SANYI

SANY HEAVY EQUIPMENT INTERNATIONAL HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 631

Annual Report 2017

Contents

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 specialising 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, the port machinery products of the Group consist 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 and elevated hoisting arm. The Group's coal mining machinery products mainly include roadheader, semi-coal rock roadheader, full-rock roadheader, coal mining machines (shearer), hydraulic support system, scraper conveyor (Armored-Face Conveyer), mining transport equipment (including underground and surface equipment) and excavation equipment. The Group has promoted the CCMU which has integrated design and manufacturing. We are the first company to provide integrated mining equipment, 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 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 ended 31 December 2017, the port machinery sector of the Group has completed the development of STS4038 lightweight quayside container crane product, STS5048 medium-weighted quayside container crane product, SRSC45S front loader, SDCY90K8S container stacking machine as well as SCP160S and SCP100S heavy-duty forklift truck. In the meantime, the Group completed the railway crane product development for railway system clients and is constantly improving the international product spectrum of mobile port machinery for the markets in Europe and North America. As for energy equipment sector, the Group completed the overall design planning of STR200 roadheader, mining excavator and large inclined angle shearer, scraper conveyor and hydraulic support system. The Group also completed the design of SRT60S and SRT55S new mine tub and the design and promotion of 33T mixer and SRT55DM3V mine tub for clients in Argentina and India. During the year ended 31 December 2017, the Group obtained 36 invention patents, four utility model patents, one national outstanding patent award and six copyrights.

Given the outstanding product quality and friendly after-sales services, the Group's port machinery products 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, Australia and Southeast Asia. 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.

(RMB'000)	2017 (audited)	2016 (audited)	Increase (%)
Revenue	2,481,365	1,841,834	34.7
Gross profit	737,551	276,164	167.1
Gross profit (excluding the effect of provision for write-down of inventories)	738,503	596,555	23.8
Profit/(loss) before tax	314,574	(708,012)	(144.4)
Net profit/(loss)	230,937	(658,280)	(135.1)
Profit/(loss) attributable to owners of the parent	229,436	(644,375)	(135.6)
Total assets	11,199,050	10,139,079	10.5
Total equity	6,362,171	6,134,136	3.7
Cash flows of operating activities	607,074	1,327,028	(54.3)
Cash flows of investing activities	(887,915)	(544,545)	63.1
Cash flows of financing activities	266,279	(474,225)	(156.2)
Earnings/(loss) per share[1]			
– Basic (RMB Yuan)	0.08	(0.21)	(138.1)
– Diluted (RMB Yuan)	0.07	(0.18)	(138.9)

(Percentage)	2017	2016	Percentage points
Gross profit margin	29.7%	15.0%	14.7
Gross profit margin (excluding the effect of provision for write-down of inventories)	29.8%	32.4%	(2.6)
Percentage of profit/(loss) attributable to shareholders of the Company[2]	9.2%	(35.0%)	44.2
Assets turnover	23.3%	17.2%	6.1
Gearing ratio	43.2%	39.5%	3.7
Average total assets (RMB'000)	10,669,065	10,735,133	(0.6)

1 The weighted average number of ordinary shares for the year ended 31 December 2017 was 3,041,025,000 shares, and the weighted average number of ordinary shares for the year ended 31 December 2016 was 3,041,025,000 shares, details of which are set out in note 12 to the Financial Statements.

2 Profit/(loss) attributable to shareholders of the Company divided by revenue.

Important Milestones in Year 2017

Sany Marine Heavy Industry Co., Ltd. (三一海洋重工有限公司) ("Sany Marine Heavy Industry") set the fastest record for RTG equipment delivery

In February 2017, six pieces of RTG equipment purchased by Hong Kong International Terminals from Sany Marine Heavy Industry was delivered to the operation terminal and the first delivery document was signed seven days thereafter, making it the fastest record for RTG equipment delivery of Hong Kong International Terminals.

The tunnel roadheader of Sany Heavy Equipment Co., Ltd. (三一重型裝備有限公司) ("Sany Heavy Equipment") was recognized as one of the "Double Hundred Projects" in Shenyang

In July 2017, the tunnel roadheader of Sany Heavy Equipment was recognized as one of the "Double Hundred Projects" in Shenyang with special funding support granted by the local government. The "Double Hundred Projects" are characterized by strict selection criteria, including but not limited to large amount of R&D investment, significant innovative efficiency and high levels of team members. The recognition for the tunnel roadheader project marked the further improvement of the Company's technological innovation capabilities.

Sany Marine Heavy Industry debuted in the North American large-scale port machine market

In September 2017, Union Pacific Railroad Company, the United States' largest railway company, entered into a RTG procurement contract with Sany Marine Heavy Industry, marking the debut of Sany Marine Heavy Industry's large-scale port machine in the North American market.

The new excavation and bolting machine of Sany Heavy Equipment was unveiled at Beijing Coal Machinery Exhibition

In October 2017, the new EBX200M-2 excavation and bolting machine of Sany Heavy Equipment was unveiled at the 17th China International Coal Mining Technology Exchange and Equipment Exhibition. The EBX200M-2 excavation and bolting machine integrates the functions of excavation, support and anchorage to significantly improve the roadway excavation automation, production capacity and safety performance, and has become the most stunning new star in this exhibition.

Sany Marine Heavy Industry launched new products under the H9 series

In December 2017, Sany Marine Heavy Industry held the "H9 New Product Launch Conference and the 3900th Gantry Crane Launch Ceremony". The R&D new products were launched at the conference, including H9 gantry crane, container stacking machine and new gripper with the features of high efficiency and energy saving, which captured full attention in the industry.

The Group's container stacking machine entered the Pakistani market

In December 2017, the port machinery equipment of Sany Marine Heavy Industry was duly delivered for the first time to Pakistan Terminal Operators Pvt. Ltd. ("PTO"). As one of Pakistan's largest container yard customers, PTO's annual throughput reached 300,000 TEU, which has a significant influence on Pakistan's container yard industry. This delivery marked a breakthrough of Sany Marine Heavy Industry's equipment in the Pakistani market and opened a new market in Central Asian countries.

The engineering roadheader market has been developing rapidly

In 2017, the tunneling equipment of Sany Heavy Equipment has been developing rapidly. For the excavation machine for tunnel construction, 18 units were sold and more than 20 units were leased. Also, the sale of SCR260 excavation machine was completed and the machine was successfully utilised in a potash mine in Thailand.

Dear Shareholders,

In 2017, together with the overall global economic recovery, China's economy maintained its high-speed development. In the face of the improving domestic and global economic situation, the Company has been continuously building new advantages for sustainable development by establishing brand advantages and enhancing development momentum. Meanwhile, as the accumulated risks in the past have basically been eliminated, the Company continued to optimise its production and operations and improve its management systems and achieved a substantial increase in its operating results, bringing the business back to the path of growth and boosting its operating capacity.

In 2017, the Company achieved a revenue of RMB2,481.4 million, representing an increase of 34.7% against 2016. Net profit of the Company reached RMB230.9 million, representing an increase of 135.1% against 2016. Taking into consideration the profitability, shareholder returns and future development needs of the Company, the Board resolved and declared a special dividend of HK$0.18 per Share in January 2018, which has been distributed in March 2018.

Over the past year, the Company has strived for sound, efficient and sustainable operation with the aim to improve the quality of its operations. Through unremitting efforts, the Company further improved its inventory turnover, strengthened its cash reserves, kept improving its trade receivables and reduced value overdue rate, bringing about a healthier overall operation. The Company granted certain share options to the management and other employees during the year, which further strengthened the mutual interests of employees and the Company and laid the foundation for efficient operation. The Company has attached importance to the talent pool and introduced international technical experts and domestic talents to provide intellectual support for the Company's continuous innovation and development.

Over the past year, the Company has continued to promote its internationalisation strategy and further developed the international market. With agents as the focus and large customers as the core, the Company actively deployed a global sales network system with remarkable results. The Company's coal machinery products have successfully entered the European market and have been sold well in Asia and Africa. Port machinery products have entered the United States and established long-term cooperative relationships with many world-renowned ports. The international sales revenue for the year reached RMB223.3 million, representing a substantial year-on-year increase.

Over the past year, the Company continued to strengthen management and promote efficiency. The Company has insisted on compliance operations, and internal control management. The Company strictly controlled internal expenses and revitalised stock assets, accelerated the recovery of external receivables and optimised investment management. Throughout the year, the Company achieved effective cost control, stable and decreasing finished product inventory as well as continued low levels of gearing ratio.

Looking into 2018, the global economy will continue to recover, which will further benefit the energy equipment and marine engineering equipment industry overall. Under the positive external environment, the Company will adhere to the principle of seeking progress amidst stability, focus on improving its operating capabilities and take the initiative to seize the opportunities by its innovative thinking and talent advantages, turning a new page for the development of the Group.

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, 28 March 2018

Business Review

The income from sales of coal mining machinery products and port machinery products of the Group for the year ended 31 December 2017 increased because (1) the coal mining industry recovered during 2017 due to in-depth national supply-side reform, and coal prices increased accordingly, which in turn stimulated the demand for coal mining machinery; (2) the Group timely seized the opportunity of the emerging global container shipping industry and actively expanded its international market share for port marine machinery; and (3) the Group has been attaching importance to the research and development and promotion of new products, such as mining transport equipment and heavy duty forklift truck, to tailor for the market trend.

The profit margin of the coal mining machinery products increased due to the enhanced manufacturing efficiency because the Group has optimized the manufacturing management and capacity monitoring and timely adjusted procurement of raw materials, which facilitated to increase the utilization rate of the Group's manufacturing resources and reduced the manufacturing costs. In addition, the management fees decreased as a result of further enhanced internal control, including cost control.

Major products

The Group divides its products into two categories, namely (1) the energy equipment business sector, which includes coal machinery business products, such as roadheaders (all types of soft rock, hard rock roadheader and integrated excavation, bolting and self-protection machine) and CCMU (hydraulic support system, coal mining machines (shearer), scraper conveyor (Armored-Face Conveyer), etc.); and the non-coal business products, such as 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 and excavation series) and other relevant products; and (2) the marine engineering business sector, which includes port machinery products (reach stacker, empty container handler and quayside gantry crane) and offshore heavy machineries.

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. As for energy equipment sector, the Group completed the development of machine tool of the large inclined angle shearer, scraper conveyor and support system, a large inclined comprehensive mining product which integrated three machines; launched 730 shearer, integrated excavation, bolting and self-protection machine, SRT55S, and SRT55D new mine tub for sales in the market; and completed the R&D design of STR200 and STR260 roadheader, SCR318 mining excavator and other roadheaders. As for the port machinery sector, the Group successfully developed a railway crane for railway systems; completed the development of RTG for US railway, STS4038 lightweight quayside container crane, STS5048 medium-weighted quayside container crane products, SRSC45S front loader, SDCY90K8S container stacking machine as well as SCP160S and SCP100S heavy-duty forklift truck. In the meantime, 10T telehandler mainly for European and American markets has entered the design finalization stage. As of 31 December 2017, the Group obtained 36 invention patents, 4 utility model patents, 1 national outstanding patent award and 6 copyrights.

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.

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 2017, the Group recorded revenue of approximately RMB2,481.4 million (the year ended 31 December 2016: approximately RMB1,841.8 million), representing an increase of approximately 34.7% as compared with the year ended 31 December 2016. The increase was mainly due to (1) the notable increase in the sales of coal mining machinery products along with the significant improvement in the coal industry; and (2) the significant increase in international revenue of port machinery products.

Other income and gains

For the year ended 31 December 2017, the Group's other income and gains was approximately RMB339.3 million (the year ended 31 December 2016: approximately RMB179.4 million), representing an increase of approximately 89.2%. The increase was mainly due to more government subsidies received by the Group during the current year.

Cost of sales

For the year ended 31 December 2017, the Group's cost of sales was approximately RMB1,743.8 million (the year ended 31 December 2016: approximately RMB1,565.7 million), representing an increase of approximately 11.4%. The increase of cost of sales was in line with the increase in product revenue.

Gross profit and gross profit margin

The gross profit of the Group was approximately RMB737.6 million for the year ended 31 December 2017 (the year ended 31 December 2016: approximately RMB276.2 million).

The gross profit of the Group excluding the impairment provisions for inventories provided for the year ended 31 December 2017 was RMB738.5 million (the year ended 31 December 2016: approximately RMB596.6 million).

The gross profit margin of the Group excluding the impairment provisions for inventories provided for the year ended 31 December 2017 was approximately 29.8%, representing a decrease of 2.6 percentage points against approximately 32.4% for the year ended 31 December 2016. The change of gross profit margin was mainly due to the net impact of the following reasons (1) reduced fixed costs per product unit resulting from increase in product sales; (2) increase in the proportion of sales of coal machinery product with high margin; (3) successful cost control measures; and (4) increase in purchase prices for raw materials of small port machinery.

Selling and distribution expenses

For the year ended 31 December 2017, the selling and distribution expenses of the Group were approximately RMB299.5 million (the year ended 31 December 2016: approximately RMB321.1 million), representing a year-on-year decrease of approximately 6.7%. For the year ended 31 December 2017, the ratio of the Group's selling and distribution expenses to revenue was approximately 12.1%, representing a year-on-year decrease of approximately 5.3 percentage points as compared with the year ended 31 December 2016 (the year ended 31 December 2016: approximately 17.4%). Such change was mainly due to successful cost control measures and improved marketing efficiency.

R&D expenses

For the year ended 31 December 2017, the R&D expenses of the Group were approximately RMB118.0 million (the year ended 31 December 2016: approximately RMB106.7 million), representing a year-on-year increase of approximately 10.6%. For the year ended 31 December 2017, its ratio to revenue was approximately 4.8%, representing a decrease of approximately 1.0 percentage point as compared with the year ended 31 December 2016 (the year ended 31 December 2016: approximately 5.8%). Such changes were mainly due to the impacts from (1) the increase in the R&D expenses arising from the increase in the Group's investment in the R&D for new coal machinery, mining transport equipment and port machinery products with an aim to adapt to market demand for products and improve the market competitiveness of products; and (2) the decline in the proportion of R&D expenses against total revenue in view of the increase in sales volume.

Administrative expenses

For the year ended 31 December 2017, administrative expenses of the Group were approximately RMB341.9 million (the year ended 31 December 2016: approximately RMB314.0 million). The administrative expenses excluding R&D expenses were approximately RMB223.9 million (the year ended 31 December 2016: approximately RMB207.3 million), representing a year-on-year decrease in the proportion of revenue by approximately 2.3 percentage points to approximately 9.0% (year ended 31 December 2016: approximately 11.3%). Such changes were mainly due to successful cost control measures and improved management efficiency.

Finance costs

For the year ended 31 December 2017, finance costs of the Group were approximately RMB2.6 million (the year ended 31 December 2016: approximately RMB2.2 million), and the increase was mainly due to: (1) new foreign currency borrowings of EUR55.0 million during the year; and (2) the refund of the principal of RMB160.0 million and interests of RMB2.9 million to National Development Fund during the year. See paragraph "Interest-bearing bank and other borrowings" in this report.

Profit/(loss) margin before tax

For the year ended 31 December 2017, the Group's profit margin before tax was approximately 12.7%, representing a year-on-year increase of approximately 51.1 percentage points as compared with loss margin before tax of approximately 38.4% for the year ended 31 December 2016. The change was mainly due to (1) increase in revenue; (2) increase in gross profit margin of coal machinery products; (3) successful cost control measures; and (4) the improvement in trade receivables collection due to coal mining industry recovery has led to the reduction in impairment losses recognised for the year ended 31 December 2017.

Taxation

For the year ended 31 December 2017, the Group's effective tax rate was 26.6% (the year ended 31 December 2016: 7.0%). For details regarding income tax, please refer to note 10.

Profit/(loss) attributable to owners of the parent

For the year ended 31 December 2017, profit attributable to owners of the parent recorded by the Group was approximately RMB229.4 million, as compared with the loss attributable to owners of the parent recorded by the Group of RMB644.4 million for the year ended 31 December 2016. For the main reasons of such change, please refer to the above paragraphs headed "Revenue", "Gross profit and gross profit margin" and "Profit/(loss) before tax".

Liquidity and financial resources

As at 31 December 2017, total current assets of the Group were approximately RMB5,097.1 million (31 December 2016: RMB4,246.4 million). As at 31 December 2017, total current liabilities of the Group were approximately RMB2,918.7 million (31 December 2016: RMB2,268.5 million).

As at 31 December 2017, total assets of the Group were approximately RMB11,199.1 million (31 December 2016: approximately RMB10,139.1 million), and total liabilities were approximately RMB4,836.9 million (31 December 2016: approximately RMB4,004.9 million). As at 31 December 2017, the gearing ratio (the asset to liability ratio) of the Group was approximately 43.2% (31 December 2016: 39.5%).

Trade and bills receivables

As at 31 December 2017, the Group's trade receivables and bills receivables recorded a decrease of approximately 1.0% to approximately RMB2,631.9 million as compared with approximately RMB2,659.3 million as at 31 December 2016, among which trade receivables decreased by approximately 3.3% to approximately RMB2,366.2 million as compared with approximately RMB2,446.0 million as at 31 December 2016; and bills receivables increased by approximately 24.6% to RMB265.7 million as compared with RMB213.3 million as at 31 December 2016. Such changes were mainly due to that the management of the Group insisted on the implementation of "value sales policy" (sales to customers with good cooperation records and high credibility), strengthened the management and control of trade receivables risk, enhanced the collection ability, and reduced trade receivables risks accordingly.

Interest-bearing bank and other borrowings

As at 31 December 2017, interest-bearing bank and other borrowings of the Group were approximately RMB429.1 million (31 December 2016: RMB161.4 million). Such change was due to: (1) a new foreign currency borrowing of RMB429.1 million from China Construction Bank Corporation Macau Branch; (2) termination of the investment agreement entered into with National Development Fund, pursuant to which the Group refunded in full the investment amount of RMB160.0 million plus interest of RMB2.9 million, representing the interest accrued at the annual interest of 1.2% to National Development Fund. For further details, please refer to the announcement dated 15 September 2017.

Cash flow

As at 31 December 2017, cash and cash equivalents of the Group, investment deposits and deposits with maturity of three months or more were approximately RMB814.6 million in total.

For the year ended 31 December 2017, the net cash inflow of the Group from operating activities was approximately RMB607.1 million (the year ended 31 December 2016: excluding factoring effects, net cash inflow of approximately RMB325.9 million). Such change was mainly due to: improvement in receivables attributable to that the management of the Group insisted on the implementation of "value sales policy", strengthened the management and control of trade receivable risk, enhanced the ability to recovery funds, and further caused the increase of net cash inflow from recovered trade receivables.

For the year ended 31 December 2017, the net cash outflow to investing activities of the Group was approximately RMB887.9 million (the year ended 31 December 2016: net cash outflow of approximately RMB544.5 million). Such change was mainly due to the acquisition of land use right by the Group in Zhuhai to improve the employees' housing.

For the year ended 31 December 2017, the net cash inflow of the Group from financing activities was approximately RMB266.3 million (the year ended 31 December 2016: net cash outflow of approximately RMB474.2 million). Such change was mainly due to the increase in foreign currency borrowings of the Group.

Turnover days

Excluding the impairment losses for inventories provided, the Group's average turnover days of inventory were approximately 305.6 days as at 31 December 2017, representing a decrease of approximately 58.7 days from 364.3 days as at 31 December 2016, which was mainly because the Company has implemented stricter inventory control during manufacturing process during the current year and the sharp increase in sales orders also accelerated the inventory turnover.

The turnover days of trade and bills receivables as at 31 December 2017 were approximately 389.2 days, representing a decrease of 205.8 days from approximately 595.0 days as at 31 December 2016. Please refer to the above paragraphs headed "Revenue" and "Trade and bills receivables" for the main reasons of such decrease.

Excluding the impairment losses for inventories provided, turnover days of trade and bills payables decreased by approximately 38.4 days from approximately 263.4 days as at 31 December 2016 to approximately 225.0 days as at 31 December 2017, which was mainly because the Company speeded up the payment to suppliers during the current year to ensure sufficient raw materials for the increasing sales orders.

Contingent liabilities

As at 31 December 2017, the Group had contingent liability of RMB90.6 million, being the financial guarantee provided by Hunan Sany Port Equipment under financing lease arrangement (31 December 2016: RMB156.8 million).

Capital commitment

As at 31 December 2017, the contracted capital commitments of the Group which are not provided for in the financial statements were approximately RMB3,569.7 million (31 December 2016: approximately RMB3,941.8 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

Reference is made to the announcement dated 5 December 2017, pursuant to which, the Group agreed to dispose Shanxi Sany Coal Mining Equipment Co., Ltd.* (山西三一煤機裝備有限公司), a wholly-owned subsidiary of the Group, to an independent third party for a consideration of RMB127.2 million and such buyer also agreed to undertake the shareholder's loan amounting to RMB116.9 million. As at the date of this report, the disposal has not been completed yet.

There were no significant investments held, no other material acquisitions or disposals of subsidiaries, associates and joint ventures during the year.

Pledge on assets

As at 31 December 2017, the Group recorded pledged deposits with an aggregate value of approximately RMB15.3 million (31 December 2016: approximately RMB27.2 million), for the purpose of issuing bills payable. As at 31 December 2017, none of the Group's bank loans were secured by property, plant and equipment and prepaid land lease payments (31 December 2016: Nil).

Foreign exchange risk

As at 31 December 2017, the Group's cash and bank balances denominated in foreign currency such as US$ and Euro were equivalent to approximately RMB89.9 million. The Group will monitor the risk exposures and may consider hedging against material currency risk if required.

Social responsibility

The Group has a high sense of social responsibility. Apart from its commitment to business growth, it also actively participates in social activities to support public welfare, striving to contribute to the local economy, people's livelihood and harmonious environment. In addition to cash donations to charity organizations, the management and staff of the Group provides human and material resources to help and support local community development. 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

Looking ahead, the global economy will continue to recover, which benefit the energy equipment and port machinery industry overall. Under the positive external environment, the Company will adhere to the principle of seeking progress amidst stability, focus on improving its operating capabilities, build the core competitiveness, and proceed with the research and development of flagship products, business system reshaping, process streamlining, treasure talent, value marketing and in-depth internationalization. The Company will strive for sound, efficient and sustainable operations, turning a new page for the development of the Group.

DIVIDENDS

Special Dividend

On 23 January 2018, the Board resolved the declaration and payment of the special dividend of HK$0.18 per ordinary share of the Company, amounting to approximately HK$547,384,500 in total, to be payable to the shareholders of the Company whose names appear on the Company's register of members at the close of business on Monday, 12 February 2018. Such special dividend has been distributed on 15 March 2018.

Reference is also made to the circular of the Company dated 30 November 2014 in relation to, among others, issue of 479,781,034 convertible preference shares (the "Convertible Preference Shares") of the Company to Sany Hongkong Group Limited. According to the terms of the Convertible Preference Shares, (1) each Convertible Preference Share shall confer on the holder thereof the right to receive a preferred distribution (the "Preferred Distribution") from the issue date of the Convertible Preference Share at a rate of 0.01% per annum on the issue price, and (2) in addition to the Preferred Distribution, each outstanding Convertible Preference Share shall confer, in case of any dividend or distribution being declared and paid by the Company to holders of the ordinary shares, on the holder thereof the same entitlement to dividend or distribution as holder of the number of ordinary shares into which such Convertible Preference Share may be converted upon exercise of conversion rights attached thereto.

As of 23 January 2018, there were 479,781,034 outstanding Convertible Preference Shares registered under the name of Sany Hongkong Group Limited. Accordingly, the holder of the outstanding Convertible Preference Shares are entitled to (a) the Preferred Distribution of approximately HK$289,164, representing the preferred distribution accumulated from the issue date of the Convertible Preference Shares to 31 December 2017, and (b) the special dividend of HK$0.18 per Convertible Preference Share, amounting to approximately HK$86,360,586.1, both of which will be paid on a date as otherwise agreed by the Company and the holder of the Convertible Preference Shares.

Final Dividend

The Board does not recommend any final dividend for the year ended 31 December 2017.

Executive Directors

Mr. Qi Jian (戚建), aged 58, 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. Fu Weizhong (伏衛忠), aged 44, was appointed as an executive Director and a member of the Strategic Investment Committee on 13 March 2018.

Mr. Fu acted as the director of the marine machinery operation department of the Group from January 2015 to September 2016 and once acted as an executive Director and a member of the Strategic Investment Committee from August 2015 to September 2016. Mr. Fu joined Sany Group in May 2000 and held various management positions in Sany Group since then and during the period from October 2016 to September 2017, including the director of the customer service department of Sany Heavy Industry, the assistant to the president of Sany Heavy Industry, the general manager of the US operation department of Sany Group, the deputy general manager of Sany Heavy Industry, the vice president of Sany Heavy Industry, the general manager of the overseas operation department of Sany Group, the general manager of Beijing Sany Heavy Machinery Co., Ltd. (北京三一重機有限公司), a subsidiary of Sany Group, the general manager of Sany Heavy Energy Equipment Co., Ltd. (三一重型能源裝備有限公司), and the vice president of Sany Group.

Mr. Fu obtained a master's degree of business administration from China Europe International Business School in September 2011.

Mr. Zhang Zhihong (張志宏), aged 47, was appointed as an executive Director and a member of the Strategic Investment Committee of the Company on 5 July 2017.

Mr. Zhang was appointed as the general manager of Sany Heavy Equipment, a wholly-owned subsidiary of the Company, on 31 May 2017. During the period from July 2016 to May 2017, Mr. Zhang served in Sany Heavy Energy Machinery Co., Ltd. (三一重型能源裝備有限公司), a subsidiary of Sany Group, including the deputy general manager of the marketing department and the general manager. During the period from February 2010 to June 2016, Mr. Zhang also served various positions in Sany Heavy Equipment, including the director of manufacturing operations and the deputy general manager. Mr. Zhang worked in Sany Group, and its subsidiaries from May 2000 to January 2010 including the digging machine plant of the research institute of Sany Heavy Industry (三一重工研究院挖機所), Sany Heavy Machinery Co., Ltd. (三一重機有限公司), Sany Heavy Road Machine (三一重工路面機械), pump business department of Sany Heavy Industry (三一重工泵送事業部), Lean Quality Headquarter (精益品質總部) and Loudi Zhongxing Hydraulic Parts. Co., Ltd. (婁底市中興液壓件有限公司). Before joining Sany Group in May 2000, Mr. Zhang had worked in Changsha Heavy Machinery Plant (長沙重型機械廠) for seven years.

Mr. Zhang studied in Hunan Agricultural University (湖南農業大學) from September 1990 to June 1994 majoring in mechanical design and manufacturing and obtained a bachelor's degree in June 1994, and he studied EMBA in Huazhong University of Science and Technology (華中科技大學) from November 2006 to December 2011 and obtained a master's degree in December 2011.

Non-executive Directors

Mr. Tang Xiuguo (唐修國), aged 55, 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 56, 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 non-state-owned companies 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 56, 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 53, 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 55, was appointed as an independent non-executive Director of the Company on 18 December 2015.

Mr. Poon has many 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 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), TUS International Ltd. (啟迪國際有限公司) (formerly known as Jincheng Automotive Safety Technology Holdings Limited (錦恒汽車安全技術控股有限公司)) (stock code: 872), Greentown Service Group Co. Ltd. (綠城物業服務集團有限公司) (stock code: 2869), Jinchuan Group International Resources Co. Ltd (金川集團國際資源有限公司) (stock code: 2362), Honghua Group Limited (宏華集團有限公司) (stock code: 196, with effect from 15 June 2017) and Yanzhou Coal Mining Company Limited (兗州煤業股份有限公司) (stock code: 1171, with effect from 29 June 2017). He also serves as a non-executive director of Chong Kin Group Holdings Limited (創建集團(控股)有限公司) (stock code: 1609), with effect from 5 January 2018.

Mr. Poon is a fellow of CPA Australia, 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, Mainland China Focus Group, Audit Committee 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.

Mr. Hu Jiquan (胡吉全), aged 60, 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.

Senior Management

Mr. Zhu Xiangjun (**朱向軍**), aged 34, 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.

Joint Company Secretaries

Mr. Yu Leung Fai (余亮暉), aged 40, 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 Managing Director. 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.

Mr. Zhu Xiangjun (朱向軍), his biography is set out in the Senior Management section of Directors and Senior Management of this Annual Report.

The Board is pleased to present their report and the audited financial statements of the Group for the year ended 31 December 2017.

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 2017 are set out in the financial statements on pages 63 to 143 of this annual report.

The Company has not declared any dividend during the year ended 31 December 2017. The Board resolved not to declare any final dividend for the year ended 31 December 2017.

The Company declared the special dividend of HK$0.18 per ordinary Share of the Company to the holders of the ordinary Shares on 23 January 2018 and the holder of the 479,781,034 convertible preference shares accordingly enjoys the same entitlement to dividend or distribution as holder of the number of ordinary Shares and the preferred distribution, as passed by extraordinary shareholders in 2014.

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 144 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 2017 are set out in note 26 to the financial statements.

Distributable Reserves

As at 31 December 2017, 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 RMB3,899 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 2017 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 Schemes

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.

Upon adoption, the initial 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.

On 12 December 2017, the scheme mandate limit under the Share Option Scheme was refreshed with a maximum number of 304,102,500 Shares, being 10% of the Shares in issue as at 12 December 2017 and 10% of the Shares in issue as at the date of this report. As at the date of this report, the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes of the Company is 138,300,000 Shares, representing 4.55% of the Shares in issue of the Company 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 during the year ended 31 December 2017 are as follows:

Category of participants	Date of grant[1]	Exercise price per share (HK$)	Outstanding at 1 January 2017	Granted during the year	Exercised during the year	Forfeited/ Lapsed during the year[2]	Outstanding at 31 December 2017
Directors							
Mr. Qi Jian	15 December 2017	1.22	–	6,000,000	–	–	6,000,000
Mr. Fu Weizhong	15 December 2017	1.22	–	6,000,000			6,000,000
Mr. Zhang Zhihong	15 December 2017	1.22	–	4,000,000	–	–	4,000,000
Mr. Poon Chiu Kwok	15 December 2017	1.22	–	1,000,000	–	–	1,000,000
Mr. Ng Yuk Keung	15 December 2017	1.22	–	1,000,000	–	–	1,000,000
Mr. Hu Jiquan	15 December 2017	1.22	–	1,000,000	–	–	1,000,000
Employees	15 December 2017	1.22	–	116,900,000	–	–	116,900,000
Employees	29 December 2017	1.71	–	2,400,000	–	–	2,400,000
Total			–	138,300,000	–	–	138,300,000

Notes:

(1) Share options granted under the Share Option Scheme on 15 December 2017 and 29 December 2017 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 the 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"):

Vesting Date	Percentage of Share Option
If the audited net profit for the year ending 31 December 2018 represents an increase of 20% or more as compared to that of the year ending 31 December 2017, the Vesting Date will be the date when the annual results announcement for the year ending 31 December 2018 is published.	50% of the total number of share options granted
If the audited net profit for the year ending 31 December 2019 represents an increase of 40% or more as compared to that of the Year ending 31 December 2017, the Vesting Date will be the date when the annual results announcement for the year ending 31 December 2019 is published.	25% of the total number of share options granted

Vesting Date	Percentage of Share Option
If the audited net profit for the year ending 31 December 2020 represents an increase of 60% or more as compared to that of the year ending 31 December 2017, the Vesting Date will be the date when the annual results announcement for the year ending 31 December 2020 is published.	25% of the total number of share options granted

Exercise of the share options is conditional upon the achievement of certain performance targets as set out in the respective offer letters, during the relevant exercise period.

(2) The Company granted 28,524,000 share options on 26 February 2013 at the exercise price of HK$4.18 per Share, all of which had lapsed on dispatch date of the Company's 2016 annual report.

Save as disclosed above, no share option was granted, exercised, lapsed, or cancelled during the year ended 31 December 2017.

Major Suppliers and Customers

During the year under review, the aggregate sales attributable to the Group's five largest customers comprised approximately 30.8% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 16.2% of the Group's total sales. The aggregate purchases during the year under review attributable to the Group's five largest suppliers were approximately 12.7% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 4.2% 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, the Group made a total donation of RMB1,475,000 (2016: Nil).

Property, Plant and Equipment

During the year ended 31 December 2017, the Group held property, plant and equipment of approximately RMB2,584.8 million. Details of the movements are set out in note 14 to the financial statements.

Repurchase, Sale or Redemption of the Company's Shares

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the listed shares of the Company (2016: 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

Looking ahead, the global economy will continue to recover, which will further benefit the energy equipment and port machinery industry overall. Under the positive external environment, the Company will adhere to the principle of seeking progress amidst stability, focus on improving its operating capabilities, build the core competitiveness, and proceed with the research and development of flagship products, business system reshaping, process streamlining, treasure talent, value marketing and in-depth internationalization. The Company will strive for sound, efficient and sustainable operations, turning a new page for the development of the Group.

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 2017 and up to the date of this report, we have complied with the relevant laws and regulations in the mainland China and Hong Kong 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. Fu Weizhong *(appointed on 13 March 2018)*
Mr. Zhang Zhihong *(appointed on 5 July 2017)*

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

Note: Mr. Wu Likun resigned as an executive Director, with effect from 5 July 2017.

In accordance with article 83(3) of the Company's articles of association, Mr. Zhang Zhihong and Mr. Fu Weizhong 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. Qi Jian, Mr. Xiang Wenbo and Mr. Poon Chiu Kwok 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

The current executive Directors have entered into a service agreement with the Company for an initial term of three years commencing from 6 August 2015 for Mr. Qi Jian, 13 March 2018 for Mr. Fu Weizhong and 5 July 2017 for Mr. Zhang Zhihong. The non-executive Directors have entered into a service agreement with the Company for an initial term of three years commencing from 28 September 2017 for Mr. Tang Xiuguo, 25 December 2015 for Mr. Xiang Wenbo and 28 September 2017 for Mr. Mao Zhongwu, respectively. The independent non-executive Directors have 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 2017. 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 16 to 21 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 2017 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 2017, 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 the Company:

Name	Capacity	Number of Ordinary Shares as at 31 December 2017	Percentage of total issued share capital as at 31 December 2017
Mr. Qi Jian [(1)]	Beneficial owner	6,000,000	0.2%
Mr. Fu Weizhong [(2)]	Beneficial owner	6,000,000	0.2%
Mr. Zhang Zhihong [(3)]	Beneficial owner/Interest of spouse	4,099,000	0.13%
Mr. Tang Xiuguo	Interest of spouse	1,000,000	0.03%
Mr. Poon Chiu Kwok [(4)]	Beneficial owner	1,000,000	0.03%
Mr. Ng Yuk Keung [(5)]	Beneficial owner	1,000,000	0.03%
Mr. Hu Jiquan [(6)]	Beneficial owner	1,000,000	0.03%

Notes:

(1) *The 6,000,000 Shares in which Mr. Qi Jian is deemed to be interested represent the 6,000,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 December 2017 under the Share Option Scheme.*

(2) *Mr. Fu Weizhong was appointed as a Director with effect from 13 March 2018. The 6,000,000 Shares in which Mr. Fu Weizhong is deemed to be interested represent 6,000,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 December 2017 under the Share Option Scheme.*

(3) *The 4,099,000 Shares in which Mr. Zhang Zhihong is deemed to be interested represent (i) the 4,000,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 December 2017 under the Share Option Scheme; and (ii) the 99,000 Shares held by his spouse.*

(4) *The 1,000,000 Shares in which Mr. Poon Chiu Kwok is deemed to be interested represent the 1,000,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 December 2017 under the Share Option Scheme.*

(5) *The 1,000,000 Shares in which Mr. Ng Yuk Keung is deemed to be interested represent the 1,000,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 December 2017 under the Share Option Scheme.*

(6) *The 1,000,000 Shares in which Mr. Hu Jiquan is deemed to be interested represent the 1,000,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 December 2017 under the Share Option Scheme.*

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).*

Save as disclosed above, as at 31 December 2017, 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 2017, 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 2017, 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 2017 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 2017, the Group's total contributions to the retirement schemes charged in the income statement amounted to RMB22.7 million (2016: RMB20.4 million). Details of the Group's pension scheme are set out in note 6 to the financial statements.

Code on Corporate Governance Practices

The Company is committed to the establishment of good corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company therefore strives to attain and maintain effective corporate governance practices and procedures. Except for the deviation from code A.2.1 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 2017. The Group's principal corporate governance practices are set out on pages 45 to 55 of the annual report.

Connected Transaction

During the year ended 31 December 2017, 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 (2017-2019)

On 16 March 2017, the Company and Sany Group entered into the supplemental master purchase agreement (the "Supplemental Master Purchase Agreement (2017-2019)") with a fixed term of three years ending 31 December 2019, pursuant to which the Company agreed to purchase or procure its subsidiaries to purchase from Sany Group or its subsidiaries (1) certain parts and components produced by Sany Group or its subsidiaries and (2) certain second-hand manufacturing equipment, for the manufacturing of products 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 will 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 is available to Independent third parties. Due to confidentiality concern of certain technical information, the Group only procures 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 2016 and it is expected that such procurement will remain to the same extent for three years ending 31 December 2019. 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 can be easily accessible in the market, the Group will follow 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 will be determined on arm's length negotiation and with reference to the below formula, which is 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 equipment of the Group, no matter whether they are procured from Independent third parties or Sany Group, and should be in any event no less favorable to the Group than is 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%" represents the minimum residual value of equipment and "10 years" represents the maximum durable years of equipment and both of them are set according to the Group's accounting policy.

The Company shall purchase second-hand machine tools which have been acquired by Sany Group and its subsidiaries for no more than three years.

It was proposed that the annual caps under the Supplemental Master Purchase Agreement (2017-2019) for each of the financial years ended 31 December 2019 would not exceed RMB215,954,000, RMB303,504,000 and RMB401,578,000, respectively. The annual caps of the Supplemental Master Purchase Agreement (2017-2019) are calculated and determined after taking into account (i) the historical transaction amount, and (ii) the estimated procurement plan of the Group for the three years ending 31 December 2019 in line with the sales forecast.

During the year under review, the actual transactions under the Supplemental Master Purchase Agreement (2017-2019) amounted to RMB181,069,000, which was within the annual cap amount of RMB215,954,000. Further details of the Supplemental Master Purchase Agreement (2017-2019) were set out in the announcement of the Company dated on 16 March 2017 and the circular of the Company dated 4 May 2017.

(2) Supplemental Master Sales Agreement (2017-2019)

On 16 March 2017, the Company and Sany Group entered into the supplemental master sales agreement (the "Supplemental Master Sales Agreement (2017-2019)") with a fixed term of three years ending 31 December 2019, pursuant to which the Company (or its subsidiaries) agreed to sell to Sany Group (or its subsidiaries) raw materials including steel parts and components which were originally sourced by the Group for its own manufacturing and certain second-hand manufacturing equipment for the production of Sany Group's products.

Raw Materials

The basis of determining prices of raw materials will be determined based on the arm's length negotiation and with reference to the original procurement costs of raw materials sourced by the Group or the value of the raw materials as shown in the SAP financial software of the Group, which should be in any event no less favorable to the Group than is available to independent third parties.

Second-hand Manufacturing Equipment

The basis of determining prices of the second-hand manufacturing equipment will be determined on arm's length negotiation and with reference to the below formula, which is 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 equipment of the Group, and should be in any event no less favorable to the Group than is 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%" represents the minimum residual value of equipment and "10 years" represents the maximum durable years of equipment and both of them are set according to the Group's accounting policy.

The Company shall sell second-hand manufacturing equipment which has been acquired by the Company for no less than three years.

It was proposed that the annual caps under Supplemental Master Sales Agreement (2017-2019) for each of the financial years ended 31 December 2019 would not exceed RMB100,150,000, RMB101,390,000 and RMB103,180,000, respectively. The proposed annual caps under the Supplemental Master Sales Agreement (2017-2019) are determined with reference to (i) the historical transaction amount, and (ii) Sany Group's anticipated increasing demand for raw materials and second-hand manufacturing equipment.

During the year under review, the actual transactions under the Supplemental Master Sales Agreement (2017-2019) amounted to RMB17,526,000, which was within the annual cap amount of RMB100,150,000. Further details of the Supplemental Master Sales Agreement (2017-2019) were set out in the announcement of the Company dated on 16 March 2017.

(3) Supplemental Master Transportation Agreement (2017-2019)

On 16 March 2017, 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 (2017-2019)") with a fixed term of three years ending 31 December 2019, 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 and equipment.

The service fees payable shall 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 is available to independent third parties.

It was proposed that the annual caps under Supplemental Master Transportation Agreement (2017-2019) for each of the financial years ended 31 December 2019 would not exceed RMB49,790,000, RMB63,830,000 and RMB81,610,000, respectively. The proposed annual caps under the Supplemental Master Transportation Agreement (2017-2019) are 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 (2017-2019) amounted to RMB44,102,000, which was within the annual cap amount of RMB49,790,000. Further details of the Supplemental Master Transportation Agreement (2017-2019) were set out in the announcement of the Company dated on 16 March 2017.

(4) Supplemental Products Sales Agreement (2017-2019)

On 16 March 2017, the Company and Sany Group entered into the supplemental products sales agreement (the "Supplemental Products Sales Agreement (2017-2019)") with a fixed term of three years ending 31 December 2019, 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. On 20 March 2017, the Company and Sany Group entered into the revised supplemental products sales agreement (the "Supplemental Products Sales Agreement (2017-2019) (Revised)"), pursuant to which the annual caps under the Supplemental Products Sales Agreement (2017-2019) were amended.

Since the Supplemental Products Sales Agreement (2017-2019) serves 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 sells the finished products to end-customers through Sany Group's sales network, under an arrangement which Sany Group does not actually receive any mark-up against the prices under the Supplemental Products Sales Agreement (2017-2019), the prices of the finished products under the Supplemental Products Sales Agreement (2017-2019) are 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 is the same as that the Group charges on Independent Third Party customers when the Group sells the finished products to them directly. In any event, the prices at which the Company (or its subsidiaries) sells its product(s) to Sany Group (or its subsidiaries) shall not be less than the price at which the Company (or its subsidiaries) sells the same product(s) to other distributors.

It was proposed that the annual caps for each of the financial years ended 31 December 2019 under Supplemental Products Sales Agreement (2017-2019), as amended by the Supplemental Products Sales Agreement (2017-2019) (Revised), would not exceed RMB993,000,000, RMB995,000,000, and RMB996,000,000, respectively. The proposed annual caps are calculated and determined after taking into account (i) the Group's anticipated manufacturing capacity for the years ending 31 December 2019; (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; (iii) the PRC government's preferential policy which expects to stimulate the development of the Group's port machinery and mining machinery business; and (iv) the revenue limit that the aggregate amount of sales of products from the Group to Sany Group under the Supplemental Products Sales Agreement (2017-2019) (Revised), as aggregate with those under the Supplemental Master Sales Agreement (2017-2019) shall not exceed 50% of the Group's then total revenue in each of the financial year during the term of the Supplemental Products Sales Agreement (2017-2019) (Revised).

During the year under review, the actual transactions under the Supplemental Products Sales Agreement (2017-2019) amounted to RMB402,813,000, which was within the annual cap amount of RMB993,000,000. Further details of the Supplemental Products Sales Agreement (2017-2019) and the Supplemental Products Sales Agreement (2017-2019) (Revised) were set out in the announcements of the Company dated on 16 March 2017 and 20 March 2017 and the circular of the Company dated 4 May 2017.

(5) Supplemental Hunan Lease (2017-2019)

On 16 March 2017, Hunan Sany Port Equipment Co., Ltd.* (湖南三一港口設備有限公司) ("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 agreement (the "Supplemental Hunan Lease (2017-2019)") with a fixed term of three years ending 31 December 2019, pursuant to which, Sany Auto Manufacturing agreed to lease the Hunan Property (as illustrated below) and the Hunan R&D Property (as illustrated below) to Hunan Sany Port Equipment.

Hunan Property: certain premises of the factory buildings owned by Sany Auto Manufacturing with a total floor area of approximately 60,123 sq.m. located in Sany Industry Town, Xingsha Town, Changsha County, Hunan Province, the PRC.

Hunan R&D Property: 3rd floor of R&D building and 5th floor of R&D building owned by Sany Auto Manufacturing located in Sany Industry Town, Xingsha Town, Changsha County, Hunan Province, the PRC, with a total floor area of approximately 9,777 sq.m.

It was proposed that the annual caps for each of the financial years ended 31 December 2019 under the Supplemental Hunan Lease (2017-2019), would not exceed RMB7,150,000, RMB8,030,000 and RMB8,800,000, respectively, determined based on the annual rental payable by Hunan Sany Port Equipment pursuant to the Supplemental Hunan Lease (2017-2019) and expected expansion of the leasing area in line with the expanding manufacturing capacity.

During the year under review, the actual transactions under the Supplemental Hunan Lease (2017-2019) amounted to RMB5,978,000, which was within the annual cap amount of RMB7,150,000. Further details of the Supplemental Hunan Lease (2017-2019) were set out in the announcement of the Company dated on 16 March 2017.

(6) Supplemental Utility Charges Payment Agreement (2017-2019)

On 16 March 2017, Hunan Sany Port Equipment and Sany Auto Manufacturing entered into the supplemental utilities charge payment agreement (the "Supplemental Utility Charges Payment Agreement (2017-2019)") with a fixed term of three years ending 31 December 2019, pursuant to which, Hunan Sany Port Equipment agreed to pay electricity and water charges incurred by it under the Supplemental Hunan Lease to Sany Auto Manufacturing, which in turn shall pay such charges to the relevant authorities.

The relevant electricity and water charges shall 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 Hunan Lease (2017-2019).

It was proposed that the annual caps for each of the financial years ended 31 December 2019 under the Supplemental Utility Charges Payment Agreement (2017-2019), would not exceed RMB6,620,000, RMB8,640,000 and RMB12,100,000, respectively. The proposed annual cap is 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 (2017-2019).

During the year under review, the actual transactions under the Supplemental Utility Charges Payment Agreement (2017-2019) amounted to RMB4,645,000, which was within the annual cap amount of RMB6,620,000. Further details of the Supplemental Utility Charges Payment Agreement (2017-2019) were set out in the announcement of the Company dated on 16 March 2017.

(7) Supplemental Hoisting Equipment Lease Agreement (2017-2019)

On 16 March 2017, the Company and Hunan Equipment Engineering Co., Ltd.* (湖南中泰設備工程有限公司) ("Hunan Zhongtai") entered into the supplemental hoisting equipment lease agreement (the "Supplemental Hoisting Equipment Lease Agreement (2017-2019)") with a fixed term of three years ending 31 December 2019, pursuant to which, the Company agreed to lease hoisting equipment from Hunan Zhongtai 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 shall 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's quotes available to any lessees who are Independent third parties for similar lease arrangements, and shall 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 annual caps for each of the financial years ended 31 December 2019 under the Supplemental Hoisting Equipment Lease Agreement (2017-2019), would not exceed RMB3,850,000, RMB4,950,000 and RMB6,600,000, respectively. The proposed annual cap is calculated and determined after taking into account the historical amount and the scale of Zhuhai Industrial Park and anticipated hoisting services needed.

During the year under review, the actual transactions under the Supplemental Hoisting Equipment Lease Agreement (2017-2019) amounted to RMB2,878,000, which was within the annual cap amount of RMB3,850,000. Further details of the Supplemental Hoisting Equipment Lease Agreement (2017-2019) were set out in the announcement of the Company dated on 16 March 2017.

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.

One-off Connected Transactions

(1) Structured Deposit Agreement

On 30 October 2017, the Company entered into a structured deposit agreement (the "Structured Deposit Agreement") with Sanxiang Bank, pursuant to which the Company agreed to deposit a maximum principal amount of RMB150 million for an investment period for 14 calendar months from 1 November 2017, as the commencement date, to 31 December 2018, as the expected maturity date. The Structured Deposit Agreement is principal-guaranteed and interest-guaranteed with the floating rate subject to the actual investment term upon maturity or redemption. The expected interest to be obtained by the Company ranges from RMB1,687,500 to RMB8,137,500.

Sanxiang Bank is held by Sany Group as to 18% and Hunan Sany Intelligent as to 12%. Sany Group is held by Mr. Liang Wengen as to 56.42% and Hunan Sany Intelligent is a wholly-owned subsidiary of Sany Heavy Industry, which is in turn a non-wholly owned subsidiary of Sany Group. As such Sanxiang Bank, being a 30%-controlled company of Mr. Liang Wengen, 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.

As each of the applicable percentage ratios of the Structured Deposit Agreement is more than 0.1% but less than 5%, the transaction thereunder constitutes a connected transaction of the Company and is subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

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 6 June 2018.

The register of members of the Company will be closed from Thursday, 31 May 2018 to Wednesday, 6 June 2018, 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 Wednesday, 6 June 2018. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Wednesday, 6 June 2018, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 30 May 2018.

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 2017.

Auditors

The consolidated financial statements for the year ended 31 December 2017 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, 28 March 2018

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 provision A.2.1, the Company has complied with the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules from 1 January 2017 to 31 December 2017.

In accordance with code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Further, the division of responsibilities between the chairman and chief executive officer should be clearly established. Mr. Qi Jian is both of the chairman of the Board and the chief executive officer of the Company. The Board considers vesting the role of both the chairman of the Board and the chief executive officer of the Company in Mr. Qi Jian because Mr. Qi Jian has in-depth knowledge in the business of the Company and can make appropriate decisions promptly and efficiently and this arrangement provides the Company with consistent leadership and facilitates effective and efficient planning and implementation of business decisions and strategies. The Board believes this structure did not impair the balance of power and authority between the Board and the management of the Company. As the Board comprises of experienced and qualified calibre (including sufficient number of independent non-executive Directors), balance between duty and right can be assured. The Board will continue to review the effectiveness of the Company's corporate governance structure to assess whether the separation of the positions of chairman of the Board and chief executive officer of the Company is necessary.

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 2017.

The Board

The Board currently consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. The executive Directors are Mr. Qi Jian, Mr. Fu Weizhong (appointed on 13 March 2018) and Mr. Zhang Zhihong (appointed on 5 July 2017). 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 (possessing professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(2) of the Listing Rules) 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.

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint three independent non-executive Directors, representing more than one-third of the Board. 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

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 Tricor Services Limited. On the same date, Mr. Yu Leung Fai of Harris Corporate Solutions Limited, an external service provider, has been engaged by the Company as its joint company secretary to act jointly with Mr. Zhu Xiangjun (appointed on 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		Corporate Governance/ Laws, Other Professional Skills	
	Read materials	Attend Seminars Briefings/(Times)	Read materials	Attend Seminars Briefings/(Times)
Mr. Zhu Xiangjun		1 (15.0 hours in total)		2 (6.0 hours in total)
Mr. Yu Leung Fai		6 (24 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 2017, the Audit Committee held two meetings. The Group's unaudited interim results for the six months ended 30 June 2017 and the audited annual results for the year ended 31 December 2017 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 selection and appointment of the external auditors and the risk management and internal control systems of the Group.

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. Poon Chiu Kwok, Mr. Ng Yuk Keung and Mr. Hu Jiquan. Mr. Poon Chiu Kwok was appointed as the chairman of the Remuneration Committee.

During the year ended 31 December 2017, the Remuneration Committee held two meetings. During the year ended 31 December 2017, the Remuneration Committee reviewed the remuneration packages of the Directors and the senior management.

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 2017, the Nomination Committee held two meetings. The Nomination Committee reviewed and recommended the appointment of Mr. Zhang Zhihong as a 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 five members were Mr. Fu Weizhong (appointed on 13 March 2018), Mr. Zhang Zhihong (appointed on 5 July 2017, and Mr. Wu Likun resigned as a member of the Strategic Investment Committee of the Company on the same date), 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 2017, 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 2017, 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 2017 is set out below:

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Strategic Investment Committee	General Meeting
Executive Directors						
Mr. Qi Jian *(Chairman)*	15/15	N/A	N/A	2/2	0/0	3/3
Mr. Wu Likun (1)	5/15	N/A	N/A	N/A	0/0	2/3
Mr. Zhang Zhihong (2)	10/15	N/A	N/A	N/A	0/0	1/3
Non-executive Directors						
Mr. Tang Xiuguo	15/15	N/A	N/A	N/A	N/A	3/3
Mr. Xiang Wenbo	15/15	N/A	N/A	N/A	N/A	3/3
Mr. Mao Zhongwu	15/15	N/A	N/A	N/A	0/0	3/3
Independent non-executive Directors						
Mr. Ng Yuk Keung	15/15	2/2	2/2	N/A	0/0	3/3
Mr. Poon Chiu Kwok	15/15	2/2	2/2	2/2	0/0	3/3
Mr. Hu Jiquan	15/15	2/2	2/2	2/2	N/A	3/3

Notes:

(1) Mr. Wu Likun resigned as an executive Director and a member of the Strategic Investment Committee of the Company, with effect from 5 July 2017.

(2) Mr. Zhang Zhihong was appointed as an executive Director and a member of the Strategic Investment Committee of the Company, with effect from 5 July 2017.

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 2017, 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 2017:

	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[1]				
Mr. Qi Jian	✓	✓	✓	✓
Mr. Zhang Zhihong	✓	✓	✓	✓
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	✓	✓	✓	✓

Note:

(1) Mr. Fu Weizhong was appointed on 13 March 2018.

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 2017 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 2017 amounted to RMB2.49 million, details of which are as follows:

Types of service	RMB'000
Audit service	2,480
Non-audit service	14

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 57 to 62 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 2017 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 2017.

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 and Technological Development Zone, Shenyang, Liaoning Province, PRC 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 2017, 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. Fu Weizhong (appointed on 13 March 2018)
Mr. Zhang Zhihong (appointed on 5 July 2017)

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. Fu Weizhong (appointed on 13 March 2018)
Mr. Zhang Zhihong (appointed on 5 July 2017)
Mr. Mao Zhong Wu
Mr. Ng Yuk Keung
Mr. Poon Chiu Kwok

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Cayman Islands

Principal Place of Business in Hong Kong
Room 2010
Landmark North
No. 39 of Lung Sum AV
Sheung Shui
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
Minsheng Bank

Auditors
Ernst & Young
Certified Public Accountants

Legal Advisers
Luk & Partners in Association with Morgan, Lewis & Bockius (as to Hong Kong law)
Jingtian & Gongcheng (as to PRC law)

Stock Code
00631

Hong Kong Share Registrar
Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17th Floor
Hopewell Centre
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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 63 to 143 which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 2017, the Group had trade receivables of RMB1,606,230,000, net of a provision for impairment of RMB759,941,000. The balance of trade receivables accounted for 14% of the total assets, which was 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 ageing 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, 6 and 20 to the consolidated financial statements.	• 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 ageing of trade receivables, values of pledged assets, the repayment histories of the debtors and future repayment plans for the material overdue receivables; • Obtained direct external confirmations on a samples basis for 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 2017, the carrying value of goodwill amounted to RMB1,129,520,000, which was material to the Group. The Group is required to perform the impairment test for goodwill allocated to Port Machinery cash-generating unit (the "CGU") annually. The impairment test is based on the recoverable value of the CGU. Management's assessment process is complex and highly judgmental, including the degree of subjectivity of future cash flow forecasts, associated growth rates and discount rate applied. Related disclosures are included in notes 2.4, 3 and 16 to the consolidated financial statements.	• Reviewed the cash flow forecast for the CGU to which the goodwill is allocated, and 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 the management; • Compared the assumptions used in the forecasts with the historical performance and the business development plan based on the industry trend and the historical performance of the CGU; and • Assessed the adequacy of the related disclosures in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of long-term assets (other than goodwill) and losses of certain items of property, plant and equipment.	
As at 31 December 2017, the Group's long-term assets mainly included property, plant and equipment, prepaid land lease payments, and non-current prepayments. Management determined that indicators of impairment on long-term assets existed. Management measured the recoverable amount which was 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 were particularly significant due to the uncertain economic outlook, the product price volatility, forecasted future production and market demand. In addition, during the year ended 31 December 2017, certain items of property, plant and equipment were damaged due to typhoon, and such losses also involved high level of management's judgements on their usability and marketability. Related disclosures included in notes 2.4, 3, 6, 14, 15, and 21 to the consolidated financial statements.	• Reviewed management's impairment assessment of these CGUs by comparing the carrying value of long-term assets, their fair value less costs of disposal and their value in use based on the discounted cash flow forecast, and 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 the 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 CGUs; • Reviewed management's assessment and calculation on the losses arising from items of property, plant and equipment damaged by typhoon in 2017 by inspecting the damaged asset evaluation report from the Group's technical department, and checking related insurance agreements and correspondence with the insurance companies; and • Assessed the adequacy of related disclosures in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Provision and losses of inventories	
At 31 December 2017, the Group had inventories of RMB1,246,415,000, net of a provision of RMB356,576,000. The balance of inventories accounted for 11% of the total assets of the Group.	• 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;
The inventory provision mainly related to certain obsolete and slow-moving inventories. We focused on this area because inventories were material to the Group and the inventory provision involved high level of management's judgements and estimates. Such judgements included management's expectation for future sales and production plans, technical upgrade and usage of inventories in future.	• Reviewed the technical report provided by management with respect to obsolete inventories, and performed interview with the Group's technical personnel;
During the year ended 31 December 2017, certain inventories were damaged due to typhoon, and such losses also involved high level of management's judgements on the usability and marketability.	• 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 sales of inventories made after the year end, on a sampling basis; and
Related disclosures included in notes 2.4, 3, 6 and 19 to the consolidated financial statements.	• Reviewed management's assessment and calculation on the losses from items of inventory damaged by typhoon in 2017 by inspecting the damaged assets evaluation report from the Group's technical department, and checking related insurance agreements, correspondence with the insurance companies, and bank slips for the insurance indemnity received.

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

28 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	**2,481,365**	1,841,834
Cost of sales		**(1,743,814)**	(1,565,670)
Gross profit		**737,551**	276,164
Other income and gains	5	**339,304**	179,358
Selling and distribution expenses		**(299,483)**	(321,115)
Administrative expenses		**(341,851)**	(314,047)
Other expenses		**(118,313)**	(526,164)
Finance costs	7	**(2,634)**	(2,208)
Profit/(loss) before tax	6	**314,574**	(708,012)
Income tax expense	10	**(83,637)**	49,732
PROFIT/(LOSS) FOR THE YEAR		**230,937**	(658,280)
Attributable to:			
Owners of the parent		**229,436**	(644,375)
Non-controlling interests		**1,501**	(13,905)
		230,937	(658,280)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB Yuan)	12	**0.08**	(0.21)
Diluted (RMB Yuan)	12	**0.07**	(0.18)

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
PROFIT/(LOSS) FOR THE YEAR	**230,937**	(658,280)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(3,999)**	2,108
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	**(3,999)**	2,108
OTHER COMPREHENSIVE (LOSS)/INCOME, NET OF TAX	**(3,999)**	2,108
TOTAL COMPREHENSIVE INCOME/(LOSS), NET OF TAX	**226,938**	(656,172)
Attributable to:		
Owners of the parent	**225,437**	(642,267)
Non-controlling interests	**1,501**	(13,905)
	226,938	(656,172)

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	2,584,817	2,756,773
Prepaid land lease payments	15	561,964	679,438
Goodwill	16	1,129,520	1,129,520
Intangible assets	17	–	21,366
Trade receivables	20	46,609	81,996
Available-for-sale investments	18	10,636	10,636
Non-current prepayments	21	1,332,808	736,305
Deferred tax assets	29	435,561	476,692
Total non-current assets		6,101,915	5,892,726
CURRENT ASSETS			
Inventories	19	1,246,415	915,140
Trade receivables	20	1,559,621	1,556,871
Bills receivable	20	265,696	213,315
Prepayments, deposits and other receivables	21	268,059	310,665
Available-for-sale financial investments	22	682,200	390,000
Pledged deposits	23	15,345	27,200
Cash and cash equivalents	23	814,221	833,162
		4,851,557	4,246,353
Assets of a disposal group classified as held for sale	13	245,578	–
Total current assets		5,097,135	4,246,353
CURRENT LIABILITIES			
Trade and bills payables	24	1,192,789	955,559
Other payables and accruals	25	1,318,215	944,138
Tax payable		296,863	289,509
Provision for warranties	27	4,872	9,485
Government grants	28	97,026	69,800
		2,909,765	2,268,491
Liabilities directly associated with the assets classified as held for sale	13	8,941	–
Total current liabilities		2,918,706	2,268,491
NET CURRENT ASSETS		2,178,429	1,977,862
TOTAL ASSETS LESS CURRENT LIABILITIES		8,280,344	7,870,588

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	29	34,170	20,160
Interest-bearing bank and other borrowings	26	429,127	161,422
Government grants	28	1,454,876	1,554,870
Total non-current liabilities		1,918,173	1,736,452
Net assets		6,362,171	6,134,136
EQUITY			
Equity attributable to owners of the parent			
Issued capital	30	302,214	302,214
Reserves	32	6,001,499	5,774,965
		6,303,713	6,077,179
Non-controlling interests		58,458	56,957
Total equity		6,362,171	6,134,136

Qi Jian
Director

Zhang Zhihong
Director

	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 30)	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 2017	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
Profit for the year	-	-	-	-	-	-	-	-	229,436	229,436	1,501	230,937
Other comprehensive loss for the year:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(3,999)	-	-	(3,999)	-	(3,999)
Total comprehensive income for the year	-	-	-	-	-	-	(3,999)	-	229,436	225,437	1,501	226,938
Share-based payments	-	-	-	-	1,097	-	-	-	-	1,097	-	1,097
Transfer from retained profits	-	-	-	-	-	17,928	-	-	(17,928)	-	-	-
At 31 December 2017	264,366	37,848	2,239,502#	1,332,316#	14,947#	390,785#	(39,230)#	5,744#	2,057,435#	6,303,713	58,458	6,362,171

These reserve accounts comprise the consolidated reserves of RMB6,001,499,000 (2016: RMB5,774,965,000) in the consolidated statement of financial position.

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

	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 30)	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 loss 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

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		314,574	(708,012)
Adjustments for:			
Finance costs	7	2,634	2,208
Interest income	5	(35,086)	(11,710)
Loss/(gain) on disposal of items of property, plant and equipment	6	152	(1,717)
Depreciation	6	211,976	160,397
Amortization of land lease prepayments	6	15,492	15,492
Amortization of intangible assets	6	21,366	22,852
Government grants	5	(283,200)	(150,255)
Impairment of trade receivables	6	14,905	462,113
Impairment of other receivables	6	17,881	59,520
Provision against slow-moving and obsolete inventories	6	952	320,391
Loss on inventories due to Typhoon	6	20,045	–
Loss on property, plant and equipment due to Typhoon	6	39,959	–
Share option expense	6	1,097	1,340
		342,747	172,619
Increase in inventories		(353,540)	(146,241)
Decrease in trade receivables		17,732	1,014,339
(Increase)/decrease in bills receivable		(52,381)	49,507
Decrease in prepayments, deposits and other receivables		1,876	23,507
Increase in trade and bills payables		237,230	113,593
Increase in other payables and accruals		233,589	34,037
Decrease in provision for warranties		(4,613)	(4,663)
Receipt of government grants		196,437	76,927
Cash generated from operations		619,077	1,333,625
Interest received		8,174	5,237
Interest paid		(565)	–
PRC tax paid		(19,612)	(11,834)
Net cash flows generated from operating activities		607,074	1,327,028

	Notes	2017 RMB'000	2016 RMB'000
Net cash flows generated from operating activities		607,074	1,327,028
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		22,371	6,100
Purchases of items of property, plant and equipment		(251,146)	(153,448)
Payment for consideration of acquired subsidiaries		–	(114,834)
Proceeds of disposal of non-current assets classified as held for sale		25,000	30,000
Advance from disposal of assets of a disposal group classified as held for sale		200,000	–
Proceeds from disposal of items of property, plant and equipment		2,210	40,186
Proceeds from disposal of available-for-sale financial investments		390,000	–
Purchases of available-for-sale financial investments		(682,200)	(390,000)
Deposit paid for acquisition of a parcel of land		(625,000)	–
Receipt of government grants for property, plant and equipment		18,995	50,000
Decrease/(increase) of pledged deposits		11,855	(12,549)
Net cash flows used in investing activities		(887,915)	(544,545)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings from National Development Fund		–	160,000
Repayment of borrowings to a fellow subsidiary		–	(618,519)
New bank loans		429,127	52,720
Repayment of bank loans		–	(67,640)
Repayment of borrowings to National Development Fund		(162,848)	–
Interest paid		–	(786)
Net cash flows generated from/(used in) financing activities		266,279	(474,225)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(14,562)	308,258
Cash and cash equivalents at beginning of year		833,162	522,796
Effect of foreign exchange rate changes, net		(3,999)	2,108
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	814,601	833,162

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 equipment), port machinery and 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 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	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) * (note 13)	PRC/Mainland China	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	RMB20,000,000	–	100	Provision of maintenance service

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

Company name	Place 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	RMB172,004,600	–	91	Manufacture and sale of off-highway mining trucks
Shenyang Zhongjing Property Development Co., Ltd. ("Shenyang Zhongjing") (沈陽中璟房地產開發有限公司) * #	PRC/Mainland China	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	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) * (note 26)	PRC/Mainland China	RMB713,180,000	–	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	RMB63,180,000	–	100	Sale of 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	RMB13,180,000	–	100	Development, manufacture and sale of small-size port machinery
Sany (Zhuhai) Asset Co., Ltd. (三一置業有限公司) * #	PRC/Mainland China	–	–	100	Property development

* 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. Assets classified as held for sale are stated at the lower of their carrying amounts and fair value less costs to sell as further explained in note 2.4. 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 2017. 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 revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 Included in *Annual Improvements to IFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 33 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28[1]
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

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.

Further information about IFRSs that are expected to be applicable to the Group is described below.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group expects that the adoption of IFRS 9 will not have a material financial impact on these financial statements.

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

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard.

The Group plans to adopt the transitional provisions in IFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15 and expects no material financial impact on the Group's financial statements in 2018.

IFRS 16, issued in January 2016, replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases-Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 35 (b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB433,000, which are short-term leases.The Group expects no material financial impact on the Group's financial statements in 2018.

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, financial assets and a disposal group classified as held for sale), 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 each 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, but 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.

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 and disposal groups 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 the 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 and capitalized borrowing costs on related borrowed funds 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 and disposal groups held for sale

Non-current assets and disposal groups 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 or disposal group 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 or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (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 net of any incentives received from the lessor 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 and financial assets designated upon initial recognition as at fair value through profit or loss. 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 dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition 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 rate method less any allowance for impairment. 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 and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the 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.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

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 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 whether 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 and all collateral has been realised or has been transferred to the Group.

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)

Financial liabilities (continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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 there is a currently 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 that 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 goodwill or 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 and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred taxes assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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;

(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; and

(e) dividend income, when the shareholders' right to receive payment has been established.

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. Proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. 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 14 and 17 to the financial statements.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Provision for product warranties

The Group provides one-year warranties on the products sold to its customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. Further details are included in note 27 to the financial statements.

Write-down of inventories to net realisable value and losses of certain inventories due to typhoon

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 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/write-back of inventories in the period in which the estimate has been changed. Further details are included in note 19 to the financial statements.

During the year ended 31 December 2017, certain inventories were damaged due to typhoon. The calculation of relevant losses is based on the write-down amounts of assets less the indemnity virtually certain to be recovered from the insurance companies. The assessment of the write-down amounts of assets involves management's judgement and estimates on the usability and marketability of such assets. Further details are included in note 6 and 19 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 20 to the financial statements.

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 2017 was RMB1,129,520,000 (2016: RMB1,129,520,000). Further details are given in note 16.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill) and losses of certain items of property, plant and equipment due to typhoon

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 14, 15 and 21 to the financial statements.

During the year ended 31 December 2017, certain items of property, plant and equipment were damaged due to typhoon. The calculation of relevant losses is based on the write-down amounts of assets less the indemnity virtually certain to be received from the insurance companies. The assessment of the write-down amounts of assets involves management's judgement and estimates on the usability and marketability of such assets. Further details are included in note 6 and 14 to the financial statements.

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 equipment) and 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), small-size port machinery (including reach stackers, empty container handlers and heavy duty forklift trucks) and 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.

4. Operating Segment Information (continued)

Segment assets exclude deferred tax assets, pledged 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.

Year ended 31 December 2017	Coal mining equipment RMB'000	Port machinery RMB'000	Total RMB'000
Segment revenue			
Sales to customers	1,202,009	1,279,356	2,481,365
Other revenue	66,419	238,749	305,168
Revenue from operations	1,268,428	1,518,105	2,786,533
Segment results	116,261	166,811	283,072
Interest income			34,136
Finance costs			(2,634)
Profit before tax			314,574
Income tax expense			(83,637)
Profit for the year			230,937
Segment assets	7,612,593	4,239,313	11,851,906
Reconciliation:			
Elimination of intersegment receivables			(1,918,362)
Corporate and other unallocated assets			1,265,506
Total assets			11,199,050
Segment liabilities	2,221,181	3,772,370	5,993,551
Reconciliation:			
Elimination of intersegment payables			(1,918,362)
Corporate and other unallocated liabilities			761,690
Total liabilities			4,836,879
Other segment information:			
Gain/(loss) on disposal of items of property, plant and equipment	957	(1,109)	(152)
Impairment losses (reversed)/recognised in profit or loss	(56,377)	90,115	33,738
Depreciation and amortisation	168,778	80,056	248,834
Other non-cash expense	592	505	1,097
Capital expenditure*	79,104	113,461	192,565

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
Other non-cash expense	510	830	1,340
Capital expenditure*	18,404	204,289	222,693

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

4. Operating Segment Information (continued)

Geographical information

As over 91% of the Group's revenue (2016: 94%) 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

None of the revenue (2016: RMB198,912,000) 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 RMB402,813,000 (2016: RMB740,345,000) 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	2017 RMB'000	2016 RMB'000
Revenue			
Sale of goods		2,421,381	1,821,948
Rendering of services		59,984	19,886
		2,481,365	1,841,834
Other income			
Bank interest income		8,174	5,237
Other interest income		26,912	6,473
Gain on disposal of items of property, plant and equipment		–	1,717
Profit from sale of scrap materials		2,284	–
Government grants	28	283,200	150,255
Foreign exchange differences, net		–	1,928
Others		18,734	13,748
		339,304	179,358

6. Profit/(Loss) Before Tax

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of inventories sold		1,493,807	1,234,224
Cost of services provided		249,055	11,055
Depreciation	14	211,976	160,397
Amortisation of land lease prepayments**	15	15,492	15,492
Amortisation of intangible assets**	17	21,366	22,852
Auditors' remuneration		2,480	2,910
Reversal of warranties*	27	(607)	(146)
Research and development costs**		118,013	106,685
Loss on inventories due to typhoon***	19	20,045	–
Loss on property, plant and equipment due to typhoon***	14	39,959	–
Minimum lease payments under operating leases		4,231	4,831
Employee benefit expenses (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		213,262	208,771
Equity-settled share option expense		1,097	1,340
Employee retirement benefits		22,718	20,377
Other staff welfare		11,398	10,444
		248,475	240,932
Foreign exchange differences, net***		14,888	(1,928)
Impairment of trade receivables***		14,905	462,113
Impairment of other receivables***		17,881	59,520
Provision against slow-moving and obsolete inventories****	19	952	320,391
Loss/(gain) on disposal of items of property, plant and equipment***		152	(1,717)

* 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

	2017 RMB'000	2016 RMB'000
Interest on interest-bearing bank and other borrowings	2,069	1,422
Interest on documentary bills	2	496
Interest on discounted bills	563	290
	2,634	2,208

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:

	2017 RMB'000	2016 RMB'000
Fees	601	774
Other emoluments:		
Salaries, allowances and benefits in kind	1,002	979
Equity-settled share option expense	154	–
Employee retirement benefits and other staff welfare	62	101
	1,218	1,080
	1,819	1,854

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
2017			
Mr. Poon Chiu Kwok	217	–	217
Mr. Ng Yuk Keung	217	–	217
Mr. Hu Jiquan	167	–	167
	601	–	601
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

There were no other emoluments payable to the independent non-executive directors during the year (2016: 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
2017					
Executive directors:					
Mr. Qi Jian	–	429	92	12	533
Mr.Wu Likun (resigned on 5 July 2017)	–	385	–	10	395
Mr. Zhang Zhihong (appointed on 5 July 2017)	–	188	62	40	290
		1,002	154	62	1,218
Non-executive directors:					
Mr. Tang Xiuguo	–	–	–	–	–
Mr. Mao Zhongwu	–	–	–	–	–
Mr. Xiang Wenbo	–	–	–	–	–
	–	–	–	–	–

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
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

There was no other arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2016: Nil).

9. Five Highest Paid Employees

The five highest paid employees during the year included one director of the Company (2016: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2016: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and allowances	1,659	3,046
Bonuses	701	415
Equity-settled share option expense	118	–
Employee retirement benefits and other staff welfare	236	253
	2,714	3,714

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	
	2017	2016
Nil to HK$1,000,000	4	1
HK$1,000,000 to HK$1,500,000	–	3
	4	4

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 2017.

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 2017.

10. Income Tax (continued)

	2017 RMB'000	2016 RMB'000
Current – Mainland China		
Charge for the year	28,496	15,709
Deferred (note 29)	55,141	(65,441)
Total tax charge/(credit) for the year	83,637	(49,732)

A reconciliation of the income tax expense applicable to profit/loss 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:

	2017		2016	
	RMB'000	%	RMB'000	%
Profit/(Loss) before tax	314,574		(708,012)	
Tax at the statutory tax rate	78,644	25.0	(177,003)	25.0
Entities subject to lower statutory income tax rates	(36,332)	(11.6)	59,746	(8.4)
Expenses not deductible for tax	8,224	2.6	284	–
Tax losses utilised from previous periods	(3,581)	(1.1)	(3,509)	0.5
Different tax rate when temporary difference is realised	25,036	8.0	43,892	(6.2)
Super-deduction of research and development costs	(8,794)	(2.8)	(8,098)	1.1
Adjustments in respect of current tax of previous periods	4,950	1.6	(1,089)	0.2
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	14,040	4.4	3,902	(0.6)
Tax losses not recognised	1,450	0.5	32,143	(4.5)
Tax charge at the Group's effective tax rate	83,637	26.6	(49,732)	7.1

11. Dividend

	2017 HK$'000	2016 HK$'000
Proposed special dividend – HK$0.18 cent (2016: Nil) per ordinary share	547,385	–
Proposed special dividend – HK$0.18 cent (2016: Nil) per preference share	86,361	–
	633,746	–
Equivalent to RMB'000	518,791	–

The proposed special dividend was approved by the board of directors on 23 January 2018.

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

The calculation of the basic earnings per share is based on the profit for the year ended 31 December 2017 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,041,025,000 (2016: 3,041,025,000) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year ended 31 December 2017 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 earnings/loss 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.

	2017 RMB'000	2016 RMB'000
Profit/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation	229,436	(644,375)
Preferred distribution to the convertible preference shares	48	48
Profit/(loss) attributable to ordinary equity holders of the parent, used in the diluted earnings/(loss) per share calculation	229,484	(644,327)

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

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/loss 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 earnings/loss 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 2017 and 2016.

13. Assets of a Disposal Group Classified as Held for Sale/Liabilities Directly Associated with the Assets Classified as Held for Sale

On 5 December 2017, Sany Heavy Equipment, a direct wholly-owned subsidiary of the Company, entered into an equity transfer agreement and an assignment agreement (collectively the "S&P Agreements") with Taiyuan High New District Construction Investment Co., Ltd. ("Taiyuan Construction Investment") to dispose of Sany Mining Equipment, an indirect wholly-owned subsidiary of the Company, which has ceased operation in prior years. Pursuant to the S&P Agreements, Sany Heavy Equipment agreed to sell a 100% equity interest in Sany Mining Equipment and transfer the shareholder's loan due from Sany Mining Equipment to Taiyuan Construction Investment for a total consideration of RMB250,000,000, among which RMB6,000,000 would be retained as a guarantee deposits. Cash consideration of RMB200,000,000 was received by Sany Heavy Equipment in December 2017, however, the transaction was not completed as at 31 December 2017 as certain conditions precedent pursuant to the S&P Agreements, including but not limited to the full settlement of the consideration and shareholder information update in the business licence, had not yet been fulfilled as at the end of the reporting period.

Further details are set out in the Company's announcement dated 5 December 2017.

13. Assets of a Disposal Group Classified as Held for Sale/Liabilities Directly Associated with the Assets Classified as Held for Sale (continued)

The major classes of assets and liabilities of Sany Mining Equipment classified as held for sale as at 31 December 2017 are as follows:

	2017 RMB'000
Assets	
Property, plant and equipment (note 14)	111,491
Prepaid land lease payments (note 15)	104,373
Non-current prepayments (note 21)	29,334
Cash and cash equivalents (note 23)	380
Assets classified as held for sale	245,578
Liabilities	
Other payables and accruals	(2,411)
Tax payable	(1,530)
Government grants (note 28)	(5,000)
Liabilities directly associated with the assets classified as held for sale	(8,941)
Net assets directly associated with the disposal group	236,637

14. 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 2017						
At 31 December 2016 and at 1 January 2017:						
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
At 1 January 2017, net of accumulated depreciation	1,312,601	649,111	134,407	18,982	641,672	2,756,773
Additions	66,316	43,205	49,186	1,688	33,438	193,833
Disposals	(435)	(355)	(155)	(1,418)	–	(2,363)
Loss due to typhoon	(7,707)	(8,821)	(23,184)	(247)	–	(39,959)
Transfer to assets of a disposal group classified as held for sale (note 13)	–	–	–	(103)	(111,388)	(111,491)
Depreciation provided during the year	(55,081)	(120,055)	(34,556)	(2,284)	–	(211,976)
Transfers	196,300	57,331	7,942	–	(261,573)	–
At 31 December 2017, net of accumulated depreciation	1,511,994	620,416	133,640	16,618	302,149	2,584,817
At 31 December 2017:						
Cost	1,663,256	1,230,973	203,189	66,451	302,149	3,466,018
Accumulated depreciation	(151,262)	(610,557)	(69,549)	(49,833)	–	(881,201)
Net carrying amount	1,511,994	620,416	133,640	16,618	302,149	2,584,817

14. 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 2016						
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

Certificates of ownership in respect of buildings of the Group located in Shenyang with a net carrying amount of approximately RMB441,697,000 as at 31 December 2017 (31 December 2016: RMB580,448,000) have not yet been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates.

At 31 December 2017, no interest-bearing bank and other borrowings were secured by the Group's buildings and machinery (2016: Nil).

15. Prepaid Land Lease Payments

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	694,930	710,422
Recognised during the year (note 6)	(15,492)	(15,492)
Transfer to assets of a disposal group classified as held for sale (note 13)	(104,373)	–
Carrying amount at 31 December	575,065	694,930
Current portion included in prepayments, deposits and other receivables	(13,101)	(15,492)
Non-current portion	561,964	679,438

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

On 22 February 2012, Sany Marine Heavy Industry, a subsidiary of the Company, 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 2017, Sany Marine Heavy Industry has received one parcel of land with a carrying amount of approximately RMB236,262,000 and obtained the land use right certificate. Another parcel of land, acquired at a consideration of RMB544,665,000, has not yet been transferred 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 billion in 2 years after the parcels of land are obtained. As at 31 December 2017, the Group has invested RMB1,601,783,000 and the remaining investment of RMB3,519,618,000 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.

16. Goodwill

	RMB'000
At 31 December 2016 and 31 December 2017:	
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:

	2017 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 13% (2016: 14%). The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2016: 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 2017. 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 specific risk relating to the relevant unit.

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

17. Intangible Assets

	Patents and licences RMB'000
31 December 2017	
Cost at 1 January2017, net of accumulated amortisation	21,366
Amortisation provided during the year (note 6)	(21,366)
At 31 December 2017	–
At 31 December 2017:	
Cost	129,427
Accumulated amortisation and impairment	(129,427)
Net carrying amount	–

	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

18. Available-For-Sale Investments

	2017 RMB'000	2016 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.

19. Inventories

	2017 RMB'000	2016 RMB'000
Raw materials	580,943	494,612
Work in progress	456,917	263,443
Finished goods	610,176	512,709
Less: Loss on inventories due to typhoon (note 6)*	(45,045)	–
	1,602,991	1,270,764
Less: Provision against slow-moving and obsolete inventories	(356,576)	(355,624)
	1,246,415	915,140

* After deducting the insurance indemnity of RMB25,000,000 received by the Group for the loss on inventories due to typhoon in 2017, a net loss on inventories of RMB20,045,000 has been recorded in other expenses in the consolidated statements of profit or loss.

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

	2017 RMB'000	2016 RMB'000
At 1 January	355,624	35,233
Charge for the year (note 6)	952	320,391
At 31 December	356,576	355,624

20. Trade and Bills Receivables

	2017 RMB'000	2016 RMB'000
Trade receivables	2,366,171	2,445,963
Impairment	(759,941)	(807,096)
	1,606,230	1,638,867
Less: Trade receivables due after one year	(46,609)	(81,996)
	1,559,621	1,556,871
Bills receivable	265,696	213,315

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 19% (2016: 34%) of the Group's trade receivables 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 RMB296,666,000 as at 31 December 2017 (2016: RMB515,503,000) for sales of products by the Group, which accounted for 18% (2016: 25%) of the Group's trade receivables at the end of the reporting period. Trade receivables are non-interest-bearing.

An ageing 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:

	2017 RMB'000	2016 RMB'000
Within 180 days	484,983	645,072
181 to 365 days	599,372	179,762
1 to 2 years	262,071	486,262
2 to 3 years	155,521	271,852
Over 3 years	104,283	55,919
	1,606,230	1,638,867

20. Trade and Bills Receivables (continued)

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

	2017 RMB'000	2016 RMB'000
At 1 January	807,096	443,887
Impairment losses recognised	14,905	462,113
Amount written off as uncollectible	(62,060)	(98,904)
At 31 December	759,941	807,096

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB759,941,000 (2016: RMB807,096,000) with a carrying amount before provision of RMB773,358,000 (2016: RMB1,003,679,000). As at 31 December 2017, trade receivables with a gross amount of RMB323,140,000 (2016: RMB331,751,000) were under litigation filed 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 ageing 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 2017	1,606,230	1,091,524	308,671	94,617	111,418
31 December 2016	1,638,867	934,373	382,731	243,511	78,252

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 collateral over balances due from certain customers amounting to RMB84,393,000.

20. Trade and Bills Receivables (continued)

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

	2017 RMB'000	2016 RMB'000
Within six months	201,747	201,937
Over six months	63,949	11,378
	265,696	213,315

Included in the bills receivable was an amount of RMB17,400,000 as at 31 December 2017 (2016: Nil) which was pledged for the issuance of a letter of guarantee.

Included in the bills receivable was an amount of RMB8,100,000 as at 31 December 2017 (2016: RMB6,500,000) 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 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB88,995,000 (2016: RMB53,833,000) 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 RMB88,995,000 (2016: RMB53,833,000) as at 31 December 2017.

Transferred financial assets that are derecognised in their entirety

At 31 December 2017, 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 RMB290,567,000 (2016: RMB266,041,000). 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.

21. Prepayments, Deposits and Other Receivables

	2017 RMB'000	2016 RMB'000
Non-current prepayments	1,332,808	736,305
Current assets:		
Prepayments	129,898	117,424
Deposits and other receivables	124,209	136,450
Loans to third parties	91,676	116,634
Gross balance	345,783	370,508
Impairment	(77,724)	(59,843)
	268,059	310,665

Non-current prepayments represent prepayments for the acquisition of land and property, plant and equipment. On 5 June 2017, a subsidiary of the Group, Sany Marine Heavy Industry, entered into an agreement with China Zhuhai Government to purchase a parcel of land at a consideration of RMB625,000,000, which has been prepaid to China Zhuhai Government as at 31 December 2017. Non-current prepayments of RMB29,334,000 for the acquisition of land and property, plant and equipment in Sany Mining Equipment has been transferred to assets of a disposal group classified as held for sale by the end of year 2017.

Included in the current prepayments was an amount due from fellow subsidiaries in aggregate of RMB7,863 as at 31 December 2017 (2016: RMB62,000) for purchasing raw materials by the Group. Included in other receivables was an amount due from fellow subsidiaries in aggregate of RMB65,808,000 as at 31 December 2017 (2016: RMB56,952,000), which is non-interest-bearing and is repayable or demand.

Loans to third parties of RMB37,776,000 as at 31 December 2017 (2016: RMB62,734,000) are unsecured, repayable within one year and bear interest at the prevailing market rate.

22. Available-For-Sale Financial Investments

	2017 RMB'000	2016 RMB'000
Available-for-sale financial investments	682,200	390,000

Available-for-sale financial investments in financial products were purchased from third parties in Mainland China at a total consideration of RMB682,200,000 in 2017. The available-for-sale financial investments were measured at amortized cost, bearing interest at a fixed rate of 3% to 5% per annum (2016: 3.83%) with the principal guaranteed. The available-for-sale financial investments will mature in 2018.

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

	2017 RMB'000	2016 RMB'000
Cash and bank balances	629,946	860,362
Time deposits	200,000	–
	829,946	860,362
Less: Pledged time deposits for banking facilities	(15,345)	(27,200)
Cash and cash equivalents in the consolidated statement of cash flows	814,601	833,162
Less: Cash and equivalents included in assets of a disposal group classified as held for sale (note 13)	(380)	–
Cash and cash equivalents in the consolidated statement of financial position	814,221	833,162
Cash and cash equivalents, time deposits and pledged deposits denominated in		
– RMB	739,668	832,026
– HK$	579	610
– United States dollars ("US$")	55,637	27,726
– Euro	32,093	–
– JPY	1,589	–
	829,566	860,362

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

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

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

24. Trade and Bills Payables

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

	2017 RMB'000	2016 RMB'000
Within 30 days	476,607	257,432
31 to 90 days	286,856	349,348
91 to 180 days	269,208	235,606
181 to 365 days	72,737	40,883
Over 1 year	87,381	72,290
	1,192,789	955,559

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

The bills payable are normally due within 180 days.

Included in the trade and bills payables was an amount due to fellow subsidiaries in aggregate of RMB137,523,000 as at 31 December 2017 (2016: RMB108,989,000) for purchasing raw materials by the Group.

25. Other Payables and Accruals

	2017 RMB'000	2016 RMB'000
Deposits received from customers	757,809	465,385
Other payables	536,114	475,592
Accruals	24,292	3,161
	1,318,215	944,138

Included in the deposits received from customers was an amount of RMB2,534,000 as at 31 December 2017 (2016: RMB75,714,000) 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 RMB6,632,000 as at 31 December 2017 (2016: RMB102,731,000), which is non-interest-bearing and is repayable on demand.

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

26. Interest-Bearing Bank and Other Borrowings

	2017			2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Non-current						
Bank loans – unsecured	0.6	2019	429,127			
Other borrowings – unsecured	1.18		–	1.18	2020-2026	161,422

(a) The non-current bank loans of RMB429,127,000 are denominated in Euro.

(b) 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. ("Sany Group") 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 (the "Investment Agreement"). 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.

On 15 September 2017, Sany Marine Heavy Industry, Sany Marine Industry, Sany Group and National Development Fund agreed to terminate the Investment Agreement as the Group's working capital status has been improving and for the reduction of finance costs. Further details have been set out in the announcements of the Company dated 15 September 2017.

As at 31 December 2017, Sany Marine Heavy Industry has repaid the borrowings of RMB160 million and relevant interests of RMB2.85 million in cash to National Development Fund.

27. Provision for Warranties

	2017 RMB'000	2016 RMB'000
At 1 January	9,485	14,148
Additional provision (note 6)	4,872	9,485
Amounts utilised during the year	(4,006)	(4,517)
Reversal of unutilised amounts (note 6)	(5,479)	(9,631)
At 31 December	4,872	9,485

The Group provides warranties (one year for coal mining machinery, and two years 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.

28. Government Grants

	2017 RMB'000	2016 RMB'000
At 1 January	1,624,670	1,647,998
Received during the year	215,432	126,927
Released to the statement of profit or loss during the year (note 5)	(283,200)	(150,255)
Transfer to liabilities directly associated with the assets classified as held for sale (note 13)	(5,000)	–
At 31 December	1,551,902	1,624,670
Current portion	(97,026)	(69,800)
Non-current portion	1,454,876	1,554,870

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.

29. 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 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	–	(56,142)	(56,142)
At 31 December 2016 and 1 January 2017	**428,398**	**48,294**	**476,692**
Charged to the consolidated statement of profit or loss (note 10)	**(12,382)**	**(28,749)**	**(41,131)**
At 31 December 2017	**416,016**	**19,545**	**435,561**

The Group has tax losses arising in Hong Kong of RMB3,138,000 (2016: RMB 49,643,000) 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 RMB33,985,000 (2016: RMB66,101,000) 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.

29. 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 2016	14,851	1,436	16,287
Charged/(credited) to the consolidated statement of profit or loss (note 10)	3,902	(29)	3,873
At 31 December 2016 and 1 January 2017	18,753	1,407	20,160
Charged/(credited) to the consolidated statement of profit or loss (note 10)	14,040	(30)	14,010
At 31 December 2017	32,793	1,377	34,170

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. 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 2017, the Group has not recognised deferred tax liabilities of RMB69,137,000 (2016: RMB61,410,000) in respect of temporary differences relating to the unremitted profits of subsidiaries amounting to RMB1,382,741,000 (2016: RMB960,243,000), 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.

30. Share Capital

Shares

	2017 HK$'000	2016 HK$'000
Authorised:		
4,461,067,880 (2016: 4,461,067,880) ordinary shares of HK$0.10 each	446,107	446,107
538,932,120 (2016: 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 (2016: 3,041,025,000) ordinary shares of HK$0.10 each	304,103	304,103
479,781,034 (2016: 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

On 19 December 2014, the Company issued 479,781,034 convertible preference shares ("CPS") of HK$0.10 each at an issue price of HK$2.009 per share. Each CPS is convertible into one ordinary share of the Company at any time after issuance (subject to standard anti-dilution adjustments) and has the same right to receive dividends and other distributions as ordinary shares. The CPS are redeemable by the Company at any time after the third anniversary of the date of the issue of the CPS at the issue price or the fair market value of the CPS whichever the higher. The holders of CPS are entitled to a preferred distribution at the rate of 0.01% per annum on the issue price.

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 2016 and 31 December 2017	264,366	37,848	2,239,502	2,541,716

31. Share Option Schemes

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 15 December 2017 and 29 December 2017 (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 2018 has an increase of 20% or more as compared to that of the year ended 31 December 2017 ("Target Performance I"), starting from the dispatch date of the Company's 2018 annual report[1]	50%
If the audited net profit of the Group for the year ended 31 December 2019 has an increase of 40% or more as compared to the audited net profit of the year ended 31 December 2017 ("Target Performance II"), starting from the dispatch date of the Company's 2019 annual report[2]	25%
If the audited net profit of the Group for the year ended 31 December 2020 has an increase of 60% or more as compared to the audited net profit of the year ended 31 December 2017 ("Target Performance III"), starting from the dispatch date of the Company's 2020 annual report[3]	25%

Notes:

(1) If the Target Performance I is not achieved, then the 50% share options (the "First Tranche Options") lapse in the year of 2019;

(2) If the Target Performance II is not achieved, then the 25% share options (the "Second Tranche Options") lapse in the year of 2020;

(3) If the Target Performance III is not achieved, then the 25% share options (the "Third Tranche Options") lapse in the year of 2021.

31. Share Option Schemes (continued)

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

	Weighted average exercise price HK$ per share	Number of options
At 1 January	–	–
Granted on 15 December 2017	1.22	135,900,000
Granted on 29 December 2017	1.71	2,400,000
At 31 December	1.23	138,300,000

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2017 Number of options '000	Exercise price* per share HK$	Exercise period
135,900,000	1.22	15-12-2017 to 15-3-2021
2,400,000	1.71	29-12-2017 to 15-3-2021
138,300,000		

The fair value of the outstanding share options under the 2017 Scheme at the time of grant was HK$64,831,000 (HK$0.47 each) (equivalent to RMB54,193,000), of which the Group recognised a share option expense of HK$ 1,304,000 (equivalent to RMB1,097,000) during the year.

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:

	Granted on 15 December 2017	Granted on 29 December 2017
Dividend yield (%)	2.18	1.58
Expected volatility (%)	46.45	46.72
Historical volatility (%)	46.45	46.72
Risk-free interest rate (%)	2.22	2.28
Expected life of options (year)	10	10
Weighted average share price (HK$ per share)	1.22	1.71

31. Share Option Schemes (continued)

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 RMB390,785,000 as at 31 December 2017 (2016: RMB372,857,000).

33. Notes to the Consolidated Statement of Cash Flows

(a) Changes in liabilities arising from financing activities

	Interest bearing bank and other borrowings RMB'000	Interests payable included in other payable and accruals RMB'000	Total RMB'000
At 1 January 2017	161,422	–	161,422
Changes from financing cash flows	266,279	–	266,279
Interest expense	1,991	643	2,634
Interest paid classified as operating cash flow	(565)	–	(565)
At 31 December 2017	429,127	643	429,770

34. Contingent Liabilities

(a) Hunan Sany Port Equipment enters into sale 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:

	2017 RMB'000	2016 RMB'000
Guarantees given to banks in connection with loans granted to customers	18,409	56,109

(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:

	2017 RMB'000	2016 RMB'000
Guarantees given to the Leasing Companies in connection with the unsettled lease amounts due from customers	72,217	100,649

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 2017.

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 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	4,953	4,450
In the second to third years, inclusive	10,326	9,307
After three years	11,329	12,835
	26,608	26,592

(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 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	433	16

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:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Buildings	46,421	200,084
Plant and machinery	3,523,278	3,741,689
	3,569,699	3,941,773

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	2017 RMB'000	2016 RMB'000
Sales of products to			
Sany Group Co., Ltd. (三一集團有限公司)	(i)&(v)	233,750	480,573
Sany International Development Limited (三一國際發展有限公司)	(i)&(v)	114,625	220,562
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(i)&(v)	28,581	10,724
Sany Heavy Industry Co., Ltd. (三一重工股份有限公司)	(i)&(v)	19,476	3,717
Sany Northwest Heavy Industries Co. Ltd. (三一西北重工有限公司)	(i)&(v)	2,811	–
Sany (Russia) Co. Ltd. (俄羅斯三一有限責任公司)	(i)&(v)	1,949	–
Beijing Sany Shengneng Investment Co., Ltd. (北京三一盛能投資有限公司)	(i)&(v)	1,214	18,253
PT.Sany Indonesia Machinery (印度尼西亞三一機械有限公司)	(i)&(v)	407	–
Sany Heavy Energy Machinery Co., Ltd. (三一重型能源裝備有限公司)	(i)&(v)	–	3,800
Sany America Inc. (三一美國)	(i)&(v)	–	2,527
Others	(i)&(v)	–	1
		402,813	740,157
Sales of raw materials and equipment to:			
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(i)&(v)	7,544	7,873
Suote Transmission Equipment Co., Ltd. (索特傳動設備有限公司)	(i)&(v)	4,011	12,423
Sany Automobile Lifting Machinery Co., Ltd. (三一汽車起重機械有限公司)	(i)&(v)	3,037	5,515
Loudi Zhongxing Hydraulic Parts Co., Ltd. (婁底市中興液壓件有限公司)	(i)&(v)	1,316	1,863
Beijing Sany Shengneng Investment Co., Ltd. (北京三一盛能投資有限公司)	(i)&(v)	507	–
Zhejiang Sany Equipment Co., Ltd. (浙江三一裝備有限公司)	(i)&(v)	422	1,414
Shanghai Sany Heavy Machinery Co., Ltd. (上海三一重機有限公司)	(i)&(v)	158	5,093
Sany Electric Co., Ltd. (三一電氣有限責任公司)	(i)&(v)	110	310
Hunan Automobile Manufacturing Co., Ltd. (湖南汽車製造有限責任公司)	(i)&(v)	22	121
Loudi Zhongyuan New Material Co., Ltd. (婁底市中源新材料有限公司)	(i)&(v)	18	102
Sany Heavy Energy Machinery Co., Ltd. (三一重型能源裝備有限公司)	(i)&(v)	2	708
Sany Heavy Machinery Co., Ltd. (三一重機有限公司)	(i)&(v)	1	7,259
Sany Heavy Industry Co., Ltd. (三一重工股份有限公司)	(i)&(v)	–	301
Changde Sany Machinery Co., Ltd. (常德市三一機械有限公司)	(i)&(v)	–	181
Others		378	829
		17,526	43,992

37. Related Party Transactions (continued)

(1) Recurring transactions (continued)

	Notes	2017 RMB'000	2016 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)	64,578	54,166
Suote Transmission Equipment Co., Ltd. (索特傳動設備有限公司)	(ii)&(v)	41,402	25,176
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(ii)&(v)	28,604	23,221
Loudi Zhongyuan New Material Co., Ltd. (婁底市中源新材料有限公司)	(ii)&(v)	11,331	11,954
Beijing Sany Motor System Co., Ltd. (北京三一電機系统有限責任公司)	(ii)&(v)	11,072	3,197
Sany Germany GmbH (三一德國有限公司)	(ii)&(v)	6,802	–
Hunan Sany Intelligent Control Equipment Co., Ltd. (湖南三一智能控制設備有限公司)	(ii)&(v)	6,607	4,933
Hunan Sany Hoisting Machinery Co., Ltd. (湖南三一汽車起重機械有限公司)	(ii)&(v)	1,737	777
Sany Heavy Machinery Co., Ltd. (三一重機有限公司)	(ii)&(v)	1,232	644
Sany Heavy Energy Machinery Co., Ltd. (三一重型能源裝備有限公司)	(ii)&(v)	762	11
Shanghai Sany Heavy Machinery Co., Ltd. (上海三一重機有限公司)	(ii)&(v)	467	245
Zhejiang Sany Equipment Co., Ltd. (浙江三一裝備有限公司)	(ii)&(v)	463	301
Zhejiang Sany Foundry Co., Ltd. (浙江三一鑄造有限公司)	(ii)&(v)	215	64
Sany Group Co., Ltd. (三一集團有限公司)	(ii)&(v)	112	2,758
Sany Heavy Industry Co., Ltd. (三一重工股份有限公司)	(ii)&(v)	110	273
Kunshan Sany Machinery Co., Ltd. (昆山三一機械有限公司)	(ii)&(v)	92	–
Changde Sany Machinery Co., Ltd. (常德市三一機械有限公司)	(ii)&(v)	31	177
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
Kunshan Sany Digital Co., Ltd. (昆山三一數字科技有限公司)	(ii)&(v)	–	3,487
Hunan Zhongcheng Machinery Co., Ltd. (湖南中成機械有限公司)	(ii)&(v)	–	3,304
Sany General Electric Co., Ltd. (三一電氣有限責任公司)	(ii)&(v)	–	769
Others	(ii)&(v)	311	103
		175,928	140,056

37. Related Party Transactions (continued)

(1) Recurring transactions (continued)

	Notes	2017 RMB'000	2016 RMB'000
Purchases of equipment from:			
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(ii)&(v)	4,057	1,461
Sany Heavy Industry Co., Ltd. (三一重工股份有限公司)	(ii)&(v)	610	–
Loudi Zhongyuan New Material Co., Ltd. (婁底市中源新材料有限公司)	(ii)&(v)	251	–
Sany Heavy Energy Machinery Co., Ltd. (三一重型能源裝備有限公司)	(ii)&(v)	158	–
Beijing Sany Machinery Co., Ltd. (北京市三一重機有限公司)	(ii)&(v)	53	491
Sany Group Co., Ltd. (三一集團有限公司)	(ii)&(v)	3	217
Others	(ii)&(v)	9	86
		5,141	2,255
Rental fees paid to:			
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(iii)&(v)	5,978	3,704
Hunan Zhongtai Equipment Engineering Co., Ltd. (湖南中泰設備工程有限公司)	(iii)&(v)	2,878	5,489
		8,856	9,193
Service fees paid to:			
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(iv)&(v)	4,645	4,898
Purchases of logistics service from:			
Hunan Sany Logistics Co., Ltd. (湖南三一物流有限責任公司)	(iv)&(v)	44,102	37,691

37. Related Party Transactions (continued)

(1) Recurring transactions (continued)

Notes:

(i) The sales to companies owned and controlled by the Controlling Shareholders* 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 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

	2017 RMB'000	2016 RMB'000
Research and development fees paid to:		
Sany Germany GmbH (三一德國有限公司)	1,024	2,094
Solar energy fees paid to:		
Sany Solar Energy Co., Ltd. (三一太陽能有限公司)	1,877	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)	900	892
Service fees paid to:		
Sany America Inc. (三一美國)	1,065	155
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	213	1,439
Sany Group Co., Ltd (三一集團有限公司)	127	–
Sany Heavy Energy Machinery Co., Ltd (三一重型能源裝備有限公司)	24	–
	1,429	1,594
Service fees from:		
Hunan Zhongcheng Machinery Co., Ltd. (湖南中成機械有限公司)	1,411	20
Hunan Sany Road Machinery Co., Ltd. (湖南三一路面機械有限公司)	669	83
Sany Group Co., Ltd. (三一集團有限公司)	14	–
	2,094	103
Sales of equipment to:		
Sany Group Co., Ltd. (三一集團有限公司)	1,997	–
Sany Automobile Machinery Co., Ltd (三一汽車起重機械有限公司)	169	–
Sany Heavy Machinery Co., Ltd. (三一重機有限公司)	153	–
Others	6	–
	2,325	–

37. Related Party Transactions (continued)

(2) Non-recurring transactions (continued)

	2017 RMB'000	2016 RMB'000
Rental fee paid to:		
Shenyang Zhushengyuan Properties Ltd. (沈陽竹盛園地產有限公司)	3	–
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) Compensation of key management personnel

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	4,978	6,264
Employee retirement benefits and other staff welfare	996	604
Equity-settled share option expense	232	–
Total compensation paid to key management personnel	6,206	6,868

Included in the above were the compensation paid to the Company's directors and the chief executive as set out in note 8 to the financial statements and the compensation paid to senior management personnel of the Group as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	317	168
Employee retirement benefits and other staff welfare	51	33
Equity-settled share option expense	10	–
Total	378	201
Number of senior management personnel above by remuneration band:		
Nil to HK$1,000,000	1	1

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:

2017 **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	1,606,230	–	1,606,230
Bills receivable	265,696	–	265,696
Financial assets included in prepayments, deposits and other receivables	138,161	–	138,161
Available-for-sale financial investments	–	682,200	682,200
Pledged deposits	15,345	–	15,345
Cash and cash equivalents	814,221	–	814,221
	2,839,653	692,836	3,532,489

2017 **Financial liabilities**	Financial liabilities at amortised cost
Trade and bills payables	1,192,789
Financial liabilities included in other payables and accruals	536,114
Interest–bearing bank and other borrowings	429,127
	2,158,030

38. Financial Instruments by Category (continued)

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 RMB'000
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

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.

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, long term trade receivables, available-for-sale financial investments, financial assets included in prepayments, deposits and other receivables, bank loan, 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.

38. Financial Instruments by Category (continued)

The fair values of the non-current portion of trade receivable and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2017 was assessed to be insignificant.

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 2017, no financial asset was measured at fair value (2016: 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 2017, if the interest rate of the floating rate bank borrowings had increased/decreased by 5% and all other factors remained unchanged, there would have been no effect on the profit after tax for the year of the Group and the Company (2016: Nil).

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 23.3% (2016: 25.2%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst none of costs were denominated in the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates, with all other variables held constant, of the Group's profit/loss 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 profit/loss before tax RMB'000
31 December 2017		
If RMB weakens against HK$	**5**	**2,855**
If RMB strengthens against HK$	**(5)**	**(2,855)**
If RMB weakens against US$	**5**	**95**
If RMB strengthens against US$	**(5)**	**(95)**
If RMB weakens against Euro	**5**	**(4,062)**
If RMB strengthens against Euro	**(5)**	**4,062**
If RMB weakens against GBP	**5**	**(1,161)**
If RMB strengthens against GBP	**(5)**	**1,161**
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

Credit risk

At the end of the reporting period, the Group had a certain concentration of credit risk as 19% (2016: 34%) 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 20 and 21 to the financial statements.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, pledged deposits, 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 2017			
	On demand RMB'000	Less than 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	–	1,105,408	87,381	1,192,789
Financial liabilities included in other payables and accruals	–	536,114	–	536,114
Interest-bearing bank and other borrowings	–	–	434,705	434,705
	–	1,641,522	522,086	2,163,608

	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

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 2017 and 2016.

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:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	9	23
Investment in subsidiaries	3,424,144	3,424,144
Total non-current assets	3,424,153	3,424,167
CURRENT ASSETS		
Due from subsidiaries	770,549	781,346
Cash and cash equivalents	6,513	1,741
Total current assets	777,062	783,087
NET CURRENT ASSETS	777,062	783,087
TOTAL ASSETS LESS CURRENT LIABILITIES	4,201,215	4,207,254
Net assets	4,201,215	4,207,254
EQUITY		
Issued capital	302,214	302,214
Reserves	3,899,001	3,905,040
Total equity	4,201,215	4,207,254

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 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 and 1 January 2017	2,239,502	1,676,409	13,850	9,869	5,744	(40,334)	3,905,040
Loss for the year	–	–	–	–	–	44,249	44,249
Other comprehensive income for the year:							
Exchange differences on translation of foreign operations	–	–	–	(51,385)	–	–	(51,385)
Total comprehensive loss for the year	–	–	–	(51,385)	–	44,249	(7,136)
Share-based payments	–	–	1,097	–	–	–	1,097
As at 31 December 2017	2,239,502	1,676,409	14,947	(41,516)	5,744	3,915	3,899,001

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 28 March 2018.

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				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
REVENUE	2,481,365	1,841,834	2,201,801	2,175,237	3,225,463
Cost of sales	(1,743,814)	(1,565,670)	(1,572,465)	(1,466,023)	(2,062,410)
Gross profit	737,551	276,164	629,336	709,214	1,163,053
Other income and gains	339,304	179,358	222,019	137,105	168,675
Gain on disposal of non-current assets classified as held for sale	–	–	–	240,553	–
Selling and distribution expenses	(299,483)	(321,115)	(276,149)	(312,886)	(500,675)
Administrative expenses	(341,851)	(314,047)	(371,669)	(358,689)	(359,264)
Other expenses	(118,313)	(526,164)	(157,264)	(209,371)	(47,024)
Finance costs	(2,634)	(2,208)	(10,498)	(30,616)	(17,180)
PROFIT/(LOSS) BEFORE TAX	314,574	(708,012)	35,775	175,310	407,585
Income tax expense	(83,637)	49,732	(17,218)	(5,424)	(49,406)
PROFIT/(LOSS) FOR THE YEAR	230,937	(658,280)	18,557	169,886	358,179
Attributable to:					
Owners of the parent	229,436	(644,375)	18,064	168,270	356,208
Non-controlling interests	1,501	(13,905)	493	1,616	1,971
	230,937	(658,280)	18,557	169,886	358,179

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
TOTAL ASSETS	11,199,050	10,139,079	11,331,186	12,753,243	8,712,651
TOTAL LIABILITIES	(4,836,879)	(4,004,943)	(4,542,218)	(5,991,447)	(2,885,148)
NON-CONTROLLING INTERESTS	58,458	56,957	70,862	70,369	68,753