the Supplemental Products Sales Agreement (2016) would be set at RMB1,180,395,000. The proposed cap was calculated and determined after taking into account (i) the Group's anticipated manufacturing capacity for the fixed term commencing from 7 January 2016 to 31 December 2016, (ii) the Group's expected plans to take advantage of Sany Group's strong domestic and overseas sales network and sales experiences to enhance the Group's product sales, and (iii) the Group's expected business plans to gradually expand its own sales network and channels for its finished products, mainly the port machinery, so that the amount for the transactions contemplated hereunder would be reduced.

During the year under review, the actual transactions under the Products Sales Agreement and the Supplemental Products Sales Agreement (2016) amounted to RMB740,157,000 which was within the annual cap amount of RMB1,180,395,000. Further details of the Supplemental Products Sales Agreement (2016) were set out in the announcement of the Company dated on 7 January 2016.

(7) Hoisting Equipment Lease Agreement

On 7 January 2016, the Company and Hunan Zhongtai Equipment Engineering Co., Ltd. (湖南中泰設備工程有限公司) ("Hunan Zhongtai Equipment") entered into the hoisting equipment lease agreement (the "Hoisting Equipment Lease Agreement"), commencing from 7 January 2016 to 31 December 2016 (both days inclusive), pursuant to which the Group agreed to lease hoisting equipment from Hunan Zhongtai Equipment to hoist materials and equipment to be used in Zhuhai Industrial Park which was newly established in May 2015. The lease expenses for each type of the hoisting equipment should be calculated with reference to the below formula:

*Periodical lease rate of the hoisting equipment * number of the hoisting equipment * estimated working periods*

(The periodical lease rate of the hoisting equipment was determined with reference to the type, the hoisting capacity and the depreciation and value of the hoisting equipment.)

It was reached on arm's length negotiation and Hunan Zhongtai Equipment's quotes available to any lessees who were independent third parties for similar lease arrangements, and should not, in any event, be higher than the fees imposed on the similar lease arrangements by any independent third parties.

It was proposed that the cap amount for the transactions contemplated under the Hoisting Equipment Lease Agreement would be set at RMB7,500,000. The proposed cap was calculated and determined after taking into account the scale of Zhuhai Industrial Park and anticipated hoisting services needed.

During the year under review, the actual transactions under the Hoisting Equipment Lease Agreement amounted to RMB5,489,000, which was within the annual cap amount of RMB7,500,000. Further details of the Hoisting Equipment Lease Agreement were set out in the announcement of the Company dated on 7 January 2016.

Review by the independent non-executive Directors

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.

Review by the auditors

Pursuant to Rule 14A.56 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, a copy of which has been provided by the Company to the Stock Exchange.

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 annual cap amounts set out in the relevant agreements referred to above have not been exceeded.

Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under note 37 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 sub-sections headed "Connected Transaction" above, 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 Company will convene the annual general meeting on 15 June 2017.

The register of members of the Company will be closed from Monday, 12 June 2017 to Thursday, 15 June 2017, both days inclusive, during which period no transfer of shares will be registered. The record date for entitlement to attend and vote at the annual general meeting is Thursday, 15 June 2017. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Thursday, 15 June 2017, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 9 June 2017.

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 2016.

Auditors

The consolidated financial statements for the year ended 31 December 2016 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

Qi Jian
Chairman

Hong Kong, 22 March 2017

Corporate Governance Report

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 Shareholders. The Board strives to adhere 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 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 code provisions A.2.1 and A.5.1, the Company has complied with the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Listing Rules from 1 January 2016 to 31 December 2016. In accordance with code provision A.2.1 of the CG Code, the roles of chairman of the Board 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. Since 6 August 2015, Mr. Qi Jian had been appointed as both of the chairman of the Board and the chief executive officer. The Board considers that vesting the role of both chairman of the Board and the chief executive officer in Mr. Qi Jian providing the Company with consistent leadership, facilities effective and efficient planning and implementation of business decisions and strategies. Thus, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company.

In accordance with code provision A.5.1 of the CG Code, the nomination committee of a listed issuer must comprise a majority of the independent non-executive Director. Following the resignation of Mr. Xu Yaxiong on 12 September 2016, the number of the independent non-executive Directors falls below the majority of the nomination committee of the Company as required under paragraph A.5.1 of Appendix 14 to the Listing Rules. On 11 December 2016, Mr. Hu Jiquan was appointed as an independent nonexecutive Director and, amongst others, a member of the nomination, upon which the number of the independent non-executive Directors accounts for the majority of the nomination committee of the Company as required under Paragraph A.5.1 of Appendix 14 to the Listing Rules.

Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "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 review period, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they had complied with the Model Code throughout the year ended 31 December 2016.

The Board

The Board currently consists of eight Directors, comprising two executive Directors, three non-executive Directors and three independent non-executive Directors. The executive Directors are Mr. Qi Jian and Mr. Wu Likun. The non-executive Directors are Mr. Tang Xiuguo, Mr. Xiang Wenbo and Mr. Mao Zhongwu. The independent non-executive Directors are Mr. Ng Yuk Keung, Mr. Poon Chiu Kwok and Mr. Hu Jiquan. 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 with 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.

Except that there were only two independent non-executive Directors since 12 September 2016 following the resignation of Mr. Xu Yaxiong until 11 December 2016 when Mr. Hu Jiquan was appointed as an independent non-executive Director, the Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three independent non-executive Directors and the Company has appointed three independent non-executive Directors representing more than one-third of the Board and is in compliance with Rule 3.10A of the Listing Rules. 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 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 fulfil 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

On 6 August 2015, Mr. Qi Jian was appointed as both of the chairman of the Board and the chief executive officer. The Board considers vesting the role of both of the chairman of the Board and the chief executive officer in Mr. Qi Jian provides the Company with consistent leadership, facilities effective and efficient planning and implementation of business decisions and strategies. The Board considers that Mr. Qi Jian's role will not impair the balance of power and authority between the Board and the management of the Company.

Joint Company Secretaries

During 2016, Ms. Kam Mei Ha Wendy of Tricor Services Limited, external service provider, has been engaged by the Company as its company secretary, and on 15 February 2017, Ms. Kam Mei Ha Wendy ceased to be the joint company secretary due to expiry of the service contract between the Company and Tricon Services Limited. On the same date, Mr. Yu Leung Fai of Harris Corporate Solutions Limited, external service provider, has been engaged by the Company as its joint company secretary to act jointly with Mr. Zhu Xiangjun (appointed in 12 September 2016). The primary contact person of the external service provider at the Company is Mr. Zhu Xiangjun. Please refer to the paragraph headed "Investor Relations" under the section headed "Corporate Information" in this annual report. Details of the biographies of the joint company secretaries of the Company 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:

Name of company Secretaries	Accounting/Financial/ Management or Updates on Rules and Regulations: Read materials	Accounting/Financial/ Management or Updates on Rules and Regulations: Attend Seminars Briefings/(Times)	Corporate Governance/ Laws, Other Professional Skills: Read materials	Corporate Governance/ Laws, Other Professional Skills: Attend Seminars Briefings/(Times)
Mr. Zhu Xiangjun		1 (15.0 hours in total)		2 (6.0 hours in total)
Ms. Kam Mei Ha Wendy		6 (19.5 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. The articles of association provide that in accordance with article 84(1) of the articles of association, 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.

Pursuant to article 83(3) of the articles of association, 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 Diversity Policy

Pursuant to the CG Code, the Board adopted a board diversity policy (the "Board Diversity Policy") in August 2013. The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

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 and risk management systems 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. Ng Yuk Keung, Mr. Poon Chiu Kwok and Mr. Hu Jiquan, of which are all independent non-executive Directors. Mr. Poon Chiu Kwok, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

During the year ended 31 December 2016, the Audit Committee held two meetings. The Group's unaudited interim results for the six months ended 30 June 2016 and the audited annual results for the year ended 31 December 2016 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. 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. The Remuneration Committee consists of three members, namely Mr. Ng Yuk Keung, Mr. Poon Chiu Kwok and Mr. Hu Jiquan. Mr. Poon Chiu Kwok was appointed as the chairman of the Remuneration Committee.

During the year ended 31 December 2016, the Remuneration Committee held two meetings. During the year ended 31 December 2016, the Remuneration Committee reviewed the remuneration packages of the Directors and the senior management and recommended the remuneration of Mr. Qi Jian, Mr. Zhu Xiangjun, Mr. Ng Yuk Keung, Mr. Poon Chiu Kwok and Mr. Hu Jiquan to the Board.

Nomination Committee

The nomination committee ("Nomination Committee") was established with written terms of reference in compliance with the CG Code. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships, appointment, reappointment of Directors and Board succession and assessing the independence of independent non-executive Directors. The Nomination Committee will also give consideration to the board diversity policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the board diversity policy, so as to develop and review measurable objectives for the implementing the board diversity policy and to monitor the progress on achieving these objectives. The Nomination Committee consists of three members, namely Mr. Qi Jian, Mr. Poon Chiu Kwok and Mr. Hu Jiquan. Mr. Qi Jian was appointed as the chairman of the Nomination Committee.

During the year ended 31 December 2016, the Nomination Committee held two meetings. The Nomination Committee reviewed and recommended the appointment of Mr. Wu Likun as a executive Director and Mr. Hu Jiquan as an independent non-executive Director.

Strategic Investment Committee

The strategic investment committee of the Company (the "Strategic Investment Committee") was established on 4 October 2012. The Strategic Investment Committee is responsible for the proposal and analysis of the business development and investment of the company. Mr. Qi Jian acted as the chairman of the Strategic Investment Committee and the other four members were Mr. Wu Likun, Mr. Mao Zhongwu, Mr. Ng Yuk Keung and Mr. Poon Chiu Kwok.

The Board may seek advice from the Strategic Investment Committee on the business development plan of the Group and the feasibility of investment project whenever necessary. During the year ended 31 December 2016, no meeting was held by the Strategic Investment Committee.

Corporate Governance Function

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with Code Provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report. During the year of 2016, 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 2016 is set out below:

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Strategic Investment Committee	General Meeting
Executive Directors						
Mr. Qi Jian *(Chairman)*	5/5	N/A	N/A	2/2	0/0	2/2
Mr. Fu Weizhong (1)	2/5	N/A	N/A	N/A	0/0	1/2
Mr. Xiao Huishu (2)	2/5	N/A	N/A	N/A	N/A	1/2
Mr. Wu Likun (3)	3/5	N/A	N/A	N/A	0/0	1/2
Non-executive Directors						
Mr. Tang Xiuguo	5/5	N/A	N/A	N/A	N/A	2/2
Mr. Xiang Wenbo	5/5	N/A	N/A	N/A	N/A	2/2
Mr. Mao Zhongwu	5/5	N/A	N/A	4/4	0/0	2/2
Independent non-executive Directors						
Mr. Xu Yaxiong (4)	2/5	2/2	1/2	1/2	0/0	1/2
Mr. Ng Yuk Keung	5/5	2/2	2/2	N/A	0/0	1/2
Mr. Poon Chiu Kwok	5/5	2/2	2/2	2/2	0/0	1/2
Mr. Hu Jiquan (5)	1/5	0/2	1/2	1/2	N/A	0/2

Notes:

(1) Mr. Fu Weizhong resigned as an executive Director and a member of the Strategic Investment Committee of the Company, with effect from 12 September 2016.

(2) Mr. Xiao Huishu resigned as an executive Director, the Chief Financial Officer and the Joint Company Secretary, with effect from 12 September 2016.

(3) Mr. Wu Likun was appointed as an executive Director and a member of the Strategic Investment Committee of the Company, with effect from 12 September 2016.

(4) Mr. Xu Yaxiong was resigned as an independent non-executive Director, the chairman of the Nomination Committee and Remuneration Committee and a member of the Strategic Investment Committee and Audit Committee, with effect from 12 September 2016.

(5) Mr. Hu Jiquan was appointed as an independent non-executive Director, a member of the Nomination Committee, Remuneration Committee and Audit Committee, with effect from 11 December 2016.

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 14 days before the meeting 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 2016, 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 year ended 31 December 2016:

	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. Qi Jian	✓	✓	✓	✓
Mr. Wu Likun	✓	✓	✓	✓
Non-executive Directors				
Mr. Tang Xiuguo	✓	✓	✓	✓
Mr. Xiang Wenbo	✓	✓	✓	✓
Mr. Mao Zhongwu	✓	✓	✓	✓
Independent non-executive Directors				
Mr. Ng Yuk Keung	✓	✓	✓	✓
Mr. Poon Chiu Kwok	✓	✓	✓	✓
Mr. Hu Jiquan	✓	✓	✓	✓

Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the 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 2016 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 a 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 provided by the auditor to the Group for the year ended 31 December 2016 amounted to RMB2.91 million, details of which are as follows:

Types of service	RMB'000
Audit service	2,910
Non-audit service	nil

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 53 to 58 of this annual report.

Internal Control and Risk Management

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 2016 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.

In addition, the procedures on disclosure of inside information were in place to ensure that all relevant facts and circumstances that may have material effect on the share price of the Company is promptly assessed and that any material information which comes to the knowledge of any one or more officers of the Group be promptly identified, assessed and, if appropriate, escalated for the attention of the Board to determine whether a disclosure is required.

During the year under review, the Board and the Audit Committee have reviewed the effectiveness of the Group's risk management and internal control systems on all major operations of the Group, with assistance from the Group's risk management and internal audit department. The Group's internal audit department has reported major risk management and internal control review findings to the Board and Audit Committee. No major issues but areas for improvement have been identified. All of the recommendations from the Group's internal audit department will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board and the Audit Committee considered that the key areas of the Group's risk management and internal control systems, including the adequacy of resources, qualifications and experience of our accounting, internal audit and financial reporting staff, and their training programs and budget, are reasonably implemented and the Group has fully complied with provisions of the Corporate Governance Code regarding risk management and internal control systems in general for the year ended 31 December 2016.

Shareholders' Rights

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

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 zhuxj2@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 mail at No.25, 16 Kaifa Road, Shenyang Economic & Technological Development Zone, Shenyang, Liaoning, China or by email at zhuxj2@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.

Constitutional documents

During the year ended 31 December 2016, there has been no significant change in the Company's constitutional documents.

Communication with Shareholders

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

Voting at general meetings of the Company are conducted by way of poll in accordance with the Listing Rules. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company, respectively. In addition, the Company regularly meets with institutional investors, financial analysts and financial media, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications.

Corporate Information

Directors

Executive Directors
Mr. Qi Jian *(Chairman)*
Mr. Wu Likun

Non-executive Directors
Mr. Tang Xiuguo
Mr. Xiang Wenbo
Mr. Mao Zhongwu

Independent Non-executive Directors
Mr. Ng Yuk Keung
Mr. Poon Chiu Kwok
Mr. Hu Jiquan

Joint Company Secretaries
Mr. Zhu Xiangjun
Mr. Yu Leung Fai

Audit Committee
Mr. Poon Chiu Kwok *(Chairman)*
Mr. Ng Yuk Keung
Mr. Hu Jiquan

Remuneration Committee
Mr. Poon Chiu Kwok *(Chairman)*
Mr. Ng Yuk Keung
Mr. Hu Jiquan

Nomination Committee
Mr. Qi Jian *(Chairman)*
Mr. Poon Chiu Kwok
Mr. Hu Jiquan

Strategic Investment Committee
Mr. Qi Jian *(Chairman)*
Mr. Wu Likun
Mr. Mao Zhong Wu
Mr. Ng Yuk Keung
Mr. Poon Chiu Kwok

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Cricket Square
Hutchins Drive
P.O. Box 2681
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Landmark North
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Shengshui
New Territories
Hong Kong

Principal Banks
Bank of China
Bank of Communications
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
Luk & Partners (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
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Company Website
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Investor Relations
Ms. Tang Lin

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Address	:	No. 25, 16 Kaifa Road, Shenyang Economic and Technological Development Zone, Shenyang, Liaoning Province, PRC
Postal code	:	110027

Independent Auditor's Report

EY 安永

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

Opinion

We have audited the consolidated financial statements of Sany Heavy Equipment International Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 59 to 137, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment provision for trade receivables	
At 31 December 2016, the Group had trade receivables of RMB1,638,867,000, net of a provision for impairment of RMB807,096,000. The balance of trade receivables accounted for 16.2% of the total assets, which is material to the Group and a significant portion of which was overdue. The determination as to whether a trade receivable is impaired involves significant management judgement. Specific factors which management would consider include the age of the balances, existence of disputes, value of the pledged assets, past collection history and other available information concerning the creditworthiness of counterparties. Management uses such information to determine whether any objective evidence of impairment exists for trade receivables and whether a provision for impairment is required. Related disclosures are included in notes 2.4, 3 and 19 to the financial statements.	Our audit procedures included: • Tested controls over the Group's receivables collection processes; • Evaluated the Group's assessment of the impairment provision at the end of the reporting period by checking the correctness of the ageing of trade receivables, value of the pledged assets, the repayment history of the debtors and future repayment plan for the material overdue receivables; • Obtained direct external confirmations for samples of trade receivable balances; and • Checked bank receipts for the settlements of trade receivables made subsequent to the year end.
Impairment of goodwill	
At 31 December 2016, the carrying value of goodwill amounted to RMB1,129,520,000, which is material to the Group. The Group is required to perform the impairment test of goodwill allocated to Port Machinery cash-generating units (the "CGU") annually. The impairment test is based on the recoverable value of the CGU. Management's assessment process is complex and highly judgemental, including the degree of subjectivity of future cash flow forecasts, associated growth rates and the appropriateness of the discount rate applied. Related disclosures are included in notes 2.4, 3 and 15 to the financial statements.	Our audit procedures included: • Reviewed the cash flow forecast for the CGU to which the goodwill is allocated, involved our valuation specialists to assist us in evaluating the discount rate; • Assessed the methodology and assumptions such as the long term growth rate, the budgeted gross margins and the budgeted sales quantity based on the existing production capacity adopted by management; • Compared the assumptions used in the forecasts with the historical performance and the business development plan based on the historical performance and the industry trend of the CGU; and • Assessed the adequacy of the related disclosures in the financial statements.

Key audit matter	**How our audit addressed the key audit matter**
Impairment of long-term assets (other than goodwill) As at 31 December 2016, the Group's long-term assets mainly included property, plant and equipment, prepaid land lease payments, intangible assets and non-current prepayments. Management determined that indicators of impairment of long-term assets existed. Management measured the recoverable amount of each of these assets, which is the higher of the respective cash-generating unit's ("CGU") fair value less costs of disposal and its value in use. The assessment of the recoverable amounts of these assets involved macro-economic assumptions about future prices of products, discount rate and growth rates as well as internal assumptions related to future production levels and operating costs. These estimates are particularly significant due to the uncertain economic outlook, product price volatility, assumed future production and market demand. Related disclosures included in notes 2.4, 3, 13, 14, 16 and 20 to the financial statements.	Our audit procedures included: • Reviewed management's impairment assessment of these CGUs by comparing the carrying value of long-term assets, the fair value less costs of disposal and their value in use based on the discounted cash flow forecast, involved our valuation specialists to assist us in evaluating the discount rate; • Assessed the methodologies and assumptions such as the long term growth rate, the budgeted gross margins and the budgeted sales quantity based on the existing production capacity adopted by management; • Compared the assumptions used in the forecasts with the historical performance and the business development plan based on the historical performance and the industry trend of the respective CGU; and • Assessed the adequacy of related disclosures in the financial statements.
Provision of inventories At 31 December 2016, the Group had inventories of RMB915,140,000, net of a provision of RMB355,624,000. The balance of inventories accounted for 9.0% of the total assets. The inventory provision mainly related to certain obsolete and slow-moving inventories. We focused on this area because inventories are material to the Group and the inventory provision involves a high level of management's judgement and estimates. Such judgements include management's expectation for future sales, production plans and technical upgrade. Related disclosures included in notes 2.4, 3 and 18 to the financial statements.	Our audit procedures included: • Evaluated the basis adopted by the Group for its policy of provision against obsolete and slow-moving inventories and assessment of the slow-moving or obsolete inventories; • Reviewed the technical report provided by management with respect to obsolete inventories, and performed interview with the Group's technical personnel; and • Assessed the estimates and underlying data used by the Group in calculating the provision by checking the ageing of inventories, the historical sales and usage records of the inventories and the production and the records of sales of inventories made after the year end, on a sampling basis.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is LEE MEE KWAN, HELENA.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

22 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**1,841,834**	2,201,801
Cost of sales		**(1,565,670)**	(1,572,465)
Gross profit		**276,164**	629,336
Other income and gains	5	**179,358**	222,019
Selling and distribution expenses		**(321,115)**	(276,149)
Administrative expenses		**(314,047)**	(371,669)
Other expenses		**(526,164)**	(157,264)
Finance costs	7	**(2,208)**	(10,498)
(LOSS)/PROFIT BEFORE TAX	6	**(708,012)**	35,775
Income tax expense	10	**49,732**	(17,218)
(LOSS)/PROFIT FOR THE YEAR		**(658,280)**	18,557
Attributable to:			
Owners of the parent		**(644,375)**	18,064
Non-controlling interests		**(13,905)**	493
		(658,280)	18,557
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB Yuan)	12	**(0.21)**	0.01
Diluted (RMB Yuan)	12	**(0.18)**	0.01

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
(LOSS)/PROFIT FOR THE YEAR	**(658,280)**	18,557
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**2,108**	3,372
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**2,108**	3,372
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**2,108**	3,372
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(656,172)**	21,929
Attributable to:		
Owners of the parent	**(642,267)**	21,436
Non-controlling interests	**(13,905)**	493
	(656,172)	21,929

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**2,756,773**	2,732,946
Prepaid land lease payments	14	**679,438**	694,930
Goodwill	15	**1,129,520**	1,129,520
Intangible assets	16	**21,366**	44,218
Trade receivables	19	**81,996**	99,923
Available-for-sale investments	17	**10,636**	10,636
Non-current prepayments	20	**736,305**	736,722
Deferred tax assets	28	**476,692**	463,520
Total non-current assets		**5,892,726**	5,912,415
CURRENT ASSETS			
Inventories	18	**915,140**	1,179,787
Trade receivables	19	**1,556,871**	3,015,396
Bills receivable	19	**213,315**	262,822
Prepayments, deposits and other receivables	20	**310,665**	423,319
Available-for-sale financial investments	21	**390,000**	–
Pledged deposits	22	**27,200**	14,651
Cash and cash equivalents	22	**833,162**	522,796
Total current assets		**4,246,353**	5,418,771
CURRENT LIABILITIES			
Trade and bills payables	23	**955,559**	841,966
Other payables and accruals	24	**944,138**	1,665,123
Interest-bearing bank and other borrowings	25	**–**	14,920
Tax payable		**289,509**	341,776
Provision for warranties	26	**9,485**	14,148
Government grants	27	**69,800**	20,645
Total current liabilities		**2,268,491**	2,898,578
NET CURRENT ASSETS		**1,977,862**	2,520,193
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,870,588**	8,432,608

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	28	**20,160**	16,287
Interest-bearing bank and other borrowings	25	**161,422**	–
Government grants	27	**1,554,870**	1,627,353
Total non-current liabilities		**1,736,452**	1,643,640
Net assets		**6,134,136**	6,788,968
EQUITY			
Equity attributable to owners of the parent			
Issued capital	30	**302,214**	302,214
Reserves	32	**5,774,965**	6,415,892
		6,077,179	6,718,106
Non-controlling interests		**56,957**	70,862
Total equity		**6,134,136**	6,788,968

Qi Jian
Director

Wu Likun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent											
	Issued capital											
	Ordinary shares RMB'000 (note 30)	Convertible preference shares RMB'000 (note 30)	Share premium account RMB'000 (note 32)	Contributed surplus RMB'000 (note 32)	Share option reserve RMB'000 (note 31)	Reserve funds RMB'000 (note 32)	Exchange fluctuation reserve RMB'000	Capital redemption reserve* RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	264,366	37,848	2,239,502#	1,332,316#	12,510#	372,857#	(37,339)#	5,744#	2,490,302#	6,718,106	70,862	6,788,968
Loss for the year	-	-	-	-	-	-	-	-	(644,375)	(644,375)	(13,905)	(658,280)
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	2,108	-	-	2,108	-	2,108
Total comprehensive income for the year	-	-	-	-	-	-	2,108	-	(644,375)	(642,267)	(13,905)	(656,172)
Share-based payments	-	-	-	-	1,340	-	-	-	-	1,340	-	1,340
At 31 December 2016	264,366	37,848	2,239,502#	1,332,316#	13,850#	372,857#	(35,231)#	5,744#	1,845,927#	6,077,179	56,957	6,134,136

\# These reserve accounts comprise the consolidated reserves of RMB5,774,965,000 (2015: RMB6,415,892,000) in the consolidated statement of financial position.

* Capital redemption reserve represents the nominal amount of the shares repurchased and cancelled.

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent											
	Issued capital											
	Ordinary shares RMB'000 (note 30)	Convertible preference shares RMB'000 (note 30)	Share premium account RMB'000 (note 32)	Contributed surplus RMB'000 (note 32)	Share option reserve RMB'000 (note 31)	Reserve funds RMB'000 (note 32)	Exchange fluctuation reserve RMB'000	Capital redemption reserve* RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	264,366	37,848	2,239,502	1,332,316	7,267	348,284	(40,711)	5,744	2,496,811	6,691,427	70,369	6,761,796
Profit for the year	–	–	–	–	–	–	–	–	18,064	18,064	493	18,557
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	3,372	–	–	3,372	–	3,372
Total comprehensive income for the year	–	–	–	–	–	–	3,372	–	18,064	21,436	493	21,929
Issue of convertible preference shares												
Share-based payments	–	–	–	–	5,243	–	–	–	–	5,243	–	5,243
Transfer from retained profits	–	–	–	–	–	24,573	–	–	(24,573)	–	–	–
At 31 December 2015	264,366	37,848	2,239,502#	1,332,316#	12,510#	372,857#	(37,339)#	5,744#	2,490,302#	6,718,106	70,862	6,788,968

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(708,012)**	35,775
Adjustments for:			
Finance costs	7	**2,208**	10,498
Interest income	5	**(11,710)**	(4,435)
Gains from investment deposits	5	**–**	(483)
Gain on disposal of items of property, plant and equipment	5	**(1,717)**	(2,708)
Depreciation	6	**160,397**	148,479
Amortisation of land lease prepayments	6	**15,492**	15,492
Amortisation of intangible assets	6	**22,852**	25,817
Government grants	5	**(150,255)**	(177,035)
Impairment of trade receivables	6	**462,113**	148,766
Impairment of other receivables	6	**59,520**	660
Provision against slow-moving and obsolete inventories	6	**320,391**	20,995
Impairment of intangible assets	6	**–**	5,938
Impairment of available-for-sale investments	6	**–**	1,900
Share option expense	6	**1,340**	5,243
		172,619	234,902
(Increase)/decrease in inventories		**(146,241)**	372,634
Decrease/(increase) in trade receivables		**1,014,339**	(15,301)
Decrease in bills receivable		**49,507**	90,320
Decrease in prepayments, deposits and other receivables		**23,507**	136,010
Increase/(decrease) in trade and bills payables		**113,593**	(569,828)
Increase/(decrease) in other payables and accruals		**34,037**	(212,803)
Decrease in provision for warranties		**(4,663)**	(19,818)
Receipt of government grants		**76,927**	154,506
Cash generated from operations		**1,333,625**	170,622
Interest received		**5,237**	–
PRC tax paid		**(11,834)**	(17,810)
Net cash flows generated from operating activities		**1,327,028**	152,812

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Net cash flows generated from operating activities		**1,327,028**	152,812
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**6,100**	4,435
Purchases of items of property, plant and equipment		**(153,448)**	(364,244)
Payment for consideration of acquired subsidiaries		**(114,834)**	(302,720)
Proceeds of disposal of non-current assets classified as held for sale		**30,000**	248,547
Proceeds from disposal of items of property, plant and equipment		**40,186**	45,886
Collection of investment deposits		**–**	400,000
Purchases of available-for-sale financial investments		**(390,000)**	–
Gains from investment deposits		**–**	483
Purchase of land		**–**	(91)
Collection of non-pledged deposits with original maturity of three months or more when acquired		**–**	112,884
Receipt of government grants		**50,000**	255,000
Net cash flows (used in)/generated from investing activities		**(531,996)**	400,180
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings from National Development Fund		**160,000**	–
Repayment of borrowings to a fellow subsidiary		**(618,519)**	–
New bank loans		**52,720**	14,920
Repayment of bank loans		**(67,640)**	(351,819)
Interest paid		**(786)**	(11,123)
(Increase)/decrease of pledged deposits		**(12,549)**	36,213
Net cash flows used in financing activities		**(486,774)**	(311,809)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**308,258**	241,183
Cash and cash equivalents at beginning of year		**522,796**	278,241
Effect of foreign exchange rate changes, net		**2,108**	3,372
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	**833,162**	522,796

Notes to Financial Statements

31 December 2016

1. Corporate and Group 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 No.25, 16 Kaifa Road, Economic and Technological Development Area, Shenyang City, Liaoning Province, the People's Republic of China (the "PRC"). During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the manufacture and sale of roadheaders, combined coal mining units ("CCMU"), mining transport equipment (including underground and surface), port machinery, spare parts and the provision of related services in Mainland China.

In the opinion of the directors of the Company (the "Directors"), the immediate 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.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Company name	Place and date of incorporation/ establishment and operations	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Sany Heavy Equipment Co., Ltd. ("Sany Heavy Equipment") (三一重型裝備有限公司)*	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
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

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

Company name	Place and date of incorporation/ establishment and operations	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Sany Mining Machinery Co., Ltd. ("Sany Mining Machinery") (三一礦機有限公司) *	PRC/Mainland China 26 March 2012	RMB172,004,600	–	91	Manufacture and sale of off-highway mining trucks
Shenyang Zhongjing Property Development Co., Ltd. ("Shenyang Zhongjing") (瀋陽中璟房地產開發有限公司) * #	PRC/Mainland China 11 July 2012	RMB50,000,000	–	51	Property development
Sany Marine Industry International Holdings Co., Ltd. ("Sany Marine Industry") (三一海工國際控股有限公司)	Cayman Islands 30 March 2011	HK$380,000	100	–	Investment holding
Sany Marine Heavy Industry Co., Ltd. ("Sany Marine Heavy Industry") (三一海洋重工有限公司) *	PRC/Mainland China 8 June 2011	RMB713,180,000 (note 29)	–	100	Development, manufacture and sale of large-size port machinery
Zhuhai Sany Port Machinery Co., Ltd. ("Zhuhai Sany") (珠海三一港口機械有限公司) *	PRC/Mainland China 10 February 2012	RMB63,180,000	–	100	Development, manufacture and sale of large-size port machinery
Hunan Sany Port Equipment Co., Ltd. ("Hunan Sany Port Equipment") (湖南三一港口設備有限公司) *	PRC/Mainland China 26 August 2014	RMB13,180,000	–	100	Development, manufacture and sale of small-size port machinery

* Companies established as limited liability companies under PRC law
\# The companies have not yet commenced operation.

2.1 Basis of Preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in Accounting Policies and Disclosures

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

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs

The adoption of the new and revised standards has had no significant 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:

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Revenue from Contracts with Customers (Clarifications to IFRS 15)*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
Amendments to IAS 40	*Transfers of Investment Property*[2]
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs[5]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Business combinations and goodwill

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

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

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

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

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 of disposal, 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 statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the reporting period as to whether there is 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 statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 Summary of Significant Accounting Policies (continued)

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);

(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); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets classified held for sale". 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 statement of profit or loss 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 annual rates used for this purpose are as follows:

	Estimated useful lives	Annual rates
Buildings	20-40 years	2.4%-4.9%
Plant and machinery	10 years	9.7%
Office and other equipment	8.33 years	11.6%
Motor vehicles	8.33 years	11.6%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment 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 statement of profit or loss 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)

Non-current assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

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 statement of profit or loss 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.

2.4 Summary of Significant Accounting Policies (continued)

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition of the financial assets, 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 costs in the statement of profit or loss. These net fair value changes do not include any interest earned on these financial assets, which is recognised in accordance with the policy set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as 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.

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 statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

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 as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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 statement of profit or loss 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 statement of profit or loss in other expenses. Interest earned whilst holding the available-for-sale financial investments is reported as interest income and is recognised in the statement of profit or loss 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. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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 of 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. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually 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.

The amount of any impairment loss identified 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).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount 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 write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

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 statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

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. "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 statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less that its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or loans and borrowings.

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 and interest-bearing bank and other borrowings.

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss 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 statement of profit or loss.

2.4 Summary of Significant Accounting Policies (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 statement of profit or loss.

Offsetting of financial instruments

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

Inventories

Inventories are 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 consolidated 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 statement of profit or loss.

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

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

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

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

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

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

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

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

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

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income 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 government grants and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition

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

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

(b) from the rendering of services, when the services have been rendered;

(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.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.4 Summary of Significant Accounting Policies (continued)

Share-based payments (continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

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 statement of profit or loss 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 statement of profit or loss 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.

2.4 Summary of Significant Accounting Policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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 Company. 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 translated 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 statement of profit or loss.

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 measured. 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 difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is 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 Company which is RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss 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.

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

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 have the most significant effect on the amounts recognised in the financial statements:

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.

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.

Deferred tax assets

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

Useful lives and residual values of property, plant and equipment and intangible assets

In determining the useful life and residual value of an item of property, plant and equipment and intangible assets, 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/amortisation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment and intangible assets are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end based on changes in circumstances. Further details are included in notes 13 and 16 to the financial statements.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

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 2016, the best estimate of the carrying amount of capitalised development costs was RMB21,366,000 (2015: RMB44,218,000) and such amount was included in "patents and licences" in 2016. Further details are included in note 16 to the financial statements.

Provision for product warranties

The Group provides one-year warranties on the products sold to its customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. Further details are included in note 26 to the financial statements.

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, future sales, production plans and technical upgrade. 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. Further details are included in note 18 to the financial statements.

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. Further details are included in note 19 to the financial statements.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. 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. The carrying amount of goodwill at 31 December 2016 was RMB1,129,520,000 (2015: RMB1,129,520,000). Further details are given in note 15.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in notes 13, 14, 16 and 20 to the financial statements.

Borrowings from the National Development Fund

On 14 March 2016, the Group received an investment in cash of RMB160 million from National Development Fund (the "Investment"). Based on the terms of the Investment Agreement, Sany Marine Industry, which is the shareholder of Sany Marine Heavy Industry, has a contractual obligation to National Development Fund in the event of uncertain future events such as liquidation, dissolution or termination of Sany Marine Heavy Industry that are beyond the control of the Group. As Sany Marine Industry does not have the unconditional right to avoid delivering cash, the Investment was recognised as financial liability of the Group. Further details are given in note 29 to the financial statements.

Notes to Financial Statements

31 December 2016

4. Operating Segment Information

For management purposes, the Group operates in two business units based on its products, and has two reportable operating segments as follows:

(a) Coal mining equipment segment

The coal mining equipment segment engages in the production and sale of roadheaders, CCMU, mining transport equipment (including underground and surface), spare parts and the provision of related services; and

(b) Port machinery segment

The port machinery segment engages in the production and sale of large-size port machinery (including gantry cranes, ship to shore cranes and yard cranes) and small-size port machinery (including reach stackers, empty container handlers and heavy duty forklift trucks), spare parts and the provision of related services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that interest income, finance costs, as well as head office and corporate expenses are excluded from this measurement.

Segment assets exclude deferred tax assets, pledged deposits, investment deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, deferred tax liabilities, tax payables and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to Financial Statements

31 December 2016

4. Operating Segment Information (continued)

Year ended 31 December 2016	Coal mining equipment RMB'000	Port machinery RMB'000	Total RMB'000
Segment revenue			
Sales to customers	727,772	1,114,062	1,841,834
Other revenue	66,053	101,595	167,648
Revenue from operations	793,825	1,215,657	2,009,482
Segment results	(886,853)	169,339	(717,514)
Interest income			11,710
Finance costs			(2,208)
Loss before tax			(708,012)
Income tax expense			49,732
Loss for the year			(658,280)
Segment assets	6,815,124	3,590,316	10,405,440
Reconciliation:			
Elimination of intersegment receivables			(1,603,415)
Corporate and other unallocated assets			1,337,054
Total assets			10,139,079
Segment liabilities	1,581,505	3,555,762	5,137,267
Reconciliation:			
Elimination of intersegment payables			(1,603,415)
Corporate and other unallocated liabilities			471,091
Total liabilities			4,004,943
Other segment information:			
Gain/(loss) on disposal of items of property, plant and equipment	1,815	(98)	1,717
Impairment losses recognised in profit or loss	803,730	38,294	842,024
Depreciation and amortisation	162,931	35,810	198,741
Capital expenditure*	18,404	204,289	222,693

Notes to Financial Statements

31 December 2016

4. Operating Segment Information (continued)

Year ended 31 December 2015	Coal mining equipment RMB'000	Port machinery RMB'000	Total RMB'000
Segment revenue			
Sales to customers	1,005,945	1,195,856	2,201,801
Other revenue	86,112	135,907	222,019
Revenue from operations	1,092,057	1,331,763	2,423,820
Segment results	(226,197)	268,035	41,838
Interest income			4,435
Finance costs			(10,498)
Profit before tax			35,775
Income tax expense			(17,218)
Profit for the year			18,557
Segment assets	7,594,153	3,748,220	11,342,373
Reconciliation:			
Elimination of intersegment receivables			(1,012,154)
Corporate and other unallocated assets			1,000,967
Total assets			11,331,186
Segment liabilities	1,619,562	3,561,827	5,181,389
Reconciliation:			
Elimination of intersegment payables			(1,012,154)
Corporate and other unallocated liabilities			372,983
Total liabilities			4,542,218
Other segment information:			
Gain/(loss) on disposal of items of property, plant and equipment	2,750	(42)	2,708
Impairment losses recognised in profit or loss	172,061	6,198	178,259
Depreciation and amortisation	163,469	26,319	189,788
Capital expenditure*	34,984	203,702	238,686

* Capital expenditure consists of additions to property, plant and equipment.

4. Operating Segment Information (continued)

Geographical information

As over 94% 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 Mainland China, no geographical information in accordance with IFRS 8 Operating Segments is presented.

Information about major customers

Revenue of approximately RMB198,912,000 (2015: RMB242,058,000) 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.

Revenue of approximately RMB740,345,000 (2015: RMB1,128,600,000) was derived from sales to a fellow subsidiary, 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 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:

	Note	2016 RMB'000	2015 RMB'000
Revenue			
Sale of goods		**1,821,948**	2,150,691
Rendering of services		**19,886**	51,110
		1,841,834	2,201,801
Other income			
Bank interest income		**5,237**	4,435
Other interest income		**6,473**	–
Gain on disposal of items of property, plant and equipment		**1,717**	2,708
Profit from sale of scrap materials		**–**	11,413
Government grants	27	**150,255**	177,035
Foreign exchange differences, net		**1,928**	12,955
Others		**13,748**	12,990
		179,358	221,536
Gains			
Gains from investment deposits		**–**	483
		179,358	222,019

6. (Loss)/Profit Before Tax

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories sold		**1,234,224**	1,504,393
Cost of services provided		**11,055**	47,077
Depreciation	13	**160,397**	148,479
Amortisation of land lease prepayments**	14	**15,492**	15,492
Amortisation of intangible assets**	16	**22,852**	25,817
Auditors' remuneration		**2,910**	2,960
Reversal of warranties*	26	**(146)**	(8,866)
Research and development costs**		**106,685**	154,276
Minimum lease payments under operating leases		**4,831**	8,847
Employee benefit expenses (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**208,771**	246,464
Equity-settled share option expense		**1,340**	5,243
Employee retirement benefits		**20,377**	28,840
Other staff welfare		**10,444**	15,328
		240,932	295,875
Foreign exchange differences, net***		**(1,928)**	(12,955)
Impairment of trade and other receivables***		**521,633**	149,426
Provision against slow-moving and obsolete inventories****	18	**320,391**	20,995
Impairment of available-for-sale investments***		**–**	1,900
Impairment of intangible assets***	16	**–**	5,938
Gain on disposal of items of property, plant and equipment***		**(1,717)**	(2,708)

* Included in "Selling and distribution expenses" in the consolidated statement of profit or loss

** Included in "Administrative expenses" in the consolidated statement of profit or loss

*** Included in "Other income and gains" or "Other expenses" in the consolidated statement of profit or loss

**** Included in "Cost of sales" in the consolidated statement of profit or loss

7. Finance Costs

	2016 RMB'000	2015 RMB'000
Interest on interest-bearing bank and other borrowings	**1,422**	5,034
Interest on documentary bills	**496**	1,040
Interest on discounted bills	**290**	4,424
	2,208	10,498

8. Directors' and Chief Executive's Remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 RMB'000	2015 RMB'000
Fees	**774**	651
Other emoluments:		
Salaries, allowances and benefits in kind	**979**	1,549
Equity-settled share option expense	**–**	253
Employee retirement benefits and other staff welfare	**101**	220
	1,080	2,022
	1,854	2,673

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
2016			
Mr. Xu Yaxiong (resigned on 12 September 2016)	**156**	**–**	**156**
Mr. Poon Chiu Kwok	**304**	**–**	**304**
Mr. Ng Yuk Keung	**304**	**–**	**304**
Mr. Hu Jiquan (appointed on 11 December 2016)	**10**	**–**	**10**
	774	**–**	**774**
2015			
Mr. Xu Yaxiong	209	–	209
Mr. Poon Chiu Kwok (appointed on 18 December 2015)	8	–	8
Dr. Ngai Wai Fung (resigned on 18 December 2015	225	–	225
Mr. Ng Yuk Keung	209	–	209
	651	–	651

There were no other emoluments payable to the independent non-executive directors during the year (2015: 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	Equity-settled share option expense RMB'000	Employee retirement benefits and other staff welfare RMB'000	Total remuneration RMB'000
2016					
Executive directors:					
Mr. Qi Jian	–	560	–	53	613
Mr. Wu Likun (appointed on 12 September 2016)	–	386	–	–	386
Mr. Fu Weizhong (resigned on 12 September 2016)	–	33	–	–	33
Mr. Xiao Huishu (resigned on 12 September 2016)	–	–	–	–	–
	–	979	–	53	1,032
Non-executive directors:					
Mr. Tang Xiuguo	–	–	–	–	–
Mr. Mao Zhongwu	–	–	–	48	48
Mr. Xiang Wenbo	–	–	–	–	–
	–	–	–	48	48

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

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Employee retirement benefits and other staff welfare RMB'000	Total remuneration RMB'000
2015					
Executive directors:					
Mr. Qi Jian (appointed on 6 August 2015)	–	208	–	–	208
Mr. Fu Weizhong (appointed on 6 August 2015)	–	422	253	54	729
Mr. Xiao Huishu (appointed on 6 August 2015)	–	208	–	–	208
Mr. Wu Jialiang (resigned on 6 August 2015)	–	260	–	66	326
Mr. Lu Ben (resigned on 6 August 2015)	–	451	–	30	481
	–	1,549	253	150	1,952
Non-executive directors:					
Mr. Tang Xiuguo	–	–	–	–	–
Mr. Mao Zhongwu	–	–	–	70	70
Mr. Xiang Wenbo	–	–	–	–	–
	–	–	–	70	70

There was no other arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2015: Nil).

9. Five Highest Paid Employees

The five highest paid employees during the year included one director of the Company (2015: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2015: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and allowances	3,046	1,573
Bonuses	415	491
Equity-settled share option expense	–	2,400
Employee retirement benefits and other staff welfare	253	139
	3,714	4,603

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

	Number of employees	
	2016	2015
Nil to RMB856,000 (HK$1,000,000)	1	1
RMB856,000 (HK$1,000,000) to RMB1,284,000 (HK$1,500,000)	3	2
	4	3

10. Income Tax

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

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

Pursuant to the PRC Income Tax Law and the respective regulations, except for certain preferential tax treatments available to certain subsidiaries operating in Mainland China, the companies of the Group which operate in Mainland China were subject to Corporate Income Tax ("CIT") at a rate of 25% on their respective taxable income for the year ended 31 December 2016.

Three of the Group's principal operating companies, Sany Heavy Equipment, Hunan Sany Port Equipment and Sany Marine Heavy Industry, were recognised as High and New Technology Enterprise and were therefore subject to CIT at a rate of 15% in 2016.

10. Income Tax (continued)

	2016 RMB'000	2015 RMB'000
Current – Mainland China		
Charge for the year	**15,709**	15,031
Deferred	**(65,441)**	2,187
Total tax (credit)/charge for the year	**(49,732)**	17,218

A reconciliation of the income tax expense applicable to (loss)/profit before tax at the statutory rate for the location in which the Company and the majority of 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:

	2016		2015	
	RMB'000	%	RMB'000	%
(Loss)/profit before tax	**(708,012)**		35,775	
Tax at the statutory tax rate	**(177,003)**	**25.0**	8,944	25.0
Entities subject to lower statutory income tax rates	**59,746**	**(8.4)**	7,139	19.9
Expenses not deductible for tax	**284**	**–**	1,683	4.7
Tax losses utilised from previous periods	**(3,509)**	**0.5**	–	–
Different tax rate when temporary difference is realised	**43,892**	**(6.2)**	9,608	26.9
Super-deduction of research and development costs	**(8,098)**	**1.1**	(13,703)	(38.3)
Adjustments in respect of current tax of previous periods	**(1,089)**	**0.2**	(2,781)	(7.8)
Income not subject to tax	**–**	**–**	(31,024)	(86.7)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**3,902**	**(0.6)**	7,018	19.6
Tax losses not recognised	**32,143**	**(4.5)**	30,334	84.8
Tax charge at the Group's effective tax rate	**(49,732)**	**7.1**	17,218	48.1

11. Dividend

The board does not recommend the payment of any dividend for the year ended 31 December 2016 (2015: Nil).

12. (Loss)/Earnings Per Share Attributable to Ordinary Equity Holders of The Parent

The calculation of the basic loss per share is based on the loss for the year ended 31 December 2016 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,041,025,000 (2015: 3,041,025,000) in issue during the year.

The calculation of the diluted loss per share amount is based on the loss for the year ended 31 December 2016 attributable to ordinary equity holders of the parent, adjusted to reflect the preferred distribution on the convertible preference shares. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic loss/earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

	2016 **RMB'000**	2015 RMB'000
(Loss)/earnings		
(Loss)/earnings attributable to ordinary equity holders of the parent, used in the basic (loss)/earnings per share calculation	**(644,375)**	18,064
Preferred distribution to the convertible preference shares	**48**	48
(Loss)/earnings attributable to ordinary equity holders of the parent, used in the diluted (loss)/earnings per share calculation	**(644,327)**	18,112

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	**3,041,025,000**	3,041,025,000
Effect of dilution – convertible preference shares	**479,781,034**	479,781,034
Weighted average number of ordinary shares used in the diluted (loss)/earnings per share calculation	**3,520,806,034**	3,520,806,034

The Company's share options had no dilution effect for the years ended 31 December 2016 and 2015 as the impact of the share options outstanding had an anti-dilutive effect on the basic loss/earnings per share amounts presented.

13. Property, Plant and Equipment

	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 2016						
At 31 December 2015 and at 1 January 2016:						
Cost	859,026	1,034,837	113,761	76,838	1,240,836	3,325,298
Accumulated depreciation	(68,461)	(434,900)	(35,444)	(53,547)	–	(592,352)
Net carrying amount	790,565	599,937	78,317	23,291	1,240,836	2,732,946
At 1 January 2016, net of accumulated depreciation	790,565	599,937	78,317	23,291	1,240,836	2,732,946
Additions	11,658	30,254	75,281	468	105,032	222,693
Disposals	(14,865)	(17,921)	(3,998)	(1,685)	–	(38,469)
Depreciation provided during the year	(28,684)	(110,460)	(18,161)	(3,092)	–	(160,397)
Transfers	553,927	147,301	2,968	–	(704,196)	–
At 31 December 2016, net of accumulated depreciation	1,312,601	649,111	134,407	18,982	641,672	2,756,773
At 31 December 2016:						
Cost	1,409,602	1,166,518	186,617	68,798	641,672	3,473,207
Accumulated depreciation	(97,001)	(517,407)	(52,210)	(49,816)	–	(716,434)
Net carrying amount	1,312,601	649,111	134,407	18,982	641,672	2,756,773

13. Property, Plant and Equipment (continued)

	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 2015						
At 1 January 2015:						
Cost	628,415	1,034,684	119,948	60,217	1,327,608	3,170,872
Accumulated depreciation	(42,452)	(364,459)	(37,102)	(40,942)	–	(484,955)
Net carrying amount	585,963	670,225	82,846	19,275	1,327,608	2,685,917
At 1 January 2015, net of accumulated depreciation	585,963	670,225	82,846	19,275	1,327,608	2,685,917
Additions	12,973	48,839	2,352	16,785	157,737	238,686
Disposals	(29)	(37,576)	(2,559)	(3,014)	–	(43,178)
Depreciation provided during the year	(26,009)	(101,734)	(4,322)	(16,414)	–	(148,479)
Transfers	217,667	20,183	–	6,659	(244,509)	–
At 31 December 2015, net of accumulated depreciation	790,565	599,937	78,317	23,291	1,240,836	2,732,946
At 31 December 2015:						
Cost	859,026	1,034,837	113,761	76,838	1,240,836	3,325,298
Accumulated depreciation	(68,461)	(434,900)	(35,444)	(53,547)	–	(592,352)
Net carrying amount	790,565	599,937	78,317	23,291	1,240,836	2,732,946

Certificates of ownership in respect of buildings of the Group with a net carrying amount of approximately RMB580,448,000 as at 31 December 2016 (2015: RMB191,056,000) have not yet been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates.

At 31 December 2016, no interest-bearing bank and other borrowings were secured by the Group's buildings and machinery (2015: Nil).

14. Prepaid Land Lease Payments

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**710,422**	725,914
Recognised during the year (note 6)	**(15,492)**	(15,492)
Carrying amount at 31 December	**694,930**	710,422
Current portion included in prepayments, deposits and other receivables	**(15,492)**	(15,492)
Non-current portion	**679,438**	694,930

On 22 February 2012, Sany Marine Heavy Industry, a subsidiary of the Group, entered into an agreement with China Zhuhai Government to purchase two parcels of land (the "Agreement"), which are situated in Mainland China and held under a medium term lease.

As at 31 December 2016, Sany Marine Heavy Industry has received one parcel of land with a carrying amount of approximately RMB260,416,000 and acquired the land use right certificate. Another parcel of land, acquired at a consideration of RMB544,665,000, has not yet been provided to Sany Marine Heavy Industry by China Zhuhai Government up to the date of these financial statements.

According to the Agreement, the total investment in these two parcels of land shall be no less than RMB5.1 billion in 2 years after the parcels of land are provided. As at 31 December 2016, the Group has invested RMB1,519,276,000 and the remaining investment of RMB3,602,125,000 was a capital commitment as disclosed in note 36. In the event that Sany Marine Heavy Industry fails to meet such investment commitment, Sany Marine Heavy Industry should bear a penalty for breach of contract which is calculated based on the actual shortage in percentage of the total investment multiplied by the total consideration for the land. In the opinion of the Directors, Sany Marine Heavy Industry strictly abides by the terms of the Agreement and no breach of any terms in the Agreement was noted up to the date of approval of these financial statements.

15. Goodwill

	RMB'000
At 31 December 2015 and 31 December 2016:	
Cost	1,129,520
Accumulated impairment	–
Net carrying amount	1,129,520

Impairment testing of goodwill

Goodwill acquired through business combination is allocated to the following cash-generating unit for impairment testing:

- Port machinery cash-generating unit

The carrying amount of goodwill allocated to the port machinery cash-generating unit is as follows:

	2016 RMB'000
Carrying amount of goodwill	**1,129,520**

The recoverable amount of goodwill has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14% (2015: 11%). The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2015:3%), which was the same as the long term average growth rate of the industry. The goodwill was not impaired based on the result of the above impairment testing.

Assumptions were used in the value in use calculation for 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected market development.

Discount rate – The discount rate used is before tax and reflects to the relevant unit.

The values assigned to the key assumptions on market development and discount rates are consistent with external information sources.

16. Intangible Assets

	Patents and licences RMB'000
31 December 2016	
Cost at 1 January 2016, net of accumulated amortisation	**44,218**
Amortisation provided during the year (note 6)	**(22,852)**
At 31 December 2016	**21,366**
At 31 December 2016:	
Cost	**129,427**
Accumulated amortisation and impairment	**(108,061)**
Net carrying amount	**21,366**

	Patents and licences RMB'000
31 December 2015	
Cost at 1 January 2015, net of accumulated amortisation	75,973
Amortisation provided during the year (note 6)	(25,817)
Impairment during the year	(5,938)
At 31 December 2015	44,218
At 31 December 2015:	
Cost	129,427
Accumulated amortisation and impairment	(85,209)
Net carrying amount	44,218

17. Available-For-Sale Investments

	2016 RMB'000	2015 RMB'000
Unlisted equity investments, at cost less impairment	**10,636**	10,636

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

18. Inventories

	2016 RMB'000	2015 RMB'000
Raw materials	**494,612**	431,148
Work in progress	**263,443**	336,917
Finished goods	**512,709**	446,955
	1,270,764	1,215,020
Less: Provision against slow-moving and obsolete inventories	**(355,624)**	(35,233)
	915,140	1,179,787

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

	Note	2016 RMB'000	2015 RMB'000
At 1 January		**35,233**	14,238
Charge for the year	6	**320,391**	20,995
At 31 December		**355,624**	35,233

19. Trade and Bills Receivables

	2016 RMB'000	2015 RMB'000
Trade receivables	**2,445,963**	3,559,206
Impairment	**(807,096)**	(443,887)
	1,638,867	3,115,319
Less: Trade receivables due after one year	**(81,996)**	(99,923)
	1,556,871	3,015,396
Bills receivable	**213,315**	262,822

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. At the end of the reporting period, the Group had a certain concentration of credit risk as 34% (2015: 26%) of the Group's trade receivables were due from a single customer, including a group of entities which are known to be under common control with that customer. Included in the trade receivables was an amount due from fellow subsidiaries in aggregate of RMB515,503,000 as at 31 December 2016 (2015: RMB508,882,000) for sales of products by the Group, which accounted for 25% (2015: 16%) of the Group's trade receivables at the end of the reporting period. 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:

	2016 RMB'000	2015 RMB'000
Within 180 days	**645,072**	677,181
181 to 365 days	**179,762**	555,562
1 to 2 years	**486,262**	1,383,503
2 to 3 years	**271,852**	261,367
Over 3 years	**55,919**	237,706
	1,638,867	3,115,319

19. Trade and Bills Receivables (continued)

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

	2016 RMB'000	2015 RMB'000
At 1 January	**443,887**	296,625
Impairment losses recognised	**462,113**	148,766
Amount written off as uncollectible	**(98,904)**	(1,504)
At 31 December	**807,096**	443,887

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB807,096,000 (2015: RMB443,887,000) with a carrying amount before provision of RMB1,003,679,000 (2015: RMB1,520,234,000). As at 31 December 2016, trade receivables with a gross amount of RMB331,751,000 were under litigation sued by the Group against customers and were fully impaired by the Group. The Directors of the Company consider that there is no adverse impact to the Group relating to these litigations.

The individually impaired trade receivables relate to customers that were in financial difficulties or in default in payments and only a portion of the receivables is expected to be recovered. 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		
	Total RMB'000	Neither past due nor impaired RMB'000	Within 1 year RMB'000	1 to 2 years RMB'000	Over 2 years RMB'000
31 December 2016	1,638,867	934,373	382,731	243,511	78,252
31 December 2015	3,115,319	1,223,921	1,366,614	262,945	261,839

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. The Directors are of the opinion that no provision for impairment is necessary in respect of these balances as they were subsequently settled before the date of these financial statements or there has not been a significant change in credit quality and the balances are still considered fully recoverable based on past experience. Included in the balances which were past due but not impaired, the Group holds collaterals over balances due from certain customers amounting to RMB60,824,000.

19. Trade and Bills Receivables (continued)

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

	2016 RMB'000	2015 RMB'000
Within six months	201,937	242,567
Over six months	11,378	20,255
	213,315	262,822

Included in the bills receivable was an amount of RMB6,500,000 as at 31 December 2016 (2015: RMB5,038,000) which was endorsed to fellow subsidiaries for purchasing raw materials by the Group.

Transferred financial assets that are not derecognised in their entirety

At 31 December 2016, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB53,833,000 (2015: RMB31,706,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB53,833,000 (2015: RMB31,706,000) as at 31 December 2016.

Transferred financial assets that are derecognised in their entirety

At 31 December 2016, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB266,041,000 (2015: RMB224,704,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

20. Prepayments, Deposits and Other Receivables

	2016 RMB'000	2015 RMB'000
Non-current prepayments	**736,305**	736,722
Current assets:		
Prepayments	**117,424**	145,647
Deposits and other receivables	**136,450**	129,130
Loans to third parties	**116,634**	149,367
Gross balance	**370,508**	424,144
Impairment	**(59,843)**	(825)
	310,665	423,319

Non-current prepayments represent prepayments for the acquisition of land and property, plant and equipment.

Included in the current prepayments was an amount due from fellow subsidiaries in aggregate of RMB62,000 as at 31 December 2016 (2015: RMB1,144,000) for purchasing raw materials by the Group. Included in other receivables was an amount due from fellow subsidiaries in aggregate of RMB56,952,000 as at 31 December 2016 (2015: RMB56,735,000), which is non-interest-bearing and has no fixed terms of repayment.

Loans to third parties of RMB62,734,000 as at 31 December 2016 (2015: RMB149,367,000) are unsecured, repayable within one year and bear interest at the prevailing market rate.

21. Available-For-Sale Financial Investments

	2016 RMB'000	2015 RMB'000
Available-for-sale financial investments	**390,000**	–

Available-for-sale financial investments in financial products were purchased from a third party in Mainland China at a total consideration of RMB390,000,000 in 2016. The available-for-sale financial investments were measured at amortised cost, which bears interest at a fixed rate of 3.83% per annum and the principal is guaranteed. The available-for-sale financial investments will mature in June 2017.

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

	2016 RMB'000	2015 RMB'000
Cash and cash equivalents	**833,162**	522,796
Time deposits	**27,200**	14,651
	860,362	537,447
Less: Pledged time deposits for banking facilities	**(27,200)**	(14,651)
Cash and cash equivalents in the consolidated statement of cash flows	**833,162**	522,796
Cash and cash equivalents, time deposits and pledged deposits denominated in		
– RMB	**832,026**	522,264
– HK$	**610**	2,083
– United States dollars ("US$")	**27,726**	13,100
	860,362	537,447

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

Pledged bank deposits represent balances pledged to banks for the issuance of the Group's bills payable and letters of credit.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. Trade and Bills 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:

	2016 RMB'000	2015 RMB'000
Within 30 days	257,432	240,468
31 to 90 days	349,348	235,351
91 to 180 days	235,606	213,035
181 to 365 days	40,883	99,942
Over 1 year	72,290	53,170
	955,559	841,966

The trade payables are non-interest-bearing and are normally with credit terms of 30 to 120 days.

The bills payable are all due within 180 days.

Included in the trade and bills payables was an amount due to fellow subsidiaries in aggregate of RMB108,989,000 as at 31 December 2016 (2015: RMB113,709,000) for purchasing raw materials by the Group.

24. Other Payables and Accruals

	2016 RMB'000	2015 RMB'000
Deposits received from customers	465,385	312,256
Other payables	475,592	1,289,078
Accruals	3,161	63,789
	944,138	1,665,123

Included in the deposits received from customers was an amount of RMB75,714,000 as at 31 December 2016 (2015: RMB155,513,000) payable to a fellow subsidiary for the purchase of products. Included in the other payables was an amount due to fellow subsidiaries in aggregate of RMB102,731,000 as at 31 December 2016 (2015: RMB782,637,000), which is non-interest-bearing and has no fixed terms of repayment. As at 31 December 2016, no payable to a fellow subsidiary for purchasing logistics services was included in the accruals by the Group (2015: RMB1,368,000).

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

25. Interest-Bearing Bank and Other Borrowings

	2016			2015		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured			–	2.8-3.4	2016	14,920
Non-current						
Other borrowings (note 29)	1.18	2020-2026	161,422			–

26. Provision For Warranties

	Note	2016 RMB'000	2015 RMB'000
At 1 January		14,148	33,966
Provided for the year	6	9,485	14,148
Reversal for the year	6	(9,631)	(23,014)
Amounts utilised during the year		(4,517)	(10,952)
At 31 December		9,485	14,148

The Group provides warranties (one-year for coal mining machinery, and two-year or 4,000 hours during usage which is earlier for port machinery) 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

	2016 **RMB'000**	2015 RMB'000
At 1 January	**1,647,998**	1,415,527
Grants recognised during the year	**126,927**	409,506
Recognised as income during the year	**(150,255)**	(177,035)
At 31 December	**1,624,670**	1,647,998
Current portion	**(69,800)**	(20,645)
Non-current portion	**1,554,870**	1,627,353

Government grants have been received for the purchase of certain items of property, plant and equipment or finance of research and development projects. There are no unfulfilled conditions or contingencies attached to these grants.

28. Deferred Tax

Deferred tax assets

	Deductible temporary differences RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2015	421,147	37,572	458,719
Credited/(charged) to the consolidated statement of profit or loss (note 10)	(20,607)	25,408	4,801
At 31 December 2015 and 1 January 2016	**400,540**	**62,980**	**463,520**
Credited to the consolidated statement of profit or loss (note 10)	**27,858**	**41,456**	**69,314**
Utilised (note 33)	**–**	**(56,142)**	**(56,142)**
At 31 December 2016	**428,398**	**48,294**	**476,692**

The Group has tax losses arising in Hong Kong of RMB49,643,000 (2015: RMB RMB13,151,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Mainland China of RMB66,101,000 (2015: RMB116,192,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have mainly arisen in the Company and a certain subsidiary that have 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

	Withholding taxes on dividend RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Total RMB'000
At 1 January 2015	7,833	1,466	9,299
Charged/(credit) to the consolidated statement of profit or loss (note 10)	7,018	(30)	6,988
At 31 December 2015 and 1 January 2016	14,851	1,436	16,287
Charged/(credit) to the consolidated statement of profit or loss (note 10)	3,902	(29)	3,873
At 31 December 2016	18,753	1,407	20,160

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. 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 2016, the Group has not recognised deferred tax liabilities of RMB61,410,000 (2015: RMB52,304,000) in respect of temporary differences relating to the unremitted profits of subsidiaries amounting to RMB960,243,000 (2015: RMB869,186,000), 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. Borrowings From National Development Fund

On 8 March 2016, two subsidiaries of the Group, Sany Marine Heavy Industry and Sany Marine Industry, one fellow subsidiary of the Group, Sany Group Co., Ltd. and National Development Fund Co., Ltd. ("National Development Fund") entered into an investment agreement, pursuant to which National Development Fund agreed to invest an amount of RMB160 million (the "Investment") in Sany Marine Heavy Industry, which bears interest at a fixed rate of 1.2% per annum. This agreement will expire in 2026. According to the Investment Agreement, National Development Fund does not appoint any director to Sany Marine Heavy Industry and has no right to influence the daily operation of Sany Marine Heavy Industry. National Development Fund has the right to adopt any of three different approaches of exit upon and after 13 March 2019. Further details of the Investment have been set out in the announcements of the Company dated 8 March 2016 and 21 March 2016 and the circular of the Company dated 6 May 2016.

On 14 March 2016, the Group received the amount of RMB160 million in cash from National Development Fund. According to a valuation report issued by an independent third party valuer on 18 March 2016, the Investment subscribed for 14.56% of the enlarged registered capital of Sany Marine Heavy Industry. In the opinion of the Directors, the Investment was recorded as financial liability of the Group. As at 31 December 2016, the registration with the relevant authorities in the PRC for the change in shareholding of Sany Marine Heavy Industry was still in process.

The balance of borrowings from National Development Fund was as follows:

	31 December 2016 RMB'000
Amounts repayable:	
In the third to fifth years, inclusive	7,680
Beyond five years	168,640
Total payables	176,320
Future finance charge	(14,898)
Net borrowing balance	161,422

30. Share Capital

Shares

	2016 HK$'000	2015 HK$'000
Authorised:		
4,461,067,880 (2015: 4,461,067,880) ordinary shares of HK$0.10 each	**446,107**	446,107
538,932,120 (2015: 538,932,120) convertible preference shares of HK$0.10 each	**53,893**	53,893
Total authorised capital	**500,000**	500,000
Issued and fully paid:		
3,041,025,000 (2015: 3,041,025,000) ordinary shares of HK$0.10 each	**304,103**	304,103
479,781,034 (2015: 479,781,034) convertible preference shares of HK$0.10 each	**47,978**	47,978
Total issued and fully paid capital	**352,081**	352,081
Equivalent to RMB'000	**302,214**	302,214

Movements of issued capital were as follows:

	Issued ordinary shares RMB'000	**Issued convertible preference shares** RMB'000	**Share premium** RMB'000	**Total** RMB'000
At 31 December 2015 and 31 December 2016	264,366	37,848	2,239,502	2,541,716

31. Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's executive directors and other employees of the Group. The Scheme became effective on 26 February 2013 (the "Date of Grant").

The share options granted shall vest in the proposed grantees in accordance with the timetable below, each with an exercise period commencing from the relevant Vesting Date and ending 10 years after the Date of Grant (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"), unless otherwise cancelled or amended:

Vesting Date	Percentage of share options to vest
If the audited net profit of the Group for the year ended 31 December 2013 has an increase of 10% or more as compared to that of the year ended 31 December 2012 ("Target Performance I"), starting from the later of 1 March 2014 and the dispatch date of the Company's 2013 annual report(1)	10%
If the audited net profit of the Group for the year ended 31 December 2014 has an increase of 10% or more as compared to the audited net profit of the year ended 31 December 2013 ("Target Performance II"), starting from the later of 1 March 2015 and the dispatch date of the Company's 2014 annual report(2) (4)	35%
If the audited net profit of the Group for the year ended 31 December 2015 has an increase of 10% or more as compared to the audited net profit of the year ended 31 December 2014 ("Target Performance III"), starting from the later of 1 March 2016 and the dispatch date of the Company's 2015 annual report(3) (4)	55%

31. Share Option Scheme (continued)

Notes:

(1) If the Target Performance I is not achieved, then the 10% share options (the "First Tranche Options") cannot be exercised in the year of 2014. However, if Target Performance II is achieved, then the First Tranche Options will vest starting from the later of 1 March 2015 and the dispatch date of the Company's 2014 annual report. If neither of the Target Performance I or Target Performance II is achieved, then the First Tranche Options shall lapse;

(2) If the Target Performance II is not achieved, then the 35% share options (the "Second Tranche Options") cannot be exercised in the year of 2015. However, if the Target Performance III is achieved, then the Second Tranche Options will vest starting from the later of 1 March 2016 and the dispatch date of the Company's 2015 annual report. If neither of the Target Performance II or Target Performance III is achieved, then the Second Tranche Options shall lapse;

(3) If the Target Performance III is not achieved, then the 55% share options (the "Third Tranche Options") cannot be exercised in the year of 2016. However, if the audited net profit for the year ended 31 December 2016 has an increase of 10% or more as compared to the audited net profit of the year ended 31 December 2015 ("Target Performance IV")[4], then the Third Tranche Options will vest starting from the later of 1 March 2017 and the dispatch date of the Company's 2016 annual report. If neither of the Target Performance III or Target Performance IV is achieved, then the Third Tranche Options shall lapse; and

(4) The audited net profits for the years ended 31 December 2013, 2014 and 2015 under the Target Performance II, the Target Performance III and the Target Performance IV, respectively, refer to the lower of (i) the actual audited net profit of such year; and (ii) the amount equal to the actual audited net profit for the year ended 31 December 2012 compounded annually at a rate of 10%.

The following share options were outstanding under the Scheme during the year:

	2016 Weighted average exercise price HK$ per share	**2016** Number of options	2015 Weighted average exercise price HK$ per share	2015 Number of options
At 1 January	**4.18**	**11,660,550**	4.18	23,562,000
Forfeited during the year	**4.18**	**(2,632,300)**	4.18	(2,738,450)
Expired during the year	**4.18**	**(9,028,250)**	4.18	(9,163,000)
At 31 December	**4.18**	**–**	4.18	11,660,550

The fair value of the outstanding share options at the time of grant was HK$28,671,200 (HK$1.22 each) (equivalent to RMB23,501,000), of which the Group recognised a share option expense of HK$ 1,569,000 (equivalent to RMB1,340,000) during the year (2015: HK$6,414,000 (equivalent to RMB 5,243,000)).

31. Share Option Scheme (continued)

The fair value of equity-settled share options granted during the period was estimated as at the date of grant using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	4.34
Expected volatility (%)	52.00
Historical volatility (%)	52.00
Risk-free interest rate (%)	1.16
Expected life of options (year)	10
Weighted average share price (HK$ per share)	3.09

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

32. Reserves

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

The Group's contributed surplus represents the excess of the nominal value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor pursuant to the group reorganisation as defined in the prospectus of the Company dated 12 November 2009.

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 the 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 RMB372,857,000 as at 31 December 2016 (2015: RMB372,857,000).

33. Notes to the Consolidated Statement of Cash Flows

Major non-cash transaction

Sany Heavy Equipment received plant reallocation compensation of RMB374 million from the local government in 2014, and management recognised related tax payable of RMB56,142,000. In 2016, the local tax bureau permitted Sany Heavy Equipment to use this part of tax payable to utilize the tax loss incurred in 2015, which led to the decrease in deferred tax assets amounting to RMB56,142,000 in 2016.

34. Contingent Liabilities

(a) Hunan Sany Port Equipment enters into sales agreements with the end-user customers directly for the sales of port machinery. The end-user customers usually enter into equipment mortgage loan agreements with banks to obtain funding to pay for the port equipment, using the port equipment as collateral. As the seller, Hunan Sany Port Equipment is usually required to enter into a separate agreement with banks under which it has the obligation to repay the outstanding loan from the relevant banks if the end-user customers default loan repayments.

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2016	2015
	RMB'000	RMB'000
Guarantees given to banks in connection with loans granted to customers	**56,109**	28,275

(b) Hunan Sany Port Equipment sells port machinery directly to end-user customers and the end-user customers can seek assistance from two fellow subsidiaries of the Group, namely China Kangfu Finance Lease Co., Ltd. (中國康富國際租賃有限公司, "Kangfu Leasing") and Hunan Zhonghong Finance Lease Co., Ltd. (湖南中宏融資租賃有限公司, "Hunan Zhonghong"), to obtain financing from certain third party finance lease companies (the "Leasing Companies").

In addition, Hunan Sany Port Equipment, the Leasing Companies and Kangfu Leasing or Hunan Zhonghong entered into an agreement (the "Agreement") and pursuant to the terms of the Agreement:

- Kangfu Leasing or Hunan Zhonghong and Hunan Sany Port Equipment are obliged to pay to the Leasing Companies if the end-user customers defaulted on repayments to the Leasing Companies in the manner as specified in the Agreement; and

- Hunan Sany Port Equipment is obliged to repurchase the unsettled leased amounts due by the end-user customers to the Leasing Companies, if the above parties do not fulfil their obligations in the manner as specified in the Agreement. Under such circumstances, Hunan Sany Port Equipment is also liable for the costs and related expenses.

At the end of the reporting period, the unsettled lease receivables due by the end-customers under these arrangements were as follows:

	2016	2015
	RMB'000	RMB'000
Guarantees given to the Leasing Companies in connection with the unsettled lease amounts due from customers	**100,649**	111,017

In the opinion of the Directors, the fair values of the financial guarantee contracts above are insignificant at initial recognition and the Directors consider that the probability of defaults by most of the parties involved is remote, accordingly, no provision has been made at the inception of the guarantee contracts and at the end of 2016.

35. Operating Lease Arrangements

(a) As lessor

The Group leases its buildings and plant under operating lease arrangements, with leases negotiated for terms ranging from six to ten years.

At 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**4,450**	3,524
In the second to third years, inclusive	**9,307**	3,639
After three years	**12,835**	13,836
	26,592	20,999

(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 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**16**	651

36. Commitments

In addition to the operating lease commitments as set out in note 35(b) above, the Group had the following capital commitments as at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Buildings	**200,084**	269,403
Plant and machinery	**3,741,689**	3,961,716
	3,941,773	4,231,119

37. Related Party Transactions

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	2016 RMB'000	2015 RMB'000
Sales of products to:			
Sany Group Co., Ltd. (三一集團有限公司)	(i)&(v)	**480,573**	946,475
Sany International Development Limited (三一國際發展有限公司)	(i)&(v)	**220,562**	152,158
Beijing Sany Shengneng Investment Co., Ltd. (北京三一盛能投資有限公司)	(i)&(v)	**18,253**	11,111
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(i)&(v)	**10,724**	892
Sany Heavy Energy Machinery Co., Ltd. (三一重型能源裝備有限公司)	(i)&(v)	**3,800**	–
Sany Heavy Industry Co., Ltd. (三一重工股份有限公司)	(i)&(v)	**3,717**	–
Sany America Inc.(三一美國)	(i)&(v)	**2,527**	–
China Kangfu International Leasing Co., Ltd. (中國康富國際租賃有限公司)	(i)&(v)	**–**	17,949
Others	(i)&(v)	**1**	15
		740,157	1,128,600
Sales of raw materials and equipment to:			
Suote Transmission Equipment Co., Ltd. (索特傳動設備有限公司)	(i)&(v)	**12,423**	74
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(i)&(v)	**7,873**	11,210
Sany Automobile Lifting Machinery Co., Ltd. (三一汽車起重機械有限公司)	(i)&(v)	**5,515**	484
Shanghai Sany Heavy Machinery Co., Ltd. (上海三一重機有限公司)	(i)&(v)	**5,093**	93
Loudi Zhongxing Hydraulic Parts Co., Ltd. (婁底市中興液壓件有限公司)	(i)&(v)	**1,863**	889
Zhejiang Sany Equipment Co., Ltd. (浙江三一裝備有限公司)	(i)&(v)	**1,414**	2,107
Sany Heavy Energy Machinery Co., Ltd. (三一重型能源裝備有限公司)	(i)&(v)	**708**	44
Sany Electric Co., Ltd. (三一電氣有限責任公司)	(i)&(v)	**310**	418
Sany Heavy Industry Co., Ltd. (三一重工股份有限公司)	(i)&(v)	**301**	–
Sany Heavy Machinery Co., Ltd. (三一重機有限公司)	(i)&(v)	**7,259**	454
Changde Sany Machinery Co., Ltd. (常德市三一機械有限公司)	(i)&(v)	**181**	129
Hunan Automobile Manufacturing Co., Ltd. (湖南汽車製造有限責任公司)	(i)&(v)	**121**	141
Loudi Zhongyuan New Material Co., Ltd. (婁底市中源新材料有限公司)	(i)&(v)	**102**	181
Sany Group Co., Ltd.(三一集團有限公司)	(i)&(v)	**55**	8,488
Beijing Sany Heavy Machinery Co., Ltd. (北京市三一重機有限公司)	(i)&(v)	**2**	265
Others		**772**	348
		43,992	25,325

37. Related Party Transactions (continued)

(1) Recurring transactions (continued)

	Notes	2016 RMB'000	2015 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)	(ii)&(v)	**54,166**	35,808
Suote Transmission Equipment Co., Ltd. (索特傳動設備有限公司)	(ii)&(v)	**25,176**	20,230
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(ii)&(v)	**23,221**	19,352
Loudi Zhongyuan New Material Co., Ltd. (婁底市中源新材料有限公司)	(ii)&(v)	**11,954**	11,412
Hunan Sany Intelligent Control Equipment Co., Ltd. (湖南三一智能控制設備有限公司)	(ii)&(v)	**4,933**	5,021
Hong Kong Winternity International Trade Co., Ltd. (香港中興恒遠國際貿易有限公司)	(ii)&(v)	**4,496**	16,638
Kunshan Sany Digital Co., Ltd. (昆山三一數字科技有限公司)	(ii)&(v)	**3,487**	8,974
Hunan Zhongcheng Machinery Co., Ltd. (湖南中成機械有限公司)	(ii)&(v)	**3,304**	9,192
Beijing Sany Motor System Co., Ltd. (北京三一電機系統有限責任公司)	(ii)&(v)	**3,197**	–
Sany Group Co., Ltd. (三一集團有限公司)	(ii)&(v)	**2,758**	67,347
Hunan Sany Hoisting Machinery Co., Ltd. (湖南三一汽車起重機械有限司)	(ii)&(v)	**777**	555
Sany General Electric Co., Ltd. (三一電氣有限責任公司)	(ii)&(v)	**769**	724
Sany Heavy Machinery Co., Ltd. (三一重機有限公司)	(ii)&(v)	**644**	1,568
Zhejiang Sany Equipment Co., Ltd. (浙江三一裝備有限公司)	(ii)&(v)	**301**	639
Sany Heavy Industry Co., Ltd. (三一重工股份有限公司)	(ii)&(v)	**273**	–
Shanghai Sany Heavy Machinery Co., Ltd. (上海三一重機有限公司)	(ii)&(v)	**245**	115
Changde Sany Machinery Co., Ltd. (常德市三一機械有限公司)	(ii)&(v)	**177**	114
Zhejiang Sany Foundry Co., Ltd. (浙江三一鑄造有限公司)	(ii)&(v)	**64**	747
Sany Heavy Energy Machinery Co., Ltd. (三一重型能源裝備有限公司)	(ii)&(v)	**11**	223
Kunshan Sany Machinery Co., Ltd. (昆山三一機械有限公司)	(ii)&(v)	**–**	1,584
Beijing Sany Machinery Co., Ltd. (北京市三一重機有限公司)	(ii)&(v)	**–**	366
Others	(ii)&(v)	**103**	79
		140,056	200,688

37. Related Party Transactions (continued)

(1) Recurring transactions (continued)

	Notes	2016 RMB'000	2015 RMB'000
Purchases of equipment from:			
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(ii)&(v)	1,461	–
Beijing Sany Machinery Co., Ltd. (北京市三一重機有限公司)	(ii)&(v)	491	–
Sany Group Co., Ltd. (三一集團有限公司)	(ii)&(v)	217	20,191
Sany Heavy Energy Machinery Co., Ltd. (三一重型能源裝備有限公司)	(ii)&(v)	–	2,442
Hunan Automobile Manufacturing Co., Ltd. (湖南汽車製造有限責任公司)	(ii)&(v)	–	1,278
Zhejiang Sany Equipment Co., Ltd. (浙江三一裝備有限公司)	(ii)&(v)	–	1,009
Zhejiang Sany Foundry Co., Ltd. (浙江三一鑄造有限公司)	(ii)&(v)	–	323
Loudi Zhongyuan New Material Co., Ltd. (婁底市中源新材料有限公司)	(ii)&(v)	–	184
Others	(ii)&(v)	86	216
		2,255	25,643
Rental fees paid to:			
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(iii)&(v)	3,704	3,714
Hunan Zhongtai Equipment Engineering Co., Ltd. (湖南中泰設備工程有限公司)	(iii)&(v)	5,489	–
Sany Group Co., Ltd. (三一集團有限公司)	(iii)&(v)	–	4,046
		9,193	7,760
Service fees paid to:			
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(iv)&(v)	4,898	4,407
Purchases of logistics service from:			
Hunan Sany Logistics Co., Ltd. (湖南三一物流有限責任公司)	(iv)&(v)	37,691	28,069

37. Related Party Transactions (continued)

(1) Recurring transactions (continued)

Notes:

(i) The sales to companies owned and controlled by the Controlling Shareholder* were made at prices and on conditions as mutually agreed.

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

(iii) The rentals were made according to the prevailing market rent.

(iv) The services were made at prices and on conditions as mutually agreed.

(v) The above companies are owned and controlled by the Controlling Shareholder*.

* 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, Duan Dawei, Wang Zuochun, Zhai Xian, Liang Linhe, Zhai Chun and Huang Jianlong, who hold 56.42%, 8.75%, 8.00%, 8.00%, 4.75%, 3.50%, 3.00%, 3.00%, 1.00%, 1.00%, 1.00%, 0.60%, 0.50%, 0.40% and 0.08% of the equity interests in Sany BVI, respectively.

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

37. Related Party Transactions (continued)

(2) Non-recurring transactions

	2016 RMB'000	2015 RMB'000
Relocation service fees paid to:		
Sany Group Co., Ltd. (三一集團有限公司)	–	4,671
Research and development fees paid to:		
Sany Germany GmbH (三一德國有限公司)	2,094	–
Solar energy fees paid to:		
Sany Solar Energy Co., Ltd. (三一太陽能有限公司)	1,556	–
Supervisor fees paid to:		
Hunan Xingxiang Construction Consultation Co., Ltd. (湖南興湘建設監理諮詢有限公司)	892	1,489
Service fees paid to:		
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	1,439	366
Sany America Inc. (三一美國)	155	–
Hunan Zhongcheng Machinery Co., Ltd. (湖南中成機械有限公司)	–	178
	1,594	544
Service fees from:		
Hunan Sany Road Machinery Co., Ltd. (湖南三一路面機械有限公司)	83	514
Hunan Zhongcheng Machinery Co., Ltd. (湖南中成機械有限公司)	20	115
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	–	70
Sany Heavy Energy Machinery Co., Ltd. (三一重型能源裝備有限公司)	–	44
	103	743

37. Related Party Transactions (continued)

(2) Non-recurring transactions (continued)

	2016 RMB'000	2015 RMB'000
Sales of equipment to:		
Sany Group Co., Ltd. (三一集團有限公司)	–	22,368
Sany Heavy Energy Machinery Co., Ltd. (三一重型能源裝備有限公司)	–	2,461
	–	24,829
Agency fees paid to:		
Sany International Development Limited (三一國際發展有限公司)	–	1,362
Sany Heavy Industry Co., Ltd. (三一重工股份有限公司)	–	83
	–	1,445
Purchase of products from:		
Kunshan Sany Digital Co., Ltd. (昆山三一數字科技有限公司)	5,487	–

The transactions were made at prices and on conditions as mutually agreed.

(3) Other transaction with a related party:

Sany Group Co., Ltd. has guaranteed certain other borrowings made to the Group of up to RMB161,422,000 (2015: Nil) as at the end of the reporting period, as further detailed in note 29 to the financial statements.

(4) Compensation of key management personnel

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	6,264	4,340
Equity-settled share option expense	–	2,653
Employee retirement benefits and other staff welfare	604	359
Total compensation paid to key management personnel	6,868	7,352

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

38. 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:

2016 **Financial assets**	**Loans and receivables** **RMB'000**	**Available-for-sale financial assets** **RMB'000**	**Total** **RMB'000**
Available-for-sale investments	–	10,636	10,636
Trade receivables	1,638,867	–	1,638,867
Bills receivable	213,315	–	213,315
Financial assets included in prepayments, deposits and other receivables	193,241	–	193,241
Available-for-sale financial investments	–	390,000	390,000
Pledged deposits	27,200	–	27,200
Cash and cash equivalents	833,162	–	833,162
	2,905,785	400,636	3,306,421

2016 **Financial liabilities**	**Financial liabilities at amortised cost**
Trade and bills payables	955,559
Financial liabilities included in other payables and accruals	475,592
Interest–bearing bank and other borrowings	161,422
	1,592,573

38. Financial Instruments by Category (continued)

2015 Financial assets	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	–	10,636	10,636
Trade receivables	3,115,319	–	3,115,319
Bills receivable	262,822	–	262,822
Financial assets included in prepayments, deposits and other receivables	277,672	–	277,672
Pledged deposits	14,651	–	14,651
Cash and cash equivalents	522,796	–	522,796
	4,193,260	10,636	4,203,896

2015 Financial liabilities	Financial liabilities at amortised cost RMB'000
Trade and bills payables	841,966
Financial liabilities included in other payables and accruals	1,289,078
Interest–bearing bank and other borrowings	14,920
	2,145,964

Management has assessed that the carrying amounts of the Group's and the Company's financial instruments including cash and cash equivalents, pledged deposits, trade receivables, bills receivable, available-for-sale financial investments, financial assets included in prepayments, deposits and other receivables, trade and bills payables, and financial liabilities included in other payables and accruals approximated to their fair values as at the end of the reporting period due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The manager reports directly to the chief financial officer and the audit committee. At each reporting date, the department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

38. Financial Instruments by Category (continued)

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.

Fair value hierarchy

As at 31 December 2016, no financial asset was measured at fair value (2015: Nil).

39. Financial Risk Management Objectives and Policies

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

The main risks arising from the Group's financial instruments are interest rate risk, 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.

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 2016, assuming the interest rate of the floating rate bank borrowings increased/decreased by 5% and all other factors remained unchanged, then there would have been no effect on the profit after tax for the year of the Group and the Company (2015: 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 HK$. 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 RMB exchange rate, with all other variables held constant, of the Group's (loss)/profit before tax due to changes in the fair value of monetary assets and liabilities.

39. Financial Risk Management Objectives and Policies (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in (loss)/profit before tax RMB'000
31 December 2016		
If RMB weakens against HK$	**5**	**3,113**
If RMB strengthens against HK$	**(5)**	**(3,113)**
If RMB weakens against US$	**5**	**3,945**
If RMB strengthens against US$	**(5)**	**(3,945)**
If RMB weakens against Euro	**5**	**(482)**
If RMB strengthens against Euro	**(5)**	**482**
31 December 2015		
If RMB weakens against HK$	5	159
If RMB strengthens against HK$	(5)	(159)
If RMB weakens against US$	5	3,091
If RMB strengthens against US$	(5)	(3,091)
If RMB weakens against Euro	5	(804)
If RMB strengthens against Euro	(5)	804

Credit risk

At the end of the reporting period, the Group had a certain concentration of credit risk as 34% (2015: 26%) of the Group's trade receivables were due from the Group's largest customer, including a group of entities which are known to be under common control with that customer. Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 19 and 20 to the financial statements.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, pledged deposits, available-for-sale financial investments, trade and bills receivables and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets.

39. Financial Risk Management Objectives and Policies (continued)

Liquidity risk

The Group's objective is to maintain sufficient cash and cash equivalents and have available funding through capital contribution and financial support from bank and other 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 2016			
	On demand RMB'000	Less than 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	–	955,559	–	955,559
Financial liabilities included in other payables and accruals	–	475,592	–	475,592
Interest-bearing bank and other borrowings	–	–	176,320	176,320
	–	1,431,151	176,320	1,607,471

	31 December 2015			
	On demand RMB'000	Less than 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	–	841,966	–	841,966
Financial liabilities included in other payables and accruals	–	1,289,078	–	1,289,078
Interest-bearing bank and other borrowings	–	14,957	–	14,957
	–	2,146,001	–	2,146,001

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 2016 and 2015.

40. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	23	34
Investment in subsidiaries	3,424,144	3,424,144
Total non-current assets	3,424,167	3,424,178
CURRENT ASSETS		
Prepayments, deposits and other receivables	–	75
Due from subsidiaries	781,346	778,611
Cash and cash equivalents	1,741	5,474
Total current assets	783,087	784,160
NET CURRENT ASSETS	783,087	784,160
TOTAL ASSETS LESS CURRENT LIABILITIES	4,207,254	4,208,338
Net assets	4,207,254	4,208,338
EQUITY		
Issued capital	302,214	302,214
Reserves	3,905,040	3,906,124
Total equity	4,207,254	4,208,338

40. Statement of Financial Position of the Company (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital redemption reserve RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2015	2,239,502	1,676,409	7,267	(40,711)	5,744	22,461	3,910,672
Loss for the year	–	–	–	–	–	(13,151)	(13,151)
Other comprehensive income for the year:							
Exchange differences on translation of foreign operations	–	–	–	3,360	–	–	3,360
Total comprehensive loss for the year	–	–	–	3,360	–	(13,151)	(9,791)
Share-based payments	–	–	5,243	–	–	–	5,243
As at 31 December 2015 and 1 January 2016	2,239,502	1,676,409	12,510	(37,351)	5,744	9,310	3,906,124
Loss for the year	–	–	–	–	–	(49,644)	(49,644)
Other comprehensive income for the year:							
Exchange differences on translation of foreign operations	–	–	–	47,220	–	–	47,220
Total comprehensive loss for the year	–	–	–	47,220	–	(49,644)	(2,424)
Share-based payments	–	–	1,340	–	–	–	1,340
As at 31 December 2016	2,239,502	1,676,409	13,850	9,869	5,744	(40,334)	3,905,040

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

41. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 22 March 2017.

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, is set out below:

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**1,841,834**	2,201,801	2,175,237	3,225,463	3,640,739
Cost of sales	**(1,565,670)**	(1,572,465)	(1,466,023)	(2,062,410)	(2,312,048)
Gross profit	**276,164**	629,336	709,214	1,163,053	1,328,691
Other income and gains	**179,358**	222,019	137,105	168,675	231,424
Gain on disposal of non-current assets classified as held for sale	**–**	–	240,553	–	–
Selling and distribution expenses	**(321,115)**	(276,149)	(312,886)	(500,675)	(566,041)
Administrative expenses	**(314,047)**	(371,669)	(358,689)	(359,264)	(375,040)
Other expenses	**(526,164)**	(157,264)	(209,371)	(47,024)	(21,733)
Finance costs	**(2,208)**	(10,498)	(30,616)	(17,180)	(4,678)
(LOSS)/PROFIT BEFORE TAX	**(708,012)**	35,775	175,310	407,585	592,623
Income tax expense	**49,732**	(17,218)	(5,424)	(49,406)	(92,589)
(LOSS)/PROFIT FOR THE YEAR	**(658,280)**	18,557	169,886	358,179	500,034
Attributable to:					
Owners of the parent	**(644,375)**	18,064	168,270	356,208	499,532
Non-controlling interests	**(13,905)**	493	1,616	1,971	502
	(658,280)	18,557	169,886	358,179	500,034

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**10,139,079**	11,331,186	12,753,243	8,712,651	7,979,222
TOTAL LIABILITIES	**(4,004,943)**	(4,542,218)	(5,991,447)	(2,885,148)	(2,283,564)
NON-CONTROLLING INTERESTS	**56,957**	70,862	70,369	68,753	66,782