SANYI

# SANY HEAVY EQUIPMENT INTERNATIONAL HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 631

# Annual Report 2018



# Contents

# Company Profile

Sany Heavy Equipment International Holdings Company Limited (hereinafter "Sany International" or the "Company") was incorporated on 23 July 2009 in the Cayman Islands. The Company, together with its subsidiaries (hereinafter the "Group") is a heavy machinery manufacturer specialising in research and development, manufacturing and sale of coal mining and excavation equipment, whole set of roadheaders and coal mining and transportation vehicles and mining equipment as well as port machinery and marine heavy machinery. On 25 November 2009, Sany International was listed on the Main Board of The Stock Exchange of Hong Kong Limited (hereinafter the "Stock Exchange"). On 10 September 2018, Sany International was officially admitted into the Shenzhen-Hong Kong Stock Connect List of Eligible Stocks for Southbound Trading.

The Group is a coal mining machinery manufacturer with the widest product range and the most comprehensive product lines in China, being a leading supplier of energy equipment in China and is also a supplier of whole set of port machinery with the largest, most complete and technologically advanced vessel products in China. Currently, the Group's energy equipment 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. The port machinery products of the Group consist of 16 major types with more than 150 specifications, including front loader, container stacking machine, gripper, heavy-duty forklift truck, rubber-tyred crane, container tractor quayside container crane, portal crane, transtainer and elevated hoisting arm.

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 strived to provide customers with products of higher quality at a more reasonable price. During the year ended 31 December 2018, the Group achieved remarkable results in new product R&D. For energy equipment, the integrated excavation, bolting and self-protection machine greatly improves the speed and safety of roadway excavation, and realises the upgrade of one-way comprehensive excavation. 730C thin-seam series coal mining machinery gained recognition from domestic customers for its extremely high cost effectiveness and has successfully broken through the international market. Since its operation, the pure water hydraulic support has been highly recognized by the China Energy Investment Corporation and industry associations for its high efficiency, zero pollution and low cost. STR series tunnel roadheaders and SCR series excavation machines have been sold in batches, marking the development of excavation technology to the field of excavation and mining. SRT95 series and 55 series mining trucks have been extensively put on the market, and they are in good condition and have received favorable comments from customers. The new SKT90 widebody vehicle, which far surpasses industry technology standards, is put into mass production. For port machinery, SRSC45T new front loader, equipped with five core patented technologies including intelligent weighing and smart open wagon alignment, has successfully entered the railway market. The new gripper with superior performance solves the loading and unloading problems in river terminals and railways, and realizes mass sales after introduction to the market. The pure electric stacking machine adopts energy-saving measures such as kinetic energy recovery and all-electric drive to reduce the operation and maintenance cost, meet the high-intensity and long-term operation demand and help the port achieve green operation and environmental protection. STS8070, the newly developed and the largest quayside container crane in the world, was put into operation in Qingdao Port, representing the future trend of technology development on quayside container crane. Since its delivery and operation, Hutchison Whampoa's STS7065 heavy-weighted quayside container crane set the highest record of Mean Time Between Failures of quayside container crane for HIT wharf. The automated container yard RMG container crane had gained orders from major ports such as Tianjin, Tangshan, Hangzhou and Suzhou. As of 31 December 2018, the Group obtained 23 invention patents, 2 utility model patents, 3 design patents, and 4 copyrights.

The Group actively promoted the R&D and innovation strategy and established Beijing Sany Intelligent Mining Technology Co., Ltd. to develop intelligent technologies to facilitate the development of smart mines and smart terminals; created the best customer experience by reshaping the "Two Exceedings" service philosophy, standardised services, customised services and customer cloud system; improved equipment utilization rate and production efficiency through three types of real-time data and device interconnection, and facilitated digitalisation by online transformation of core operations such as R&D, business, marketing and finance through CRM, PLM, SCM and other systems; and promoted internationalisation through measures such as "twin foci, one country, one strategy, targeted marketing and localisation", enhanced the brand competitiveness in overseas markets, and increased the contribution of overseas markets.

# Financial Summary

| (RMB'000) | **2018 (audited)** | 2017 (audited) | Increase (%) |
|---|---|---|---|
| Revenue | **4,416,944** | 2,481,365 | 78.0 |
| Gross profit | **1,297,622** | 737,551 | 75.9 |
| Gross profit (excluding the effect of provision for write-down of inventories) | **1,211,644** | 738,503 | 64.1 |
| Profit before tax | **726,058** | 314,574 | 130.8 |
| Net profit | **603,474** | 230,937 | 161.3 |
| Profit attributable to owners of the parent | **600,209** | 229,436 | 161.6 |
| Total assets | **12,924,694** | 11,199,050 | 15.4 |
| Total equity | **6,442,067** | 6,362,171 | 1.3 |
| Cash flows of operating activities | **280,442** | 607,074 | (53.8) |
| Cash flows of investing activities | **(535,601)** | (887,915) | (39.7) |
| Cash flows of financing activities | **511,685** | 266,279 | 92.2 |
| Earnings per share[1] | | | |
| – Basic (RMB Yuan) | **0.20** | 0.08 | 150.0 |
| – Diluted (RMB Yuan) | **0.17** | 0.07 | 142.9 |

| (Percentage) | **2018** | 2017 | Percentage points |
|---|---|---|---|
| Gross profit margin | **29.4%** | 29.7% | (0.3) |
| Gross profit margin (excluding the effect of provision for write-down of inventories) | **27.4%** | 29.8% | (2.4) |
| Percentage of profit attributable to shareholders of the Company[2] | **13.6%** | 9.2% | 4.4 |
| Assets turnover | **36.6%** | 23.3% | 13.3 |
| Gearing ratio | **50.2%** | 43.2% | 7.0 |
| Average total assets (RMB'000) | **12,061,872** | 10,669,065 | 13.1 |

1 The weighted average number of ordinary shares for the year ended 31 December 2018 was 3,041,025,000 shares, and the weighted average number of ordinary shares for the year ended 31 December 2017 was 3,041,025,000 shares, details of which are set out in note 12 to the Financial Statements.

2 Profit attributable to shareholders of the Company divided by revenue.

### Sany Heavy Equipment Co., Ltd. (三一重型裝備有限公司) ("Sany Heavy Equipment") successfully delivers the world's first batch of pure water hydraulic supports

In August 2018, a first batch of 152 pure water support sets jointly developed by Sany Heavy Equipment and Shenhua Group was delivered to Shenhua Group's Shendong Jinjie Mine for industrial testing. The supports use pure water instead of conventional emulsion as a hydraulic medium, solving the pollution problem of underground mining and bringing disruptive technological change to traditional coal mining.

### New steel and material gripper of Sany Marine Heavy Industry Co., Ltd. ("Sany Marine Heavy Industry") was globally launched

In August 2018, Sany Marine Heavy Industry held a launch event at Zhuhai Industrial Park for its new steel and material gripper, with the theme "Seize the Opportunity for Future Success". The new SMHW48 and SMHC45 were highly praised by the invited crowd of more than 100 local and overseas clients.

### Sany International admitted into the Shenzhen-Hong Kong Stock Connect List of Eligible Stocks for Southbound Trading

In September 2018, Sany International was admitted into the Shenzhen-Hong Kong Stock Connect List of Eligible Stocks for Southbound Trading. Mainland investors may now purchase Sany International shares through Shenzhen-Hong Kong Stock Connect.

### Sany Heavy Equipment launches a new widebody vehicle

In October 2018, Sany Heavy Equipment launched the new SKT90 widebody vehicle to much fanfare at a "Sany's Wonderful Night and Sany Wide body Vehicle Global Launch" event. The product of a 16-month R&D and manufacturing process that solved more than 200 technical challenges, the mine transportation vehicle boasts reliability and safety that far surpass industry standards as well as a level of efficiency, economy and comfort that has gained its widespread industry attention.

### Fast delivery cycle for Sany Marine Heavy Industry's 70-ton quayside container crane represents an industrial breakthrough

Sany Marine Heavy Industry required just seven months to deliver one 7065 quayside container crane to Hongkong International Terminals (HIT), reducing the delivery cycle by 50% and shattering the industry record.

### Sany Marine Heavy Industry introduces new products at bauma CHINA 2018

In November 2018, Sany Marine Heavy Industry grabbed the spotlight with its launch of the SMHW48 steel and material gripper, SEV2503 pure electric tractor and SCP130H heavy-duty forklift truck at bauma CHINA.

Dear Shareholders,

On behalf of the board of directors ("**Board**") of Sany Heavy Equipment International Holdings Company Limited (the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018.

In 2018, the overall economic situation of China remained growth steadily, and reform of the supply side of the coal enterprises achieved remarkable results. The coal price has continued to be high, the operating efficiency of coal enterprises has improved substantially, and the demand for improvement and replacement of coal machinery equipment increased significantly, leading to the significant improvement in the energy equipment business of the Group. Along with the proportion of domestic railway container transportation increased, while multimodal transportation and the operation of the China-Europe Railway Express drove the use of container lifting equipment in the railway market, leading to significant increase in orders and sales revenue of port machinery equipment of the Group from the railway market. At the same time, the Group continued to focus on product R&D innovation and digital transformation and upgrading, strictly controlling cost and expenses, and internally improving management efficiency and profitability, thereby steadily improving product competitiveness and market share of major products.

In 2018, the Group recorded revenue of approximately RMB4,416.9 million, representing an increase of approximately 78.0% as compared with the same period of last year. Net profit of the Group amounted to approximately RMB603.5 million, representing an increase of approximately 161.3% as compared with the same period of last year. At the same time, various financial indicators such as net profit margin, return on net assets, and gross profit margin continued to improve. In 2018, the Company continued to strengthen the risk control standards, and the operating indicators such as overdue rate of trade receivables and turnover rate of trade receivables continued to improve. With the effective cost control, the management and sales expense ratio continued to decline.

In 2018, the Group continued to promote the R&D innovation strategy, investment in R&D reached RMB241.8 million during the year, representing an increase of approximately 104.9% as compared with the same period of last year. Focusing on the two smart application scenarios of "Smart Mine" and "Smart Terminal", the Group established a research and development company in Beijing, which specialized in research and development and reserve for related technologies such as intelligent, unmanned and electrified, and fully promoted the innovation and development of the Group. During the year, R&D results on new products were remarkable, the world's pioneer pure water hydraulic support, 730C thin-seam coal mining series coal mining machines, SKT90 wide-bodied vehicles, gripper, automatic stackers and STS8070 quayside container crane, automated container yard RMG container crane and other new products launched into market successively and achieved good sales records. As for the R&D cooperation, the Group cooperated with various institutions, such as South China University of Technology, Beihang University (Institute 13) and China University of Mining and Technology, and formed an industry, university and research institution alliance, jointly worked on the approaches to solve technical problems in the industry and improved product performance. At the same time, industry experts, leading talents and technology leaders were introduced to setup a R&D talent pool, and the R&D management system and medium to long-term incentive system of the Company were continuously improved, thus enhanced team cohesion and creativity.

In 2018, the Group achieved rapid growth in the international market sales, with sales revenue of RMB953.0 million, representing a substantial year-on-year increase. The energy equipment segment focused on three major products: mining trucks, roadheaders and mining excavator and entered into the international markets including India, Russia, Australia and Argentina. The port machinery segment made its debut in Thailand PSA, and entered for the first time the international markets including Korea, Indonesia, Qatar, and the United States, with its presence in the international markets expanding steadily. In the future, the Group will continue to promote internationalization and implement the strategy of "One Country, One Strategy, Precise Marketing and Localization" to enhance the contribution of the international market.

In 2018, the Group steadily recommended digital transformation and upgrading. Through on-line application of CRM, SCM, PLM and other systems, core business processes such as R&D, marketing, commerce, finance, and human resources were 100% online. Through the interconnection of data and equipment, production monitoring platform of factory-level was established, real-time data such as materials, equipment status, personnel, energy consumption were monitored and collected, equipment utilization and energy efficiency were enhanced, thus production schedule and energy consumption can be visualized, process optimization, per capita production efficiency, defective product rate and energy management costs were reduced.

Looking forward into 2019, external operation environment will continue to maintain a stable and positive trend. We will firmly grasp the opportunities of intelligent upgrade of industries to enhance the operational capacity as the main line, keep improving the comprehensive anti-risk capability, and enable the Group's business to achieve a leap-forward development.

On behalf of the Board, I would like to take this opportunity to thank all Shareholders, stakeholders and all colleagues and all employees for their support and dedication to the Company! I will continue to work with the management team to create more returns for Shareholders.

**Qi Jian**
*Chairman*

Hong Kong, 20 March 2019

## BUSINESS REVIEW

In 2018, coal prices continued to remain at high level and the demand for improvement and replacement of coal machinery equipment increased significantly, while the stability of the Company's coal machinery products was further enhanced through design and upgrade of the products, leading to the significant increase in the revenue of coal machinery equipment of the Group in 2018. In addition, the proportion of domestic railway container transportation increased rapidly, while multimodal transportation and the operation of the China-Europe Railway Express drove the use of container lifting equipment in the railway market, leading to significant increase in orders and sales revenue of port machinery equipment of the Group from the railway market. Furthermore, in 2018, the Group's international sales revenue increased significantly from both of the energy machinery segment and the port machinery segment, in particular, major breakthroughs were achieved in the international sales of integrated coal mining products and mining transport equipment, and larger international market share was seized by the Group in terms of small-size port machinery in Asia Pacific and other regions.

The Group's new products such as pure water hydraulic support, wide-bodied vehicles, automatic bridge, gripper and heavy duty forklift truck were successively launched to the market and have been widely recognized by the market, which brought new profit growth opportunities to the Company. Meanwhile, the gross profit margins of integrated coal mining products and large-size port machinery products increased due to the strengthened cost control measures adopted by the Group, and the management fees decreased as a result of further enhanced internal control. Based on the above factors, the Group's operating income and net profit for 2018 both achieved significant growth on year-on-year basis.

### 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 port machinery business sector, which includes port machinery products (reach stacker, empty container handler, quayside container crane, forklift, steel and material gripper and pure electric port tractors) and offshore heavy machineries.

## Research and development capability

As a leading enterprise to promote the development of the industrial technologies, the Group considers research and development ("R&D") as one of its most important competitive strengths. We adhere to the core status of research and development as well as product innovation, and continuously increase investment in research and development with an aim to build our flagship brand in the future. The Group cooperates with various tertiary institutions and research institutes, such as South China University of Technology, Wuhan University of Technology, Shanghai Maritime University and China University of Mining and Technology, to jointly work on the approaches to solve technical problems in the industry and improve product performance. Meanwhile, the Group established a technology company in Beijing, specializing in the development and application of automated mining, electrification and driverless technology. In terms of R&D management system, the Group implements a project management system within the R&D system. The project team progresses specific research and incentivizes team members based on the project's profitability to enhance their initiative and stimulate their creativity.

Looking back on 2018, the Group's research and development achieved remarkable results. For coal mining machinery, the Group developed and launched the CS pure water hydraulic support that achieves breakthroughs in various core technologies to realize the concept of "green mining". With its extremely high cost effectiveness, 730C thin-seam coal mining series coal mining machines gained the recognition of customers. The 200 series integrated excavation, bolting and self-protection machine, led the development of tunneling technology in a more efficient and safer way to advance excavating operation. For mining machinery, SCR260 and SCR520 coal mining machineries brought revolutionary changes to the traditional mining technique and were massively introduced to the international market so as to double the efficiency of mining and significantly decrease the costs. SRT55D mine tub with minimal energy consumption is highly recognized by the customers from the international markets such as India and Argentina, which enhanced competitive strengths of our Group. For mobile port machinery, SRSC45V front loader gained the access to the market with its extremely good controllability, low fuel consumption and high level of safety, created value for customers and built up competitive strengths. SMHC40 gripper quickly gained the access to international markets such as Thailand and Indonesia with high reputation from customers due to its superior performance and low operating costs. The newly developed electric truck for port gained the access to Qingdao Port and built up competitive strengths with its strong endurance and low operating costs. SCP130A North American forklift prototype has been sold in the US and manufactured by Sany America in the form of SKD. For large port machinery, STS8070, the newly developed and the largest quayside container crane in the world, was put into operation in Qingdao Port, representing the future trend of technology development on quayside container crane. For the six months since its delivery and operation, Hutchison Whampoa's STS7065 heavy-weighted quayside container crane set the highest record of Mean Time Between Failures of quayside container crane for HIT wharf. The newly developed RTG achieved several breakthroughs in core technologies and exceeded the targets of reduction of one-third of weight and 20% of energy consumption. The automated container yard RMG container crane had gained orders from major ports such as Tianjin, Tangshan, Hangzhou and Suzhou.

As of 31 December 2018, the Group obtained 23 invention patents, 2 utility model patents, 3 design patents, and 4 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 improvement of processing and assembly techniques, and adopted various measures to cut production costs.

The Group established a plant-level production monitoring platform to collect and monitor real-time data from "three sources", namely on-site, equipment status and production process, so as to improve equipment utilization and energy efficiency, standardize on-site production management and standard operations, improve workers' productivity, allocate resources in a reasonable manner, and maximize the utilization of resources.

## Marketing and Service

The Group implements a targeted marketing policy tailored to each major customer with support from our "power trio" team to achieve crucial breakthroughs. The Group has been accelerating its internationalization progress and enhancing its competitiveness in overseas markets. We adopt a specific policy for each country while adhering to our strategy of "focusing on both key products and key regions". We have maintained our leading position in the mobile port machinery sector in the Asia-Pacific region and actively explored the North American market with new products. We have expanded our market share in overseas markets through allocating more resources in international markets, providing more support to overseas agents and cultivating more agents.

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 addressing any concerns of our customers. The Group's superior product quality, attentive after-sales service and efficient response have gained high recognition from our customers.

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2018, the Group recorded revenue of approximately RMB4,416.9 million, representing an increase of approximately 78.0% as compared with approximately RMB2,481.4 million for the year ended 31 December 2017. The increase was mainly due to that (1) coal prices remained at high level in 2018, the operation of coal enterprises improved substantially and the demand for improvement and replacement of coal machinery equipment increased significantly, leading to the significant increase in the revenue generated from the coal machinery equipment of the Group; (2) the rapid development of domestic railway container transportation has driven the significant increase in orders and sales revenue of port machinery equipment of the Group from the railway market; and (3) a significant increase was recorded in the international sales revenue of the Group's energy equipment and port machinery product sectors.

### Other income and gains

For the year ended 31 December 2018, the Group's other income and gains was approximately RMB301.2 million, representing a decrease of approximately 11.2% as compared with approximately RMB339.3 million for the year ended 31 December 2017. The decrease was mainly due to the decrease in government subsidies received by the Group during 2018.

### Cost of sales

For the year ended 31 December 2018, the Group's cost of sales was approximately RMB3,119.3 million, representing an increase of approximately 78.9% as compared with approximately RMB1,743.8 million for the year ended 31 December 2017. The increase of cost of sales was mainly due to (1) the increase in products revenue; and (2) *classification of transportation costs of RMB127.6 million from selling and distribution expenses to cost of sales under IFRS 15 in 2018.

### Gross profit and gross profit margin

The gross profit of the Group was approximately RMB1,297.6 million for the year ended 31 December 2018 (the year ended 31 December 2017: approximately RMB737.6 million).

The gross profit of the Group excluding the impairment provisions for inventories for the year ended 31 December 2018 was RMB1,211.6 million (the year ended 31 December 2017: gross profit excluding and including transportation costs amounted to approximately RMB738.5 million and RMB675.6 million, respectively).

*Note: Please refer to the section headed "Notes to Financial Statements – 2.2 Changes in Accounting Policies and Disclosures" of this annual report for details.

The gross profit margin of the Group excluding the impairment provisions for inventories for the year ended 31 December 2018 was approximately 27.4%, representing an increase of 0.2 percentage point against approximately 27.2% for the year ended 31 December 2017 (gross profit margin including transportation costs was approximately 29.8% for the year ended 31 December 2017). The change of gross profit margin was mainly due to the net impact of the following reasons: (1) the decline in overall gross profit margin resulting from the increase in the proportion of products with low gross profit margin, such as integrated coal mining products; (2) the significant increase in gross profit margin due to successful cost control measures for coal machinery products; and (3) the increase in bid prices for large-scale port machinery products as compared with 2017.

## Selling and distribution expenses

For the year ended 31 December 2018, the selling and distribution expenses of the Group were approximately RMB329.5 million, representing an increase of approximately 10.0% as compared with approximately RMB299.5 million for the year ended 31 December 2017. For the year ended 31 December 2018, the ratio of the Group's selling and distribution expenses to revenue was approximately 7.5%, representing a decrease of approximately 4.6 percentage points as compared with approximately 12.1% for the year ended 31 December 2017. Such change was mainly due to (1) the increase in sales and promotional expenses and staff costs such as travel expenses and commissions for sales staff in line with the increase in sales revenue; and (2) the decrease in transportation costs which was classified as cost of sales under IFRS 15 in 2018.

## R&D expenses

For the year ended 31 December 2018, the R&D expenses of the Group were approximately RMB241.8 million, representing an increase of approximately 104.9% as compared with approximately RMB118.0 million for the year ended 31 December 2017. For the year ended 31 December 2018, its ratio to revenue was approximately 5.5%, representing an increase of approximately 0.7 percentage point as compared with 4.8% for the year ended 31 December 2017. Such changes were mainly due to enhancing investment in R&D and testing of new products and new technologies, and creation of strategic reserves for cutting-edge technologies.

## Administrative expenses

For the year ended 31 December 2018, administrative expenses of the Group were approximately RMB492.1 million (the year ended 31 December 2017: approximately RMB341.9 million). The administrative expenses excluding R&D expenses were approximately RMB250.3 million (the year ended 31 December 2017: approximately RMB223.9 million), representing a year-on-year decrease in the proportion of revenue by approximately 3.3 percentage points to approximately 5.7% (the year ended 31 December 2017: approximately 9.0%). Such changes were mainly due to the increase in sales revenue and successful cost control measures.

## Finance costs

For the year ended 31 December 2018, finance costs of the Group were approximately RMB18.2 million (the year ended 31 December 2017: approximately RMB2.6 million), and the increase was mainly due to the increase in short-term borrowings to meet operational needs of the Company.

## Profit margin before tax

For the year ended 31 December 2018, the Group's profit margin before tax was approximately 16.4%, representing an increase of approximately 3.7 percentage points as compared with profit margin before tax of approximately 12.7% for the year ended 31 December 2017. The change was mainly due to the increase in sales revenue and successful cost control measures.

## Taxation

For the year ended 31 December 2018, the Group's effective tax rate was 16.9% (the year ended 31 December 2017: 26.6%). For details regarding income tax, please refer to the section headed "Notes to Financial Statements – 10. Income Tax" of this annual report.

## Profit attributable to owners of the parent

For the year ended 31 December 2018, profit attributable to owners of the parent recorded by the Group was approximately RMB600.2 million, as compared with the profit attributable to owners of the parent recorded by the Group of RMB229.4 million for the year ended 31 December 2017. For the main reasons of such change, please refer to the above paragraphs headed "Revenue", "Gross profit and gross profit margin" and "Profit margin before tax".

## Liquidity and financial resources

As at 31 December 2018, total current assets of the Group were approximately RMB7,028.7 million (31 December 2017: RMB5,097.1 million). As at 31 December 2018, total current liabilities of the Group were approximately RMB5,169.2 million (31 December 2017: RMB2,918.7 million).

As at 31 December 2018, total assets of the Group were approximately RMB12,924.7 million (31 December 2017: approximately RMB11,199.1 million), and total liabilities were approximately RMB6,482.6 million (31 December 2017: approximately RMB4,836.9 million). As at 31 December 2018, the gearing ratio (the asset to liability ratio) of the Group was approximately 50.2% (31 December 2017: 43.2%).

## Trade and bills receivables

As at 31 December 2018, the Group's trade receivables and bills receivables recorded an increase of approximately 29.3% to approximately RMB3,404.3 million as compared with approximately RMB2,631.9 million as at 31 December 2017, among which trade receivables increased by approximately 22.8% to approximately RMB2,905.3 million as compared with approximately RMB2,366.2 million as at 31 December 2017; and bills receivables increased by approximately 87.8% to RMB499.0 million as compared with RMB265.7 million as at 31 December 2017. Such changes were mainly due to the increase in sales revenue and the increase in the proportion of sales generated from integrated coal mining and other products with long payback period.

## Interest-bearing bank and other borrowings

As at 31 December 2018, interest-bearing bank and other borrowings of the Group were approximately RMB1,400.0 million (31 December 2017: RMB429.1 million). Such change was due to the increase in short-term borrowings to meet operational needs.

## Cash flow

As at 31 December 2018, cash and cash equivalents of the Group and deposits with maturity of three months or more were approximately RMB1,069.9 million in total.

For the year ended 31 December 2018, the net cash inflow of the Group from operating activities was approximately RMB280.4 million (the year ended 31 December 2017: approximately RMB607.1 million). Such change was mainly due to (1) the increase in the proportion of products with long payback period, such as integrated coal mining products, quayside container crane and overhead crane, which resulted in a decrease in cash repayment ratio; (2) with the rapid development of the market, the increase of prepayment made to suppliers in order to secure availability and stable price of major and imported parts.

For the year ended 31 December 2018, the net cash outflow to investing activities of the Group was approximately RMB535.6 million (the year ended 31 December 2017: approximately RMB887.9 million). Such change was mainly due to the decrease in expenditure on land acquisition during 2018.

For the year ended 31 December 2018, the net cash inflow of the Group from financing activities was approximately RMB511.7 million (the year ended 31 December 2017: approximately RMB266.3 million). Such change was mainly due to the increase in bank borrowings during 2018.

## Turnover days

Excluding the impairment losses for inventories provided, the Group's average turnover days of inventory were approximately 205.0 days as at 31 December 2018, representing a decrease of approximately 100.6 days from 305.6 days as at 31 December 2017, which was mainly because the Company enhanced its control on inventory during production process and managed and better utilized the accumulated inventory.

The turnover days of trade and bills receivables as at 31 December 2018 were approximately 249.4 days, representing a decrease of 139.8 days from approximately 389.2 days as at 31 December 2017. 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 53.5 days from approximately 225.0 days as at 31 December 2017 to approximately 171.5 days as at 31 December 2018, which was mainly due to the shortened payment period to suppliers to ensure sufficient raw materials for the sales orders.

## Financing guarantee contracts

As at 31 December 2018, the financing guarantee contracts not provided for in the financial statements amounted to RMB52.6 million, being the financial guarantee under financing lease arrangements provided by Hunan Sany Port Equipment Co., Ltd. (31 December 2017: RMB90.6 million).

## Capital commitment

As at 31 December 2018, the contracted capital commitments of the Group which are not provided for in the financial statements were approximately RMB4,207.0 million (31 December 2017: approximately RMB3,569.7 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 improving and enhancing their skills relevant to work as well as strengthening their senses of belonging. The Group paid year-end bonuses to staff to reward them for their contributions and dedication to the Group. In addition, the Group implements a share incentive scheme for core employees to share the fruits of the Company's development with them. The remuneration of the directors of the Group was determined with reference to their positions, responsibilities, 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 then wholly-owned subsidiary of the Group, to an independent third party and such buyer also agreed to undertake the shareholder's loan therein. The Group has received the consideration of RMB200.0 million and RMB44.0 million during the year ended 31 December 2017 and 2018, respectively. The disposal was completed in April 2018 and a disposal gain of RMB3.9 million was recorded in other income for the year ended 31 December 2018.

There were no significant investments held, no other material acquisitions or disposals of subsidiaries, associates and joint ventures during 2018.

## Pledge on assets

As at 31 December 2018, the Group recorded pledged bank deposits with an aggregate value of approximately RMB33.8 million (31 December 2017: approximately RMB15.3 million), for the purpose of issuing bills payable. As at 31 December 2018, none of the Group's bank loans were secured by property, plant and equipment and prepaid land lease payments (31 December 2017: Nil).

## Foreign exchange risk

As at 31 December 2018, the Group's cash and bank balances denominated in foreign currency such as US$ and Euro were equivalent to approximately RMB466.5 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.

## Executive Directors

**Mr. Qi Jian (戚建)**, aged 59, 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 45, 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 48, 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 56, 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 57, 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 was a deputy of the 11th National People's Congress (十一屆全國人大代表), and has also held a number of social positions such as executive president of China-India Business Council (中印商務理事會) and China-South Asia Business Council (中國南亞商務理事會), 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 57, 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 54, 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 56, 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 Main Board of 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 61, 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. Zhou Huidong** (**周會東**), aged 43, was appointed as the joint company secretary of the Company on 22 January 2019, and is also currently the vice president and the deputy financial controller of Sany Group. Mr. Zhou has over 20 years of experience in finance and accounting. Prior to joining Sany Group, from October 2017 to February 2018, he served as the vice president of finance of Aux Group Company Limited (奧克斯集團有限公司). From July 1998 to September 2017, Mr. Zhou served as various head positions of the financial department, the financial system integrated accounting department, the securities financial department, the financial monitoring department and the supervisor of Zhongxing Telecommunication Equipment Corporation (中興通訊股份有限公司), a listed company both on the Shenzhen Stock Exchange (stock code: 000063) and the Stock Exchange of Hong Kong (stock code: 763), responsible for the accounting and financial management. He also served as a director and/or supervisor of several subsidiaries of Zhongxing Telecommunication Equipment Corporation during such period of time. In July 1998, Mr. Zhou obtained a bachelor's degree in finance and accounting from Beijing University (北京大學). In July 2014, he obtained a master's degree in business administration from Guanghua School of Management of Beijing University. Mr. Zhou is qualified as a Chinese Certified Tax Agent (註冊稅務師) since June 2001 and a Chinese Certified Public Accountant (註冊會計師) since November 2004.

**Mr. Zhu Xiangjun** (**朱向軍**), aged 35, was appointed as the Chief Financial Officer and the Joint Company Secretaries of the Company on 12 September 2016, and resigned as the joint company secretary on 22 January 2019.

Mr. Zhu 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 41, 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. Zhou Huidong (周會東)**, 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 2018.

## 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 2018 are set out in the financial statements on pages 70 to 175 of this annual report.

### Dividend Policy

The Group is committed to sharing its development and achievements with shareholders through proactive, stable and sustainable dividend policy. The Group would strive to strike a balance between meeting shareholder's expectations and managing funds prudently. When considering the dividend policy, the Group will comprehensively observe the macro-economic operation, the competition pattern of the industry and the Group's own development strategy. Under the premise of ensuring that the Group has sufficient working capital to implement the development strategy, the Group will distribute surplus funds to shareholders and reward their support for the Group.

### Final Dividend

Subject to the Shareholders' approval, on 20 March 2019, the Board resolved the declaration and payment of the final dividend of HK10 cents per ordinary share of the Company, amounting to approximately HK$304,102,500 in total, to be payable to the shareholders of the Company whose names appear on the Company's register of members on Friday, 24 May 2019. Such final dividend is expected to be distributed on or around 20 June 2019.

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 at the date of this annual report, 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$96,388.0, representing the preferred distribution accumulated from 1 January 2018 to 31 December 2018, and (b) the final dividend of HK10 cents per Convertible Preference Share, amounting to approximately HK$47,978,103.4. The Preferred Distribution and the dividends for the Convertible Preference Shares are proposed to be distributed on or around 20 June 2019, on the same distribution date as the final dividend for ordinary shares.

### 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 had been distributed on 15 March 2018.

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$289,164.0, 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.

The Board did not recommend any other special dividend for the year ended 31 December 2018.

## 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 176 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 2018 are set out in note 26 to the financial statements.

## Distributable Reserves

As at 31 December 2018, 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 RMB4,273.7 million. 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 2018 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 138,400,000 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 2018 are as follows:

| Category of participants | Date of grant[1] | Exercise price per share (HK$) | Outstanding at 1 January 2018 | Granted during the year | Exercised during the year | Forfeited/ Lapsed during the year[2] | Outstanding at 31 December 2018 |
|---|---|---|---|---|---|---|---|
| **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 | – | – | 11,600,000 | 105,300,000 |
| **Employees** | 29 December 2017 | 1.71 | 2,400,000 | – | – | 800,000 | 1,600,000 |
| **Employees** | 14 November 2018 | 2.30 | – | 12,500,000 | – | – | 12,500,000 |
| **Total** | | | 138,300,000 | 12,500,000 | – | 12,400,000 | 138,400,000 |

*Notes:*

*(1) Share options granted under the Share Option Scheme on 15 December 2017, 29 December 2017 and 14 November 2018 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 |
| 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) During the year ended 31 December 2018, 12,400,000 share options were cancelled due to termination of employment.*

Save as disclosed above, no share option was granted, exercised, lapsed or cancelled during the year ended 31 December 2018.

## Major Suppliers and Customers

During the year under review, the aggregate sales attributable to the Group's five largest customers comprised approximately 12.0% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 3.2% of the Group's total sales. The aggregate purchases during the year under review attributable to the Group's five largest suppliers were approximately 17.4% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 7.5% of the Group's total purchases.

So far as is known to the Directors, at no time during the year under review did the Directors, their associates or substantial shareholders own more than 5% of the Company's issued share capital nor had any interest in the share capital of any of the five largest customers and suppliers of the Group.

## Donations

During the year under review, the Group made no donation (2017: RMB1,475,000).

## Property, Plant and Equipment

During the year ended 31 December 2018, the Group held property, plant and equipment of approximately RMB2,462.9 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 2018, neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the listed shares of the Company (2017: 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

For the energy equipment business sector, as set out in the 13th Five-year Plan of the Coal Industry, a modern coal industry system that is intensive, safe, efficient and green will be built in the future. The mechanization rate of coal mining and tunneling will increase from 76% and 58% to 85% and 65%, respectively. The increase in mechanization rate and the demand for upgrade and replacement will drive the steady growth of demand for coal machinery equipment. The Group is a leading enterprise in the roadheader market and will continue to maintain its market share in the future. For the coal integrated mining equipment sector, the pure water hydraulic supports and thin-seam coal mining series coal mining machines developed by the Group have also been introduced to the market and were well recognized in the industry with expanding market share. Mining transport equipment, widebody vehicle and other products have broad market prospects. For the port machinery sector, container throughput has maintained a steady growth momentum. The market share of the Group's front loaders, stackers and other advantaged products has steadily increased. The demand for upgrade and replacement of large port machinery as well as forklifts, steel and material grippers and pure electric port tractors will bring stable performance growth to the Company's port machinery and equipment sector.

In the future, the Group will upgrade and transform its products towards intelligent, unmanned, automated, energy-saving and environment-friendly products through continuous research, development and innovation, and strive to become an integrated solution provider in order to build the "Smart Mine" and "Intelligent Terminal".

## 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 multiple employee engagement surveys 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 gained 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 2018 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

**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

In accordance with article 84(1) of the Company's articles of association, each of Mr. Zhang Zhihong, Mr. Mao Zhongwu and Mr. Hu Jiquan 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 2018 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 2018 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 26 November 2018, 18 December 2018 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 2018. 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 17 to 23 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 2018 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 2018, 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 2018 | Percentage of total issued share capital as at 31 December 2018 |
|---|---|---|---|
| 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 | 4,106,000 | 0.14% |
| Mr. Tang Xiuguo | Interest of spouse | 2,097,000 | 0.07% |
| Mr. Xiang Wenbo (4) | Beneficial owner | 2,858,000 | 0.09% |
| Mr. Poon Chiu Kwok (5) | Beneficial owner | 1,000,000 | 0.03% |
| Mr. Ng Yuk Keung (6) | Beneficial owner | 1,000,000 | 0.03% |
| Mr. Hu Jiquan (7) | 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 4,106,000 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 106,000 Shares held by his spouse.*

(4) *Mr. Xiang Wenbo directly holds 2,858,000 shares of the Company.*

(5) *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.*

(6) *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.*

(7) *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 | 869.58 | 8.70% |
| Mr. Mao Zhongwu (Note) | Beneficial owner | 795.04 | 7.95% |
| Mr. Xiang Wenbo (Note) | Beneficial owner | 795.04 | 7.95% |

*Note: Each of Mr. Tang Xiuguo, Mr. Mao Zhongwu and Mr. Xiang Wenbo holds 8.70%, 7.95% and 7.95% 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 2018, 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 2018, so far as the directors and chief executive of the Company were aware, the following persons and corporations (excluding the directors and chief executives of the Company) had interests or short positions in any of the shares or underlying shares of the Company which were required to be notified to the Company and Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who, directly or indirectly, is interested in 10% or more of the nominal value of any class of share capital to vote in all circumstances at general meetings of any other member of the Group:

| Name of Shareholder | Capacity | Number of shares held | Approximate percentage of issued share capital |
|---|---|---|---|
| Sany HK (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/ Beneficial owner | 2,625,231,222 | 86.33% |

*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 56.38% 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. Mr. Liang Wengen directly holds 10,870,000 shares of the Company.*

Save as disclosed above, as at 31 December 2018, 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 2018 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 2018, the Group's total contributions to the retirement schemes charged in the income statement amounted to RMB38.0 million (2017: RMB22.7 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 2018. The Group's principal corporate governance practices are set out on pages 52 to 62 of the annual report.

## Connected Transaction

During the year ended 31 December 2018, 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 directly held 10,870,000 ordinary shares and his 56.38% 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 56.74%, 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 RMB227,869,000, which was within the annual cap amount of RMB303,504,000. Further details of the Supplemental Master Purchase Agreement (2017-2019) were set out in the announcement of the Company dated 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 RMB38,932,000, which was within the annual cap amount of RMB101,390,000. Further details of the Supplemental Master Sales Agreement (2017-2019) were set out in the announcement of the Company dated 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.

On 29 August 2018, the annual caps for the two years ending 31 December 2019 were revised as RMB122,000,000 and RMB122,000,000 based on (i) the transportation transaction amount for the six months ended 30 June 2018, being approximately RMB58,060,000, (ii) the orders for the sales of coal mining machinery products for the first half of 2018 and (iii) the anticipated business volume of the Group's products and the expected logistics services to be involved, which is in line with the increase in the Group's sale.

During the year under review, the actual transactions under the Supplemental Master Transportation Agreement (2017-2019) amounted to RMB104,131,000, which was within the annual cap amount of RMB122,000,000. Further details of the Supplemental Master Transportation Agreement (2017-2019) were set out in the announcements of the Company dated 16 March 2017 and 29 August 2018.

(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 RMB395,220,000, which was within the annual cap amount of RMB995,000,000. 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 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 RMB4,356,000, which was within the annual cap amount of RMB8,030,000. Further details of the Supplemental Hunan Lease (2017-2019) were set out in the announcement of the Company dated 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 RMB6,463,000, which was within the annual cap amount of RMB8,640,000. Further details of the Supplemental Utility Charges Payment Agreement (2017-2019) were set out in the announcement of the Company dated 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 RMB201,000, which was within the annual cap amount of RMB4,950,000. Further details of the Supplemental Hoisting Equipment Lease Agreement (2017-2019) were set out in the announcement of the Company dated 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 Agreements

(i) On 31 January 2018, Sany Heavy Equipment, a subsidiary of the Company, entered into a structured deposit agreement with Sanxiang Bank, pursuant to which Sany Heavy Equipment agreed to deposit a maximum principal amount of RMB90 million with Sanxiang Bank for an investment term of 21 days from 1 February 2018 to 22 February 2018. On the same date, another subsidiary of the Company entered into another structured deposit agreement with Sanxiang Bank, pursuant to which it agreed to deposit a maximum principal amount of RMB60 million with Sanxiang Bank for an investment term of 89 days from 31 January 2018 to 30 April 2018. The structured deposit agreements are principal-guaranteed and interest-guaranteed.

On the date of the transaction, 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 certain applicable percentage ratios of such agreements, as aggregated with the outstanding one dated 30 October 2017, are more than 0.1% but less than 5%, the transactions contemplated thereunder constitute connected transactions of the Company and are subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

On 22 February 2018, the Company has received the principal of RMB90 million together with the interest thereunder of RMB227,836; and on 30 April 2018, the Company has received the principal of RMB60 million together with the interest thereunder of RMB718,027.

(ii) On 14 May 2018, Sany Heavy Equipment entered into another structured deposit agreement with Sanxiang Bank, pursuant to which Sany Heavy Equipment agreed to deposit a principal amount of RMB100 million with Sanxiang Bank for an investment term of 177 days from 14 May 2018 to 7 November 2018. The structured deposit agreement is principal-guaranteed and interest-guaranteed. The interest to be obtained by the Company is RMB2,424,658.

On the date of the transaction, 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 certain applicable percentage ratios of such agreement, as aggregated with the outstanding one dated 30 October 2017, are more than 0.1% but less than 5%, the transaction under such agreement constitutes a connected transaction of the Company and is subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

On 12 November 2018, such agreement had expired and both parties agreed to renew it for another 177 days by entering into a renewed structured deposit agreement under the same terms and conditions.

(iii) On 8 August 2018, Sany Heavy Equipment entered into another structured deposit agreement with Sanxiang Bank, pursuant to which Sany Heavy Equipment agreed to deposit a principal amount of RMB130 million with Sanxiang Bank for an investment term of 190 days from 8 August 2018 to 14 February 2019. The structured deposit agreement is principal-guaranteed and interest-guaranteed. The expected interest to be obtained by the Company is RMB3,315,890.

On the date of the transaction, 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 certain applicable percentage ratios of such agreement, as aggregated with the outstanding one dated 14 May 2018, are more than 0.1% but less than 5%, the transaction under such agreement constitutes a connected transaction of the Company and is subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

On 15 February 2019, such agreement had expired and both parties agreed to renew it for another 181 days by entering into a renewed structured deposit agreement under the same terms and conditions.

(iv) Considering the structured deposit agreement dated 14 May 2018 had expired, on 12 November 2018, Sany Heavy Equipment entered into a renewed structured deposit agreement with Sanxiang Bank, pursuant to which Sany Heavy Equipment agreed to deposit a maximum principal amount of RMB100 million with Sanxiang Bank for an investment term of 177 days from 12 November 2018, as the commencement date, to 8 May 2019, as the expected maturity date. The 2018 Renewed Structured Deposit Agreement is principal-guaranteed and interest-guaranteed upon maturity or redemption. The actual interest to be obtained by the Company is subject to the actual investment term upon maturity or redemption, and the expected maximum interest to be obtained is RMB2,424,658.

On the date of the transaction, 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 certain applicable percentage ratios of such agreement, as aggregated with the outstanding one dated 8 August 2018, are more than 0.1% but less than 5%, the transaction under such agreement constitutes a connected transaction of the Company and is subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(2) Loan Agreements

(i) On 4 April 2018, Sany Heavy Equipment entered into a loan agreement (the "First Loan Agreement") with Hunan Zhonghong, pursuant to which Sany Heavy Equipment agreed to provide a loan to Hunan Zhonghong in the principal amount of RMB100 million with an interest rate of 5.3% per annum for a term of 187 days commencing from the date of the First Loan Agreement.

On the date of the transaction, Hunan Zhonghong is held by Sany Group as to 91.57% and Sany Group is in turn held by Mr. Liang Wengen as to 56.42%. As such, Hunan Zhonghong is an associate of Mr. Liang Wengen under Rule 14A.12(1)(c) and hence a connected person of the Company under the Listing Rules.

The First Loan Agreement constitutes a financial assistance under Chapter 14A. As each of the applicable percentage ratios of the First Loan 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.

On 29 September 2018, the First Loan Agreement had expired, and the Company has received the principal of RMB100 million together with the interest of RMB2,584,658.

(ii) On 11 April 2018, Sany Marine Heavy Industry entered into a loan agreement (the "Second Loan Agreement") with Hunan Zhonghong, pursuant to which Sany Marine Heavy Industry agreed to provide another loan to Hunan Zhonghong in the principal amount of RMB130 million with an interest rate of 5.3% per annum for a term of 182 days commencing from the date of the Second Loan Agreement.

On the date of the transaction, Hunan Zhonghong is held by Sany Group as to 91.57% and Sany Group is in turn held by Mr. Liang Wengen as to 56.42%. As such, Hunan Zhonghong is an associate of Mr. Liang Wengen under Rule 14A.12(1)(c) and hence a connected person of the Company under the Listing Rules.

The First Loan Agreement and the Second Loan Agreement both constitute financial assistance under Chapter 14A. As each of the applicable percentage ratios of the First Loan Agreement and the Second Loan Agreement, as aggregated, is more than 0.1% but less than 5%, the transactions under both of the loan agreements constitute connected transactions of the Company and are subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

On 29 September 2018, the Second Loan Agreement had expired, and the Company has received the principal of RMB130 million together with the interest of RMB3,227,918.

(iii) On 22 October 2018, Sany Marine Heavy Industry entered into a loan agreement (the "Loan Agreement") with Hunan Zhonghong, pursuant to which Sany Marine Heavy Industry agreed to provide another loan to Hunan Zhonghong in the principal amount of RMB100 million with an interest rate of 6.0% per annum for a term of 181 days commencing from the date of the Loan Agreement. The expected interest to be obtained by the Company is RMB2,975,342. Sany Group agreed to provide guarantee to Hunan Zhonghong in favour of Sany Marine Heavy Industry under the Loan Agreement.

On the date of the transaction, Hunan Zhonghong is held by Sany Group as to 91.57% and Sany Group is in turn held by Mr. Liang Wengen as to 56.42%. As such, Hunan Zhonghong is an associate of Mr. Liang Wengen under Rule 14A.12(1)(c) and hence a connected person of the Company under the Listing Rules.

The Loan Agreement constitutes a financial assistance under Chapter 14A. As each of the applicable percentage ratios of the Loan 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.

(3) Amendment to the JV Articles And Disposal of A Subsidiary

On 5 April 2012, Sany Heavy Equipment entered into the JV Articles with Shenyang Zhu Sheng Yuan Co., Ltd., ("Shenyang Zhu Sheng Yuan") pursuant to which Sany Heavy Equipment and Shenyang Zhu Sheng Yuan agreed to jointly establish Shenyang Zhong Jing Real Estate Development Co., Ltd. ("Zhongjing Real Estate"). Pursuant to the JV Articles, Sany Heavy Equipment shall contribute 51% of the registered capital of Zhongjing Real Estate and Shenyang Zhu Sheng Yuan shall contribute 49% of the registered capital of Zhongjing Real Estate.

On 11 July 2012, Zhongjing Real Estate was established. Sany Heavy Equipment did not contribute any registed capital and Shenyang Zhu Sheng Yuan settled RMB50 million to the registered capital in cash. Since Sany Heavy Equipment decided to focus on its principal business, the Board decided to dispose Zhongjing Real Estate to Shanghai Zhu Sheng Yuan Real Estate Co., Ltd. ("Shanghai Zhu Sheng Yuan"). Accordingly, on 29 August 2018, Sany Heavy Equipment and Shenyang Zhu Sheng Yuan entered into an equity transfer agreement (the "Equity Transfer Agreement") with Shanghai Zhu Sheng Yuan, pursuant to which Sany Heavy Equipment and Shenyang Zhu Sheng Yuan agreed to transfer all their respective equity interest in Zhongjing Real Estate to Shanghai Zhu Sheng Yuan, at nil consideration. Upon closing, Zhongjing Real Estate will cease to be a subsidiary of the Group.

On the date of the transaction, Shenyang Zhu Sheng Yuan is held as to 81.54% by Synnium Machinery Limited ("Synnium Machinery") and 18.46% by Shanghai Zhu Sheng Yuan. Synnium Machinery is in turn owned as to 34% by Mr. Liang Linhe (梁林河), a nephew of Mr.Liang Wengen. Shanghai Zhu Sheng Yuan is the holding company of Shenyang Zhu Sheng Yuan. Therefore, the Directors consider it appropriate to treat Shanghai Zhu Sheng Yuan as a connected person of the Company for the purpose of the Listing Rules. Accordingly, the transaction under the Equity Transfer Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As certain applicable percentage ratios in respect of the transaction under the Equity Transfer Agreement are more than 0.1% but less than 5%, the transaction under the Equity Transfer Agreement would be subject to reporting and announcement requirements but exempt from the Independent Shareholders' approval requirements 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.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Friday, 10 May 2019. A notice convening the annual general meeting will be published and dispatched to the Shareholders in the manner required by the Listing Rules in due course.

## CLOSURE OF REGISTER OF MEMBERS – ANNUAL GENERAL MEETING

The register of members of the Company will be closed from Friday, 3 May 2019 to Friday, 10 May 2019, 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 Friday, 10 May 2019. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Friday, 10 May 2019, 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, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 2 May 2019.

## CLOSURE OF REGISTER OF MEMBERS – FINAL DIVIDEND PAYMENT

The register of members of the Company will also be closed from Monday, 20 May 2019 to Friday, 24 May 2019, both days inclusive, during which period no transfer of shares will be registered. The record date for entitlement to the proposed dividends is Friday, 24 May 2019. In order to be entitled to the proposed dividends, 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, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 17 May 2019.

## 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 2018.

## Auditors

The consolidated financial statements for the year ended 31 December 2018 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, 20 March 2019

## 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 2018 to 31 December 2018.

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 2018.

## 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. 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 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

During 2018, 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). On 22 January 2019, Mr. Zhu Xiangjun ceased to be a joint company secretary due to internal work arrangement of the Group, and on the same date. Mr. Zhou Huidong has been appointed as the joint company secretary of the Company. The primary contact person of the external service provider at the Company is Mr. Zhou Huidong. Please refer to the paragraph headed "Investor Relations" under the section headed "Corporate Information" in this annual report. Details of the biographies of the joint company secretaries of the Company are set out in the section headed "Directors and Senior Management" of the annual report of which this corporate governance report forms part. In accordance with Rule 3.29 of the Listing Rules, the Company has received training information from the joint company secretaries of the Company, pursuant to the content of which, the Company considers that the training of those two joint company secretaries was in compliance with the requirements under Rule 3.29 of the Listing Rules. Please see below for the details:

| Name of Company Secretaries | Accounting/Financial/ Management or Updates on Rules and Regulations Read materials | Accounting/Financial/ Management or Updates on Rules and Regulations Attend Seminars Briefings/(Times) | Corporate Governance/ Laws, Other Professional Skills Read materials | Corporate Governance/ Laws, Other Professional Skills Attend Seminars Briefings/(Times) |
|---|---|---|---|---|
| Mr. Zhu Xiangjun [(1)] | | 1 (15.0 hours in total) | | 2 (6.0 hours in total) |
| Mr. Yu Leung Fai | | 6 (24 hours in total) | | / |

*Note:*

*(1) Mr. Zhu Xiangjun resigned as the joint company secretary of the Company on 22 January 2019.*

## 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 2018, the Audit Committee held two meetings. The Group's unaudited interim results for the six months ended 30 June 2018 and the audited annual results for the year ended 31 December 2018 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 2018, the Remuneration Committee held two meetings. During the year ended 31 December 2018, 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 2018, the Nomination Committee held two meetings. The Nomination Committee reviewed and recommended the appointment of Mr. Fu Weizhong 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, 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 2018, 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 2018, 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 2018 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 | 1/1 |
| Mr. Fu Weizhong [(1)] | 13/15 | N/A | N/A | N/A | 0/0 | 1/1 |
| Mr. Zhang Zhihong | 15/15 | N/A | N/A | N/A | 0/0 | 1/1 |
| **Non-executive Directors** | | | | | | |
| Mr. Tang Xiuguo | 15/15 | N/A | N/A | N/A | N/A | 1/1 |
| Mr. Xiang Wenbo | 15/15 | N/A | N/A | N/A | N/A | 1/1 |
| Mr. Mao Zhongwu | 15/15 | N/A | N/A | N/A | 0/0 | 1/1 |
| **Independent non-executive Directors** | | | | | | |
| Mr. Ng Yuk Keung | 15/15 | 2/2 | 2/2 | N/A | 0/0 | 1/1 |
| Mr. Poon Chiu Kwok | 15/15 | 2/2 | 2/2 | 2/2 | 0/0 | 1/1 |
| Mr. Hu Jiquan | 15/15 | 2/2 | 2/2 | 2/2 | N/A | 1/1 |

*Note:*

(1) *Mr. Fu Weizhong was appointed as an executive Director and a member of the Strategic Investment Committee of the Company, with effect from 13 March 2018.*

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 2018, 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 2018:

| | 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. Fu Weizhong | ✓ | ✓ | ✓ | ✓ |
| 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 2018 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 2018 amounted to RMB2.80 million, details of which are as follows:

| **Types of service** | **RMB'000** |
|---|---|
| Audit service | 2,480 |
| Non-audit service | 324 |

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 64 to 69 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 2018 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 2018.

## 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 zhouhd@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 zhouhd@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 2018, there has been no significant change in the Company's constitutional documents.

## Communication with Shareholders

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

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

## Directors

### Executive Directors
Mr. Qi Jian *(Chairman)*
Mr. Fu Weizhong (appointed on 13 March 2018)
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

## Joint Company Secretaries
Mr. Zhou Huidong (appointed on 22 January 2019)
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
Mr. Mao Zhong Wu
Mr. Ng Yuk Keung
Mr. Poon Chiu Kwok

## Registered Office
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
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
183 Queen's Road East
Wanchai
Hong Kong

## Company Website
www.sanyhe.com

## Investor Relations
Ms. Tang Lin

| | | |
|---|---|---|
| Direct Line | : | +86 24 89318111 |
| Fax | : | +86 24 89318111 |
| E-mail | : | tanglin@sany.com.cn |
| Address | : | No. 25, 16 Kaifa Road<br>Shenyang Economic and<br>Technological Development Zone<br>Shenyang, Liaoning Province<br>PRC |
| Postal code | : | 110027 |

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 70 to 175 which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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**

*Impairment provision for trade receivables*

At 31 December 2018, the Group had trade receivables of RMB2,216,901,000, net of a provision for impairment of RMB688,357,000. The balance of trade receivables accounted for 17% of the total assets, which was material to the Group and a significant portion of which was overdue.

Upon adoption of IFRS 9, the Group has used a provision matrix to calculate expected credit losses ("ECLs") for trade receivables. The provision matrix is initially based on the Group's historical observed default rates and adjusted for forward-looking information, and it requires a high level of management estimation. Specific factors which management would consider include the ageing of the balances, existence of disputes, value of the pledged assets, past collection history, customer creditworthiness, future repayment plans and other available information concerning the forecast economic conditions.

Related disclosures are included in notes 2.4, 3, 6 and 20 to the consolidated financial statements.

**How our audit addressed the key audit matter**

- Assessed the Group's internal controls over the credit control of trade receivables;
- Evaluated the assumptions used in the ECL model by 1) reviewing the credit terms and historical payment patterns of different categories of the customers to assess the groupings of customer segments with similar loss patterns; 2) examining the underlying data used in the provision matrix by checking to the corresponding ageing, values of pledged assets, historical repayment records and subsequent settlements on a sampling basis; and 3) assessing the related forward-looking information;
- Recalculated the provision matrix of ECLs; and
- Obtained direct external confirmations on a sample basis for trade receivable balances.

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| *Impairment of goodwill* | |
| At 31 December 2018, the carrying value of goodwill amounted to RMB1,129,520,000, which was material to the Group.<br><br>The Group is required to perform the impairment test for goodwill allocated to the 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 judgemental, and involves subjectivity of future cash flow forecasts, associated growth rates and discount rate applied. The Group has engaged an independent professional valuer to determine the recoverable amount of the CGU.<br><br>Related disclosures are included in notes 2.4, 3 and 16 to the consolidated financial statements. | • Considered the competence, capabilities and objectivity of the external expert engaged by management;<br><br>• Reviewed the cash flow forecast for the CGU to which the goodwill is allocated, and assessed the methodology and assumptions such as the long term growth rate, the budgeted gross margins and the budgeted sales quantity based on the existing production capacity adopted by management and management's external expert;<br><br>• 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;<br><br>• Involved our internal valuation specialists to assist us to assess the methodologies and assumptions adopted in the calculation of value in use of the CGU; and<br><br>• Assessed the adequacy of the related disclosures in the consolidated financial statements. |
| *Provision for inventories* | |
| At 31 December 2018, the Group had inventories of RMB1,534,274,000, net of a provision of RMB270,598,000. The balance of inventories accounted for 12% of the total assets of the Group.<br><br>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.<br><br>Related disclosures are included in notes 2.4, 3, 6 and 19 to the consolidated financial statements. | • 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;<br><br>• Reviewed the technical report provided by management with respect to obsolete inventories, and performed interviews with the Group's technical personnel; and<br><br>• 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 sample basis. |

## Other information included in the Annual Report

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

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

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

## Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Mee Kwan, Helena.

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

20 March 2019

# Consolidated Statement of Profit or Loss

*Year ended 31 December 2018*

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| REVENUE | 5 | **4,416,944** | 2,481,365 |
| Cost of sales | | **(3,119,322)** | (1,743,814) |
| Gross profit | | **1,297,622** | 737,551 |
| Other income and gains | 5 | **301,197** | 339,304 |
| Selling and distribution expenses | | **(329,462)** | (299,483) |
| Administrative expenses | | **(492,128)** | (341,851) |
| Other expenses | | **(32,951)** | (118,313) |
| Finance costs | 7 | **(18,220)** | (2,634) |
| Profit before tax | 6 | **726,058** | 314,574 |
| Income tax expense | 10 | **(122,584)** | (83,637) |
| PROFIT FOR THE YEAR | | **603,474** | 230,937 |
| Attributable to: | | | |
| Owners of the parent | | **600,209** | 229,436 |
| Non-controlling interests | | **3,265** | 1,501 |
| | | **603,474** | 230,937 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic (RMB Yuan) | 12 | **0.20** | 0.08 |
| Diluted (RMB Yuan) | 12 | **0.17** | 0.07 |

# Consolidated Statement of Comprehensive Income

*Year ended 31 December 2018*

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| PROFIT FOR THE YEAR | **603,474** | 230,937 |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| *Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:* | | |
| Contribution from Sany Group Co., Ltd. upon waiver of payables | **18,074** | – |
| Exchange differences on translation of foreign operations | **1,750** | (3,999) |
| Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods | **19,824** | (3,999) |
| OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX | **19,824** | (3,999) |
| TOTAL COMPREHENSIVE INCOME, NET OF TAX | **623,298** | 226,938 |
| Attributable to: | | |
| Owners of the parent | **620,033** | 225,437 |
| Non-controlling interests | **3,265** | 1,501 |
| | **623,298** | 226,938 |

# Consolidated Statement of Financial Position

*31 December 2018*

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **2,462,871** | 2,584,817 |
| Prepaid land lease payments | 15 | **1,678,377** | 561,964 |
| Goodwill | 16 | **1,129,520** | 1,129,520 |
| Trade receivables | 20 | **89,826** | 46,609 |
| Available-for-sale investments | 18 | **–** | 10,636 |
| Non-current prepayments | 21 | **144,709** | 1,332,808 |
| Deferred tax assets | 29 | **390,667** | 435,561 |
| Total non-current assets | | **5,895,970** | 6,101,915 |
| **CURRENT ASSETS** | | | |
| Inventories | 19 | **1,534,274** | 1,246,415 |
| Trade receivables | 20 | **2,127,075** | 1,559,621 |
| Bills receivable | 20 | **498,997** | 265,696 |
| Prepayments, other receivables and other assets | 21 | **634,396** | 268,059 |
| Financial assets at fair value through profit or loss | 22 | **1,046,022** | – |
| Available-for-sale financial investments | 22 | **–** | 682,200 |
| Pledged deposits | 23 | **33,813** | 15,345 |
| Cash and cash equivalents | 23 | **1,069,906** | 814,221 |
| | | **6,944,483** | 4,851,557 |
| Assets of a disposal group classified as held for sale | 13 | **84,241** | 245,578 |
| Total current assets | | **7,028,724** | 5,097,135 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 24 | **1,819,648** | 1,192,789 |
| Other payables and accruals | 25 | **1,423,100** | 1,318,215 |
| Dividend payable | 11 | **75,675** | – |
| Interest-bearing bank and other borrowings | 26 | **1,399,951** | – |
| Tax payable | | **267,725** | 296,863 |
| Provision for warranties | 27 | **9,888** | 4,872 |
| Government grants | 28 | **91,087** | 97,026 |
| | | **5,087,074** | 2,909,765 |
| Liabilities directly associated with the assets classified as held for sale | 13 | **82,098** | 8,941 |
| Total current liabilities | | **5,169,172** | 2,918,706 |
| **NET CURRENT ASSETS** | | **1,859,552** | 2,178,429 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **7,755,522** | 8,280,344 |

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | 26 | **–** | 429,127 |
| Government grants | 28 | **1,297,833** | 1,454,876 |
| Deferred tax liabilities | 29 | **15,622** | 34,170 |
| Total non-current liabilities | | **1,313,455** | 1,918,173 |
| Net assets | | **6,442,067** | 6,362,171 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 30 | **302,214** | 302,214 |
| Reserves | 32 | **6,128,292** | 6,001,499 |
| | | **6,430,506** | 6,303,713 |
| **Non-controlling interests** | | **11,561** | 58,458 |
| Total equity | | **6,442,067** | 6,362,171 |

**Qi Jian**
*Director*

**Zhang Zhihong**
*Director*

# Consolidated Statement of Changes in Equity

*Year ended 31 December 2018*

| | 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 33) | Share option reserve RMB'000 (note 31) | Reserve funds RMB'000 (note 33) | 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 (loss)/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 |

| | 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 33) | Share option reserve RMB'000 (note 31) | Reserve funds RMB'000 (note 33) | 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 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 |
| Profit for the year | – | – | – | – | – | – | – | – | 600,209 | 600,209 | 3,265 | 603,474 |
| Other comprehensive income for the year: | | | | | | | | | | | | |
| Contribution from Sany Group Co., Ltd. upon waiver of payables | – | – | – | 18,074 | – | – | – | – | – | 18,074 | – | 18,074 |
| Exchange differences on translation of foreign operations | – | – | – | – | – | – | 1,750 | – | – | 1,750 | – | 1,750 |
| Total comprehensive income for the year | – | – | – | 18,074 | – | – | 1,750 | – | 600,209 | 620,033 | 3,265 | 623,298 |
| Share-based payments | – | – | – | – | 25,829 | – | – | – | – | 25,829 | – | 25,829 |
| Disposal of subsidiaries | – | – | – | – | – | (278) | – | – | – | (278) | (50,162) | (50,440) |
| Special dividends declared | – | – | – | – | – | – | – | – | (518,791) | (518,791) | – | (518,791) |
| Transfer from retained profits | – | – | – | – | – | 73,604 | – | – | (73,604) | – | – | – |
| At 31 December 2018 | 264,366 | 37,848 | 2,239,502# | 1,350,390# | 40,776# | 464,111# | (37,480)# | 5,744# | 2,065,249# | 6,430,506 | 11,561 | 6,442,067 |

# These reserve accounts comprise the consolidated reserves of RMB6,128,292,000 (2017: RMB6,001,499,000) in the consolidated statement of financial position.

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

# Consolidated Statement of Cash Flows

*Year ended 31 December 2018*

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **726,058** | 314,574 |
| Adjustments for: | | | |
| Finance costs | 7 | **18,220** | 2,634 |
| Interest income | 5 | **(24,318)** | (35,086) |
| Loss on disposal of items of property, plant and equipment | 6 | **6,137** | 152 |
| Fair value gain on financial assets at fair value through profit or loss, net | 6 | **(31,173)** | – |
| Depreciation | 6 | **210,346** | 211,976 |
| Amortisation of land lease prepayments | 6 | **13,942** | 15,492 |
| Amortisation of intangible assets | 6 | **–** | 21,366 |
| Government grants | 5 | **(204,756)** | (283,200) |
| Impairment of trade receivables | 6 | **8,931** | 14,905 |
| Impairment of other receivables | 6 | **1,425** | 17,881 |
| (Write-back of)/provision against slow-moving and obsolete inventories | 6 | **(85,978)** | 952 |
| Loss on inventories due to typhoon | | **–** | 20,045 |
| Gain on property, plant and equipment due to typhoon | | **–** | 39,959 |
| Gain on disposal of a subsidiary | 6 | **(3,865)** | – |
| Share option expense | 6 | **25,829** | 1,097 |
| | | **660,798** | 342,747 |
| Increase in inventories | | **(201,881)** | (353,540) |
| (Increase)/decrease in trade receivables | | **(619,602)** | 17,732 |
| Increase in bills receivable | | **(233,301)** | (52,381) |
| (Increase)/decrease in prepayments, other receivables and other assets | | **(119,020)** | 1,876 |
| Increase in trade and bills payables | | **626,859** | 237,230 |
| Increase in other payables and accruals | | **173,384** | 233,589 |
| Increase/(decrease) in provision for product warranties | | **5,016** | (4,613) |
| Receipt of government grants | | **117,074** | 196,437 |
| Cash generated from operations | | **409,327** | 619,077 |
| Interest received | | **9,156** | 8,174 |
| Interest paid | | **(942)** | (565) |
| PRC tax paid | | **(137,099)** | (19,612) |
| Net cash flows from operating activities | | **280,442** | 607,074 |

| | Note | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Net cash flows from operating activities | | **280,442** | 607,074 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | **11,905** | 22,371 |
| Purchases of items of property, plant and equipment | | **(143,706)** | (251,146) |
| Proceeds of disposal of non-current assets classified as held for sale | | **–** | 25,000 |
| Advance from disposal of disposal groups classified as held for sale | | **97,433** | 200,000 |
| Consideration for disposal of a subsidiary | | **43,999** | – |
| Proceeds from disposal of items of property, plant and equipment | | **50,241** | 2,210 |
| Proceeds from disposal of financial assets at fair value through profit or loss | | **3,792,579** | – |
| Purchases of financial assets at fair value through profit or loss | | **(4,122,557)** | – |
| Proceeds from disposal of available-for-sale financial investments | | **–** | 390,000 |
| Purchases of available-for-sale financial investments | | **–** | (682,200) |
| Loans to the related companies | | **(630,000)** | – |
| Proceeds from disposal of non-current prepayment for a parcel of land | | **161,602** | – |
| Deposits paid for acquisition of a parcel of land | | **(135,000)** | (625,000) |
| Additional payments for parcels of land | | **(73,629)** | – |
| Repayment of loans from the related companies | | **430,000** | – |
| Receipt of government grants for property, plant and equipment | | **–** | 18,995 |
| (Increase)/decrease of pledged deposits | | **(18,468)** | 11,855 |
| Net cash flows used in investing activities | | **(535,601)** | (887,915) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank loans | | **1,078,350** | 429,127 |
| Repayment of bank loans | | **(110,000)** | – |
| Repayment of borrowings to National Development Fund | | **–** | (162,848) |
| Dividends paid | | **(440,145)** | – |
| Interest paid | | **(16,520)** | – |
| Net cash flows from financing activities | | **511,685** | 266,279 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **256,526** | (14,562) |
| Cash and cash equivalents at beginning of year | | **814,601** | 833,162 |
| Effect of foreign exchange rate changes, net | | **(1,221)** | (3,999) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 23 | **1,069,906** | 814,601 |

## 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 principle 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 |
| Xinjiang Sany Heavy Equipment Co., Ltd. ("Xinjiang Sany") (新疆三一重型裝備有限公司) *# (note 13) | PRC/Mainland China | RMB20,000,000 | – | 100 | Provision of maintenance service |
| Shanxi Sany Coal Mining Equipment Co., Ltd. ("Sany Mining Equipment") (山西三一煤機裝備有限公司) * (note 33) | PRC/Mainland China | RMB50,000,000 | – | 100 | Provision of maintenance service |
| Shenyang Zhongjing Property Development Co., Ltd. ("Shenyang Zhongjing") (瀋陽中璟房地產開發有限公司) *# & | PRC/Mainland China | RMB50,000,000 | – | 51 | Property development |

## 1. CORPORATE AND GROUP INFORMATION (continued)

### Information about subsidiaries (continued)

Particulars of the Company's principle subsidiaries are as follows: (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 |
| 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) * | 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.

& Sany Heavy Equipment hold 51% equity interests of Shenyang Zhongjing but has not contributed the registered capital yet. To focus on its principal business, on 29 August 2018, Sany Heavy Equipment agreed to transfer the 51% equity interests to Shanghai Zhushengyuan Real Estate Co., Ltd. at nil consideration, and Shenyang Zhongjing ceased to be a subsidiary of the Group.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 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, except for bills receivable and financial assets at fair value through profit or loss which have been measured at fair value. Disposal groups 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 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| Amendments to IFRS 2 | *Classification and Measurement of Share-based Payment Transactions* |
| Amendments to IFRS 4 | *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* |
| IFRS 9 | *Financial Instruments* |
| IFRS 15 | *Revenue from Contracts with Customers* |
| Amendments to IFRS 15 | *Clarifications to IFRS 15 Revenue from Contracts with Customers* |
| Amendments to IAS 40 | *Transfers of Investment Property* |
| IFRIC 22 | *Foreign Currency Transactions and Advance Consideration* |
| *Annual Improvements 2014-2016 Cycle* | Amendments to IFRS 1 and IAS 28 |

Other than as explained below regarding the impact of IFRS 9 and IFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

**(a)** IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The adoption of hedge accounting requirements of IFRS 9 has had no impact on the Group's financial statements, as the Group did not have any hedging relationship. The Group has recognised the transition adjustments for classification and measurement and impairment against the applicable opening balances at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

**(a)** (continued)

*Classification and measurement*

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

| | Notes | IAS 39 Measurement | | | | IFRS 9 Measurement | |
|---|---|---|---|---|---|---|---|
| | | **Category** | **Amount** RMB'000 | **Re-classification** RMB'000 | **ECL** RMB'000 | **Amount** RMB'000 | **Category** |
| **Financial assets** | | | | | | | |
| Available-for-sale investments | | AFS[1] | 10,636 | (10,636) | – | – | N/A |
| To: Financial assets at fair value through profit or loss | (i) | | | 10,636 | – | | |
| Available-for-sale financial investments | | AFS | 682,200 | (682,200) | – | – | N/A |
| To: Financial assets at fair value through profit or loss | (ii) | | | 682,200 | – | | |
| Financial assets at fair value through profit or loss | | N/A | – | 692,836 | – | 692,836 | FVPL[2] (mandatory) |
| From: Available-for-sale investments | (i) | | | (10,636) | – | | |
| From: Available-for-sale financial investments | (ii) | | | (682,200) | – | | |
| Trade receivables | | L&R[3] | 1,606,230 | – | – | 1,606,230 | AC[4] |
| Bills receivable | (iii) | L&R | 265,696 | – | – | 265,696 | FVOCI[5] (debt) |
| Financial assets included in prepayments, other receivables and other assets | | L&R | 138,161 | – | – | 138,161 | AC |
| Pledged deposits | | L&R | 15,345 | – | – | 15,345 | AC |
| Cash and cash equivalents | | L&R | 814,221 | – | – | 814,221 | AC |
| Total assets | | | 3,532,489 | – | – | 3,532,489 | |
| **Financial liabilities** | | | | | | | |
| Trade and bills payables | | AC | 1,192,789 | – | – | 1,192,789 | AC |
| Financial liabilities included in other payables and accruals | | AC | 536,114 | – | – | 536,114 | AC |
| Interest bearing bank and other borrowings | | AC | 429,127 | – | – | 429,127 | AC |
| Total liabilities | | | 2,158,030 | – | – | 2,158,030 | |

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

**(a)** (continued)

*Classification and measurement* (continued)

[1] AFS: Available-for-sale investments
[2] FVPL: Financial assets at fair value through profit or loss
[3] L&R: Loans and receivables
[4] AC: Financial assets or financial liabilities at amortised cost
[5] FVOCI: Financial assets at fair value through other comprehensive income

Notes:

(i) The Group has classified its equity investments in unlisted companies previously classified as available-for-sale investments as financial assets at fair value through profit or loss upon adoption of IFRS 9 on 1 January 2018, as management planned to dispose of these investments during the year ended 31 December 2018 since the investments no longer coincided with the Group's investment strategy.

(ii) The Group has classified its unlisted investments in wealth management products issued by banks in Mainland China previously classified as available-for-sale financial investments as financial assets at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in IFRS 9.

(iii) The Group has classified its bills receivable previously classified as loans and receivables as financial assets measured at fair value through other comprehensive income (debt instruments) as the bills receivable meets SPPI criteria and is held within a business model with the objective of both collecting contractual cash flows and selling.

*Impairment*

The adoption of IFRS 9 has had no material impact on the impairment provisions of the Group's financial assets.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

**(b)** IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 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 disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was not significant on the opening balance of retained profits as at 1 January 2018. Besides, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

| | Note | Increase/(decrease)<br>RMB'000 |
|---|---|---|
| **Other payables and accruals** | | |
| Deposits received from customers | | (557,809) |
| Contract liabilities | (i) | 557,809 |
| | | – |

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on profit for the year, other comprehensive income or on the Group's operating, investing and financing cash flows.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

**(b)** (continued)

Consolidated statement of financial position as at 31 December 2018:

| | Note | Amounts prepared under IFRS 15 RMB'000 | Previous IFRS RMB'000 | Increase/ (decrease) RMB'000 |
|---|---|---|---|---|
| **Other payables and accruals** | | | | |
| Deposit received from customers | (i) | – | 694,787 | (694,787) |
| Contract liabilities | (i) | 694,787 | – | 694,787 |
| | | 694,787 | 694,787 | – |

Consolidated statement of profit or loss for the year ended 31 December 2018:

| | Note | Amounts prepared under IFRS 15 RMB'000 | Previous IFRS RMB'000 | Increase/ (decrease) RMB'000 |
|---|---|---|---|---|
| Cost of sales | (ii) | 3,119,322 | 2,991,772 | 127,550 |
| Gross profit | | 1,297,622 | 1,425,172 | (127,550) |
| Selling expenses | (ii) | 329,462 | 457,012 | (127,550) |
| Profit before tax | | 726,058 | 726,058 | – |

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

**(b)** (continued)

The nature of the adjustments as at 1 January 2018 and the reasons for the changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

*(i) Consideration received from customers in advance*

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as other payables. Under IFRS 15, the amount is classified as contract liabilities which are included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB557,809,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under IFRS 15, RMB694,787,000 was reclassified from other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of industrial products and the provision of maintenance services.

*(ii) Transportation costs*

Before the adoption of IFRS 15, transportation costs were treated as selling and distribution expenses. Under IFRS 15, the amount is classified to cost of sales as it constitutes contract cost to fulfil the performance obligation of sale of industrial products to customers.

## 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 3 | *Definition of a Business*[2] |
| Amendments to IFRS 9 | *Prepayment Features with Negative Compensation*[1] |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| IFRS 16 | *Leases*[1] |
| IFRS 17 | *Insurance Contracts*[3] |
| Amendments to IAS 1 and IAS 8 | *Definition of Material*[2] |
| Amendments to IAS 19 | *Plan Amendment, Curtailment or Settlement*[1] |
| Amendments to IAS 28 | *Long-term Interests in Associates and Joint Ventures*[1] |
| IFRIC 23 | *Uncertainty over Income Tax Treatments*[1] |
| *Annual Improvements 2015-2017 Cycle* | Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1] |

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 16 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 elective 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 will adopt IFRS 16 from 1 January 2019 using a modified retrospective approach. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. No material impact was expected on the Group's financial statements as the Group engaged only in short-term lease contracts as a leasee.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

## 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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations and goodwill (continued)

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.

### Fair value measurement

The Group measures its bills receivable and financial assets at fair value through profit or loss at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumption that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and disposal groups 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.

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties (continued)

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

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

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

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

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

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

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

(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.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives and 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 capitalised 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.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets (other than goodwill)

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

*Patents and licences*

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

*Research and development costs*

All research costs are charged to the 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.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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 amortised cost (debt instruments)*

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

*Financial assets at amortised cost (debt instruments) (continued)*

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

*Financial assets at fair value through other comprehensive income (debt instruments)*

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

*Financial assets at fair value through profit or loss (continued)*

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

### Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

*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 (applicable before 1 January 2018)" 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 (policies under IAS 39 applicable before 1 January 2018) (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 (applicable before 1 January 2018)" below.

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (policies under IAS 39 applicable before I January 2018) (continued)

*Available-for-sale financial investments (continued)*

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.

### Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

*General approach*

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

*General approach (continued)*

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

*Simplified approach*

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

### Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

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 (policies under IAS 39 applicable before 1 January 2018) (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 (policies under IAS 39 applicable before 1 January 2018) (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 (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

*Initial recognition and measurement*

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, 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:

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

*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.

*Financial guarantee contracts (policies under IFRS 9 applicable from 1 January 2018)*

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 contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

*Financial guarantee contracts (policies under IAS 39 applicable before 1 January 2018)*

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 (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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.

### 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.

The Group provides for warranties in relation to the sale of certain industrial products for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

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 tax 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.

### Revenue recognition (applicable from 1 January 2018)

*Revenue from contracts with customers*

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (applicable from 1 January 2018) (continued)

*Revenue from contracts with customers (continued)*

*(a) Sale of industrial products*

Revenue from the sale of industrial products is recognised at the point in time when control of the asset is transferred to the customer, generally on customer acceptance for the industrial products.

Some contracts for the sale of industrial products provide customers with rights of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

*(b) Rendering of maintenance services*

Revenue from rendering of maintenance services is recognised over the contracted period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

*Revenue from other sources*

Rental income is recognised on a time proportion basis over the lease terms.

*Other income*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (applicable before 1 January 2018)

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.

### Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

### Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

### Right-of-return assets (applicable from 1 January 2018)

A right-of-return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned goods.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee retirement benefits

As stipulated by the rules and regulations of the PRC, the Company's subsidiaries registered in the PRC are required to contribute to a state-sponsored retirement plan for all its PRC employees at certain percentages of the basic salaries predetermined by the local governments. The state-sponsored retirement plan is responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

The costs of employee retirement benefits are recognised as expenses in the 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.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

The Company, which was incorporated in the Cayman Islands, uses the Hong Kong dollar ("HK$") as its functional currency. The functional currency of the PRC subsidiaries is RMB. As the Group mainly operates in Mainland China, RMB is used as the presentation currency of the Company. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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 described below.

*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 2018 was RMB1,129,520,000 (2017: RMB1,129,520,000). Further details are given in note 16.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Estimation uncertainty (continued)

*Provision for expected credit losses on trade receivables*

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type, and coverage by credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

*Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in notes 14, 15 and 21 to the financial statements.

*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.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Estimation uncertainty (continued)

*Useful lives and residual values of property, plant and equipment*

In determining the useful life and residual value of an item of property, plant and equipment 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 note 14 to the financial statements.

*Provision for product warranties*

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

*Write-down of inventories to net realisable value*

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down involves management's judgement and estimates on market conditions, future sales, production plans, technical upgrade and usage of inventories in future. 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.

## 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) Energy equipment segment

The energy 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 quayside container cranes and container gantry cranes), small-size port machinery (including reach stackers, empty container handlers and 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, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, as well as head office and corporate expenses are excluded from this measurement.

Segment assets exclude deferred tax assets, pledged deposits, 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.

## 4. OPERATING SEGMENT INFORMATION (continued)

| Year ended 31 December 2018 | Energy equipment RMB'000 | Port machinery RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Segment revenue** | | | |
| Sales to customers | 2,560,978 | 1,855,966 | 4,416,944 |
| Other revenue | 125,466 | 151,413 | 276,879 |
| Revenue from operations | 2,686,444 | 2,007,379 | 4,693,823 |
| **Segment results** | 465,657 | 254,303 | 719,960 |
| Interest income | | | 24,318 |
| Finance costs | | | (18,220) |
| Profit before tax | | | 726,058 |
| Income tax expense | | | (122,584) |
| Profit for the year | | | 603,474 |
| **Segment assets** | 7,560,118 | 5,460,985 | 13,021,103 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (1,607,786) |
| Corporate and other unallocated assets | | | 1,511,377 |
| Total assets | | | 12,924,694 |
| **Segment liabilities** | 2,260,233 | 4,151,806 | 6,412,039 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (1,607,786) |
| Corporate and other unallocated liabilities | | | 1,678,374 |
| Total liabilities | | | 6,482,627 |
| **Other segment information:** | | | |
| (Gain)/loss on disposal of items of property, plant and equipment | (170) | 6,307 | 6,137 |
| Impairment losses (reversed)/recognised in profit or loss | (124,542) | 48,920 | (75,622) |
| Depreciation and amortisation | 150,480 | 73,808 | 224,288 |
| Other non-cash expense | 13,840 | 11,989 | 25,829 |
| Capital expenditure* | 112,378 | 1,230,756 | 1,343,134 |

## 4. OPERATING SEGMENT INFORMATION (continued)

| Year ended 31 December 2017 | Energy 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 |

* Capital expenditure consists of additions to property, plant and equipment and prepaid land lease payments.

## 4. OPERATING SEGMENT INFORMATION (continued)

### Geographical information

*Revenue from external customers*

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Mainland China | **3,463,987** | 2,258,042 |
| Asia (excluding Mainland China) | **609,365** | 133,327 |
| European Union | **142,000** | 21,825 |
| United States of America | **81,157** | 56,291 |
| Other countries/regions | **120,435** | 11,880 |
| Total revenue from contracts with customers | **4,416,944** | 2,481,365 |

The revenue information above is based on the locations of the customers.

### Information about major customers

Revenue of approximately RMB395,220,000 (2017: RMB402,813,000) 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 is as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| *Revenue from contracts with customers* | | |
| Sale of goods | **4,296,383** | 2,421,381 |
| Rendering of maintenance services | **120,561** | 59,984 |
| | **4,416,944** | 2,481,365 |

## 5. REVENUE, OTHER INCOME AND GAINS (continued)

### Revenue from contracts with customers

*(i) Disaggregated revenue information*

**For the year ended 31 December 2018**

| Segments | Energy equipment RMB'000 | Port machinery RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Types of goods or services** | | | |
| Sale of goods | 2,501,502 | 1,794,881 | 4,296,383 |
| Maintenance services | 59,476 | 61,085 | 120,561 |
| Total revenue from contracts with customers | 2,560,978 | 1,855,966 | 4,416,944 |
| **Geographical markets** | | | |
| Mainland China | 2,464,464 | 999,523 | 3,463,987 |
| Asia (excluding Mainland China) | 35,759 | 573,606 | 609,365 |
| European Union | 40,352 | 101,648 | 142,000 |
| United States of America | – | 81,157 | 81,157 |
| Other countries/regions | 20,403 | 100,032 | 120,435 |
| Total revenue from contracts with customers | 2,560,978 | 1,855,966 | 4,416,944 |
| **Timing of revenue recognition** | | | |
| Goods transferred at a point in time | 2,501,502 | 1,794,881 | 4,296,383 |
| Services transferred over time | 59,476 | 61,085 | 120,561 |
| Total revenue from contracts with customers | 2,560,978 | 1,855,966 | 4,416,944 |

## 5. REVENUE, OTHER INCOME AND GAINS (continued)

### Revenue from contracts with customers (continued)

*(i) Disaggregated revenue information (continued)*

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

| | 2018<br>RMB'000 |
|---|---|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | |
| Sale of goods | **557,809** |

*(ii) Performance obligations*

Information about the Group's performance obligations is summarised below:

*Sale of industrial products*

The performance obligation is satisfied upon customer acceptance for the industrial products and payment is generally within one year from customer acceptance, except for new customers, where payment in advance is normally required.

*Maintenance services*

The performance obligation is satisfied over time as services are rendered. Maintenance service contracts are for periods of one year or less, or are billed based on the time incurred.

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **Other income** | | | |
| Bank interest income | | **9,156** | 8,174 |
| Other interest income | | **15,162** | 26,912 |
| Government grants | 28 | **204,756** | 283,200 |
| Profit from sale of scrap materials | | **–** | 2,284 |
| Others | | **37,085** | 18,734 |
| | | **266,159** | 339,304 |
| **Gains** | | | |
| Fair value gain on financial assets at fair value through profit or loss, net | | **31,173** | – |
| Gain on disposal of a subsidiary | 32 | **3,865** | – |
| | | **35,038** | – |
| | | **301,197** | 339,304 |

## 6. PROFIT BEFORE TAX

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

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Cost of inventories sold | | **3,129,274** | 1,493,807 |
| Cost of services provided | | **76,026** | 249,055 |
| Depreciation | 14 | **210,346** | 211,976 |
| Amortisation of land lease prepayments** | 15 | **13,942** | 15,492 |
| Amortisation of intangible assets** | 17 | **–** | 21,366 |
| Auditors' remuneration | | **2,480** | 2,480 |
| Provision/(reversal) of warranties* | 27 | **10,597** | (607) |
| Research and development costs** | | **241,779** | 118,013 |
| 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 | | **4,355** | 4,231 |
| Employee benefit expenses (including directors' and chief executive's remuneration (note 8)): | | | |
| Wages and salaries | | **338,489** | 213,262 |
| Equity-settled share option expense | | **25,829** | 1,097 |
| Employee retirement benefits | | **37,991** | 22,718 |
| Other staff welfare | | **19,569** | 11,398 |
| | | **421,878** | 248,475 |
| Foreign exchange differences, net*** | | **9,137** | 14,888 |
| Impairment of financial assets, net***: | | | |
| Impairment of trade receivables, net | | **8,931** | 14,905 |
| Impairment of other receivables, net | | **1,425** | 17,881 |
| | | **10,356** | 32,786 |
| (Write-back of)/provision against slow-moving and obsolete inventories**** | 19 | **(85,978)** | 952 |
| Loss on disposal of items of property, plant and equipment*** | | **6,137** | 152 |
| Loss from sales of scrap materials*** | | **3,140** | – |
| Fair value gains, net: | | | |
| Financial assets at fair value through profit or loss – mandatorily classified as such*** | | **31,173** | – |

* 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

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Interest on interest-bearing bank and other borrowings | **17,278** | 2,069 |
| Interest on documentary bills | **–** | 2 |
| Interest on discounted bills | **942** | 563 |
| | **18,220** | 2,634 |

## 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:

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Fees | **631** | 601 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **3,475** | 1,002 |
| Equity-settled share option expense | **4,338** | 154 |
| Employee retirement benefits and other staff welfare | **103** | 62 |
| | **7,916** | 1,218 |
| | **8,547** | 1,819 |

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

### (a) Independent non-executive directors

The fees and equity-settled share option expense paid to independent non-executive directors during the year were as follows:

| | Fees RMB'000 | Equity-settled share option expense RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|
| **2018** | | | |
| Mr. Poon Chiu Kwok | **228** | **244** | **472** |
| Mr. Ng Yuk Keung | **228** | **244** | **472** |
| Mr. Hu Jiquan | **175** | **244** | **419** |
| | **631** | **732** | **1,363** |
| **2017** | | | |
| Mr. Poon Chiu Kwok | 217 | – | 217 |
| Mr. Ng Yuk Keung | 217 | – | 217 |
| Mr. Hu Jiquan | 167 | – | 167 |
| | 601 | – | 601 |

There were no other emoluments payable to the independent non-executive directors during the year (2017: 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 |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Executive directors: | | | | | |
| Mr. Qi Jian (Chief executive) | – | 1,357 | 1,465 | 10 | 2,832 |
| Mr. Fu Weizhong (appointed on 13 March 2018) | – | 970 | 1,164 | 10 | 2,144 |
| Mr. Zhang Zhihong | – | 1,148 | 977 | 83 | 2,208 |
| | – | 3,475 | 3,606 | 103 | 7,184 |
| 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 |
|---|---|---|---|---|---|
| **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 | – | – | – | – | – |
| | – | – | – | – | – |

There was no other arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2017: Nil).

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors of the Company (2017: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2017: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Salaries and allowances | **983** | 1,659 |
| Bonuses | **1,048** | 701 |
| Equity-settled share option expense | **1,177** | 118 |
| Employee retirement benefits and other staff welfare | **46** | 236 |
| | **3,254** | 2,714 |

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** | |
|---|---|---|
| | **2018** | 2017 |
| Nil to HK$1,000,000 | **–** | 4 |
| HK$1,000,001 to HK$1,500,000 | **–** | – |
| HK$1,500,001 to HK$2,000,000 | **2** | – |
| | **2** | 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 2018.

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 Enterprises and were therefore subject to CIT at a rate of 15% in 2018.

## 10. INCOME TAX (continued)

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Current – Mainland China | | |
| Charge for the year | **113,229** | 28,496 |
| Deferred (note 29) | **9,355** | 55,141 |
| Total tax charge for the year | **122,584** | 83,637 |

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % |
| Profit before tax | **726,058** | | 314,574 | |
| Tax at the statutory tax rate | **181,515** | **25.0** | 78,644 | 25.0 |
| Entities subject to lower statutory income tax rates | **(68,033)** | **(9.3)** | (36,332) | (11.6) |
| Expenses not deductible for tax | **8,820** | **1.2** | 8,224 | 2.6 |
| Tax losses utilised from previous periods | **(4,991)** | **(0.7)** | (3,581) | (1.1) |
| Different tax rate when temporary difference is realised | **(11,059)** | **(1.5)** | 25,036 | 8.0 |
| Super-deduction of research and development costs | **(22,607)** | **(3.1)** | (8,794) | (2.8) |
| Adjustments in respect of current tax of previous periods | **5,176** | **0.7** | 4,950 | 1.6 |
| Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries | **28,534** | **3.9** | 14,040 | 4.4 |
| Tax losses not recognised | **5,229** | **0.7** | 1,450 | 0.5 |
| Tax charge at the Group's effective tax rate | **122,584** | **16.9** | 83,637 | 26.6 |

## 11. DIVIDENDS

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Proposed final dividend – HK$0.1 (2017: Nil) per ordinary share | **304,103** | – |
| Proposed final dividend – HK$0.1 (2017: Nil) per preference share | **47,978** | – |
| Proposed special dividend – Nil (2017: HK$0.18) per ordinary share | **–** | 547,385 |
| Proposed special dividend – Nil (2017: HK$0.18) per preference share | **–** | 86,361 |
| | **352,081** | 633,746 |
| Equivalent to RMB'000 | **300,962** | 518,791 |

A special dividend of HK$0.18 per share, totalling HK$633,746,000 (equivalent to RMB518,791,000), was approved by the board of directors on 23 January 2018. RMB442,999,000 of the dividend was subsequently distributed during the year ended 31 December 2018 and the rest was recorded in "dividend payable" in the consolidated statement of financial position.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share is based on the profit for the year ended 31 December 2018 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,041,025,000 (2017: 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 2018 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 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.

## 12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Profit** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | **600,209** | 229,436 |
| Preferred distribution to the convertible preference shares | **48** | 48 |
| Profit attributable to ordinary equity holders of the parent, used in the diluted earnings per share calculation | **600,257** | 229,484 |

| | Number of shares | |
|---|---|---|
| | **2018** | 2017 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **3,041,025,000** | 3,041,025,000 |
| Effect of dilution – convertible preference shares | **479,781,034** | 479,781,034 |
| Effect of dilution – share options | **64,172,878** | – |
| Weighted average number of ordinary shares used in the diluted earnings per share calculation | **3,584,978,912** | 3,520,806,034 |

## 13. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS CLASSIFIED AS HELD FOR SALE

In the second half of 2018, Sany Heavy Equipment, a direct wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the "Agreement") with Xinjiang Xing Ao Investment Co., Ltd. ("Xing Ao Investment") to dispose of Xinjiang Sany, an indirect wholly-owned subsidiary of the Company, which remained dormant in prior years. Pursuant to the Agreements, Sany Heavy Equipment agreed to sell a 100% equity interest in Xinjiang Sany, and transfer the shareholder's loan due from Xinjiang Sany to Xing Ao Investment for a total consideration of RMB177,400,000, among which RMB1,960,000 would be retained as a guarantee deposit. Cash consideration of RMB97,433,000 was received by Sany Heavy Equipment in the second half of 2018, however, the transaction was not completed as at 31 December 2018 as certain conditions precedent pursuant to the 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.

## 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 Xingjiang Sany classified as held for sale as at 31 December 2018 are as follows:

| | 2018<br>RMB'000 |
|---|---|
| *Assets* | |
| Prepaid land lease payments (note 15) | **67,250** |
| Deferred tax assets (note 29) | **16,991** |
| Assets classified as held for sale | **84,241** |
| *Liabilities* | |
| Government grants | **(75,300)** |
| Tax payable | **(6,798)** |
| Liabilities directly associated with the assets classified as held for sale | **(82,098)** |
| Net assets directly associated with the disposal group | **2,143** |

As at 31 December 2017, assets of a disposal group classified as held for sale of RMB245,578,000 and liabilities directly associated with the assets classified as held for sale of RMB8,941,000 related to the disposal of Sany Mining Equipment, an indirectly wholly-owned subsidiary of the Company. In April 2018, the disposal was completed (note 33).

## 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 2018** | | | | | | |
| At 31 December 2017 and at 1 January 2018: | | | | | | |
| 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 |
| At 1 January 2018, net of accumulated depreciation | 1,511,994 | 620,416 | 133,640 | 16,618 | 302,149 | 2,584,817 |
| Additions | 67,479 | 26,953 | 13,978 | 2,291 | 34,077 | 144,778 |
| Disposals | (4,242) | (14,946) | (35,990) | (1,200) | – | (56,378) |
| Depreciation provided during the year | (62,302) | (122,165) | (22,978) | (2,901) | – | (210,346) |
| Transfers | 243,866 | 1,668 | 2,366 | – | (247,900) | – |
| At 31 December 2018, net of accumulated depreciation | 1,756,795 | 511,926 | 91,016 | 14,808 | 88,326 | 2,462,871 |
| At 31 December 2018: | | | | | | |
| Cost | 1,969,880 | 1,216,936 | 182,376 | 63,868 | 88,326 | 3,521,386 |
| Accumulated depreciation | (213,085) | (705,010) | (91,360) | (49,060) | – | (1,058,515) |
| Net carrying amount | 1,756,795 | 511,926 | 91,016 | 14,808 | 88,326 | 2,462,871 |

## 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 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 (note 6) | (7,707) | (8,821) | (23,184) | (247) | – | (39,959) |
| Transfer to assets of a disposal group classified as held for sale (note 33) | – | – | – | (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 |

Certificates of ownership in respect of buildings of the Group located in Shenyang with a net carrying amount of approximately RMB58,882,000 as at 31 December 2018 (31 December 2017: RMB441,697,000) have not yet been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates.

At 31 December 2018, no interest-bearing bank and other borrowings were secured by the Group's buildings and machinery (2017: Nil).

## 15. PREPAID LAND LEASE PAYMENTS

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **575,065** | 694,930 |
| Addition during the year | **1,198,356** | – |
| Recognised during the year (note 6) | **(13,942)** | (15,492) |
| Transfer to assets of a disposal group classified as held for sale (notes 13 & 33) | **(67,250)** | (104,373) |
| Carrying amount at 31 December | **1,692,229** | 575,065 |
| Current portion included in prepayments, other receivables and other assets | **(13,852)** | (13,101) |
| Non-current portion | **1,678,377** | 561,964 |

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 parcels of land (the "Agreement"), which are situated in Mainland China and held under a medium term lease.

As at 31 December 2018, Sany Marine Heavy Industry has received parcels of land with a carrying amount of approximately RMB781,319,000 and obtained the land use right certificate. The rest at a consideration of RMB9,650,000 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 3 years after completion of the construction work on the parcels of land. As at 31 December 2018, the Group has invested RMB1,641,082,000 and the remaining investment of RMB3,480,318,219 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.

In 2017, Sany (Zhuhai) Asset Co., Ltd., a subsidiary of the Company, made a prepayment to acquire one parcel of land with a carrying amount of approximately RMB625,000,000. During the year ended 31 December 2018, an additional payment for land of RMB18,755,000 was made and the land use right certificate was obtained.

## 16. GOODWILL

| | RMB'000 |
|---|---|
| At 31 December 2017 and 31 December 2018: | |
| 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:

| | **2018 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 pre-tax discount rate applied to the cash flow projections is 18% (2017: 16%). The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2017: 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 2018. 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 January 2017, net of accumulated amortisation | 21,366 |
| Amortisation provided during the year (note 6) | (21,366) |
| At 31 December 2017 | – |
| At 31 December 2017 and 2018: | |
| Cost | **129,427** |
| Accumulated amortisation and impairment | **(129,427)** |
| Net carrying amount | **–** |

## 18. AVAILABLE-FOR-SALE INVESTMENTS

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Unlisted equity investments, at cost less impairment | **–** | 10,636 |

The above equity investments were transferred to financial assets at fair value through profit or loss upon adoption of IFRS 9 on 1 January 2018 as management planned to dispose of the investments during the year ended 31 December 2018 since the investments no longer coincided with the Group's investment strategy. The fair value on the date of sale in October 2018 was RMB10,420,000 and the accumulated losses recognised in profit or loss was RMB234,000.

## 19. INVENTORIES

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Raw materials | **679,644** | 580,943 |
| Work in progress | **522,134** | 456,917 |
| Finished goods | **603,094** | 610,176 |
| Less: Loss on inventories due to typhoon * | **–** | (45,045) |
| | **1,804,872** | 1,602,991 |
| Less: Provision against slow-moving and obsolete inventories | **(270,598)** | (356,576) |
| | **1,534,274** | 1,246,415 |

## 19. INVENTORIES (continued)

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| At 1 January | **356,576** | 355,624 |
| Charge for the year (note 6) | **(85,978)** | 952 |
| At 31 December | **270,598** | 356,576 |

* 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 (note 6) has been recorded in other expenses in the consolidated statement of profit or loss.

## 20. TRADE AND BILLS RECEIVABLES

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Trade receivables | **2,905,258** | 2,366,171 |
| Impairment | **(688,357)** | (759,941) |
| | **2,216,901** | 1,606,230 |
| Less: Trade receivables due after one year | **(89,826)** | (46,609) |
| | **2,127,075** | 1,559,621 |
| Bills receivable | **498,997** | 265,696 |

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 7% (2017: 19%) of the Group's trade receivables were due from a single customer, including a group of entities which are known to be under common control with that customer. Included in the trade receivables was an amount due from fellow subsidiaries in aggregate of RMB271,943,000 as at 31 December 2018 (2017: RMB296,666,000) for sales of products by the Group, which accounted for 12% (2017: 18%) of the Group's trade receivables at the end of the reporting period. Trade receivables are non-interest-bearing.

## 20. TRADE AND BILLS RECEIVABLES (continued)

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Within 180 days | **1,244,644** | 484,983 |
| 181 to 365 days | **504,038** | 599,372 |
| 1 to 2 years | **251,368** | 262,071 |
| 2 to 3 years | **180,637** | 155,521 |
| Over 3 years | **36,214** | 104,283 |
| | **2,216,901** | 1,606,230 |

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| At beginning of year | **759,941** | 807,096 |
| Impairment losses, net (note 6) | **8,931** | 14,905 |
| Amount written off as uncollectible | **(80,515)** | (62,060) |
| At end of year | **688,357** | 759,941 |

### Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type, and coverage of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

## 20. TRADE AND BILLS RECEIVABLES (continued)

### Impairment under IFRS 9 for the year ended 31 December 2018 (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

| As at 31 December 2018 | Less than 1 year | 1 to 2 years | Ageing 2 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|
| Expected credit loss rate | **4.10%** | **16.28%** | **29.94%** | **93.08%** | **23.69%** |
| Gross carrying amount (RMB'000) | **1,823,459** | **300,244** | **257,847** | **523,708** | **2,905,258** |
| Expected credit losses (RMB'000) | **74,779** | **48,876** | **77,209** | **487,493** | **688,357** |

### Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of RMB759,941,000 with a carrying amount before provision of RMB773,358,000. As at 31 December 2017, trade receivables with a gross amount of RMB323,140,000 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.

As at 31 December 2018, among the balance above, RMB123,258,000 was resolved on consensus with repayment schedules, RMB68,354,000 was collected, RMB15,094,000 was written-off as uncollectible, and the rest remained in progress of litigation.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties or were 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 as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

| | Total RMB'000 | Neither past due nor impaired RMB'000 | Past due but not impaired: Within 1 year RMB'000 | Past due but not impaired: 1 to 2 years RMB'000 | Past due but not impaired: Over 2 years RMB'000 |
|---|---|---|---|---|---|
| 31 December 2017 | 1,606,230 | 1,091,524 | 308,671 | 94,617 | 111,418 |

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

## 20. TRADE AND BILLS RECEIVABLES (continued)

### Impairment under IAS 39 for the year ended 31 December 2017 (continued)

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. The Directors were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as they had been subsequently settled before the date of these financial statements or there had not been a significant change in credit quality and the balances were still considered fully recoverable based on past experience. The Group holds collateral over balances due from certain customers amounting to RMB84,393,000, which were past due but not impaired.

From 1 January 2018, bills receivable have been classified as financial assets at fair value through other comprehensive income upon adoption of IFRS 9. The maturity profile of the bills receivable of the Group as at the end of the reporting period is as follows:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Within six months | **407,866** | 201,747 |
| Over six months | **91,131** | 63,949 |
| | **498,997** | 265,696 |

Included in the bills receivable was an amount of RMB124,924,000 as at 31 December 2018 (2017: RMB17,400,000) which was pledged for the issuance of a letter of guarantee.

Included in the bills receivable was an amount of RMB13,000,000 as at 31 December 2018 (2017: RMB8,100,000) 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 2018, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB236,616,000 (2017: RMB88,995,000) 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 RMB236,616,000 (2017: RMB88,995,000) as at 31 December 2018.

## 20. TRADE AND BILLS RECEIVABLES (continued)

### Transferred financial assets that are derecognised in their entirety

At 31 December 2018, 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 RMB612,636,000 (2017: RMB290,567,000). 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, OTHER RECEIVABLES AND OTHER ASSETS

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Non-current prepayments | **144,709** | 1,332,808 |
| Current assets: | | |
| Prepayments | **246,446** | 129,898 |
| Deposits and other receivables | **151,962** | 58,401 |
| Loans to related parties | **203,325** | 65,808 |
| Loans to third parties | **111,763** | 91,676 |
| Gross balance | **713,496** | 345,783 |
| Impairment allowance | **(79,100)** | (77,724) |
| | **634,396** | 268,059 |

Non-current prepayments represent prepayments for the acquisition of land and property, plant and equipment. On 22 May 2018, Zhuhai Sany, a subsidiary of the Group, paid a consideration of RMB135,000,000 for a parcel of land from Guangzhou Jianxiang Wharf. On 14 March 2018 and 23 December 2018, non-current prepayments of RMB625,000,000 and RMB535,014,000 for land have been transferred to prepaid land lease payment as the land use right certificates have been obtained by Sany (Zhuhai) Asset Co., Ltd. and Sany Marine Heavy Industry, respectively. On 31 October 2018, Sany Heavy Equipment disposed of the non-current prepayments of RMB161,602,000 for a parcel of land at a consideration of RMB161,602,000 to a related company.

No amount included in the current prepayments was due from fellow subsidiaries as at 31 December 2018 (31 December 2017: RMB7,863) for purchasing raw materials by the Group.

## 21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (continued)

Deposits and other receivables mainly represent deposits with suppliers. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2018 was 0.2%.

Loans to related parties of RMB203,325,000 as at 31 December 2018 (31 December 2017: RMB65,808,000) are unsecured, bear interest at rates ranging from 6% to 7% per annum (31 December 2017: 5.3%) and repayable in 2019.

Loans to third parties of RMB23,121,000 as at 31 December 2018 (31 December 2017: RMB37,776,000) are unsecured, repayable within one year and bear interest at the prevailing market rate.

## 22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Unlisted investments | | |
| Financial investments at fair value through profit or loss | **1,046,022** | – |
| Available-for-sale financial investments | **–** | 682,200 |
| | **1,046,022** | 682,200 |

The above unlisted investments at 31 December 2018 were principal-guaranteed wealth management products issued by banks in Mainland China with maturity periods within one year. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

## 23. CASH AND CASH EQUIVALENTS, TIME DEPOSITS AND PLEDGED DEPOSITS

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Cash and bank balances | **773,719** | 629,946 |
| Time deposits | **330,000** | 200,000 |
| | **1,103,719** | 829,946 |
| Less: Pledged time deposits for banking facilities | **(33,813)** | (15,345) |
| Cash and cash equivalents in the consolidated statement of cash flows | **1,069,906** | 814,601 |
| Less: Cash and cash equivalents included in assets of a disposal group classified as held for sale (note 33) | **–** | (380) |
| Cash and cash equivalents in the consolidated statement of financial position | **1,069,906** | 814,221 |
| Cash and cash equivalents, time deposits and pledged deposits denominated in | | |
| – RMB | **637,216** | 739,668 |
| – HK$ | **133,715** | 579 |
| – United States dollars ("US$") | **301,776** | 55,637 |
| – EUR | **31,012** | 32,093 |
| – JPY | **–** | 1,589 |
| | **1,103,719** | 829,566 |

At the end of the reporting period, the cash and bank balances of the Group were denominated in RMB, HK$, US$, EUR 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:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Within 30 days | 585,926 | 476,607 |
| 31 to 90 days | 415,678 | 286,856 |
| 91 to 180 days | 397,921 | 269,208 |
| 181 to 365 days | 107,226 | 72,737 |
| Over 1 year | 312,897 | 87,381 |
| | 1,819,648 | 1,192,789 |

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 RMB180,429,000 as at 31 December 2018 (2017: RMB137,523,000) for purchasing raw materials by the Group.

## 25. OTHER PAYABLES AND ACCRUALS

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Contract liabilities | 694,787 | – |
| Deposits received from customers | – | 557,809 |
| Deposits received for disposal groups | 97,433 | 200,000 |
| Other payables | 548,170 | 536,114 |
| Accruals | 82,710 | 24,292 |
| | 1,423,100 | 1,318,215 |

Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

| | 31 December<br>2018<br>RMB'000 | 1 January<br>2018<br>RMB'000 |
|---|---|---|
| Sales of goods | 694,787 | 557,809 |

## 25. OTHER PAYABLES AND ACCRUALS (continued)

Included in the contract liabilities was an amount of RMB8,614,000 as at 31 December 2018 (2017: RMB2,534,000 in deposit received from customers) 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 RMB25,036,000 as at 31 December 2018 (2017: RMB6,632,000), which is non-interest-bearing and is repayable on demand.

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

## 26. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | **2018** | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **RMB'000** | Effective interest rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | |
| Bank loans – unsecured | **2.92-4.35** | **2019** | **968,350** | | | |
| Current portion of long term bank loans-unsecured | **0.6** | **2019** | **431,601** | – | – | – |
| | | | **1,399,951** | | | – |
| **Non-current** | | | | | | |
| Bank loans – unsecured | | | **–** | 0.6 | 2019 | 429,127 |

Sany Group Co., Ltd. and Hua Xia Bank Co., Ltd. (Shenyang branch) have guaranteed certain of the Group's bank loans up to RMB368,350,000 (2017: Nil) and RMB100,000,000 (2017: Nil) respectively as at the end of the reporting period.

Except for the non-current bank loans of RMB431,601,000 (31 December 2017: RMB429,127,000) which are denominated in EUR, all borrowings are in RMB.

## 27. PROVISION FOR WARRANTIES

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| At 1 January | **4,872** | 9,485 |
| Additional provision (note 6) | **15,469** | 4,872 |
| Amounts utilised during the year | **(5,581)** | (4,006) |
| Reversal of unutilised amounts (note 6) | **(4,872)** | (5,479) |
| At 31 December | **9,888** | 4,872 |

The Group provides warranties (one year for coal mining machinery, and the earlier of two years and 4,000 hours during usage 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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| At 1 January | **1,551,902** | 1,624,670 |
| Received during the year | **117,074** | 215,432 |
| Released to the statement of profit or loss during the year (note 5) | **(204,756)** | (283,200) |
| Transfer to liabilities directly associated with the assets classified as held for sale (notes 13 & 33) | **(75,300)** | (5,000) |
| At 31 December | **1,388,920** | 1,551,902 |
| Current portion | **(91,087)** | (97,026) |
| Non-current portion | **1,297,833** | 1,454,876 |

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<br>RMB'000 | Losses available for offsetting against future taxable profits<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|
| At 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 and 1 January 2018 | **416,016** | **19,545** | **435,561** |
| Charged to the consolidated statement of profit or loss (note 10) | **(10,821)** | **(17,082)** | **(27,903)** |
| Transfer to assets of a disposal group classified as held for sale (note 13) | **(16,991)** | **–** | **(16,991)** |
| At 31 December 2018 | **388,204** | **2,463** | **390,667** |

## 29. DEFERRED TAX (continued)

### Deferred tax assets (continued)

The Group has tax losses arising in Hong Kong of RMB41,326,000 (2017: RMB3,138,000) 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 RMB13,661,000 (2017: RMB33,985,000) 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.

### 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 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 and 1 January 2018 | **32,793** | **1,377** | **34,170** |
| Charged/(credited) to the consolidated statement of profit or loss (note 10) | **(18,533)** | **(15)** | **(18,548)** |
| At 31 December 2018 | **14,260** | **1,362** | **15,622** |

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 2018, the Group has not recognised deferred tax liabilities of RMB55,878,000 (2017: RMB69,137,000) in respect of temporary differences relating to the unremitted profits of subsidiaries amounting to RMB1,117,557,000 (2017: RMB1,382,741,000), 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

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Authorised: | | |
| 4,461,067,880 (2017: 4,461,067,880) ordinary shares of HK$0.10 each | **446,107** | 446,107 |
| 538,932,120 (2017: 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 (2017: 3,041,025,000) ordinary shares of HK$0.10 each | **304,103** | 304,103 |
| 479,781,034 (2017: 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<br>RMB'000 | Issued convertible preference shares<br>RMB'000 | Share premium<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| At 31 December 2017 and 31 December 2018 | 264,366 | 37,848 | 2,239,502 | 2,541,716 |

## 31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's executive directors and other employees of the Group. The Scheme became effective on 15 December 2017, 29 December 2017 and 14 November 2018 (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 SCHEME (continued)

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

| | Year ended 31 December 2018 Weighted average exercise price HK$ | Number of options (Unaudited) | Year ended 31 December 2017 Weighted average exercise price HK$ | Number of options (Audited) |
|---|---|---|---|---|
| At 1 January | **1.23** | **138,300,000** | – | – |
| Granted during the year | **2.30** | **12,500,000** | 1.23 | 138,300,000 |
| Forfeited during the year | **1.22** | **(12,400,000)** | – | – |
| At 31 December | **1.33** | **138,400,000** | 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:

**2018**

| Number of options | Exercise price* per share RMB'000 | Exercise period |
|---|---|---|
| **124,300,000** | **1.22** | **15-12-2017 to 15-3-2021** |
| **1,600,000** | **1.71** | **29-12-2017 to 15-3-2021** |
| **12,500,000** | **2.30** | **14-11-2018 to 31-3-2021** |
| **138,400,000** | | |

**2017**

| Number of options | Exercise price* per share RMB'000 | 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 share options granted during the year was HK$72,776,000 (HK$0.53 each) (equivalent to RMB61,641,000) (2017: HK$64,831,000 (HK$0.47 each) (equivalent to RMB54,193,000)), of which the Group recognised a share option expense of HK$29,093,000 (equivalent to RMB25,829,000) (2017: HK$1,304,000 (equivalent to RMB1,097,000)) during the year.

## 31. SHARE OPTION SCHEME (continued)

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

| | Granted on 15 December 2017 | Granted on 29 December 2017 | **Granted on 14 November 2018** |
|---|---|---|---|
| Dividend yield (%) | 2.18 | 1.58 | **7.83** |
| Expected volatility (%) | 46.45 | 46.72 | **43.21** |
| Historical volatility (%) | 46.45 | 46.72 | **43.21** |
| Risk-free interest rate (%) | 2.22 | 2.28 | **3.02** |
| Expected life of options (year) | 10 | 10 | **10** |
| Weighted average share price (HK$ per share) | 1.22 | 1.71 | **2.30** |

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.

No other feature of the options granted was incorporated into the measurement of fair value.

At the date of approval of these financial statements, the Company had 138,400,000 share options outstanding under the Scheme, which represented approximately 4.6% of the Company's shares in issue as at that date.

## 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 RMB464,111,000 as at 31 December 2018 (2017: RMB390,785,000).

## 33. DISPOSAL OF A SUBSIDIARY

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 deposit. Cash consideration of RMB200,000,000, RMB20,630,000 and RMB23,370,000 were received by Sany Heavy Equipment in December 2017, March 2018 and April 2018 respectively. The transaction was completed in April 2018 as all 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 been fulfilled.

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

| | **On disposal date** RMB'000 |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment (note 14) | 111,491 |
| Prepaid land lease payments (note 15) | 104,373 |
| Non-current prepayments | 29,334 |
| Cash and bank balances | 1 |
| Other payables | (64) |
| Government grants (note 28) | (5,000) |
| | 240,135 |
| Gain on disposal of a subsidiary (note 5) | 3,865 |
| Satisfied by: | |
| Cash | 244,000 |

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

| | **On disposal date** RMB'000 |
|---|---|
| Cash consideration | 244,000 |
| Cash consideration received in 2017 | (200,000) |
| Cash and bank balances disposed of | (1) |
| Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary | 43,999 |

## 34. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### 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 2018 | **429,127** | **643** | **429,770** |
| Changes from financing cash flows | **968,350** | **(16,520)** | **951,830** |
| Foreign exchange movement | **2,474** | **–** | **2,474** |
| Interest expense | **–** | **18,220** | **18,220** |
| Interest paid classified as operating cash flows | **–** | **(942)** | **(942)** |
| At 31 December 2018 | **1,399,951** | **1,401** | **1,401,352** |

| | 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 | 1,426 | 1,208 | 2,634 |
| Interest paid classified as operating cash flows | – | (565) | (565) |
| At 31 December 2017 | 429,127 | 643 | 429,770 |

## 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 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Within one year | **1,516** | 4,953 |
| In the second to third years, inclusive | **2,595** | 10,326 |
| After three years | **6,094** | 11,329 |
| | **10,205** | 26,608 |

### (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 of two years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Within one year | **3,650** | 433 |
| In the second year | **3,650** | – |
| | **7,300** | 433 |

## 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:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Buildings | **716,449** | 46,421 |
| Plant and machinery | **3,490,597** | 3,523,278 |
| | **4,207,046** | 3,569,699 |

## 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 | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|---|
| Sales of products to: | | | |
| Sany International Development Limited (三一國際發展有限公司) | (i)&(v) | **206,282** | 114,625 |
| Sany Group Co., Ltd. (三一集團有限公司) | (i)&(v) | **149,427** | 233,750 |
| Sany America Inc. (三一美國) | (i)&(v) | **21,900** | – |
| Sany Heavy Industry Co., Ltd. (三一重工股份有限公司) | (i)&(v) | **9,029** | 19,476 |
| PT.Sany Indonesia Machinery (印度尼西亞三一機械有限公司) | (i)&(v) | **8,582** | 407 |
| Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司) | (i)&(v) | **–** | 28,581 |
| 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 |
| | | **395,220** | 402,813 |

## 37. RELATED PARTY TRANSACTIONS (continued)

### (1) Recurring transactions (continued)

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Sales of raw materials and equipment to: | | | |
| Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司) | (i)&(v) | **23,092** | 7,544 |
| PT.Sany Indonesia Machinery (印度尼西亞三一機械有限公司) | (i)&(v) | **5,976** | – |
| Loudi Zhongxing Hydraulic Parts Co., Ltd. (婁底市中興液壓件有限公司) | (i)&(v) | **3,279** | 1,316 |
| Sany Petroleum Intelligent Equipment Co., Ltd. (三一石油智能裝備有限公司) | (i)&(v) | **2,955** | – |
| Sany Automobile Lifting Machinery Co., Ltd. (三一汽車起重機械有限公司) | (i)&(v) | **2,228** | 3,037 |
| Hunan Sany Intelligent Control Equipment Co., Ltd. (湖南三一智能控制設備有限公司) | (i)&(v) | **450** | – |
| Sany Group Co., Ltd. (三一集團有限公司) | (i)&(v) | **383** | – |
| Sany Heavy Energy Equipment Co., Ltd. (三一重能有限公司) | (i)&(v) | **61** | 2 |
| Zhejiang Sany Equipment Co., Ltd. (浙江三一裝備有限公司) | (i)&(v) | **50** | 422 |
| Sany Heavy Industry Co., Ltd. (三一重工股份有限公司) | (i)&(v) | **28** | – |
| Hunan Automobile Manufacturing Co., Ltd. (湖南汽車製造有限責任公司) | (i)&(v) | **26** | 22 |
| Shanghai Sany Heavy Machinery Co., Ltd. (上海三一重機有限公司) | (i)&(v) | **6** | 158 |
| Suote Transmission Equipment Co., Ltd. (索特傳動設備有限公司) | (i)&(v) | **4** | 4,011 |
| Loudi Zhongyuan New Material Co., Ltd. (婁底市中源新材料有限公司) | (i)&(v) | **2** | 18 |
| Beijing Sany Shengneng Investment Co., Ltd. (北京三一盛能投資有限公司) | (i)&(v) | **–** | 507 |
| Sany Electric Co., Ltd. (三一電氣有限責任公司) | (i)&(v) | **–** | 110 |
| Sany Heavy Machinery Co., Ltd. (三一重機有限公司) | (i)&(v) | **–** | 1 |
| Others | | **392** | 378 |
| | | **38,932** | 17,526 |

## 37. RELATED PARTY TRANSACTIONS (continued)

### (1) Recurring transactions (continued)

| | Notes | 2018 RMB'000 | 2017 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) | **119,696** | 64,578 |
| Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司) | (ii)&(v) | **27,824** | 28,604 |
| Suote Transmission Equipment Co., Ltd. (索特傳動設備有限公司) | (ii)&(v) | **26,350** | 41,402 |
| Hunan Sany Intelligent Control Equipment Co., Ltd. (湖南三一智能控制設備有限公司) | (ii)&(v) | **12,957** | 6,607 |
| Loudi Zhongyuan New Material Co., Ltd. (婁底市中源新材料有限公司) | (ii)&(v) | **11,700** | 11,331 |
| Sany Germany GmbH (三一德國有限公司) | (ii)&(v) | **7,252** | 6,802 |
| Sany Heavy Machinery Co., Ltd. (三一重機有限公司) | (ii)&(v) | **6,449** | 1,232 |
| Hunan Zhongcheng Machinery Co., Ltd. (湖南中成機械有限公司) | (ii)&(v) | **4,166** | – |
| Shanghai Sany Heavy Machinery Co., Ltd. (上海三一重機有限公司) | (ii)&(v) | **2,016** | 467 |
| Hunan Automobile Manufacturing Co., Ltd. (湖南汽車製造有限責任公司) | (ii)&(v) | **1,963** | – |
| Sany Heavy Industry Co., Ltd. (三一重工股份有限公司) | (ii)&(v) | **1,531** | 110 |
| Sany Group Co., Ltd. (三一集團有限公司) | (ii)&(v) | **1,459** | 112 |
| Hunan Sany Hoisting Machinery Co., Ltd. (湖南三一汽車起重機械有限公司) | (ii)&(v) | **1,351** | 1,737 |
| Zhejiang Sany Equipment Co., Ltd. (浙江三一裝備有限公司) | (ii)&(v) | **348** | 463 |
| Sany Petroleum Intelligent Equipment Co., Ltd. (三一石油智能裝備有限公司) | (ii)&(v) | **263** | – |
| Sany Heavy Energy Equipment Co., Ltd. (三一重能有限公司) | (ii)&(v) | **118** | 762 |
| Beijing Sany Motor System Co., Ltd. (北京三一電機系統有限責任公司) | (ii)&(v) | **–** | 11,072 |
| Zhejiang Sany Foundry Co., Ltd. (浙江三一鑄造有限公司) | (ii)&(v) | **–** | 215 |
| Kunshan Sany Machinery Co., Ltd. (崑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 |
| Others | (ii)&(v) | **802** | 311 |
| | | **226,245** | 175,928 |

## 37. RELATED PARTY TRANSACTIONS (continued)

### (1) Recurring transactions (continued)

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Purchases of equipment from: | | | |
| Hunan Zhongtai Equipment Engineering Co., Ltd. (湖南中泰設備工程有限公司) | (ii)&(v) | **1,500** | – |
| Sany Heavy Energy Machinery Co., Ltd. (三一重能有限公司) | (ii)&(v) | **95** | 158 |
| Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司) | (ii)&(v) | **29** | 4,057 |
| 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 |
| Beijing Sany Machinery Co., Ltd. (北京市三一重機有限公司) | (ii)&(v) | **–** | 53 |
| Sany Group Co., Ltd. (三一集團有限公司) | (ii)&(v) | **–** | 3 |
| Others | (ii)&(v) | **–** | 9 |
| | | **1,624** | 5,141 |
| Rental fees paid to: | | | |
| Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司) | (iii)&(v) | **4,356** | 5,978 |
| Hunan Zhongtai Equipment Engineering Co., Ltd. (湖南中泰設備工程有限公司) | (iii)&(v) | **201** | 2,878 |
| | | **4,557** | 8,856 |
| Service fees paid to: | | | |
| Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司) | (iv)&(v) | **6,463** | 4,645 |
| Purchases of logistics service from: | | | |
| Hunan Sany Logistics Co., Ltd. (湖南三一物流有限責任公司) | (iv)&(v) | **104,131** | 44,102 |

## 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 Shareholders*.

* The Controlling Shareholders refer to 17 individual shareholders: Liang Wengen, Tang Xiuguo, Xiang Wenbo, Mao Zhongwu, Yuan Jinhua, Zhou Fugui, Wang Haiyan, Yi Xiaogang, Zhao Xiangzhang, Wang Zuochun, Duan Dawei, Zhai Xian, Liang Linhe, Zhai Chun and Huang Jianlong, Beijing Sany commonweal foundation ("北京三一公益基金會"), Beijing Deqing commonweal foundation ("北京德清公益基金會"), who hold 56.38%, 8.70%, 7.95%, 7.95%, 4.72%, 3.48%, 2.98%, 2.98%, 0.99%, 0.99%, 0.68%, 0.60%, 0.50%, 0.40%, 0.08%, 0.31% and 0.31% 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

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Research and development fees paid to: | | |
| Sany Germany GmbH (三一德國有限公司) | – | 1,024 |
| Solar energy fees paid to: | | |
| Sany Solar Energy Co., Ltd. (三一太陽能有限公司) | – | 1,877 |
| Supervisor fees paid to: | | |
| Hunan Xingxiang Construction Consultation Co., Ltd. (湖南興湘建設監理咨詢有限公司) | **1,283** | 900 |
| Service fees paid to: | | |
| Sany America Inc. (三一美國) | **2,339** | 1,065 |
| Sany Group Co., Ltd. (三一集團有限公司) | **64** | 127 |
| Sany Heavy Energy Equipment Co., Ltd. (三一重能有限公司) | **15** | 24 |
| Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司) | – | 213 |
| | **2,418** | 1,429 |
| Service fees from: | | |
| Hunan Zhongcheng Machinery Co., Ltd. (湖南中成機械有限公司) | – | 1,411 |
| Hunan Sany Road Machinery Co., Ltd. (湖南三一路面機械有限公司) | – | 669 |
| Sany Group Co., Ltd. (三一集團有限公司) | – | 14 |
| | – | 2,094 |
| Sales of equipment to: | | |
| Loudi Zhongxing Hydraulic Parts Co., Ltd. (婁底市中興液壓件有限公司) | **3,737** | – |
| Sany Group Co., Ltd. (三一集團有限公司) | **2** | 1,997 |
| Sany Automobile Lifting 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** | 6 |
| | **3,745** | 2,325 |
| Rental fee paid to: | | |
| Shenyang Zhushengyuan Properties Ltd. (瀋陽竹盛園地產有限公司) | **11** | 3 |

## 37. RELATED PARTY TRANSACTIONS (continued)

### (2) Non-recurring transactions (continued)

| | | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Purchase of products from: | | | |
| Sany Group Co., Ltd. (三一集團有限公司) | | **4,205** | – |
| Loans to related parties: | | | |
| Hunan Zhonghong Finance Lease Co., Ltd. (湖南中宏融資租賃有限公司, "Hunan Zhonghong") | (i) | **330,000** | – |
| China Kangfu Finance Lease Co., Ltd. (中國康富國際租賃股份有限公司, "Kangfu Leasing") | (i) | **300,000** | |
| | | **630,000** | – |
| Repayment of loans from related parties: | | | |
| Hunan Zhonghong Finance Lease Co., Ltd. (湖南中宏融資租賃有限公司) | (i) | **230,000** | – |
| China Kangfu Finance Lease Co., Ltd. (中國康富國際租賃股份有限公司) | (i) | **200,000** | – |
| | | **430,000** | – |
| Deposits to a related party: | | | |
| Sanxiang Bank (湖南三湘銀行股份有限公司) | (ii) | **380,000** | |
| Interests from loans and deposits to related parties: | | | |
| Hunan Zhonghong Finance Lease Co., Ltd. (湖南中宏融資租賃有限公司, "Hunan Zhonghong") | (i) | **7,509** | – |
| China Kangfu Finance Lease Co., Ltd. (中國康富國際租賃股份有限公司, "Kangfu Leasing") | (i) | **6,789** | – |
| Sanxiang Bank (湖南三湘銀行股份有限公司) | (ii) | **7,429** | – |
| | | **21,727** | – |
| Disposal of non-current prepayment for a parcel of land: | | | |
| Shenyang Zhongjing Property Development Co., Ltd. (瀋陽中璟房地產開發有限公司, "Shenyang Zhongjing") | (iii) | **161,602** | |
| | | **161,602** | – |

## 37. RELATED PARTY TRANSACTIONS (continued)

### (2) Non-recurring transactions (continued)

Notes:

(i) On 4 April 2018 and 11 April 2018, loans of RMB100,000,000 and RMB130,000,000 were lent to Hunan Zhonghong at an interest rate of 5.3% per annum and were guaranteed by Sany Group Co., Ltd. ("Sany Group"), which have been repaid in 2018. On 22 October 2018, a loan of RMB100,000,000 was lent to Hunan Zhonghong at an interest rate of 6% per annum and was guaranteed by Sany Group, which was repayable on 21 April 2019.

On 7 August 2018, a loan of RMB100,000,000 was lent to Kangfu Leasing at an interest rate of 6.5% per annum and was repayable in one year. On 31 August 2018, a loan of RMB200,000,000 was lent to Kangfu Leasing at an interest rate of 7% per annum and has been repaid in 2018.

(ii) On 2 February 2018, the Group deposited the principal amount of RMB90,000,000 with Sanxiang Bank at an interest rate of 4.40% per annum and it was due in 21 days. On 2 May 2018, the Group deposited RMB60,000,000 at an interest rate of 2.25% per annum, which was due in 197 days. On 14 May 2018, the Group deposited RMB100,000,000 at an interest rate of 5.00% per annum and was due in with Sanxiang Bank in 177 days. On 12 November 2018, the deposit agreement was renewed to be due in the next 177 days. The Group deposited RMB130,000,000 at an interest rate of 4.90% on 8 August 2018, which would be due in 190 days.

(iii) On 31 October 2018, the Group disposed the non-current prepayment for a parcel of land at a consideration of RMB161,602,000 to Shenyang Zhongjing, which became a related company of the Group in September 2018.

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

## 37. RELATED PARTY TRANSACTIONS (continued)

### (3) Compensation of key management personnel

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **12,399** | 4,978 |
| Employee retirement benefits and other staff welfare | **7,181** | 996 |
| Equity-settled share option expense | **312** | 232 |
| Total compensation paid to key management personnel | **19,892** | 6,206 |

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 is as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **857** | 317 |
| Employee retirement benefits and other staff welfare | **68** | 51 |
| Equity-settled share option expense | **252** | 10 |
| Total | **1,177** | 378 |
| Number of members of senior management personnel above by remuneration band: | | |
| Nil to HK$1,000,000 | **–** | 1 |
| HK$1,000,001 to HK$1,500,000 | **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:

| 2018<br>Financial assets | Financial assets at fair value through profit or loss<br>RMB'000 | Financial assets at fair value through other comprehensive income (debt instruments)<br>RMB'000 | Financial assets at amortised cost<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| Trade receivables | – | – | 2,216,901 | 2,216,901 |
| Bills receivable | – | 498,997 | – | 498,997 |
| Financial assets included in prepayments, other receivables and other assets | – | – | 387,950 | 387,950 |
| Financial assets at fair value through profit or loss | 1,046,022 | – | – | 1,046,022 |
| Pledged deposits | – | – | 33,813 | 33,813 |
| Cash and cash equivalents | – | – | 1,069,906 | 1,069,906 |
| | 1,046,022 | 498,997 | 3,708,570 | 5,253,589 |

| 2018<br>Financial liabilities | Financial liabilities at amortised cost<br>RMB'000 |
|---|---|
| Trade and bills payables | 1,819,648 |
| Financial liabilities included in other payables and accruals | 623,845 |
| Interest–bearing bank and other borrowings | 1,399,951 |
| | 3,843,444 |

## 38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

| 2017<br>Financial assets | Loans and receivables<br>RMB'000 | Available-for-sale financial assets<br>RMB'000 | Total<br>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<br>Financial liabilities | Financial liabilities at amortised cost<br>RMB'000 |
|---|---|
| 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 |

## 39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

| | Carrying amounts | | Fair value | |
|---|---|---|---|---|
| **Financial assets** | **2018** | 2017 | **2018** | 2017 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade receivables, non-current portion | **89,826** | 46,609 | **89,826** | 46,609 |
| Bills receivable | **498,997** | 265,696 | **498,997** | 265,696 |
| Financial assets at fair value through profit or loss | **1,046,022** | 692,836 | **1,046,022** | 692,836 |
| | **1,634,845** | 1,005,141 | **1,634,845** | 1,005,141 |

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, available-for-sale financial investments, financial assets included in prepayments, other receivables and other assets, interest bearing bank and other borrowings, trade and bills payables, and financial liabilities included in other payables and accruals approximate to their carrying amounts as at the end of the reporting period due to the short term maturities of these instruments.

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

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of non-current portion of trade receivable has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair values of bills receivable measured at fair value through other comprehensive income, which were previously classified as loans and receivables, have been estimated using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

## 39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

### Assets measured at fair value:

| | Fair value measurement using | | | |
|---|---|---|---|---|
| As at 31 December 2018 | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Bills receivable | – | 498,997 | – | 498,997 |
| Financial assets at fair value through profit or loss | – | 1,046,022 | – | 1,046,022 |
| | – | 1,545,019 | – | 1,545,019 |

As at 31 December 2017, no financial assets were measured at fair value.

The Group did not have any financial liabilities measured at fair value as at 31 December 2018 and 2017.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for the financial assets.

## 39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Assets for which fair values are disclosed:

| | Fair value measurement using | | | |
|---|---|---|---|---|
| **As at 31 December 2018** | **Quoted prices in active markets (Level 1) RMB'000** | **Significant observable inputs (Level 2) RMB'000** | **Significant unobservable inputs (Level 3) RMB'000** | **Total RMB'000** |
| Trade receivables, non-current portion | **–** | **89,826** | **–** | **89,826** |

| | Fair value measurement using | | | |
|---|---|---|---|---|
| As at 31 December 2017 | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Trade receivables, non-current portion | – | 46,609 | – | 46,609 |

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans and cash and short 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, bills receivable 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 2018, 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 a decrease/increase of RMB109,000 on the profit before tax for the year (2017: Nil).

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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 21.6% (2017: 23.3%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst all costs were denominated in the units' functional currencies. In addition, the Group has currency exposures from its interest-bearing bank borrowings.

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 before tax due to changes in the fair value of monetary assets and liabilities.

| | Increase/ (decrease) in exchange rate | Increase/ (decrease) in profit before tax |
|---|---|---|
| | % | RMB'000 |
| **31 December 2018** | | |
| If RMB weakens against HK$ | **5** | **175** |
| If RMB strengthens against HK$ | **(5)** | **(175)** |
| If RMB weakens against US$ | **5** | **7,358** |
| If RMB strengthens against US$ | **(5)** | **(7,358)** |
| If RMB weakens against EUR | **5** | **15,141** |
| If RMB strengthens against EUR | **(5)** | **(15,141)** |
| **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 EUR | 5 | (4,062) |
| If RMB strengthens against EUR | (5) | 4,062 |
| If RMB weakens against GBP | 5 | (1,161) |
| If RMB strengthens against GBP | (5) | 1,161 |

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

*Maximum exposure and year-end staging as at 31 December 2018*

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | **Stage 1** RMB'000 | **Stage 2** RMB'000 | **Stage 3** RMB'000 | **Simplified approach** RMB'000 | **Total** RMB'000 |
| Trade receivables* | – | – | – | 2,216,901 | 2,216,901 |
| Bills receivable | 498,997 | – | – | – | 498,997 |
| Financial assets included in prepayments, other receivables and other assets | | | | | |
| – Normal** | 352,109 | – | – | – | 352,109 |
| – Doubtful** | 35,841 | – | – | – | 35,841 |
| Pledged deposits | | | | | |
| – Not yet past due | 33,813 | – | – | – | 33,813 |
| Cash and cash equivalents | | | | | |
| – Not yet past due | 1,069,906 | – | – | – | 1,069,906 |
| Guarantees given to banks/finance lease companies in connection with facilities granted to customers*** | | | | | |
| – Not yet past due | 52,582 | – | – | – | 52,582 |
| | 2,043,248 | – | – | 2,216,901 | 4,260,149 |

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Credit risk (continued)

*** At the end of the reporting period, the finance guarantee contracts not provided for in the financial statements were as follows:

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Guarantees given to banks in connection with loans granted to customers | (a) | **10,915** | 18,409 |
| Guarantees given to the finance lease companies in connection with the unsettled lease amounts due from customers | (b) | **41,667** | 72,217 |
| | | **52,582** | 90,626 |

(a) Hunan Sany Port Equipment enters into sale agreements with end-user customers directly for the sales of port machinery. The end-user customers 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.

(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, Kangfu Leasing and 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 default 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.

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, and accordingly, no provision has been made at the inception of the guarantee contracts and at the end of 2018.

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Maximum exposure as at 31 December 2017

At the end of 2017, the Group had a certain concentration of credit risk as 19% of the Group's trade and bills 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 receivables are disclosed in note 20 to the financial statements.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, pledged deposits, financial assets at fair value through profit or loss, and financial assets included in prepayments, other receivables and other assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets.

### Liquidity risk

The Group's objective is to maintain sufficient cash and cash equivalents and have available funding through capital contribution and financial support from bank 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 2018** | | | |
|---|---|---|---|---|
| | **On demand RMB'000** | **Less than 1 year RMB'000** | **Over 1 year RMB'000** | **Total RMB'000** |
| Trade and bills payables | **–** | **1,819,648** | **–** | **1,819,648** |
| Financial liabilities included in other payables and accruals | **–** | **623,845** | **–** | **623,845** |
| Interest-bearing bank and other borrowings | **–** | **1,425,402** | **–** | **1,425,402** |
| | **–** | **3,868,895** | **–** | **3,868,895** |

| | 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 |

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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 2018 and 2017.

## 41. 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:

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | **6** | 9 |
| Investment in subsidiaries | **3,448,308** | 3,424,144 |
| Total non-current assets | **3,448,314** | 3,424,153 |
| CURRENT ASSETS | | |
| Tax recoverable | **34** | – |
| Dividend receivable | **67,391** | – |
| Due from subsidiaries | **749,297** | 770,549 |
| Cash and cash equivalents | **386,556** | 6,513 |
| Total current assets | **1,203,278** | 777,062 |
| CURRENT LIABILITIES | | |
| Dividend payable | **75,675** | – |
| Total current liabilities | **75,675** | – |
| NET CURRENT ASSETS | **1,127,603** | 777,062 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **4,575,917** | 4,201,215 |
| Net assets | **4,575,917** | 4,201,215 |

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| EQUITY | | |
| Issued capital | **302,214** | 302,214 |
| Reserves | **4,273,703** | 3,899,001 |
| Total equity | **4,575,917** | 4,201,215 |

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 2017 | 2,239,502 | 1,676,409 | 13,850 | 9,869 | 5,744 | (40,334) | 3,905,040 |
| Profit for the year | – | – | – | – | – | 44,249 | 44,249 |
| Other comprehensive loss 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 and 1 January 2018 | 2,239,502 | 1,676,409 | 14,947 | (41,516) | 5,744 | 3,915 | 3,899,001 |
| Profit for the year | – | – | – | – | – | 833,416 | 833,416 |
| Other comprehensive income for the year: | | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | 34,248 | – | – | 34,248 |
| Total comprehensive income for the year | – | – | – | 34,248 | – | 833,416 | 867,664 |
| Dividends declared | | | | | | (518,791) | (518,791) |
| Share-based payments | – | – | 25,829 | – | – | – | 25,829 |
| As at 31 December 2018 | 2,239,502 | 1,676,409 | 40,776 | (7,268) | 5,744 | 318,540 | 4,273,703 |

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

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.

## 42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2019.

# 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 | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **REVENUE** | **4,416,944** | 2,481,365 | 1,841,834 | 2,201,801 | 2,175,237 |
| Cost of sales | **(3,119,322)** | (1,743,814) | (1,565,670) | (1,572,465) | (1,466,023) |
| Gross profit | **1,297,622** | 737,551 | 276,164 | 629,336 | 709,214 |
| Other income and gains | **301,197** | 339,304 | 179,358 | 222,019 | 137,105 |
| Gain on disposal of non-current assets classified as held for sale | **–** | – | – | – | 240,553 |
| Selling and distribution expenses | **(329,462)** | (299,483) | (321,115) | (276,149) | (312,886) |
| Administrative expenses | **(492,128)** | (341,851) | (314,047) | (371,669) | (358,689) |
| Other expenses | **(32,951)** | (118,313) | (526,164) | (157,264) | (209,371) |
| Finance costs | **(18,220)** | (2,634) | (2,208) | (10,498) | (30,616) |
| **PROFIT/(LOSS) BEFORE TAX** | **726,058** | 314,574 | (708,012) | 35,775 | 175,310 |
| Income tax expense | **(122,584)** | (83,637) | 49,732 | (17,218) | (5,424) |
| **PROFIT/(LOSS) FOR THE YEAR** | **603,474** | 230,937 | (658,280) | 18,557 | 169,886 |
| Attributable to: | | | | | |
| Owners of the parent | **600,209** | 229,436 | (644,375) | 18,064 | 168,270 |
| Non-controlling interests | **3,265** | 1,501 | (13,905) | 493 | 1,616 |
| | **603,474** | 230,937 | (658,280) | 18,557 | 169,886 |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| TOTAL ASSETS | **12,924,694** | 11,199,050 | 10,139,079 | 11,331,186 | 12,753,243 |
| TOTAL LIABILITIES | **6,482,627** | (4,836,879) | (4,004,943) | (4,542,218) | (5,991,447) |
| NON-CONTROLLING INTERESTS | **11,561** | 58,458 | 56,957 | 70,862 | 70,369 |