



SANY HEAVY EQUIPMENT INTERNATIONAL HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 631



**ANNUAL
REPORT**

2020

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COMPANY PROFILE

Sany Heavy Equipment International Holdings Company Limited (hereinafter “Sany International” or “the Company”) was incorporated in the Cayman Islands on 23 July 2009. 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 core business of the Company, together with its subsidiaries (hereinafter “the Group”), comprises mining equipment, logistics equipment, robots and smart mines.

The Group’s mining equipment segment covers coal mining machinery products, non-coal mining machinery products, mining transport equipment, robots and smart mines. As the first company offering integrated mining and excavation equipment, transport equipment and comprehensive solutions in the PRC, the Group has conducted research and development on various intelligent excavators, mining machines, intelligent shearers, pure electric and intelligent unmanned widebodied vehicles, thereby contributing ideas to the industry on the manufacturing of whole-set coal mining products, as well as electric and intelligent manufacturing operations.

The logistics equipment segment of the Group includes container equipment (front loaders, stacking machines, quayside gantry cranes), bulk material equipment (grippers, elevated hoisting arms) and general equipment (heavyweight forklifts, telehandlers). The Group is one of the suppliers of whole-set port machinery in China with the largest tonnage and most complete range of advanced technologies.

In January 2020, the Group and Sany Group Co., Ltd.* (三一集團有限公司) (“Sany Group”) established Sany Machinery Intelligence Co., Ltd. (三一機器人科技有限公司), and acquired 70% equity interests in Sany Construction Robot (Xi’an) Research Institute Co., Ltd.* (三一建築機器人(西安)研究院有限公司) on January 2021. Upon completion of the acquisition, the Group’s robotics business will focus on three major businesses, namely system integration, movable robots and electric forklifts, which empowers the transformation and upgrade of electric, smart and unmanned intelligent production.

The smart mine business of the Group covers automatic integrated mining, unmanned mining transport equipment and smart mines. The objectives of the businesses are to accelerate the R&D of equipment with intelligent technologies such as sensory perception, analysis, autonomous decision-making and automatic control, and to develop unmanned dispatching systems as well as mine operation and management systems, thereby supporting the Group’s long-term strategy of developing smart mines and smart terminals.

R&D has been one of the Group’s core competitive edges. The Group adheres to an innovation-driven strategy. Through the strategy of digitalization, the Group has improved its R&D capabilities on developing intelligent products and lighthouse factories. It has also continuously improved operation efficiency and management through data collection and utilization.

FINANCIAL SUMMARY

(RMB'000)	2020 (audited)	2019 (audited)	Growth (%)
Revenue	7,363,859	5,656,064	30.2%
Gross profit	1,960,772	1,669,030	17.5%
Profit before tax	1,190,277	1,069,726	11.3%
Net profit	1,051,549	921,907	14.1%
Profit attributable to owners of the parent	1,045,144	919,706	13.6%
Total assets	17,464,161	15,546,436	12.3%
Average total assets	16,505,299	14,235,565	15.9%
Total equity	7,858,901	7,145,565	10.0%
Cash flows of operating activities	1,070,376	801,088	33.6%
Cash flows of investing activities	(647,370)	(2,310,649)	(72.0%)
Cash flows of financing activities	(601,723)	1,526,545	(139.4%)
Earnings per share ¹			
— Basic (RMB Yuan)	0.34	0.30	13.3%
— Diluted (RMB Yuan)	0.29	0.26	11.5%
(Percentage)	2020	2019	Percentage points
Gross profit margin	26.6%	29.5%	(2.9)
Percentage of profit attributable to shareholders of the Company ²	14.2%	16.3%	(2.1)
Assets turnover	44.6%	39.7%	4.9
Gearing ratio	55.0%	54.0%	1.0

¹ The weighted average number of ordinary shares for the year ended 31 December 2020 was 3,111,383,038 shares, and the weighted average number of ordinary shares for the year ended 31 December 2019 was 3,080,554,141 shares, details of which are set out in note 12 to the Financial Statements.

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

IMPORTANT MILESTONES IN YEAR 2020



New generation of intelligent thin coal seam shearer of Sany Heavy Equipment Co., Ltd (“Sany Heavy Equipment”) successfully commences operation

In December 2020, Sany Heavy Equipment’s new-generation MG330/730-WD intelligent thin coal seam shearer successfully commenced operation at Dongshan coal mine in Jixi, Heilongjiang. Such type of shearer embodies intelligent technologies including learning memory-based cutting and coal identification, and is equipped with rock-breaking drums, strong picks and highly stable inverters. Since the shearer was put into operation, it has maintained its efficiency while keeping failure rate low. Mining has been carried out at a stable speed, satisfying clients’ demands for intellectualization.



Pure electric container tractors of Sany Marine Heavy Industry Co., Ltd. (“Sany Marine Heavy Industry”) delivers in bulk

In November 2020, 35 “zero-emission” Sany pure electric container tractors purchased in bulk by Xiamen Port Transport Group Limited were officially delivered. Such batch of pure electric tractors was the latest developed transport vehicle fitted with a 4x2 heavy-loading rolling chassis, with a maximum tractive tonnage of 70 tonnes. The tractors adopt a dual-motor drive system, and are equipped with dual charge ports and a kinetic energy recovery system. With features of strong dynamic power, fast charging, and low energy consumption, the tractors have vastly improved port transport services.



Commissioning of Sany Heavy Equipment’s second set of pure water hydraulic supports is successful

In October 2020, the 5.5-metre pure water hydraulic supports jointly developed by Sany Heavy Equipment and Shendong Coal Group Co., Ltd. (“Shendong Group”) successfully commissioned at the Equipment Repair Centre Plant II of Shendong Group. Comparing with the first set of pure water hydraulic supports, the current set features upgrades and improvements in anti-corrosion and water generation techniques, as well as the addition of remote monitoring and remote control functions, which have greatly enhanced the level of intelligence from an environmental protection perspective.



Unmanned pure electric widebodied vehicles of Sany Heavy Equipment are put into commercial operation

SKT90Ei unmanned pure electric widebodied vehicle developed by Sany Intelligent Mining Technology Co., Ltd. (“Sany Intelligent Mining”), a wholly-owned subsidiary of Sany Heavy Equipment, worked with a remote-controlled excavator, and successfully completed its unmanned commercial operation at a copper mine in Qinghai. In October 2020, such widebodied vehicle demonstrated remote unmanned operation at bauma CHINA, and was highly commended by participating customers for its core technologies such as precise positioning and navigation, environment perception, trajectory planning, intelligent decision-making and control, and fault diagnosis.

IMPORTANT MILESTONES IN YEAR 2020**Sany Marine Heavy Industry introduces new electric products at bauma CHINA**

At bauma CHINA 2020, Sany Marine Heavy Industry showcased products including SRSC45E electric front loader, SDCE90K7 electric stacking machine and STH1056A telehandler under the theme of “An Intelligent Future Guided by an Energy-saving Revolution”, which represent the latest technologies and future trends in the industry. On the first day of the fair, Sany Marine Heavy Industry entered into successive orders with an aggregate amount of RMB150 million, while its livestreaming activities recorded more than 50,000 views, demonstrating the strong brand appeal of Sany Marine Heavy Industry.

**Sany Heavy Equipment leads the industry in unlocking a new mode of remote intelligent excavation**

In August 2020, a presentation of Sany Heavy Equipment’s remote intelligent excavation products was held in Xinxiang, Henan. Close to 50 enterprises (including Jiaozuo Coal Group and Pingmei Group) and more than 100 experts inspected Sany Heavy Equipment’s EBZ200CY remote intelligent roadheader on site, and spoke highly of it. The equipment has operated in Zhaogu mine no. 2 for eight months in a row, during which it gave stable performance in general, and excavated more than 1,300 metres in total. Leveraging its highly precise automated positioning, automated planning of cutting trajectory, remote one-key power on and positioned cutting functions, the equipment unlocked a new mode of excavation, generating higher value for customers.

**International sales of Sany Marine Heavy Industry sees a new monthly high**

In May 2020, Sany Marine Heavy Industry delivered 64 units of equipment, among which nearly 43 were shipped to European and US markets. Both figures were historical high. Thanks to the efficient resumption of operation and production, international sales grew despite the impacts of the pandemic. In recent years, overseas market of Sany Marine Heavy Industry has been expanding at a brisk pace. With efficient R&D and quality advantages, breakthroughs have been made in key markets and customer bases, contributing to a rapid growth in orders. This phenomenon has become a highlight in the industry.

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to announce that during the financial year ended 31 December 2020, the Group recorded revenue of RMB7,363.9 million, representing an increase of 30.2% compared with the same period of the previous year. Profit for the year amounted to RMB1,051.5 million, representing an increase of 14.1% compared with the same period of the previous year. Net cash inflow from operating activities was RMB1,070.4 million, representing an increase of 33.6% compared with the same period last year. The Group's total assets and net assets were RMB17,464.2 million and RMB7,858.9 million, respectively, representing an increase of 12.3% and 10.0%, respectively, compared with the same period of the previous year.

Looking back on 2020, novel coronavirus ("COVID-19") wreaked havoc on the world. The Company and its subsidiaries (collectively, the "Group") actively carried out pandemic prevention and control and resumed operation and production efficiently, ensuring the stability of supply chain and timely delivery of orders. In the past year, the Group resolutely promoted various operating strategies, achieving a steady increase in product market shares, a growth in overseas sales against all odds and a substantial enhancement in R&D capabilities, with significant progress made in aspects such as digital transformation, R&D of new products and new business development.

In 2020, the Group continued to insist on R&D and innovation. R&D investment amounted to RMB447.6 million, representing a year-on-year increase of 16.3%. A total of 35 new products were launched during the year. For mining equipment, various models of intelligent excavators and intelligent shearers such as EBZ260i/160i and MG730i commenced underground operation. Pure water hydraulic supports underwent technical upgrades, bringing about improved performance and reduced costs. 70T and 80T large tonnage widebodied vehicles were developed and led the industrial development. Pure electric widebodied vehicles, which cut energy consumption by 75% as compared with counterparts powered by petrol, were developed and operated in a stable manner continuously on plateaux. The WPZ-45 mine entry roadway repair machine was developed, and was lauded by customers for its performance and quality. For logistics equipment, SRSC45G5 front loader, SDCE90K7 stacking machine and other electric products were sold in the European market. Electric trucks were sold in bulk at Port of Xiamen and Port of Guangzhou, while unmanned trucks were delivered to Haixing Terminal, marking our pole position in electric and unmanned truck technologies. Three models of telehandlers (including STH1256A) were developed and sold in bulk in the North American market, and were well recognised. Automatic technologies such as fully automatic container grabbing and releasing system, electronic anti-sway technology, vehicle collision avoidance, and lifting and positioning were all launched, as designs for eight automated terminal projects at the Port of Tianjin, Taicang, Yueyang, Ningbo, and COSCO were completed and delivered. On the new business front, robotics business developed vigorously. Designs for a number of automated projects were completed and delivered, in addition to the development of different models of mobile robots and electric forklifts, achieving a considerable growth in sales revenue and becoming a new performance driver of the Group.

CHAIRMAN'S STATEMENT

Benefitting from the continuous advancement of our internationalization strategy, in 2020, the Group recorded international sales revenue of approximately RMB1,360.6 million, representing a year-on-year increase of approximately 28.2%. For the mining equipment segment, the channel planning of 6 major regional markets in Eastern Europe and Central Asia was completed, bringing in 3 new agents and 4 new major customers. For the logistics equipment segment, the strategic cooperation relationship with major overseas customers such as MSK, PSA, DPworld were deepened, while 14 major overseas customers, including Kenya Ports Authority, Sudan Sea Ports Corporation and Moroccan National Railways Office, and 4 new agents in Australia, the UAE and Mexico were added. The layout of overseas sales channel is further improved.

The Group considers digitalization as its core competitiveness and driving force for development. In 2020, the Group continued to promote digital transformation and upgrade, and has made certain progress. Core business procedures were made "standardized, online, automated and computerized", production management improved substantially via the full application of real-time and on-site remote monitoring of physical objects, and with the interconnection of production equipment and online data monitoring, real-time management of utilities. The construction of lighthouse factories enhanced automation in production, such that the workforce required for manufacturing and assembling processes is minimized, resulting in a shorter manufacturing cycle and higher production capacity. By promoting digital methods for R&D, an efficient and synergetic R&D model was established, and our R&D capabilities saw an exponential growth with reduced design and trial cycle. Driven by our digitalized strategy, our operation management standards in terms of R&D and design, production and manufacturing, marketing services, supply chain management and quality control enhanced significantly.

Standing at a new starting point of intellectualization and digitalization, the Group will place more emphasis on operation quality and risk management, strengthen R&D and innovation, tighten cost control, accelerate the construction of lighthouse factories, expedite its planning for overseas markets, deepen the excavation and application of data to empower our business, and grasp the historic opportunity of intelligent upgrade, in order to achieve quality development of the Group's business.

On behalf of the Board, I would like to take this opportunity to thank all shareholders, colleagues and employees for their support and dedication to the Group. I will continue to work with the management team to create long-term and stable value for shareholders.

Liang Zaizhong

Chairman

Hong Kong, 18 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The coal industry continued to flourish in 2020, with a sustained rebound in volume and price of coal, as well as a continuous improvement in the profitability of the industry, embarking on an accelerating period of computerization in the operation of coal mining. China's export trade recovered rapidly and the volume of exports showed a substantial increase. Meanwhile, upgrades in driving equipment of smart and green terminals expedited. The Group's R&D and innovation achieved significant results, as the manufacturing process of a range of electric and intelligent products were completed. Competitiveness of integrated coal mining products, widebodied vehicles and large port machinery products strengthened, resulting in a rapidly increasing market share, while revenue from overseas sales of the Group continued to grow. At the same time, the Group's robotics business grew rapidly, and products such as pure water hydraulic supports, electric widebodied vehicles and intelligent transtainers gained recognition from customers, injecting new impetus into the continuous development of the Company.

Major products

The Group divides its products into two categories, namely (1) the mining equipment business sector, which includes coal mining machinery products, such as roadheaders (all types of soft rock, hard rock roadheader and integrated excavation, bolting and self-protection machine) and mining equipment (coal mining machines (shearer), hydraulic support system, scraper conveyor (Armored-Face Conveyor), etc.); non-coal mining machinery products, such as tunnel roadheader and mining machine; mining transport equipment (mechanical drive off-highway dump truck and electric drive off-highway dump truck) and widebodied vehicle and other relevant products; robotic products, such as robotic system integration, mobile robots and electric forklifts; and smart mine products, such as unmanned driving, automated integrated mining and smart mine operation systems; and (2) the logistics equipment business sector, which includes container equipment* (front loader, stacking machine and quayside gantry crane, etc.), bulk material equipment (gripper, elevated hoisting arm, etc.) and general equipment (heavy-weight forklift, telehandler, etc.).

** Note: Container equipment includes large-scale port machinery products (such as quayside gantry crane) and small-scale port machinery products (such as front loader and stacking machine).*

Research and development capability

The Company adheres to an R&D and innovation strategy and continuously increases its R&D investments, with a view to developing its digitalized R&D capabilities and constructing a trial and simulation system. The Company has an elite team for R&D of intelligent, digital and electric products. The pool of R&D personnel was doubled during the year ended 31 December 2020, giving a significant boost to its products' competitiveness.

MANAGEMENT DISCUSSION AND ANALYSIS

For mining equipment, 22 intelligent and electric new products (including products from new categories) were developed. New products, including EBZ160i/EBZ260i intelligent roadheader, SCR520\SCR630 mining machine and EBZ280D steep slope roadheader were launched into the market. Manufacturing of MG730i intelligent shearer, which embodies self-learning memory cutting technology, was completed. 70T, 80T and 100T large tonnage product series were developed, while SKT90E pure electric widebodied vehicle and SKT90Ei intelligent unmanned widebodied vehicle were put into use. Pure water supports underwent technical upgrades and became more steady and sophisticated, enabling the Group to secure orders from CHN Energy Shendong Coal Mine once again.

For logistics equipment, the Group completed the development of 13 electric and automated products for ports, and electrification upgrades of front loaders/stacking machines, which have been sold to the European market. Three models of telehandlers were successfully developed, and achieved bulk sales in the North American market. The Group received orders from multiple key customers for electric trucks and unmanned trucks, winning bids for automated terminal projects at the Port of Tianjin, Taicang, Yueyang, Port of Ningbo, and COSCO, the designs of which were completed and delivered. The Group also developed automation technologies such as fully automatic container grabbing and releasing system, electronic anti-sway technology, vehicle collision avoidance, and lifting and positioning, which have been applied in the products.

The integration of robotics business focuses on system integration, mobile robots and electric forklifts. Planning and design of three production lines were finalized, while design of more than 30 automation projects were also completed. 2T forklift AGV and 1T, 3T and 5T unit load AGVs were developed. R&D of electric 2T warehousing and 2T transporting forklifts was completed, and a small batch of 21 units were produced.

Smart mine business includes automated integrated mining, unmanned mining transport equipment and smart mines. R&D and design of three electro-hydraulic control and automated integrated mining products were completed. R&D of two types of electric and fuel-driven unmanned mining transport equipment, as well as six dispatch systems of unmanned mining transport equipment and management systems of mine operation were successful.

WPZ-45 mine entry roadway repair machine was launched and gained recognition from customers, marking the Group's expansion in product categories. R&D and manufacturing of SLG100C8 sand production plant were completed.

For the year ended 31 December 2020, the Group obtained 58 invention patents, 133 utility model patents, 10 design patents, and 20 copyrights.

MANAGEMENT DISCUSSION AND ANALYSIS

Production and manufacturing

The Group has production and manufacturing bases in Shenyang, Zhuhai and Changsha, respectively. There are 8 plants in the mining equipment industrial park located in the Economic and Technological Development Zone of Shenyang with a total area of approximately 636,000 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.

During the year ended 31 December 2020, driven by the strategy of digitalization, the Group actively promoted the construction of “Lighthouse Factories”. Four lighthouse factory projects, namely widebodied vehicles, hydraulic supports, small port machinery and large port machinery, are currently under construction. The lighthouse factories utilize big data, industrial internet and robotic technology to enhance automation in techniques, logistics and inspection, through which the workforce required for the manufacturing and assembling processes is minimalized and the manufacturing cycle is shortened, allowing the rapidly growing orders for the Group’s anchor products to be met. Meanwhile, the Group achieved full computerization in office work, security, logistics and park facilities within the industrial parks, creating smart parks via smart connection.

Marketing and service

The Group implements a targeted marketing policy tailored to each major customer to achieve crucial breakthroughs. Marketing is empowered by digitalization, such that its management efficiency is enhanced. The Group has been accelerating its internationalization progress and enhancing its competitiveness in overseas markets. It adopts a specific policy for each country while adhering to its strategy of “focusing on both key products and key regions”. It has implemented a “dual-driver” approach propelled by product R&D and marketing services. It has expanded its share in overseas markets through allocating more resources to 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 with enthusiasm to meet customers’ needs and addressing any concerns of its customers. The Group’s superior product quality, attentive after-sales service and efficient response have gained high recognition from its customers.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, the Group recorded revenue of approximately RMB7,363.9 million, representing an increase of approximately 30.2% as compared with approximately RMB5,656.1 million for the year ended 31 December 2019. The increase was mainly due to (1) the continuous upgrading of the mining equipment sector towards intelligence and electrification and the increasing shares in the domestic and international markets of widebodied vehicles with their excellent performance, resulting in a substantial year-on-year growth in revenue; (2) products of the logistics equipment sector, such as front loaders and stacking machines continuing to maintain their leading positions in the industry, while electric and unmanned products were widely recognized by the market, realizing a continuous growth in sales revenue; and (3) the satisfactory development achieved by the new robotics business, contributing to a rapid growth in revenue.

Other income and gains

For the year ended 31 December 2020, the Group's other income and gains was approximately RMB456.3 million, representing a decrease of approximately 6.6% as compared with approximately RMB488.8 million for the year ended 31 December 2019. The change was mainly due to the decrease in government subsidies and exchange gain during the year ended 31 December 2020.

Cost of sales

For the year ended 31 December 2020, the Group's cost of sales was approximately RMB5,403.1 million, representing an increase of approximately 35.5% as compared with approximately RMB3,987.0 million for the year ended 31 December 2019. The increase in cost of sales was mainly due to the increase in revenue from product sales.

Gross profit and gross profit margin

The gross profit of the Group was approximately RMB1,960.8 million for the year ended 31 December 2020 (for the year ended 31 December 2019: approximately RMB1,669.0 million).

The gross profit margin of the Group for the year ended 31 December 2020 was approximately 26.6%, representing a decrease of 2.9 percentage points against approximately 29.5% for the year ended 31 December 2019. The decrease was mainly attributed to a change in product mix in a way that sales proportion of lower margin products (such as widebodied vehicles, robotic integration and procurement products) increased.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

For the year ended 31 December 2020, the selling and distribution expenses of the Group were approximately RMB430.5 million, representing an increase of approximately 11.0% as compared with approximately RMB387.8 million for the year ended 31 December 2019. For the year ended 31 December 2020, the Group's selling and distribution expenses to revenue ratio was approximately 5.8%, representing a decrease of approximately 1.1 percentage points as compared with approximately 6.9% for the year ended 31 December 2019. Such changes were mainly due to (1) more resources being devoted to establishing marketing channels and providing after-sales services; and (2) the improvement in operation efficiency and management standards through digital marketing strategies.

R&D expenses

For the year ended 31 December 2020, the R&D expenses of the Group were approximately RMB447.6 million, representing an increase of approximately 16.3% as compared with approximately RMB384.8 million for the year ended 31 December 2019. Such changes were mainly due to (1) the increase in R&D investments for new businesses, including robots, electro-hydraulic control, unmanned driving, automated integrated mining and smart mines; and (2) the recruitment of more industry-leading talents for forming an elite R&D team such that the pool of R&D personnel being doubled during the year ended 31 December 2020, resulting in a substantial increase in their remuneration and bonus.

Administrative expenses

For the year ended 31 December 2020, administrative expenses of the Group were approximately RMB706.9 million (for the year ended 31 December 2019: approximately RMB642.7 million). The administrative expenses excluding R&D expenses were approximately RMB259.4 million (for the year ended 31 December 2019: approximately RMB257.9 million), representing a year-on-year decrease in the proportion of revenue by approximately 1.1 percentage points to approximately 3.5% (for the year ended 31 December 2019: approximately 4.6%). Such changes were mainly due to the remarkable cost control efforts resulting from digital upgrades, application of data management and construction of smart industrial parks by the Group.

Finance costs

For the year ended 31 December 2020, finance costs of the Group were approximately RMB132.3 million (for the year ended 31 December 2019: approximately RMB85.5 million). The increase of RMB46.8 million was mainly due to the increase of average amount of bank loans during the year ended 31 December 2020. The Group's financing mainly aimed at preparing for potential capital investments and acquisition opportunities and meeting operational needs of the Group. As at the date of this annual report, the Group has not entered into any letter of intention or definitive agreement for capital investments and acquisition.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit margin before tax

The Group's profit margin before tax for the year ended 31 December 2020 was approximately 16.2%, representing a decrease of approximately 2.7 percentage points as compared with approximately 18.9% for the year ended 31 December 2019. Such a change was mainly attributable to (1) lower gross profit margin due to a change in product mix; (2) the decrease in government subsidies; and (3) the increase in R&D investments for new businesses.

Taxation

For the year ended 31 December 2020, the Group's effective tax rate was 11.7% (for the year ended 31 December 2019: 13.8%). The lower effective tax rate during the current year was mainly due to more R&D expenses were deducted in the current year as the Group constantly increased the investment in R&D.

Profit attributable to owners of the parent

As a result of the foregoing, profit attributable to owners of the parent recorded by the Group for the year ended 31 December 2020 was approximately RMB1,045.1 million, as compared with approximately RMB919.7 million for the year ended 31 December 2019. For the main reasons of such a 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 2020, total current assets of the Group were approximately RMB12,015.9 million (31 December 2019: RMB10,337.9 million). As at 31 December 2020, total current liabilities of the Group were approximately RMB7,938.5 million (31 December 2019: RMB6,421.3 million).

As at 31 December 2020, total assets of the Group were approximately RMB17,464.2 million (31 December 2019: approximately RMB15,546.4 million), and total liabilities were approximately RMB9,605.3 million (31 December 2019: approximately RMB8,400.9 million). As at 31 December 2020, the gearing ratio (the liability to asset ratio) of the Group was approximately 55.0% (31 December 2019: 54.0%).

MANAGEMENT DISCUSSION AND ANALYSIS

Trade and bills receivables

As at 31 December 2020, the Group's gross balance of trade receivables and bills receivables recorded approximately RMB4,568.2 million, representing an increase of approximately 21.2% as compared with approximately RMB3,769.0 million as at 31 December 2019, among which trade receivables recorded approximately RMB3,973.1 million, representing an increase of approximately 18.8% as compared with approximately RMB3,344.5 million as at 31 December 2019; and bills receivables recorded approximately RMB595.1 million, representing an increase of approximately 40.2% as compared with RMB424.5 million as at 31 December 2019. Such changes were mainly due to (1) the increase in revenue from product sales; and (2) the decrease of the Company's making payments to suppliers by endorsement of bills receivable.

Interest-bearing bank and other borrowings

As at 31 December 2020, interest-bearing bank and other borrowings of the Group were approximately RMB2,637.9 million (31 December 2019: RMB3,259.5 million). The main reason of such a change was that the Company controlled the size of its liabilities.

Cash flow

As at 31 December 2020, cash and cash equivalents of the Group and time deposits with maturity of three months or more were approximately RMB941.5 million in total.

For the year ended 31 December 2020, the net cash inflow of the Group from operating activities was approximately RMB1,070.4 million (for the year ended 31 December 2019: approximately RMB801.1 million). Such a change was mainly due to a significant improvement in operation efficiency, and trade receivables and inventory turnover days decreased.

For the year ended 31 December 2020, the net cash outflow from investing activities of the Group was approximately RMB647.4 million (for the year ended 31 December 2019: approximately RMB2,310.6 million). Such a change was mainly due to the increasing investments in financial products.

For the year ended 31 December 2020, the net cash outflow of the Group from financing activities was approximately RMB601.7 million (for the year ended 31 December 2019: net cash inflow of approximately RMB1,526.5 million). Such a change was mainly due to the decrease in bank borrowings.

Turnover days

Excluding the impairment losses for inventories provided, the Group's average turnover days of inventory were approximately 117.5 days as at 31 December 2020, representing a decrease of approximately 36.1 days from 153.6 days as at 31 December 2019, which was mainly because (1) the Company took effective measures to speed up the disposal of inventory; and (2) the Company enhanced the efficiency in its control on inventory through production process and managed to better utilize the accumulated inventory.

MANAGEMENT DISCUSSION AND ANALYSIS

The turnover days of trade and bills receivables as at 31 December 2020 were approximately 206.6 days, representing a decrease of 24.9 days from approximately 231.5 days as at 31 December 2019. 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 7.4 days from approximately 166.2 days as at 31 December 2019 to approximately 158.8 days as at 31 December 2020, which was mainly due to the shortened payment period to suppliers by the Company to secure sufficient raw material supply and more favourable purchasing prices.

Financing guarantee contracts

As at 31 December 2020, the financing guarantee contracts not provided for in the financial statements amounted to RMB1,002.0 million, being the financial guarantee under financing lease arrangements provided by Hunan Sany Port Equipment Co., Ltd. and Sany Heavy Equipment Co., Ltd. (31 December 2019: RMB439.7 million).

Capital commitment

As at 31 December 2020, the contracted capital commitments of the Group which are not provided for in the financial statements were approximately RMB1,838.3 million (31 December 2019: approximately RMB3,457.6 million).

Employees and remuneration policy

As at 31 December 2020, the Group had 3,573 employees (2019: 2,448).

The Group persists in training and developing talents. Accordingly, it provides regular internal training, external training and corresponding courses to its staff according to their ranking and working stage, with an aim to improving their skills relevant to work as well as enhancing their sense of belonging. The Group pays year-end bonuses to staff to reward them for their contributions and dedication to the Group. In addition, the Group implements a share award scheme for core employees to share the Company’s development results. The remuneration of the directors of the Group was determined with reference to their positions, responsibilities, experience and prevailing market conditions.

Significant investments held, material acquisition and disposals of subsidiaries, associates and joint ventures

There were no significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2020, nor was there any plan authorized by the Board for other material investments or additions of capital assets as of the date of this annual report.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge on assets

As at 31 December 2020, the Group recorded pledged bank deposits of approximately RMB0.5 million (31 December 2019: approximately RMB2.0 million), for the purpose of issuing non-financing letters of credit. As at 31 December 2020, financial investments at fair value through profit or loss aggregated to RMB550,000,000 (2019: RMB208,000,000) have been pledged for the Group's bank loans aggregated to RMB507,968,583 (2019: RMB200,000,000).

Foreign exchange risk

As at 31 December 2020, the Group's cash and bank balances denominated in foreign currencies such as US\$ and HK\$ were equivalent to approximately RMB62.8 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. During the pandemic, the Group donated 3,000 protective suits to the Department of Commerce of Liaoning Province, and 50,000 masks to the Shenyang Development Zone Council. The management and staff of the Group provide human and material resources to help and support local community development. During the year ended 31 December 2020, the Group launched activities to help staff mitigate their financial stress. The management visited staff with family difficulties and provided them with consolation money and necessities. In addition, the Group organised staff health check regularly, raised funds for staff requiring assistance and spread love and care to staff who were in need of support.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Liang Zaizhong (梁在中), aged 36, was appointed as an executive Director of the Company, the chairman of the Board, and the chairman of the Nomination Committee and the Strategic Investment Committee on 21 October 2019.

Mr. Liang joined Sany Group in June 2006. During the period from June 2006 to January 2007, he acted as dispatcher of the manufacturing department of Sany Automobile Manufacturing Co., Ltd.* (三一汽車製造有限公司) (“Sany Automobile Manufacturing”), a subsidiary of Sany Group. During the period from January 2007 to October 2010, Mr. Liang held various management positions in the financial operations of Sany Group, including the deputy supervisor of the fund settlement center, the deputy general manager of the general department of finance and the director of the general department of finance. Mr. Liang acted as the vice president of Sany Group and the general manager of Sany Automobile Manufacturing during the period from October 2010 to December 2011. During the period from December 2011 to March 2016, Mr. Liang held various key positions in Sany Group, including the manufacturing business director, the investment director and the process informatization director. In March 2016, Mr. Liang took the lead to establish Long Property & Casualty Insurance Co., Ltd.* (久隆財產保險有限公司) (“Long Insurance”) and Hunan Sanxiang Bank Co., Ltd.* (湖南三湘銀行股份有限公司) (“Sanxiang Bank”), and acted as a director, the vice chairman of the board of Long Insurance during the period from March 2016 to June 2019, while serving as the chairman of the board of Sanxiang Bank from December 2016 to June 2019. Mr. Liang has also acted as a director of Sany Heavy Industry Co., Ltd.* (三一重工股份有限公司) (“Sany Heavy Industry”), which is listed on Shanghai Stock Exchange (stock code: 600031) and a non-wholly owned subsidiary of Sany Group since January 2010, a director and the senior vice president of Sany Group since December 2011 and president of the board of Rootcloud Technology Co., Ltd.* (樹根互聯技術有限公司) since June 2016. In December 2013, Mr. Liang took the lead to establish Beijing Sany Commercial Foundation* (北京三一公益基金會) and served as the president of Beijing Sany Foundation* (北京三一基金會) during the period from December 2013 to March 2019. Mr. Liang has been serving as the executive vice president of Relay China Foundation* (北京接力公益基金會) since February 2019 and a member of Leping Social Entrepreneur Foundation* (北京樂平公益基金會) since April 2019.

Mr. Liang obtained a bachelor’s degree in computer and management sciences from the University of Warwick in June 2006 and a master’s degree in public administration in international development from the John F. Kennedy School of Government at Harvard University in June 2014.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Qi Jian (戚建), aged 61, was appointed as an executive Director, chairman of the Board and chief executive officer of the Company on 6 August 2015, and was re-designated as the vice chairman of the Board and remained as the chief executive officer and a member of the Strategic Investment Committee since 21 October 2019.

Mr. Qi joined Sany Group in May 2001. He served as the deputy dean of the research institute of Sany Heavy Industry 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 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. (三一汽車起重機械有限公司) (“Sany Lifting Machinery”). During his term of service, Sany Lifting Machinery 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 47, was appointed as an executive Director and a member of the Strategic Investment Committee of the Company on 13 March 2018.

Mr. Fu acted as the chairman of the board of the marine machinery operation department of the Group from January 2015 to September 2016 and since September 2017. He 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, 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) in Sany Group, the general manager of Sany Heavy Energy Equipment Co., Ltd. (三一重型能源裝備有限公司 (“Sany Heavy Energy”)), and the vice president of Sany Group.

Mr. Fu obtained a master’s degree of business administration from China Europe International Business School (中歐國際工商學院) in September 2011.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Zhihong (張志宏), aged 50, was appointed as an executive Director and a member of the Strategic Investment Committee of the Company on 5 July 2017. On 4 February 2021, Mr. Zhang resigned as an executive Director and a member of the Strategic Investment Committee of the Company.

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 various positions in Sany Heavy Energy, a subsidiary of Sany Group, including the deputy general manager of the marketing department and the general manager of service company. 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), the Office of the Chairman, the Lean Quality Headquarters (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. He was awarded the Master of Business Administration degree from the China Europe International Business School (中歐國際工商學院) on 18 August 2019.

Non-executive Directors

Mr. Tang Xiuguo (唐修國), aged 58, 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 in Hunan Province" and "Excellent Entrepreneur of the State".

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.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Xiang Wenbo (向文波), aged 59, 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 (湖南省工商業聯合會).

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 Best CEO of A-share Listed Non-state-owned Companies (福布斯2011年A股非國有上市公司最佳CEO)".

Independent non-executive Directors

Mr. Ng Yuk Keung (吳育強), aged 56, 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. 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 Irco 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

DIRECTORS AND SENIOR MANAGEMENT

of Beijing Capital Land Limited (首創置業股份有限公司) and Zhongsheng Group Holdings Limited (中升集團控股有限公司), and is currently an independent non-executive director of E-Commodities Holdings Limited (易大宗控股有限公司).

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 59, was appointed as an independent non-executive Director, the Chairman of the Audit Committee as well as a member of the Nomination Committee, the Remuneration Committee and the Strategic Investment Committee 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, the vice president and the company secretary of Huabao International Holdings Limited (華寶國際控股有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 336). As at the date of this report, 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), Greentown Service Group Co. Ltd. (綠城服務集團有限公司) (stock code: 2869), Aux International Holdings Limited (奧克斯國際控股有限公司) (stock code: 2080), 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) and Yanzhou Coal Mining Company Limited (兗州煤業股份有限公司) (stock code: 1171). He also served as a non-executive director of Chong Kin Group Holdings Limited (創建集團(控股)有限公司) (stock code: 1609), and retired in June 2018, an independent non-executive director of TUS International Ltd. (啟迪國際有限公司) (stock code: 872), and retired in July 2020, as well as an independent non-executive director of Tonly Electronics Holdings Limited (通力電子控股有限公司) (stock code: 1249), which was delisted from 8 March 2021.

Mr. Poon is a fellow of CPA Australia Ltd., a fellow member of the Hong Kong Securities and Investment Institute, a fellow member of both the Chartered Governance Institute (formerly know as 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, and Audit 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.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Hu Jiquan (胡吉全), aged 63, 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, Wuhan Transportation University (武漢交通科技大學) and Wuhan University of Technology respectively between 1982 and 2004. He served as a researcher (professor) in the institute of logistics engineering of Wuhan University of Technology 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 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 led and principally engaged in the research of design theory and method of modern port loading and unloading, and 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 Projects of Hubei Province, production, academic and research cooperation projects of Guangdong Province, and 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 levels and obtained more than 20 invention patents and utility model patents. He published more than 40 SCI/EI papers and participated in the preparation of 3 sets of teaching materials and 4 mechanical design manuals.

DIRECTORS AND SENIOR MANAGEMENT**Senior Management**

Mr. Zhou Huidong (周會東), aged 45, 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. On 4 February 2021, Mr. Zhou resigned as a joint company secretary of the Company.

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 senior financial-related positions in the financial system integrated accounting department, the securities financial department, and the financial monitoring department 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 Hong Kong Stock Exchange (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 Peking University (北京大學). In July 2014, he obtained a master's degree in business administration from Guanghua School of Management of Peking 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 37, was appointed as the Chief Financial Officer and a joint company secretary 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 in 2009 and the Putzmeister acquisition project of Sany Heavy Industry in 2012. Mr. Zhu served as the general ledger 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 deputy director of the finance department of the Company from April 2012 to September 2016. Mr. Zhu obtained a bachelor's degree and a 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.

DIRECTORS AND SENIOR MANAGEMENT

Joint Company Secretaries

Mr. Yu Leung Fai (余亮暉), aged 44, has extensive experience in the accounting and corporate services fields. Mr. Yu has joined the Fung, Yu & Co. CPA Limited (formerly known as the Fung, Yu & Co. CPA) since 2001 and is currently the company's Managing Partner. He holds a Degree of Bachelor of Commerce (Hon.) from the University of Toronto (多倫多大學) and a Degree of Bachelor of Laws from the University of London (倫敦大學), and is a member of the American Institute of Certified Public Accountants, Certified Public Accountants of Australia and the Hong Kong Institute of Certified Public Accountants.

Mr. Yu has been the joint company secretary and alternative authorised representative of Beijing Media Corporation Limited (北青傳媒股份有限公司) (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 independent non-executive director of Dowway Holdings Limited (天平道合控股有限公司) (stock code: 8403) since October 2019; the joint company secretary and authorized representative of China National Materials Company Limited (中國中材股份有限公司) (stock code: 1893) from May 2009 to April 2018; the company secretary and authorized 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 authorized representative of Bamboos Health Care Holdings Limited (百本醫護控股有限公司) (Hong Kong stock code: 2293) from November 2018 to November 2019; 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 the Hong Kong, except that Vale S.A. and China National Materials Company Limited were delisted from the Hong Kong Stock Exchange in July 2016 and April 2018, respectively.

Mr. Zhou Huidong (周會東), his biography is set out in the section of "Directors and Senior Management — Senior Management" of this annual report.

DIRECTORS' REPORT

The Board is pleased to present their report and the audited financial statements of the Group for the year ended 31 December 2020.

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 2020 are set out in the financial statements on pages 78 to 195 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 shareholders' 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

On 18 March 2021, the Board resolved the declaration and payment of the final dividend of HK\$0.15 per ordinary share of the Company, amounting to HK\$469,096,388 in total based on the total number of 3,127,309,250 shares of the Company as at 28 February 2021, to be payable to the Shareholders whose names appear on the Company's register of members at the close of business on Wednesday, 2 June 2021. Should there be any change in the Company's total number of shares between 28 February 2021 and the record date for the dividend distribution, the dividend per ordinary share of the Company shall remain unchanged and the total dividends amount shall be adjusted accordingly. The final dividend is subject to the Shareholders' approval. Such final dividend is expected to be paid on or around 18 June 2021.

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividend.

DIRECTORS' REPORT

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 are 479,781,034 (31 December 2019: 479,781,034 shares) 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 (2019: HK\$96,388), representing the preferred distribution accumulated from 1 January 2020 to 31 December 2020, and (b) the final dividend of HK\$0.15 per Convertible Preference Share, amounting to approximately HK\$71,967,155. The Preferred Distribution and the dividend for the Convertible Preference Shares are proposed to be distributed on or around 18 June 2021, on the same distribution date as the final dividend for ordinary shares.

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 196 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 43 to the financial statements, respectively.

Borrowings

Details of borrowings (inclusive of interest-bearing bank and other borrowings) of the Group as at 31 December 2020 are set out in note 27 to the financial statements.

Distributable Reserves

As at 31 December 2020, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands ("Companies Law"), amounted to approximately RMB3,715.0 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 2020 are set out in note 32 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.

Tax Relief and Exemption for Holders of Listed Securities

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their respective holding of the Company's securities. Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications (including tax relief) of subscribing for, purchasing, holding, disposing of or dealing in the securities of the Company.

Share Option Scheme

The Company adopted the share option scheme (the "Share Option Scheme") on 16 February 2013 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. The eligible persons include the Company's executive directors and other employees 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 1.60% of the issued share capital as at the date of this report.

DIRECTORS' 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 9.73% of the issued share capital 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 38,487,500 Shares, representing 1.23% of the issued share capital 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. As at the date of this report, the remaining life of the Share Option Scheme is approximately 1 year and 10 months.

DIRECTORS' REPORT

Details of the movement of share options granted under the Share Option Scheme during the year ended 31 December 2020 are as follows:

Category of participants	Date of grant ⁽¹⁾	Exercise price per share (HK\$)	Outstanding at 1 January 2020	Granted during the year	Exercised during the year	Forfeited/Cancelled during the year ⁽²⁾	Outstanding at 31 December 2020
Directors							
Mr. Qi Jian	15 December 2017	1.22	3,000,000	—	1,302,000	—	1,698,000
Mr. Fu Weizhong	15 December 2017	1.22	3,000,000	—	1,500,000	—	1,500,000
Mr. Zhang Zhihong	15 December 2017	1.22	2,000,000	—	1,000,000	—	1,000,000
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	51,100,000	—	18,748,000	4,960,000	27,392,000
Employees	29 December 2017	1.71	800,000	—	140,000	80,000	580,000
Employees	14 November 2018	2.30	6,100,000	—	2,528,750	253,750	3,317,500
Total			69,000,000	—	25,218,750	5,293,750	38,487,500

(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

DIRECTORS' REPORT

- (2) *During the year ended 31 December 2020, 5,293,750 share options were forfeited for the following reasons: (1) certain employees' performance appraisal results for 2019 did not reach the performance target under the grant letters; (2) certain employees violated the Company's policies; and (3) certain employees were dismissed.*

Save as disclosed above, no share option was granted, exercised, lapsed or cancelled during the year ended 31 December 2020.

Share Award Scheme

The Company has adopted the restricted share award scheme (the "Share Award Scheme") on 3 December 2019 (the "Adoption Date"). The purpose of the Share Award Scheme is to provide the eligible persons (the "Selected Participants") with an opportunity to acquire a proprietary interest in the Company and to encourage and retain such individuals to work with the Company, and to provide additional incentive for them to achieve performance goals. Selected Participants include the Company's executive directors and other employees of the Group.

The Board may, subject always to the Share Award Scheme rules, from time to time determine the number of restricted shares (the "Restricted Shares") to be granted and at its absolute discretion select any participant to be a Selected Participant under the Share Award Scheme. In determining the number of grant shares to any Selected Participant, the Board shall take into consideration matters including, but without limitation to (i) the present contribution and expected contribution of the relevant Selected Participant to the profits of the Group; (ii) the general financial condition of the Group; (iii) the Group's overall business objectives and future development plan; and (iv) any other matters which the Board considers relevant.

The Restricted Shares (where the Board has determined such number pursuant to the terms of the Share Award Scheme) shall be either (i) allotted and issued by the Company, by using the general mandate granted to the Board by the shareholders of the Company in the annual general meeting of the Company from time to time, or (ii) acquired by the trustee from the open market by utilising the Company's resources provided to the trustee, subject to the absolute discretion of the Board.

After the Board has determined the number of grant shares and the Selected Participants, it shall notify the trustee and the Selected Participants in writing on the proposed grant date (the "Grant Date"). Upon receipt of the notification of the grant, the Selected Participants are required to confirm his/her acceptance of the grant by (i) returning to the Company a notice of acceptance duly executed by him/her; or (ii) completing any other required steps as specified by the Board to confirm his/her acceptance of the grant within 28 days after the Grant Date.

DIRECTORS' REPORT

The vesting of the Restricted Shares is subject to the Selected Participant remaining at all times after the Grant Date and on the vesting date (as the case may be, on each relevant vesting date) a participant. Any Share held by the trustee on behalf of a Selected Participant pursuant to the provisions shall vest in such Selected Participant in accordance with the vesting schedule as communicated and confirmed in writing by the Board to the trustee from time to time. When Shares vest in a Selected Participant, the Board shall issue to the trustee a confirmation letter that the vesting conditions have been fulfilled. The Board shall also forward to the trustee, at the same time when the confirmation letter is sent, a written consolidated security account details of all relevant Selected Participants to effect the transfer of the relevant vested shares to the relevant Selected Participants.

No Restricted Shares shall be granted pursuant to the Share Award Scheme, nor any amounts paid to the trustee for the purpose of the Share Award Scheme, if as a result of such grant or payment, the number of shares administered under the Share Award Scheme shall exceed 10% of the Company's issued share capital as at the Adoption Date (i.e. 310,040,250). As of the date of this report, a total of 5,242,199 Restricted Shares were granted in which 29,174 Restricted Shares were lapsed in accordance with the Share Award Scheme. The number of Restricted Shares still available for future grants was 304,827,225, which represents 8.42% of the Company's issued share capital as at the date of this report. No account shall be taken into the calculation of the Share Award Scheme limit of any Shares where the right to obtain the Restricted Shares has been released or lapsed in accordance with the relevant provisions in the Share Award Scheme. The maximum number of Restricted Shares which may be granted to a Selected Participant at any one time or in aggregate may not exceed 1% of the issued share capital of the Company as at the Adoption Date.

Subject to any early termination of the Share Award Scheme and without prejudicing the subsisting rights of any Selected Participant, the Share Award Scheme shall be valid and effective for 10 years from the Adoption Date, subject to change of control or early termination events. As of the date of this report, the remaining life of the Share Award Scheme is approximately 8 years and 9 months.

For further details of the Share Award Scheme, please refer to the Company's announcement dated 3 December 2019.

DIRECTORS' REPORT

The Company granted 5,242,199 Shares to selected employees during the year ended 31 December 2020. Details of the Shares granted pursuant to the Share Award Scheme are as follows:

Category of participants	Date of grant ⁽²⁾	Number of Shares awarded	Number of Shares vested	Vesting period	Lapsed ⁽¹⁾ / cancelled during the year
Connected persons					
Mr. Qi Jian	18 December 2020	917,691	—	18 March 2021– 18 March 2025	—
Mr. Fu Weizhong	18 December 2020	152,683	—	18 March 2021– 18 March 2025	—
Mr. Liang Zhenggen	18 December 2020	29,688	—	18 March 2021– 18 March 2025	—
Employees	18 December 2020	4,142,137	—	18 March 2021– 18 March 2025	2,545
Total		5,242,199	—	—	2,545

(1) During the year ended 31 December 2020, 2,545 Awarded Shares were lapsed due to the departure of certain employees.

(2) The closing price of the Shares immediately before the date of these Shares were awarded was HK\$5.03.

The Shares granted to the connected persons of the Company will be satisfied by Shares purchased from the secondary market by the Trustee of the Restricted Share Award Scheme. The Shares granted to other employees who are not connected persons of the Company will be satisfied by allotment and issue of new Shares at nominal value of HK\$0.1 each per Share under the general mandate granted by the Company's shareholders to the Directors at the Company's annual general meeting held on 25 May 2020. During the year ended 31 December 2020, the Trustee did not subscribe for new Shares, and the Trustee acquired a total of 687,000 Shares of the Company pursuant to the Share Award Scheme rules and the Trust Deed.

Major Suppliers and Customers

During the year under review, the aggregate sales attributable to the Group's five largest customers comprised approximately 13.0% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 3.5% of the Group's total sales. The aggregate purchases during the year under review attributable to the Group's five largest suppliers were approximately 16.6% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 7.8% of the Group's total purchases.

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

Donations

During the year under review, the Group made no donation (2019: Nil).

Debenture Issued

Issue of the Super & Short-term Commercial Paper in the PRC

On 8 September 2020, the Company announced that Sany Heavy Equipment has duly registered its Super & Short-term Commercial Paper (the "SCP") with the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) (the "NAFMII") pursuant to the approval notice issued by the NAFMII on 6 May 2020. The registered amount of the SCP is RMB1 billion and shall be valid for a period of two years commencing from 6 May 2020 (the "Effective Period"). Sany Heavy Equipment may issue the SCP in multiple tranches in the PRC on a rolling basis within the Effective Period.

On 14 September 2020, the Company announced that Sany Heavy Equipment has completed the issue of the SCP with the total principal amount of RMB500 million on 14 September 2020, at an interest rate of 3.35% per annum and with a maturity period of 270 days. The proceeds from the issue of the SCP will be used as general working capital of Sany Heavy Equipment and repayment of borrowings from financial institutions.

For more details, please refer to the announcements of the Company dated 8 September 2020 and 14 September 2020 and the relevant offering memorandum.

Equity-linked Agreement

Save for the Share Option Scheme and the Share Award Scheme as disclosed in this annual report, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2020.

DIRECTORS' REPORT

Property, Plant and Equipment

During the year ended 31 December 2020, the Group held property, plant and equipment of approximately RMB2,591.5 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 2020, the Trustee purchased a total of 687,000 Shares of the Company at a total consideration of HK\$3,700,392 pursuant to the Share Award Scheme rules and the Trust Deed under the Share Award Scheme adopted on 3 December 2019, and neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the listed shares of the Company (2019: Nil).

Business Review

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

Future Development

Looking ahead to 2021, there are still many uncertainties in the global economy. In 2020, the outbreak of COVID-19 spread across the globe and the Chinese government took public health emergency measures and actions, which have successfully contained the spread of COVID-19. Vaccination against COVID-19 has recently commenced in many countries, contributing to the effective control of the spread of COVID-19. As virus mutation brings uncertainties to the prevention and control of the pandemic, the Company will closely monitor the COVID-19 situation and assess its impact on the operation and financial performance of the Company. The Company will continue to properly manage its production and operation, ensure the stability of its supply chain, drive the sales in various segment markets, promote efficient and intelligent production and implement various business strategies in a steady manner.

DIRECTORS' REPORT

Regarding R&D innovation, more investment will be made in R&D, and abundant high-end R&D talents will be recruited with a view to doubling the pool of the Group's R&D personnel. For the mining equipment segment, the Group will actively facilitate the R&D of intelligent excavator and intelligent shearer series, further promote pure water supports, and complete the R&D of new widebodied vehicles with large tonnage, high performance and improved reliability, so as to enhance the brand's competitiveness. It aims to become a leader in "electric, computerized, whole-set and green excavation" technologies. For the logistics equipment segment, terminals and yards will reduce manpower or become unmanned on the whole with zero-emission by using computerized large port machinery and electrical small port machinery, and develop into an automated solution provider of high economic efficiency. For the robotics business, the emphasis is placed on system integration, mobile robots and electric forklifts, in addition to the empowerment of transformation and upgrades in electric, computerized and unmanned intelligent production. In relation to smart mine business, the Group will create digital mines through the three major segments of automated integrated mining, unmanned mining transport equipment and smart mines to achieve unmanned production in mines.

As for digitalization, the Group will upgrade its R&D capabilities in computerization, research and develop intelligent products, construct a total of 4 lighthouse factories, namely widebodied vehicles, hydraulic supports, small port machinery and large port machinery in order to achieve "standardized, online, automated and computerized" business procedures. Through the application of eight major software, which would optimize the technical processes, coupled with data collection and application, lower costs and expenses would be attained, facilitating a continued enhancement in operation efficiency and management standards and building up capabilities of digitalized services throughout their life cycles for customers.

With regard to internationalization, adhering to the principle of "autonomy, localization and services as priority", the focus for mining equipment is put on India, Indonesia and Russia, with a view to attaining extraordinary growth in mining transport equipment and excavators, the Group's two major products. The Group's logistics equipment breaks into the mainstream markets in Europe and the US and approaches mainstream customers of four major operators, thereby establishing its brand and expanding its market share. The Group will establish an international research institute, increase its investment in R&D and speed up the R&D of international products in order to fully satisfy its customers' demands. It will establish a model combining the two channels of direct sales and agency so as to obtain customer resources and expand its market by maximizing the advantages of different channels according to the specific conditions of products, markets and customers.

DIRECTORS' REPORT

Principal Risks and Uncertainties:

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

(1) Reliance on China's 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 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 and a share award 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.

DIRECTORS' REPORT

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 with enthusiasm 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 high recognition from our customers.

Environmental Policies and Performance

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.

Further details of the Group's environmental policies and performance will be disclosed in the environmental, social and governance report of the Company for the year ended 31 December 2020 to be published in due course.

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 2020 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' REPORT**Directors**

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

Executive Directors:

Mr. Liang Zaizhong (*Chairman of the Board*)
Mr. Qi Jian (*Vice Chairman of the Board*)
Mr. Fu Weizhong
Mr. Zhang Zhihong (resigned on 4 February 2021)

Non-executive Directors:

Mr. Tang Xiuguo
Mr. Xiang Wenbo

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. Qi Jian, Mr. Xiang Wenbo and Mr. Poon Chiu Kwok will retire from the office of Director by rotation at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

Directors' Service Contracts

The executive Directors have entered into a service agreement with the Company for an initial term of three years commencing from 21 October 2019 for Mr. Liang Zaizhong, 6 August 2018 for Mr. Qi Jian, 13 March 2018 for Mr. Fu Weizhong and 5 July 2017 for Mr. Zhang Zhihong, respectively. 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 and 25 December 2018 for Mr. Xiang Wenbo, 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 2019, 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).

DIRECTORS' REPORT

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 2020. 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 24 of this annual report.

DIRECTORS' 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 Transactions" below and "Related Party Transactions" in note 38 to the financial statements.

Directors' Interests in Transactions, Arrangements or 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 Transactions" below and "Related Party Transactions" in note 38 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 2020 and up to and including the date of this annual report.

Directors' Rights to Purchase Shares or Debentures

Save as disclosed in the sub-sections headed "Share Option Scheme" and "Share Award 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.

DIRECTORS' REPORT

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 2020, 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 and underlying shares of the Company:

Name of Directors	Capacity	Number of ordinary shares as at 31 December 2020	Percentage of the issued voting shares of the Company as at 31 December 2020
Mr. Qi Jian ⁽¹⁾	Beneficial owner	2,615,691	0.08%
Mr. Fu Weizhong ⁽²⁾	Beneficial owner	1,652,683	0.05%
Mr. Zhang Zhihong ⁽³⁾	Beneficial owner/Interest of spouse	1,109,000	0.04%
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	1,200,000	0.04%
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 2,615,691 Shares in which Mr. Qi Jian is deemed to be interested represent the 1,698,000 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 917,691 Shares awarded to him on 18 December 2020 under the Share Award Scheme.
- (2) The 1,652,683 Shares in which Mr. Fu Weizhong is deemed to be interested represent 1,500,000 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 152,683 Shares awarded to him on 18 December 2020 under the Share Award Scheme.

DIRECTORS' REPORT

- (3) *The 1,109,000 Shares in which Mr. Zhang Zhihong is deemed to be interested represent (i) 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; and (ii) the 109,000 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. Mr. Poon Chiu Kwok also directly holds 200,000 Shares of the Company.*
- (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. Xiang Wenbo (Note)	Beneficial owner	795.04	7.95%

Note: Each of Mr. Tang Xiuguo and Mr. Xiang Wenbo holds 8.70% 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 2020, none of the Directors or 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).

DIRECTORS' REPORT

Interests and Short Positions of Substantial Shareholders and Other Parties in the Shares and Underlying Shares of the Company

As at 31 December 2020, 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 the issued voting shares of the Company
Sany HK (Note 1)	Beneficial owner	2,578,228,722	82.48%
Sany BVI (Note 2)	Interest of a controlled corporation	2,578,228,722	82.48%
Mr. Liang Wengen (Note 3)	Interest of a controlled corporation/Beneficial owner	2,589,098,722	82.83%

Notes:

- The 2,578,228,722 shares and underlying shares consist of 2,098,447,688 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.*
- 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.*
- 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 also directly holds 10,870,000 shares of the Company.*

Save as disclosed above, as at 31 December 2020, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

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 of not less than 25% of the Company's issued shares, as required under the Listing Rules for the year ended 31 December 2020 and up to 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 2020, the Group's total contributions to the retirement schemes charged in the income statement amounted to RMB11.2 million (2019: RMB22.3 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. The Company has complied with the CG Code contained in Appendix 14 to the Listing Rules for the year ended 31 December 2020. The Group's principal corporate governance practices are set out on pages 64 to 76 of the annual report.

DIRECTORS' REPORT

Connected Transactions

During the year ended 31 December 2020, the Group has the following 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 82.48% of the total issued share capital of the Company, among which 67.13% is ordinary shares and 15.35% is convertible preference shares. Sany Group or its subsidiaries, being held by Mr. Liang Wengen as to 56.74%, is therefore an associate of Mr. Liang Wengen under Rule 14A.12(1)(c) of the Listing Rules and hence a connected person of the Company under the Listing Rules. Accordingly, the below mentioned transactions constitute the connected transactions of the Group.

Continuing Connected Transactions

(1) *Project Management Agreement*

On 12 April 2019, Sany Marine Heavy Industry entered into the project management agreement (the "Project Management Agreement") with Shenyang Sany Construction, pursuant to which Shenyang Sany Construction agreed to provide project management services to Sany Marine Heavy Industry, with a fixed term from the signing date of the agreement to 31 December 2020.

The service fee under the Project Management Agreement shall be determined based on the construction cost of Sany Zhuhai Project, with reference to the below formula:

*8% * the amount of the total actual project costs for Sany Zhuhai Project*

The service fee is determined based on arm's length negotiation and the actual services provided, and with reference to the prevailing market conditions of the similar services sourced by the Group from the independent third parties in respect of comparable projects, which should be in any event no less favorable to the Group than is available to independent third parties.

The service fee shall be paid in installments as below: (i) within 10 days after entering into the Project Management Agreement: RMB1 million as the advance payment; (ii) starting from the second month after entering into the Project Management Agreement: for each month, an amount equivalent to 8% of the actual incurred project costs; (iii) within 14 days after the inspection completion and acceptance: the balance of the service fee.

The proposed annual caps under the Project Management Agreement for the two years ending 31 December 2020 are RMB8,000,000 and RMB8,501,200 respectively. The proposed annual caps under the Project Management Agreement are calculated and determined after taking into account the scale of the Sany Zhuhai Project, the progress of the project and anticipated management services needed.

During the year under review, the actual transactions under the Project Management Agreement amounted to nil, which was within the annual cap amount of RMB8,501,200. Further details of the Project Management Agreement were set out in the announcement of the Company dated 12 April 2019.

The Project Management Agreement had expired on 31 December 2020 and there was no renewal after its expiration.

(2) Project Contracting Agreement

On 12 April 2019, Sany Marine Heavy Industry entered into a project contracting agreement ("Project Contracting Agreement") with Shenyang Sany Construction, pursuant to which Shenyang Sany Construction agreed to provide project contracting services to Sany Marine Heavy Industry, with a fixed term from the signing date of the agreement to 31 December 2019.

The total service fee is made up of: (i) the construction fee of up to RMB50,192,263.75, as calculated by the unit price for each construction task multiplied by the actual construction volume; (ii) the design fee of up to RMB800,000, as calculated by the unit designing price multiplied by the actual construction volume; (iii) the technical service fee of up to RMB3,502,736.25, as calculated by the construction fee for each construction task multiplied by the rate ranging from 5.84% to 7.05%.

The service fee is determined based on arm's length negotiation and the actual services provided, and with reference to the prevailing market conditions of the similar services sourced by the Group from the independent third parties in respect of comparable projects, which should be in any event no less favorable to the Group than is available to independent third parties.

The service fee shall be paid in installments according to the project progress as below: (i) by the end of each month, Shenyang Sany Construction shall report the project progress, submit the completed work status sheet and apply for the construction fee from Sany Marine Heavy Industry. Within 15 days after Shenyang Sany Construction provides the tax invoice: up to 80% of actual service fee based on completed project value; (ii) after the completion, inspection and acceptance of the Sany Zhuhai Project, and within 15 days after Shenyang Sany Construction provides the tax invoice: up to 85% of such actual service fee; (iii) after Sany Marine Heavy Industry provides the project completion payment settlement report that has been confirmed by both parties, and within 15 days after Shenyang Sany Construction provides the tax invoice: up to 97% of the total service fee; (iv) as the project quality warranty fee, the remaining 3% of the total service fee shall be paid within 15 days after Sany Marine Heavy Industry issued the warranty certificate to prove the qualification of the Sany Zhuhai Project, after deducting the maintenance fee during the warranty period, if any.

DIRECTORS' REPORT

The annual cap amount of the service fee of the Project Contracting Agreement for the years ending 31 December 2019 and 31 December 2020 are RMB52,860,150 and RMB1,634,850, respectively. It is expected that the project will finish by 2019 and the service fees to be paid in 2020 are mainly comprised of project quality warranty fees.

During the year under review, the actual transactions under the Project Contracting Agreement was nil, which was within the annual cap of RMB1,634,850. Further details on the Project Contracting Agreement was set out on the announcement of the Company dated 12 April 2019.

(3) Supplemental Master Purchase Agreement (2020–2022)

On 18 December 2019, the Company and Sany Group entered into the supplemental master purchase agreement (the "Supplemental Master Purchase Agreement (2020–2022)") with a fixed term of three years ending 31 December 2022, 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 approximately 10% to 30%, 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 two years ended 31 December 2018 and for the eleven months ended 30 November 2019, and it is expected that such procurement will remain to the same extent for three years ending 31 December 2022. Even under the remote possibility that Sany Group ceases to supply tailor-made parts and components 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 equipment 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.

It was proposed that the annual caps under the Supplemental Master Purchase Agreement (2020–2022) for each of the financial years ending 31 December 2022 would not exceed RMB408,694,687, RMB560,746,774 and RMB721,460,178, respectively. The annual caps of the Supplemental Master Purchase Agreement (2020–2022) 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 2022 in line with the sales forecast.

During the year under review, the actual transactions under the Supplemental Master Purchase Agreement (2020–2022) amounted to RMB261,717,000, which was within the annual cap amount of RMB408,694,687. Further details of the Supplemental Master Purchase Agreement (2020–2022) were set out in the announcement of the Company dated 18 December 2019 and the circular of the Company dated 7 February 2020.

(4) Supplemental Master Sales Agreement (2020–2022)

On 18 December 2019, the Company and Sany Group entered into the supplemental master sales agreement (the "Supplemental Master Sales Agreement (2020–2022)") with a fixed term of three years ending 31 December 2022, pursuant to which the Company (or its subsidiaries) agreed to sell to Sany Group (or its subsidiaries) raw materials which were originally sourced by the Group for its own use, parts and components and certain second-hand manufacturing equipment for the production of Sany Group's products.

DIRECTORS' REPORT

Raw Materials and Parts and Components

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 or parts and components 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 equipment 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.

It was proposed that the annual caps under the Supplemental Master Sales Agreement (2020–2022) for each of the financial years ending 31 December 2022 would not exceed RMB103,520,060, RMB89,330,618 and RMB89,136,176, respectively. The proposed annual caps under the Supplemental Master Sales Agreement (2020–2022) 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 (2020–2022) amounted to RMB103,511,000, which was within the annual cap amount of RMB103,520,060. Further details of the Supplemental Master Sales Agreement (2020–2022) were set out in the announcement of the Company dated 18 December 2019.

(5) Supplemental Master Transportation Agreement (2020–2022)

On 18 December 2019, 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 (2020–2022)") with a fixed term of three years ending 31 December 2022, pursuant to which Sany Logistics agreed to provide certain logistics services to the Company or its subsidiaries in connection with the transportation of energy equipment, logistics equipment and automated machinery.

Sany Logistics, being a wholly-owned subsidiary of Sany Group, 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 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 the Supplemental Master Transportation Agreement (2020–2022) for each of the financial years ending 31 December 2022 would not exceed RMB327,600,000, RMB425,880,000 and RMB553,644,000, respectively. The proposed annual caps under the Supplemental Master Transportation Agreement (2020–2022) are determined with reference to (i) the historical transaction amounts, (ii) prevailing market price for logistics service fees in the open market in the PRC, and (iii) the anticipated business volume of the Group's products and the expected logistics services to be involved.

During the year under review, the actual transactions under the Supplemental Master Transportation Agreement (2020–2022) amounted to RMB158,803,000, which was within the annual cap amount of RMB327,600,000. Further details of the Supplemental Master Transportation Agreement (2020–2022) were set out in the announcement of the Company dated 18 December 2019 and the circular of the Company dated 7 February 2020.

(6) Supplemental Products Sales Agreement (2020–2022)

On 18 December 2019, the Company and Sany Group entered into the supplemental products sales agreement (the "Supplemental Products Sales Agreement (2020–2022)") with a fixed term of three years ending 31 December 2022, pursuant to which the Company agreed to sell or procure its subsidiaries to sell its finished products to Sany Group or its subsidiaries for sales to the end customers.

Since the Supplemental Products Sales Agreement (2020–2022) serves the purpose for the Company to take advantage of Sany Group's sales network to sell its finished products to end-customers in a large scale, 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 (2020–2022), the prices of the finished products under the Sales Agreement are determined according to the costs involved (raw material costs, labour costs and manufacturing expenses) plus the gross profit margin, ranging from 25%–40% for domestic sales and from 25%–35% for overseas sales (considering the overseas sales involve higher transportation costs). Such gross profit 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.

DIRECTORS' REPORT

It was proposed that the annual caps under the Supplemental Products Sales Agreement (2020–2022) for each of the financial years ending 31 December 2022 would not exceed RMB599,200,000, RMB781,596,000 and RMB1,018,203,480, respectively. The proposed annual caps were determined after taking into account (i) the Group's anticipated manufacturing capacity for the years ending 31 December 2022, (ii) the Group's expected plans to take advantage of Sany Group's domestic and overseas sales network and sales experiences to enhance the Group's sales, especially emerging products such as mining trucks and widebodied vehicles; and (iii) the PRC government's preferential policy which expects to stimulate the development of the Group's logistics equipment and energy equipment.

During the year under review, the actual transactions under the Supplemental Products Sales Agreement (2020–2022) amounted to RMB599,036,000, which was within the annual cap amount of RMB599,200,000. Further details of the Supplemental Products Sales Agreement (2020–2022) were set out in the announcement of the Company dated 18 December 2019 and the circular of the Company dated 7 February 2020.

(7) Master Lease Agreement (2020–2022)

On 18 December 2019, the Company and Sany Group entered into the Master Lease Agreement (2020–2022) with a fixed term of three years ending 31 December 2022, pursuant to which the Group agreed to lease certain premises from Sany Group or its subsidiaries.

The fees under the lease will consist of rental and utility charges because the Group agreed to pay electricity and water charges incurred by it under the Master Lease Agreement (2020–2022) to Sany Group, which Sany Group shall in turn pay such charges to the relevant authorities.

- (1) The rental was determined based on market price of similar areas and locations.
- (2) The relevant electricity and water charges shall be settled on an as incurred basis in accordance with the prices set forth by the relevant authorities calculated based on the actual usage by the Group under the lease.

It was proposed that the annual caps under the Master Lease Agreement (2020–2022) for each of the financial years ending 31 December 2022 would not exceed RMB15,409,732, RMB18,820,662 and RMB23,339,185, respectively, determined based on (1) the maximum annual rental payable by the Group pursuant to the Master Lease Agreement (2020–2022) and expected expansion of the leasing area in line with the expanding manufacturing capacity and business operation of the Group; and (2) the expected use of water and electricity by the Group under the Master Lease Agreement (2020–2022).

During the year under review, the actual transactions under the Master Lease Agreement (2020–2022) amounted to RMB7,613,000, which was within the annual cap amount of RMB15,409,732. Further details of the Master Lease Agreement (2020–2022) were set out in the announcements of the Company dated 18 December 2019 and 15 January 2020.

(8) Automated Machinery Sales Agreement (2020–2022)

On 18 December 2019, the Company and Sany Group entered into the Automated Machinery Sales Agreement (2020–2022) with a fixed term of three years ending 31 December 2022, pursuant to which the Company (or its subsidiaries) agreed to sell to Sany Group (or its subsidiaries) automated and robot machinery and relevant ancillary parts which were newly developed and manufactured by the Group for Sany Group to upgrade its intelligent equipment and intelligent manufacturing.

The prices are determined according to the costs involved (R&D costs, raw material costs, labour costs and manufacturing expenses) plus the gross profit margin ranging from 20% to 35%, which shall be in any event no less favourable to the Group than available to independent third parties.

It was proposed that the annual caps under the Automated Machinery Sales Agreement (2020–2022) for each of the financial years ending 31 December 2022 would not exceed RMB205,000,000, RMB308,000,000 and RMB310,000,000, respectively. The proposed annual cap is determined based on arm's length negotiation and with reference to (i) the Group's estimated production capacity of industrial automation and integrated robotic application equipment and the sales plans from 2020 to 2022; and (ii) Sany Group's estimated increasing demand for intelligent manufacturing upgrading.

During the year under review, the actual transactions under the Automated Machinery Sales Agreement (2020–2022) amounted to RMB204,872,000, which was within the annual cap amount of RMB205,000,000. Further details of the Automated Machinery Sales Agency Agreement (2020–2022) were set out in the announcement of the Company dated 18 December 2019 and the circular of the Company dated 7 February 2020.

(9) Master Sales Agency Agreement (2020–2022)

On 18 December 2019, the Company and Sany Group entered into the Master Sales Agency Agreement (2020–2022) with a fixed term of three years ending 31 December 2022, pursuant to which Sany Group agreed to act as the sales agency for the Group for the overseas end-customers and the Company agreed to pay Sany Group for the agency fees based on the actual amount of the sales transactions.

The basis of determining sales agency fees payable will be determined on arm's length negotiation and with reference to the below formula and the sales agency fees paid by the Company (or its subsidiaries) to Sany Group (or its subsidiaries) shall not be higher than the sales agency fees paid to the independent third party agencies for similar products and regions.

DIRECTORS' REPORT

Sales agency fees = Sales revenue of sold products × 5%.

It was proposed that the annual caps under the Master Sales Agency Agreement (2020–2022) for each of the financial years ending 31 December 2022 would not exceed RMB5,000,000, RMB6,000,000 and RMB7,000,000, respectively. The proposed annual caps are determined after taking into account the Group's expected sales plans for overseas regions where the end-customers are less concentratedly located.

During the year under review, the actual transactions under the Master Sales Agency Agreement (2020–2022) amounted to nil, which was within the annual cap amount of RMB5,000,000. Further details of the Master Sales Agency Agreement (2020–2022) were set out in the announcement of the Company dated 18 December 2019.

(10) Equipment Sale and Leasing Framework Agreement (2020)

On 30 July 2020 (after trading hours), the Company and Hunan Zhonghong entered into the Equipment Sale and Leasing Framework Agreement for a fixed term commencing from 31 July 2020 and ending on 31 December 2020 (both days inclusive). Subject to compliance with all relevant Listing Rules by the Group, the Equipment Sale and Leasing Framework Agreement shall be automatically renewed for another one year, provided that no objection is being raised by either Hunan Zhonghong or the Company in relation to the renewal. Pursuant to the Equipment Sale and Leasing Framework Agreement, the Group agreed to: (i) either sell the Equipment to Hunan Zhonghong for leasing to lessees or to sell the equipment to the lessees who will then on-sell the equipment to Hunan Zhonghong for leasing back to lessees; and (ii) provide a financial guarantee to Hunan Zhonghong in favour of the lessees in respect of the leasing of the equipment by Hunan Zhonghong and to repurchase the equipment under the circumstances as set forth thereunder the Equipment Sale and Leasing Framework Agreement.

As at the date of this annual report, Hunan Zhonghong is held as to 91.57% by Sany Group and Sany Group is in turn held as to 56.74% by Mr. Liang Wengen. As such, Hunan Zhonghong is an associate of Mr. Liang Wengen under Rule 14A.12(1)(c) of the Listing Rules and hence a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering of the Equipment Sale and Leasing Framework Agreement with Hunan Zhonghong constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

The terms under the Sale and Purchase Agreement and the Financial Lease and Guarantee Agreement shall conform to the principles and provisions set out in the Equipment Sale and Leasing Framework Agreement, and shall be agreed between the parties after arm's length negotiations on normal commercial terms. The detailed terms and conditions, manner of payment, details of the equipment, price, quantity and delivery date in relation to each transaction shall be determined in each individual agreement.

The parties to the Equipment Sale and Leasing Framework Agreement have agreed the following pricing terms:

(i) *Sale and Purchase Agreement:*

The prices are determined according to the costs involved (R&D costs, raw material costs, labour costs and manufacturing expenses) plus the gross profit margin ranging from 25% to 40%, which shall in any event be no less favourable to the Group than available to independent third parties.

An initial payment shall be paid upon signing of the Sale and Purchase Agreement and shall be settled directly by the lessees which is deemed to be the first rental payment made under the Financial Lease and Guarantee Agreement. The remaining payment shall be paid by Hunan Zhonghong to the Group and its agent or any designated parties within 30 days upon the delivery of the equipment to the lessees.

(ii) *Financial Lease and Guarantee Agreement:*

Under the Financial Lease and Guarantee Agreement, all payments shall be settled by the Lessees directly with Hunan Zhonghong. If a lessee defaults on payments, the Group shall settle the outstanding lease payment on behalf of the lessee.

In addition, the Group shall repurchase the equipment at a consideration which is equal to an aggregate amount of the outstanding payment under the Financial Lease and Guarantee Agreement, one month additional interest payment and a nominal consideration of RMB100, which is determined with reference to industry practice in the case of early repayment of lease arrangement and the Group's existing transactions of similar nature with independent third party banks or finance leasing companies under certain circumstances, among others, including the following:

- (i) the lessee having incurred an overdue payment for more than 60 days under the Financial Lease and Guarantee Agreement;
- (ii) the Lessee having breached the terms of Financial Lease and Guarantee Agreement;
- (iii) the bank account of the Lessee having been frozen and/or under compulsory execution;
- (iv) the lessee having been involved in material litigation, arbitration or its major assets are being put under preservation or other compulsory measures; and
- (v) there being evidence indicating that the Group and its agents have lost or may have lost their abilities to honour the financial guarantee obligation in connection with the leasing of the equipment.

DIRECTORS' REPORT

It is proposed that the annual cap for the sales of equipment under the Sale and Purchase Agreement for the year ending 31 December 2020 will be RMB250,000,000, which is determined with reference to (i) the historical transactions conducted by the Group where similar guarantees were required from the Group by banks and other finance lease companies for sales to individual end-user customers and the volume of such similar transactions for the six months period ended 30 June 2020 of approximately RMB270,000,000; and (ii) the Company's product sales plan and the expected transaction scale which similar guarantees are required.

It is proposed that the annual cap for the financial guarantee and the repurchase of the equipment in case of default by the lessees will be RMB213,000,000 for the year ending 31 December 2020, which is determined with reference to the proposed annual cap for the sale of equipment under the Sale and Purchase Agreement, the principal loan amount taking into account the average loan ratio of 85% and the estimated interest rate.

During the year under review, the actual transaction amount of sales of equipment under Sale and Purchase Agreement was RMB143,187,000, which was within the annual cap amount of RMB250,000,000. The actual transaction amount for the financial guarantee and repurchase of the equipment in case of default by the lessees was RMB121,832,000, which was within the annual cap amount of RMB213,000,000. Further details of the Equipment Sale and Leasing Framework Agreement were set out in the announcement of the Company dated 30 July 2020.

(11) Technical Service Framework Agreement (2020–2022)

On 30 October 2020 (after trading hours), the Company and Sany Group entered into the Technical Service Framework Agreement for a fixed term commencing from 30 October 2020 and ending on 31 December 2022 (both days inclusive), pursuant to which the Group shall provide the technical services to Sany Group in connection with the automated and robot machinery and relevant ancillary parts which are developed and manufactured by the Group for Sany Group to upgrade its intelligent equipment and intelligent manufacturing.

Separate agreements shall be entered into between the Group and Sany Group for the transactions contemplated under the Technical Service Framework Agreement. The service fees payable by Sany Group to the Group shall be on normal commercial terms, and shall be determined based on costs (including but not limited to research and development, various tests to be conducted and labour involved in the provision of the technical services) plus a gross profit margin of at least 20%, which is the expected gross margin required by the Group for providing similar services to independent third parties with reference to the gross profit margin charged by other service providers who are independent third parties for comparable transactions. The fees offered to Sany Group shall be no less favourable to the Group than the terms offered to independent third parties by the Group for similar services. If no such information is available, then the fees offered to Sany Group shall be comparable to the terms offered for similar services by other service providers who are independent third parties.

DIRECTORS' REPORT

It was proposed that the annual caps under the Technical Service Framework Agreement for the three years ending 31 December 2022 would be RMB34,000,000, RMB45,000,000 and RMB45,000,000, respectively. The proposed annual caps were calculated and determined after taking into account: (i) the historical transaction amount of approximately RMB4,890,000 between the Group and Sany Group for the period commencing from 1 April 2020 to 30 September 2020; (ii) the estimated demand of the technical services required by Sany Group based on Sany Group's business plan; and (iii) the prevailing market prices of the same or substantially similar services.

During the year under review, the actual transactions under the Technical Service Framework Agreement amounted to RMB21,942,000, which was within the annual cap amount of RMB34,000,000. Further details of the Technical Service Framework Agreement were set out in the announcement of the Company dated 30 October 2020.

Review by the independent non-executive Directors

Pursuant to Rule 14A.55 of the Listing Rules, 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;

DIRECTORS' REPORT

- (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) Deposit Agreements with Sanxiang Bank

- (i) On 17 April 2020, Sany Heavy Equipment, a subsidiary of the Company, entered into a deposit agreement with Sanxiang Bank, pursuant to which Sany Heavy Equipment agreed to deposit a principal amount of RMB230 million with Sanxiang Bank for an investment term of 730 days from 17 April 2020 to 17 April 2022. The deposit agreement is principal-guaranteed and interest-guaranteed.

The Company has the right to redeem the investment earlier during the investment term and the interest rate is 3.85% per annum.

The actual interest to be obtained by the Company is subject to the actual investment term upon maturity or redemption. The formula of the expected interest is set out as follows:

$$\text{RMB230 million} \times 3.85\% \times 730/360$$

Based on the above, the expected maximum interest to be obtained under the deposit agreement is RMB17,955,972.22.

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 56.74% 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. 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 stipulated under Chapter 14 of the Listing Rules in respect of the Deposit Agreement are more than 0.1% but less than 5%, the transaction under the Deposit Agreement constitutes a connected transaction 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 with Hunan Zhonghong

- (i) On 17 January 2020, Sany Heavy Equipment entered into the 2020 Loan Agreement with Hunan Zhonghong, pursuant to which Sany Heavy Equipment agreed to provide a loan to Hunan Zhonghong in the principal amount of RMB200 million with an interest rate of 4.6% per annum for a term of 730 days commencing from the date of the 2020 Loan Agreement. The loan shall be applied and used by Hunan Zhonghong for its daily operation activities.

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 56.74%. 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 2020 Loan Agreement constitutes a financial assistance under Chapter 14A. As each of the applicable percentage ratios of the 2020 Loan Agreement as aggregated with the outstanding Second Loan Agreement dated 12 July 2019 is more than 0.1% but less than 5%, the transaction under the 2020 Loan Agreement 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 6 May 2020, the Company had received the principal of RMB200 million together with the interest of RMB2,696,986.30.

- (ii) On 16 November 2020, Sany Heavy Equipment entered into the 2020 Second 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 3.85% per annum for a term of 180 days commencing from the date of the 2020 Second Loan Agreement. The loan shall be applied and used by Hunan Zhonghong for its daily operation activities.

The loan agreement constitutes a financial assistance under Chapter 14A. As each of the applicable percentage ratios in respect of the 2020 Second Loan Agreement is more than 0.1% but less than 5%, the transaction under the 2020 Second Loan Agreement 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.

- (iii) On 20 January 2020, the loan agreement dated 12 July 2019 had expired, and the Company had received the principal of RMB200 million together with the interest of RMB5,786,301.37.

DIRECTORS' REPORT

Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under note 38 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-section headed "Connected Transactions" above, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

Continuing Connected Transactions/Connected Transactions after reporting period

- (1) On 12 January 2021, the Company entered into a deposit services framework agreement with Hunan Sanxiang Bank Co., Ltd. ("Sanxiang Bank"), a regulated financial institution established under the laws of the PRC, pursuant to which Sanxiang Bank agreed to provide deposit services to the Group from the date of the agreement to 31 December 2023.

As at the date of the agreement, Mr. Liang Wengen is a controlling shareholder of the Company. Sanxiang Bank is held by Sany Group Limited ("Sany Group") as to 18% and Hunan Sany Intelligent Controls Equipment Co., Ltd. ("Hunan Sany Intelligent") as to 12%. Sany Group is held by Mr. Liang Wengen as to 56.74% and Hunan Sany Intelligent is a wholly-owned subsidiary of Sany Heavy Industry Co., Limited, 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. Therefore, the transactions under the deposit services framework agreement would constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (other than the profits ratio) in respect of the proposed annual caps under the deposit services framework agreement is more than 0.1% but less than 5%, the transactions thereunder are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For further details, please refer to the Company's announcement dated 12 January 2021.

- (2) Sany Heavy Equipment Co., Ltd. ("Sany Heavy Equipment") (a wholly-owned subsidiary of the Company) and Sany Construction Technology Co., Ltd ("Sany Construction Technology") entered into the acquisition agreement ("Acquisition Agreement"), pursuant to which Sany Heavy Equipment has conditionally agreed to purchase and Sany Construction Technology has conditionally agreed to sell the sale interests, representing 70% equity interests of the Sany Construction Robot (Xian) Research Institute Co., Ltd. (the "Target Company"), for the cash consideration of RMB17,822,000.

DIRECTORS' REPORT

As at the date of the Acquisition Agreement, Mr. Liang Wengen is a controlling shareholder of the Company. Sany Construction Technology, which is 53.59% owned by Mr. Liang Wengen, is therefore an associate of Mr. Liang Wengen and hence a connected person of the Company under the Listing Rules. Accordingly, the acquisition under the Acquisition Agreement constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the acquisition exceeds 0.1% but all of them are less than 5%, the acquisition is only subject to the reporting and announcement requirements, and is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For further details, please refer to the Company's announcement dated 26 January 2021.

- (3) On 29 January 2021, Sany Heavy Equipment Co., Ltd. ("Sany Heavy Equipment"), a company established under the laws of the PRC and a wholly-owned subsidiary of the Company, entered into a loan agreement ("2021 Loan Agreement") with Hunan Zhonghong Financial Leasing Co., Ltd ("Hunan Zhonghong"), a company established on 5 November 2009 under the laws of the PRC and a connected person of the Company, pursuant to which Sany Heavy Equipment agreed to provide a loan to Hunan Zhonghong in the principal amount of RMB300 million with an interest rate of 4.15% per annum for a maximum term of 180 days commencing from the date of the 2021 Loan Agreement.

As at the date of the loan agreement, Mr. Liang Wengen is a controlling shareholder of the Company. Hunan Zhonghong is 91.57% held by Sany Group and Sany Group is 56.74% held by Mr. Liang Wengen. 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. Therefore, the transaction contemplated under the loan agreement constitutes financial assistance under Chapter 14A of the Listing Rules. Since the 2021 Loan Agreement was entered into on 29 January 2021 (within 12 months after the signing date of the loan agreement dated 16 November 2020 ("2020 Second Loan Agreement"), and (2) both the 2020 Second Loan Agreement and the 2021 Loan Agreement (collectively the "Loan Agreements") were entered into between the Group and Hunan Zhonghong, therefore, the transactions under the 2020 Second Loan Agreement and the 2021 Loan Agreement shall be aggregated pursuant to Rule 14A.81 of the Listing Rules. As each of the applicable percentage ratios in respect of the Loan Agreements is more than 0.1% but less than 5%, the transactions contemplated under 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.

For further details, please refer to the Company's announcement dated 29 January 2021.

DIRECTORS' REPORT

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 Tuesday, 25 May 2021. 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 Thursday, 20 May 2021 to Tuesday, 25 May 2021, 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 Tuesday, 25 May 2021. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Tuesday, 25 May 2021, 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 Tuesday, 18 May 2021.

Closure of Register of Members — Final Dividend Payment

The register of members of the Company will also be closed from Monday, 31 May 2021 to Wednesday, 2 June 2021, both days inclusive, during which period no transfer of shares will be registered. The record date for entitlement to the proposed dividends is Wednesday, 2 June 2021. In order for the shareholders 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, 28 May 2021.

DIRECTORS' REPORT**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 2020.

Auditors

The consolidated financial statements for the year ended 31 December 2020 have been audited by Ernst & Young. Ernst & Young will retire and, being eligible, offer themselves for reappointment. A resolution will be proposed by the Company at the forthcoming annual general meeting to re-appoint Ernst & Young as auditors of the Company.

There was no change in the external auditors of the Company for the three preceding years prior to the date of this Directors' Report.

By Order of the Board

Liang Zaizhong

Chairman

Hong Kong, 18 March 2021

CORPORATE GOVERNANCE REPORT

Corporate Governance

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

The Company has complied with the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules from 1 January 2020 to 31 December 2020.

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 2020.

The Board

The Board currently consists of nine Directors, comprising four executive Directors, two non-executive Directors and three independent non-executive Directors. The executive Directors are Mr. Liang Zaizhong, Mr. Qi Jian, Mr. Fu Weizhong and Mr. Zhang Zhihong⁽¹⁾. The non-executive Directors are Mr. Tang Xiuguo and Mr. Xiang Wenbo. 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.

Note:

(1) *Mr. Zhang Zhihong has resigned as an executive Director of the Company, with effect from 4 February 2021.*

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

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 the chairman of the Board and chief executive officer. On 21 October 2019, Mr. Liang Zaizhong was appointed as the chairman of the Board of the Company, and Mr. Qi Jian was re-designated as the vice chairman of the Board and remained as the chief executive officer of the Company. The Board considers that Mr. Liang Zaizhong acting as the chairman of the Board and Mr. Qi Jian remaining as the chief executive officer provides the Company with better corporate governance, facilitates effective and efficient planning and implementation of business decisions and strategies, and provides adequate safeguards to ensure a balance of power and authority between the Board and the management of the Company.

Joint Company Secretaries

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		Corporate Governance/Laws, Other Professional Skills	
	Read materials	Attend Seminars Briefings/(Times)	Read materials	Attend Seminars Briefings/(Times)
Mr. Zhou Huidong ⁽¹⁾		5 (11 hours in total)		6 (20 hours in total)
Mr. Yu Leung Fai		6 (12 hours in total)		10 (30 hours in total)

Note:

(1) Mr. Zhou Huidong was resigned as the joint company secretary of the Company on 4 February 2021.

CORPORATE GOVERNANCE REPORT

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. Pursuant to 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. In designing the Board's composition, Board diversity has been considered from a wide range of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service, and any other factors that the Board may consider relevant and applicable from time to time. All Board appointments will be based on meritocracy and shall be taken full account of the benefits of diversity on the Board when considering candidates.

CORPORATE GOVERNANCE REPORT

Nomination Policy

The nomination committee shall nominate suitable candidates to the Board and advise the Board on the appointment of Directors and the succession plan of Directors. The nomination committee considers, include (but are not limited to) the following factors when assessing candidates, and makes recommendations on the appointment of any proposed candidate to the Board or reappointment of any existing member(s) of the Board: (a) integrity; (b) achievements, experience and reputation in China's coal industry and other related industries; (c) commitment in respect of sufficient time, interests and attention to the business of the Company; (d) diversification of the Board in all aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service; (e) the ability to assist and support management and to make a significant contribution to the success of the Company; and (f) any other relevant factors as determined by the nomination committee or the Board from time to time. The appointment of any proposed candidate to the Board or reappointment of any existing member(s) of the Board shall be made in accordance with the Company's articles of association and other applicable rules and regulations.

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.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, the Audit Committee held four meetings. The Group's unaudited interim results for the six months ended 30 June 2020 and the audited annual results for the year ended 31 December 2020 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 true, accurate, complete and sufficient disclosure has been made. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group, the 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 2020, the Remuneration Committee held one meeting. During the year ended 31 December 2020, 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. Liang Zaizhong, Mr. Poon Chiu Kwok and Mr. Hu Jiquan. Mr. Liang Zaizhong was appointed as the chairman of the Nomination Committee.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, the Nomination Committee held one meeting. The Nomination Committee reviewed and recommended the appointment of Mr. Qi Jian, Mr. Xiang Wenbo and Mr. Poon Chiu Kwok as the directors of the Company.

Note: Mr. Qi Jian resigned as the chairman of the Nomination Committee with effect from 21 October 2019.

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. Liang Zaizhong acts as the chairman of the Strategic Investment Committee and the other five members are Mr. Qi Jian, Mr. Fu Weizhong, Mr. Zhang Zhihong⁽¹⁾, Mr. Ng Yuk Keung and Mr. Poon Chiu Kwok.

Note:

(1) Mr. Zhang Zhihong has resigned as a member of the Strategic Investment Committee, with effect from 4 February 2021.

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 2020, 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 2020, the Board determined the policy for the corporate governance of the Company.

CORPORATE GOVERNANCE REPORT

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 2020 is set out below:

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Strategic Investment Committee	General Meeting
Executive Directors						
Mr. Liang Zaizhong (Chairman)	19/19	N/A	N/A	1/1	0/0	2/2
Mr. Qi Jian (Vice Chairman)	19/19	N/A	N/A	N/A	0/0	2/2
Mr. Fu Weizhong	19/19	N/A	N/A	N/A	0/0	2/2
Mr. Zhang Zhihong ⁽¹⁾	19/19	N/A	N/A	N/A	0/0	2/2
Non-executive Directors						
Mr. Tang Xiuguo	19/19	N/A	N/A	N/A	N/A	2/2
Mr. Xiang Wenbo	19/19	N/A	N/A	N/A	N/A	2/2
Independent non-executive Directors						
Mr. Ng Yuk Keung	19/19	4/4	1/1	N/A	0/0	2/2
Mr. Poon Chiu Kwok	19/19	4/4	1/1	1/1	0/0	2/2
Mr. Hu Jiquan	19/19	4/4	1/1	1/1	N/A	2/2

Note:

(1) Mr. Zhang Zhihong has resigned as executive Director and a member of the Strategic Investment Committee of the Company, with effect from 4 February 2021.

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.

CORPORATE GOVERNANCE REPORT

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 requirements under Code Provision A.6.5 of the CG Code regarding continuous professional development. For the year ended 31 December 2020, 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 Code Provision A.6.5 of the CG Code.

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 2020:

Name of Directors	Corporate Governance/ Updates on Laws, Rules and Regulations		Accounting/Financial/ Management or Other Professional Skills	
	Read materials	Attend Seminars/ Briefings	Read materials	Attend Seminars/ Briefings
Executive Directors				
Mr. Liang Zaizhong	✓	✓	✓	✓
Mr. Qi Jian	✓	✓	✓	✓
Mr. Fu Weizhong	✓	✓	✓	✓
Mr. Zhang Zhihong ⁽¹⁾	✓	✓	✓	✓
Non-executive Directors				
Mr. Tang Xiuguo	✓	✓	✓	✓
Mr. Xiang Wenbo	✓	✓	✓	✓
Independent non-executive Directors				
Mr. Ng Yuk Keung	✓	✓	✓	✓
Mr. Poon Chiu Kwok	✓	✓	✓	✓
Mr. Hu Jiquan	✓	✓	✓	✓

Note:

(1) Mr. Zhang Zhihong has resigned as executive Director and a member of the Strategic Investment Committee of the Company, with effect from 4 February 2021.

CORPORATE GOVERNANCE REPORT

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 2020 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, reappointment and removal of the authorized external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors. The Company has appointed Ernst & Young as the auditors of the Company. The fees for the audit services and non-audit service provided by the auditors to the Group for the year ended 31 December 2020 amounted to RMB2.59 million, details of which are as follows:

Types of service	RMB'000
Audit service	2,555
Non-audit service	39

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 78 to 82 of this annual report.

CORPORATE GOVERNANCE 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 control. 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 2020 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 CG Code regarding risk management and internal control systems in general for the year ended 31 December 2020.

CORPORATE GOVERNANCE REPORT**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 philipyu@fungyu CPA.com 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 11 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 philipyu@fungyu CPA.com. 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 2020, there has been no significant change in the Company's constitutional documents.

CORPORATE GOVERNANCE REPORT

Communication with Shareholders

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

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

CORPORATE INFORMATION

Directors**Executive Directors**

Mr. Liang Zaizhong (*Chairman*)
 Mr. Qi Jian (*Vice Chairman*)
 Mr. Fu Weizhong
 Mr. Zhang Zhihong
 (resigned on 4 February 2021)

Non-executive Directors

Mr. Tang Xiuguo
 Mr. Xiang Wenbo

Independent Non-executive Directors

Mr. Ng Yuk Keung
 Mr. Poon Chiu Kwok
 Mr. Hu Jiquan

Joint Company Secretaries

Mr. Zhou Huidong
 (resigned on 4 February 2021)
 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. Liang Zaizhong (*Chairman*)
 Mr. Poon Chiu Kwok
 Mr. Hu Jiquan

Strategic Investment Committee

Mr. Liang Zaizhong (*Chairman*)
 Mr. Qi Jian
 Mr. Fu Weizhong
 Mr. Zhang Zhihong
 (resigned on 4 February 2021)
 Mr. Ng Yuk Keung
 Mr. Poon Chiu Kwok

Registered Office

Cricket Square
 Hutchins Drive
 P.O. Box 1681
 Grand Cayman KY1-1111
 Cayman Islands

Principal Place of Business in Hong Kong

Room 2010
 Landmark North
 No. 39 of Lung Sum Avenue
 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
 Registered Public Interest Entity Auditor

Legal Advisers

Sidley Austin LLP (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 1711-16, 17th Floor
 Hopewell Centre
 183 Queen's Road East
 Wanchai
 Hong Kong

Company Website

www.sanyhe.com

Investor Relations

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 Technological Development Zone
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INDEPENDENT AUDITOR'S REPORT



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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 81 to 193, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 ("HKSA") 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.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

Impairment provision for trade receivables

At 31 December 2020, the Group had trade receivables of RMB3,548,915,000, net of a provision for impairment of RMB424,209,000. The balance of trade receivables accounted for approximately 20% of the total assets, which was material to the Group and a significant portion of which was overdue.

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, 4, 6 and 19 to the consolidated financial statements.

Impairment of goodwill

At 31 December 2020, the carrying value of goodwill amounted to RMB1,129,520,000, which was material to the Group.

Goodwill is allocated to the logistics equipment cash-generating unit (the "CGU") and is tested for impairment annually. The impairment test is based on the recoverable amount 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.

Related disclosures are included in notes 2.4, 3 and 16 to the consolidated financial statements.

How our audit addressed the key audit matter

Our audit procedures included among others:

- Assessing the Group's internal controls over the credit control of trade receivables;
- Evaluating 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 of trade receivables, values of pledged assets historical repayment records and subsequent settlements on a sampling basis; and 3) assessing management's consideration on forward-looking information, including the use of macroeconomic information, the judgement of adjustments to ECL and the underpinned rationale;
- Recalculating the provision matrix of ECLs; and
- Assessing the adequacy of the related disclosure in the consolidated financial statements.

Our audit procedures included among others:

- Reviewing the cash flow forecast for the CGU to which the goodwill was allocated, and assessed the methodology and assumptions such as the growth rate, the budgeted gross margins and the budgeted sales quantity based on the existing production capacity adopted by management;
- Comparing 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;
- With the assistance of our internal valuation specialists to assess the discount rate adopted in the calculation of value in use of the CGU; and
- Assessing the adequacy of the related disclosures in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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 HKSAAs 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.

INDEPENDENT AUDITOR'S REPORT

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, actions taken to eliminate threats or safeguards applied.

INDEPENDENT AUDITOR'S REPORT

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.

Certified Public Accountants

Hong Kong

18 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS*Year ended 31 December 2020*

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5	7,363,859	5,656,064
Cost of sales		(5,403,087)	(3,987,034)
Gross profit		1,960,772	1,669,030
Other income and gains	5	456,307	488,827
Selling and distribution expenses		(430,465)	(387,756)
Administrative expenses		(706,904)	(642,739)
Reversal of impairment on financial and contract assets, net	6	74,205	32,083
Other expenses		(31,355)	(4,246)
Finance costs	7	(132,283)	(85,473)
PROFIT BEFORE TAX	6	1,190,277	1,069,726
Income tax expense	10	(138,728)	(147,819)
PROFIT FOR THE YEAR		1,051,549	921,907
Attributable to:			
Owners of the parent		1,045,144	919,706
Non-controlling interests		6,405	2,201
		1,051,549	921,907
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic (RMB Yuan)		0.34	0.30
Diluted (RMB Yuan)		0.29	0.26

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
PROFIT FOR THE YEAR	1,051,549	921,907
OTHER COMPREHENSIVE INCOME		
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	16,997	16,281
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	16,997	16,281
OTHER COMPREHENSIVE INCOME, NET OF TAX	16,997	16,281
TOTAL COMPREHENSIVE INCOME, NET OF TAX	1,068,546	938,188
Attributable to:		
Owners of the parent	1,062,141	935,987
Non-controlling interests	6,405	2,201
	1,068,546	938,188

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	2,591,455	2,413,167
Right-of-use assets	15(a)	1,139,620	1,026,736
Goodwill	16	1,129,520	1,129,520
Trade receivables	19	261,116	145,973
Non-current prepayments	21	9,650	144,689
Contract assets	20	21,272	—
Deferred tax assets	31	295,585	348,494
Total non-current assets		5,448,218	5,208,579
CURRENT ASSETS			
Inventories	17	1,820,802	1,438,272
Properties under development	18	883,852	760,002
Trade receivables	19	3,287,799	2,634,423
Bills receivable	19	595,116	424,485
Contract assets	20	19,517	—
Prepayments, other receivables and other assets	21	359,040	614,839
Financial assets at fair value through profit or loss	22	4,023,670	3,276,414
Pledged deposits	23	455	2,010
Cash and cash equivalents	23	941,451	1,103,171
Assets of a disposal group classified as held for sale	13	11,931,702 84,241	10,253,616 84,241
Total current assets		12,015,943	10,337,857
CURRENT LIABILITIES			
Trade and bills payables	24	2,892,579	1,831,552
Bonds payable	25	499,655	—
Other payables and accruals	26	1,917,497	1,535,126
Dividend payable	11	72,584	77,349
Interest-bearing bank and other borrowings	27	2,145,112	2,512,345
Tax payable		196,533	253,423
Provision for warranties	28	32,009	32,496
Government grants	29	96,164	94,231
Derivative financial instruments	30	5,407	3,864
Liabilities directly associated with the assets classified as held for sale	13	7,857,540 80,923	6,340,386 80,923
Total current liabilities		7,938,463	6,421,309
NET CURRENT ASSETS		4,077,480	3,916,548
TOTAL ASSETS LESS CURRENT LIABILITIES		9,525,698	9,125,127

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	492,754	747,181
Government grants	29	1,105,446	1,195,142
Deferred tax liabilities	31	68,597	37,239
Total non-current liabilities		1,666,797	1,979,562
Net assets		7,858,901	7,145,565
EQUITY			
Equity attributable to owners of the parent			
Share capital	32	309,707	307,469
Reserves	35	7,529,027	6,824,334
		7,838,734	7,131,803
Non-controlling interests		20,167	13,762
Total equity		7,858,901	7,145,565

Qi Jian
Director

Fu Weizhong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to owners of the parent											
	Issued capital		Share premium account RMB'000 (note 32)	Contributed surplus RMB'000	Share option reserve RMB'000 (note 33)	Reserve funds RMB'000	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
	Ordinary shares RMB'000 (note 32)	Convertible preference shares RMB'000 (note 32)										
At 1 January 2019	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
Profit for the year	—	—	—	—	—	—	—	—	919,706	919,706	2,201	921,907
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	16,281	—	—	16,281	—	16,281
Total comprehensive income for the year	—	—	—	—	—	—	16,281	—	919,706	935,987	2,201	938,188
Issue of shares (note 32)	5,255	—	64,719	—	—	—	—	—	—	69,974	—	69,974
Share-based payments (note 33)	—	—	—	—	16,559	—	—	—	—	16,559	—	16,559
Release of share-based compensation reserve to share premium upon exercise of share options (note 32)	—	—	29,456	—	(29,456)	—	—	—	—	—	—	—
Final 2018 dividend declared	—	—	—	—	—	—	—	—	(321,223)	(321,223)	—	(321,223)
Transfer from retained profits	—	—	—	—	—	94,333	—	—	(94,333)	—	—	—
At 31 December 2019	269,621	37,848	2,333,677	1,350,390	27,879	558,444	(21,199)	5,744	2,569,399	7,131,803	13,762	7,145,565

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to owners of the parent											Total equity RMB'000
	Issued capital		Share premium account RMB'000 (note 32)	Contributed surplus RMB'000	Share-based compensation reserve RMB'000 (notes 33/34)	Reserve funds RMB'000	Exchange fluctuation reserve RMB'000	Capital redemption reserve* RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	
	Ordinary shares RMB'000 (note 32)	Convertible preference shares RMB'000 (note 32)										
At 31 December 2019	269,621	37,848	2,333,677	1,350,390	27,879	558,444	(21,199)	5,744	2,569,399	7,131,803	13,762	7,145,565
Profit for the year	—	—	—	—	—	—	—	—	1,045,144	1,045,144	6,405	1,051,549
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	16,997	—	—	16,997	—	16,997
Total comprehensive income for the year	—	—	—	—	—	—	16,997	—	1,045,144	1,062,141	6,405	1,068,546
Issue of shares (note 32)	2,238	—	27,555	—	—	—	—	—	—	29,793	—	29,793
Share-based payments (notes 33/34)	—	—	—	—	12,173	—	—	(3,124)	—	9,049	—	9,049
Release of share-based compensation reserve to share premium upon exercise of share options (note 32)	—	—	12,331	—	(12,331)	—	—	—	—	—	—	—
Final 2019 dividend declared	—	—	(394,052)	—	—	—	—	—	—	(394,052)	—	(394,052)
Transfer from retained profits	—	—	—	—	—	96,861	—	—	(96,861)	—	—	—
At 31 December 2020	271,859	37,848	1,979,511 [#]	1,350,390 [#]	27,721 [#]	655,305 [#]	(4,202) [#]	2,620 [#]	3,517,682 [#]	7,838,734	20,167	7,858,901

These reserve accounts comprise the consolidated reserves of RMB7,529,027,000 (2019: RMB6,824,334,000) 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 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,190,277	1,069,726
Adjustments for:			
Finance costs	7	132,283	85,473
Interest income	5	(36,174)	(58,189)
Gain on disposal of items of property, plant and equipment	5	(299)	(5,190)
Fair value gain on financial assets at fair value through profit or loss, net	5	(182,441)	(83,343)
Depreciation	6	223,072	223,511
Depreciation of right-of-use assets	6	25,973	25,973
Government grants	5	(200,028)	(285,511)
Reversal of impairment of trade receivables	6	(72,524)	(54,665)
Impairment of contract assets	6	755	—
(Reversal of impairment)/impairment of other receivables	6	(2,436)	22,582
Write-back of provision against slow-moving and obsolete inventories	6	(24,936)	(22,795)
Share-based payments expense	6	12,173	16,559
		1,065,695	934,131
(Increase)/decrease in inventories		(357,594)	149,974
Increase in properties under development		(123,850)	(116,247)
Increase in trade receivables		(728,588)	(508,830)
(Increase)/decrease in bills receivable		(170,631)	74,512
Increase in contract assets		(41,544)	—
Decrease in prepayments, other receivables and other assets		18,242	45,765
Increase in trade and bills payables		1,061,027	11,904
Increase in other payables and accruals		294,534	90,954
(Decrease)/increase in provision for product warranties		(487)	22,608
Receipt of government grants		112,265	185,964
Cash generated from operations		1,129,069	890,735
Interest received		58,947	15,644
Interest paid		(9,426)	(5,785)
PRC tax paid		(108,214)	(99,506)
Net cash flows from operating activities		1,070,376	801,088

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Net cash flows from operating activities		1,070,376	801,088
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		14,121	28,135
Purchases of items of property, plant and equipment		(389,286)	(269,388)
Advance from disposal of a disposal group classified as held for sale		40,000	38,000
Proceeds from disposal of items of property, plant and equipment		54,912	53,668
Proceeds from disposal of financial assets at fair value through profit or loss		4,553,919	8,921,629
Purchases of financial assets at fair value through profit or loss		(5,118,734)	(11,014,496)
Loans to the related companies		(300,000)	(700,000)
Repayment of loans from the related companies		500,000	600,000
Additional payments for parcels of land		(3,857)	—
Decrease in pledged deposits		1,555	31,803
Net cash flows used in investing activities		(647,370)	(2,310,649)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	32	29,793	69,974
Proceeds from issue of bonds	36(b)	500,000	—
Direct cost of bonds	36(b)	(563)	—
Payment for share awards		(3,124)	—
New bank loans	36(b)	2,811,092	3,746,000
Repayment of bank loans	36(b)	(3,423,954)	(1,885,952)
Settlement of derivative financial instruments	36(b)	(3,864)	—
Principal portion of lease payments	36(b)	(3,391)	(3,237)
Dividends paid		(394,052)	(321,223)
Interest paid	36(b)	(113,660)	(79,017)
Net cash flows (used in)/from financing activities		(601,723)	1,526,545
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		1,103,171	1,069,906
Effect of foreign exchange rate changes, net		16,997	16,281
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	941,451	1,103,171

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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), logistics equipment 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 principal 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		Principal activities
			Direct	Indirect	
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
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 logistics equipment
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 logistics equipment

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal 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		Principal activities
			Direct	Indirect	
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 logistics equipment
Sany (Zhuhai) Asset Co., Ltd. ("Sany Asset") (三一置業有限公司)*^	PRC/Mainland China	RMB53,180,000	—	100	Property development
Sany Intelligent Mining Technology Co., Ltd. ("Sany Intelligent Mining") (三一智礦科技有限公司)*^	PRC/Mainland China	RMB50,000,000	—	100	Research, development and manufacture of automation equipment
Sany Machinery Intelligence Co., Ltd. ("Sany Machinery") (三一機器人科技有限公司)*^	PRC/Mainland China	RMB50,000,000	—	65	Research, development, manufacture and sale of automation equipment

* Companies established as limited liability companies under PRC law

The company has not yet commenced operation.

^ The registered share capital of Sany Asset, Sany Intelligent Mining and Sany Machinery amounted to RMB53,180,000, RMB50,000,000 and RMB50,000,000, respectively, which was unpaid as at 31 December 2020.

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 ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for bills receivable, financial assets at fair value through profit or loss and derivative financial instruments which have been measured at fair value. A disposal group classified as held for sale was stated at the lower of its carrying amount 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.

NOTES TO FINANCIAL STATEMENTS*31 December 2020***2.1 BASIS OF PREPARATION** (continued)**Basis of consolidation**

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) 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 has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any significant impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS*31 December 2020***2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES** (continued)

- (c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any significant impact on the financial position and performance of the Group.
- (d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendment did not have any impact on the financial position and performance of the Group.
- (e) 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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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	<i>Reference to the Conceptual Framework</i> ²
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
IFRS 17	<i>Insurance Contracts</i> ³
Amendments to IFRS 17	<i>Insurance Contracts</i> ^{3, 5}
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> ³
	<i>Disclosure of Accounting Policies</i> ³
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ²
Amendments to IAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i> ²
Amendments to IAS 8	<i>Definition of Accounting Estimates</i> ³
<i>Annual Improvements to IFRSs 2018–2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41 ²

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

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

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

NOTES TO FINANCIAL STATEMENTS*31 December 2020***2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS** (continued)

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank and other borrowings denominated in foreign currencies based on the London Interbank Offered Rate ("LIBOR") as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

Amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

Annual Improvements to IFRSs 2018–2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

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.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

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, financial assets at fair value through profit or loss and derivative financial instruments 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 assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fair value measurement** (continued)

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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, financial assets disposal groups classified as held for sale and goodwill), 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.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

- (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.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for “Non-current assets and disposal groups held for sale”. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives and annual rates used for this purpose are as follows:

	Estimated useful lives	Residual value rates	Annual rates
Buildings	20–40 years	3%	2.4%–4.9%
Plant and machinery	10 years	3%	9.7%
Office and other equipment	8.33 years	3%	11.6%
Motor vehicles	8.33 years	3%	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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

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

Intangible assets (other than goodwill)

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

Patents and licences

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

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Leases**

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	50 years
Buildings	2 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (Continued)

Group as a lessee (continued)

(b) Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Leases** (Continued)***Group as a lessor*** (continued)

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

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

Investments and other financial assets***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as 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" 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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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)

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)

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 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("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).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

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.

- 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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment of financial assets** (continued)***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.

Financial liabilities***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, bonds payable, interest-bearing bank and other borrowings and derivative financial instruments.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at amortised cost (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

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"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Derivative financial instruments*****Initial recognition and subsequent measurement***

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

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 proportion 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, and short term highly liquid investments 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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, for 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***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 with 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 with 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (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.

(b) *Installation services*

The Group provides installation services that are either sold separately or bundled together with the sale of industrial products to a customer. The installation services can be obtained from other providers and do not significantly customise or modify the industrial products.

Contracts for bundled sales of industrial products and installation services are comprised of two performance obligations because the promises to transfer the industrial products and provide installation services are capable of being distinct and separately identifiable. Accordingly, the transaction price is allocated based on the relative stand-alone selling prices of the industrial products and installation services.

Revenue from installation services is recognised upon customer acceptance for the services.

(c) *Rendering of maintenance and other services*

Revenue from rendering of maintenance and other 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.

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.

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

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.

NOTES TO FINANCIAL STATEMENTS*31 December 2020***2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**Contract assets**

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 assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Right-of-return assets

A right-of-return asset is recognised for the 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, and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns, and any additional decreases in the value of the returned goods.

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").

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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 33 and note 34 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.

NOTES TO FINANCIAL STATEMENTS*31 December 2020***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.

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.

NOTES TO FINANCIAL STATEMENTS*31 December 2020***2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**Foreign currencies** (continued)

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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:

Revenue from contracts with customers

The Group applied the following judgement that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- Identifying performance obligations in a bundled sale of industrial products and installation services

The Group provides installation services that are either sold separately or bundled together with the sale of industrial products to a customer. The installation services are a promise to transfer services in the future and are part of the negotiated exchange between the Group and the customer.

The Group determined that both industrial products and installation services are each capable of being distinct. The fact that the Group regularly sells both industrial products and installation services on a standalone basis indicates that the customer can benefit from both products on their own. The Group also determined that the promises to transfer the industrial products and to provide installation services are distinct within the context of the contract. The industrial products and installation services are not inputs to a combined item in the contract. The Group is not providing a significant integration service because the presence of the industrial products and installation services together in the contract does not result in any additional or combined functionality and neither the equipment nor the installation modifies or customises the other. In addition, the industrial products and installation services are not highly interdependent or highly interrelated, because the Group would be able to transfer the industrial products even if the customer declined installation and would be able to provide installation services in relation to products sold by other suppliers. Consequently, the Group has allocated a portion of the transaction price to the industrial products and the installation services based on relative standalone selling prices.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

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 2020 was RMB1,129,520,000 (2019: RMB1,129,520,000). Further details are given in note 16.

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. 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 a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 19 and note 20 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**Estimation uncertainty** (continued)***Leases — Estimating the incremental borrowing rate***

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary’s stand-alone credit rating).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use 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. Further details are given in note 31 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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 28 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 17 to the financial statements.

NOTES TO FINANCIAL STATEMENTS*31 December 2020***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) Mining equipment segment

The mining equipment segment (previously known as energy equipment segment) engages in the production and sale of coal mining machinery, non-coal mining machinery, mining transport equipment, robots, smart mines and spare parts and the provision of related services; and

(b) Logistics equipment segment

The logistics equipment segment (previously known as port machinery segment) engages in the production and sale of container equipment, bulk material equipment, general equipment 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, non-lease-related 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 (other than lease liabilities), deferred tax liabilities, tax payables, bonds payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2020	Mining equipment RMB'000	Logistics equipment RMB'000	Total RMB'000
Segment revenue			
Sales to customers (note 5)	4,846,103	2,517,756	7,363,859
Intersegment sales	7,434	1,629	9,063
Other revenue	300,874	119,259	420,133
	5,154,411	2,638,644	7,793,055
<i>Reconciliation:</i>			
Elimination of intersegment sales			(9,063)
Revenue from operations			7,783,992
Segment results	894,093	392,207	1,286,300
Interest income			36,174
Finance costs (other than interest on lease liabilities)			(132,197)
Profit before tax			1,190,277
Income tax expense			(138,728)
Profit for the year			1,051,549
Segment assets	10,984,235	9,248,212	20,232,447
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(4,005,777)
Corporate and other unallocated assets			1,237,491
Total assets			17,464,161
Segment liabilities	4,195,513	6,512,528	10,708,041
<i>Reconciliation:</i>			
Elimination of intersegment payables			(4,005,777)
Corporate and other unallocated liabilities			2,902,996
Total liabilities			9,605,260
Other segment information:			
Loss/(gain) on disposal of items of property, plant and equipment	375	(674)	(299)
Reversal of impairment of trade receivables, net (Reversal of impairment)/impairment of other receivables, net	(71,133)	(1,391)	(72,524)
Impairment of contract assets, net (Write-back of provision)/provision against slow-moving and obsolete inventories	(2,697)	261	(2,436)
Depreciation	—	755	755
Depreciation	(28,046)	3,110	(24,936)
Other non-cash expenses	157,039	92,006	249,045
Capital expenditure*	7,568	4,605	12,173
	54,293	540,537	594,830

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2019	Mining equipment RMB'000	Logistics equipment RMB'000	Total RMB'000
Segment revenue			
Sales to customers (note 5)	3,422,996	2,233,068	5,656,064
Intersegment sales	—	4,250	4,250
Other revenue	298,685	131,953	430,638
Revenue from operations	3,721,681	2,369,271	6,090,952
<i>Reconciliation:</i>			
Elimination of intersegment sales			(4,250)
Revenue from operations			6,086,702
Segment results	678,747	418,023	1,096,770
Interest income			58,189
Finance costs (other than interest on lease liabilities)			(85,233)
Profit before tax			1,069,726
Income tax expense			(147,819)
Profit for the year			921,907
Segment assets	10,905,170	7,576,465	18,481,635
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(4,388,874)
Corporate and other unallocated assets			1,453,675
Total assets			15,546,436
Segment liabilities	4,430,834	5,555,906	9,986,740
<i>Reconciliation:</i>			
Elimination of intersegment payables			(4,388,874)
Corporate and other unallocated liabilities			2,803,005
Total liabilities			8,400,871
Other segment information:			
(Gain)/loss on disposal of items of property, plant and equipment	(5,204)	14	(5,190)
Reversal of impairment of trade receivables, net	(29,853)	(24,812)	(54,665)
Impairment of other receivables, net	22,049	533	22,582
(Write-back of provision)/provision against slow-moving and obsolete inventories	(28,706)	5,911	(22,795)
Depreciation and amortisation	161,404	88,080	249,484
Other non-cash expense	8,208	8,351	16,559
Capital expenditure*	35,487	224,604	260,091

* Capital expenditure consists of additions to property, plant and equipment and right-of-use assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2020 RMB'000	2019 RMB'000
Mainland China	6,003,242	4,594,926
Asia (excluding Mainland China)	707,566	587,645
European Union	137,302	69,208
United States of America	237,522	138,656
Other countries/regions	278,227	265,629
Total revenue from contracts with customers	7,363,859	5,656,064

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

(b) All of the Group's non-current assets, excluding deferred tax assets, are located in Mainland China.

Information about major customers

Revenue of approximately RMB803,908,000 (2019: RMB401,122,000) was derived from sales to fellow subsidiaries, 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:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers	7,363,859	5,656,064

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2020

Segments	Mining equipment RMB'000	Logistics equipment RMB'000	Total RMB'000
Types of goods or services			
Sale of industrial products	4,740,490	2,438,486	7,178,976
Installation services	—	45,367	45,367
Maintenance and other services	105,613	33,903	139,516
Total revenue from contracts with customers	4,846,103	2,517,756	7,363,859
Geographical markets			
Mainland China	4,401,560	1,601,682	6,003,242
Asia (excluding Mainland China)	298,629	408,937	707,566
European Union	3,851	133,451	137,302
United States of America	—	237,522	237,522
Other countries/regions	142,063	136,164	278,227
Total revenue from contracts with customers	4,846,103	2,517,756	7,363,859
Timing of revenue recognition			
Goods transferred at a point in time	4,740,490	2,483,853	7,224,343
Services transferred over time	105,613	33,903	139,516
Total revenue from contracts with customers	4,846,103	2,517,756	7,363,859

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 31 December 2019

Segments	Mining equipment RMB'000	Logistics equipment RMB'000	Total RMB'000
Types of goods or services			
Sale of industrial products	3,360,893	2,173,150	5,534,043
Maintenance and other services	62,103	59,918	122,021
Total revenue from contracts with customers	3,422,996	2,233,068	5,656,064
Geographical markets			
Mainland China	3,106,255	1,488,671	4,594,926
Asia (excluding Mainland China)	125,120	462,526	587,646
European Union	—	69,208	69,208
United States of America	—	138,656	138,656
Other countries/regions	191,621	74,007	265,628
Total revenue from contracts with customers	3,422,996	2,233,068	5,656,064
Timing of revenue recognition			
Goods transferred at a point in time	3,360,893	2,173,150	5,534,043
Services transferred over time	62,103	59,918	122,021
Total revenue from contracts with customers	3,422,996	2,233,068	5,656,064

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

	2020 RMB'000	2019 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of industrial products	590,809	694,787

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(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.

Installation services

The performance obligation is satisfied upon customer acceptance for the services rendered and payment is generally due upon completion of installation and customer acceptance, except for new customers, where payment in advance is normally required.

Maintenance and other services

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

	Notes	2020 RMB'000	2019 RMB'000
Other income			
Bank interest income		27,320	28,800
Other interest income		8,854	29,389
Government grants	29	200,028	285,511
Rental income	15	8,762	8,357
Exchange gain		—	19,918
Others		28,603	28,319
		273,567	400,294
Gains			
Fair value gain, net		182,441	83,343
Gain on disposal of items of property, plant and equipment, net		299	5,190
		182,740	88,533
		456,307	488,827

NOTES TO FINANCIAL STATEMENTS

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6. PROFIT BEFORE TAX

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

	Notes	2020 RMB'000	2019 RMB'000
Cost of inventories sold		5,330,714	3,924,110
Cost of services provided		97,309	85,719
Depreciation of property, plant and equipment	14	223,072	223,511
Depreciation of right-of-use assets	15(a)	25,973	25,973
Auditors' remuneration		2,555	2,555
Provision of warranties*	28	16,352	31,440
Research and development costs**		447,552	384,826
Lease payments not included in the measurement of lease liabilities	15(c)	7,145	7,211
Employee benefit expenses (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		633,220	488,753
Share option and share award expenses		12,173	16,559
Employee retirement benefits		11,160	22,347
Other staff welfare		11,226	13,822
		667,779	541,481
Foreign exchange differences, net***		31,355	(19,918)
Reversal of impairment on financial and contract assets, net****:			
Reversal of impairment of trade receivables, net	19	(72,524)	(54,665)
Impairment of contract assets, net	20	755	—
(Reversal of impairment)/impairment of other receivables, net		(2,436)	22,582
		(74,205)	(32,083)
Write-back of provision against slow-moving and obsolete inventories*****	17	(24,936)	(22,795)
Gain on disposal of items of property, plant and equipment***		(299)	(5,190)
(Gains)/losses from sales of scrap materials***		(421)	4,246
Fair value (gains)/losses, net***:			
Financial assets at fair value through profit or loss — mandatorily classified as such		(182,486)	(85,445)
Derivative instruments — transactions not qualifying as hedges		45	2,102
		(182,441)	(83,343)

* 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 "Reversal of impairment on financial and contract assets, net" in the consolidated statement of profit or loss

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

NOTES TO FINANCIAL STATEMENTS

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7. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on interest-bearing bank and other borrowings (other than lease liabilities)	117,627	79,688
Interest on bonds	5,230	—
Interest on lease liabilities	86	240
Interest on discounted bills	9,340	5,545
	132,283	85,473

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:

	2020 RMB'000	2019 RMB'000
Fees	637	634
Other emoluments:		
Salaries, allowances and benefits in kind	7,151	7,035
Share option and share award expenses	1,118	3,190
Employee retirement benefits and other staff welfare	103	99
	8,372	10,324
	9,009	10,958

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

(a) Independent non-executive directors

The fees and mandatory provident fund paid to independent non-executive directors during the year were as follows:

	Fees RMB'000	Share option and share award expenses RMB'000	Total remuneration RMB'000
2020			
Mr. Poon Chiu Kwok	230	50	280
Mr. Ng Yuk Keung	230	50	280
Mr. Hu Jiquan	177	50	227
	637	150	787
2019			
Mr. Poon Chiu Kwok	229	181	410
Mr. Ng Yuk Keung	229	181	410
Mr. Hu Jiquan	176	181	357
	634	543	1,177

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

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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	Share option and share award expenses RMB'000	Employee retirement benefits and other staff welfare RMB'000	Total remuneration RMB'000
2020					
Executive directors:					
Mr. Qi Jian (Chief executive)	—	3,767	477	26	4,270
Mr. Fu Weizhong	—	1,885	292	10	2,187
Mr. Zhang Zhihong (resigned on 4 February 2021)	—	599	199	67	865
Mr. Liang Zaizhong	—	900	—	—	900
	—	7,151	968	103	8,222
Non-executive directors:					
Mr. Tang Xiuguo	—	—	—	—	—
Mr. Xiang Wenbo	—	—	—	—	—
	—	—	—	—	—

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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
2019					
Executive directors:					
Mr. Qi Jian (Chief executive)	—	3,604	1,089	10	4,703
Mr. Fu Weizhong	—	2,100	832	10	2,942
Mr. Zhang Zhihong	—	1,124	726	79	1,929
Mr. Liang Zaizhong (appointed on 21 October 2019)	—	207	—	—	207
	—	7,035	2,647	99	9,781
Non-executive directors:					
Mr. Tang Xiuguo	—	—	—	—	—
Mr. Mao Zhongwu (resigned on 21 October 2019)	—	—	—	—	—
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 (2019: Nil).

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors of the Company (2019: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2019: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries and allowances	1,745	2,037
Bonuses	5,628	702
Share option and share award expenses	380	644
Employee retirement benefits and other staff welfare	92	—
	7,845	3,383

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	
	2020	2019
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$4,500,001 to HK\$5,000,000	1	—
	3	2

10. INCOME TAX

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

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

Pursuant to the PRC Income Tax Law and the respective regulations, except for certain preferential tax 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 2020.

NOTES TO FINANCIAL STATEMENTS

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10. INCOME TAX (continued)

Four of the Group's principal operating companies, Sany Heavy Equipment, Hunan Sany Port Equipment, Sany Marine Heavy Industry and Sany Intelligent Mining, were recognised as High and New Technology Enterprises and were therefore subject to CIT at a rate of 15% in 2020.

	2020 RMB'000	2019 RMB'000
Current — Mainland China		
Charge for the year	65,680	75,248
(Over provision)/under provision in prior years	(11,219)	8,781
Deferred (note 31)	84,267	63,790
Total tax charge for the year	138,728	147,819

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:

	2020		2019	
	RMB'000	%	RMB'000	%
Profit before tax	1,190,277		1,069,726	
Tax at the statutory tax rate	297,569	25.0	267,432	25.0
Entities subject to lower statutory income tax rates	(117,924)	(9.9)	(100,225)	(9.4)
Expenses not deductible for tax	1,418	0.1	1,259	0.1
Tax losses utilised from previous periods	(10,975)	(0.9)	(4,497)	(0.4)
Different tax rate when temporary difference is realised	10,569	0.9	(7,144)	(0.7)
Super-deduction of research and development costs	(51,762)	(4.4)	(38,333)	(3.6)
Adjustments in respect of current tax of previous periods	(11,219)	(0.9)	8,781	0.8
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	11,475	1.0	18,784	1.8
Tax losses not recognised	9,577	0.8	1,762	0.2
Tax charge at the Group's effective tax rate	138,728	11.7	147,819	13.8

NOTES TO FINANCIAL STATEMENTS

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11. DIVIDENDS

	2020 HK\$'000	2019 HK\$'000
Proposed final dividend — HK\$0.15 (2019: HK\$0.12) per ordinary share	469,096	372,091
Proposed final dividend — HK\$0.15 (2019: HK\$0.12) per preference share	71,967	57,574
	541,063	429,665
Equivalent to RMB'000	453,162	390,302

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

A special dividend of HK\$0.18 per share, totalling HK\$633,746,000, was approved by the board of directors on 23 January 2018. HK\$547,505,000 of the dividend was subsequently distributed during the year ended 31 December 2018 and the rest amount of HK\$86,241,000 (equivalent to RMB72,584,000 as at 31 December 2020 and RMB77,349,000 as at 31 December 2019) was recorded in "dividend payable" in the consolidated statement of financial position as at 31 December 2020 and 2019.

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 2020 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,111,383,038 (2019: 3,080,554,141) 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 2020 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.

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

	2020 RMB'000	2019 RMB'000
Profit		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	1,045,144	919,706
Preferred distribution to the convertible preference shares	81	85
Profit attributable to ordinary equity holders of the parent, used in the diluted earnings per share calculation	1,045,225	919,791
	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	3,111,383,038	3,080,554,141
Effect of dilution — convertible preference shares	479,781,034	479,781,034
Effect of dilution — share options and share awards	26,813,856	41,477,729
Weighted average number of ordinary shares used in the diluted earnings per share calculation	3,617,977,928	3,601,812,904

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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 directly wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the "Equity Transfer Agreement") with Xinjiang Xing Ao Investment Co., Ltd. ("Xing Ao Investment") to dispose of Xinjiang Sany, an indirectly wholly-owned subsidiary of the Company, which remained dormant in prior years. Pursuant to the Equity Transfer Agreement, Sany Heavy Equipment agreed to sell a 100% equity interest in Xinjiang Sany to Xing Ao Investment for a total consideration of RMB177,400,000, among which RMB1,967,000 would be retained as a guarantee deposit. Cash considerations of RMB97,433,000, RMB38,000,000 and RMB40,000,000 were received by Sany Heavy Equipment in 2018, 2019 and 2020, respectively. However, the transaction was not completed as at 31 December 2020 as certain conditions precedent pursuant to the Equity Transfer Agreement, including but not limited to the shareholder information update in the business licence and physical handover, had not yet been fulfilled as at the end of the year.

The major classes of assets and liabilities of Xinjiang Sany classified as held for sale as at 31 December 2020 and 2019 are as follows:

	2020 RMB'000	2019 RMB'000
<i>Assets</i>		
Right-of-use assets	67,250	67,250
Deferred tax assets	16,991	16,991
Assets classified as held for sale	84,241	84,241
<i>Liabilities</i>		
Government grants	(75,300)	(75,300)
Tax payable	(5,623)	(5,623)
Liabilities directly associated with the assets classified as held for sale	(80,923)	(80,923)
Net assets directly associated with the disposal group	3,318	3,318

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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 2020						
At 1 January 2020:						
Cost	1,984,964	1,165,029	231,914	60,511	208,344	3,650,762
Accumulated depreciation	(294,670)	(770,832)	(126,624)	(45,469)	—	(1,237,595)
Net carrying amount	1,690,294	394,197	105,290	15,042	208,344	2,413,167
At 1 January 2020, net of accumulated depreciation	1,690,294	394,197	105,290	15,042	208,344	2,413,167
Additions	78,985	74,605	42,573	5,976	253,834	455,973
Disposals	(260)	(48,580)	(5,729)	(44)	—	(54,613)
Depreciation provided during the year	(86,102)	(104,657)	(29,965)	(2,348)	—	(223,072)
Transfers	14,340	23,302	1,329	—	(38,971)	—
At 31 December 2020, net of accumulated depreciation	1,697,257	338,867	113,498	18,626	423,207	2,591,455
At 31 December 2020:						
Cost	2,077,218	1,110,014	264,897	65,224	423,207	3,940,560
Accumulated depreciation	(379,961)	(771,147)	(151,399)	(46,598)	—	(1,349,105)
Net carrying amount	1,697,257	338,867	113,498	18,626	423,207	2,591,455

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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 2019						
At 1 January 2019:						
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
At 1 January 2019, net of accumulated depreciation	1,756,795	511,926	91,016	14,808	88,326	2,462,871
Additions	26,034	8,903	72,664	1,886	143,976	253,463
Disposals	(9,025)	(54,665)	(15,500)	(466)	—	(79,656)
Depreciation provided during the year	(83,510)	(95,925)	(42,890)	(1,186)	—	(223,511)
Transfers	—	23,958	—	—	(23,958)	—
At 31 December 2019, net of accumulated depreciation	1,690,294	394,197	105,290	15,042	208,344	2,413,167
At 31 December 2019:						
Cost	1,984,964	1,165,029	231,914	60,511	208,344	3,650,762
Accumulated depreciation	(294,670)	(770,832)	(126,624)	(45,469)	—	(1,237,595)
Net carrying amount	1,690,294	394,197	105,290	15,042	208,344	2,413,167

Certificates of ownership in respect of buildings of the Group located in Shenyang with a net carrying amount of approximately RMB53,082,223 as at 31 December 2020 (31 December 2019: RMB55,938,000) have not yet been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates.

NOTES TO FINANCIAL STATEMENTS

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15. LEASES

The Group as a lessee

The Group has lease contracts for lands, buildings, machinery and offices used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of the buildings have lease terms less than 2 years, while leases of machinery and offices generally have lease terms of 12 months or less.

(a) *Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land RMB'000	Buildings RMB'000	Total RMB'000
As at 1 January 2019	1,692,229	6,628	1,698,857
Transferred to properties under development ("PUD") (note 18)	(643,755)	—	(643,755)
Depreciation charge	(22,659)	(3,314)	(25,973)
Re-measurement of acreage	(2,393)	—	(2,393)
As at 31 December 2019 and 1 January 2020	1,023,422	3,314	1,026,736
Transferred from non-current prepayments	138,857	—	138,857
Depreciation charge	(22,659)	(3,314)	(25,973)
As at 31 December 2020	1,139,620	—	1,139,620

NOTES TO FINANCIAL STATEMENTS

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15. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	3,391	6,628
Accretion of interest recognised during the year	86	240
Payments	(3,477)	(3,477)
Carrying amount at 31 December	—	3,391
Analysed into:		
Current portion	—	3,391

The maturity analysis of lease liabilities is disclosed in note 41 to the consolidated financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets	25,973	25,973
Interest charge on lease liabilities	86	240
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2020	7,145	7,211
Total amount recognised in profit or loss	33,204	33,424

NOTES TO FINANCIAL STATEMENTS

31 December 2020

15. LEASES (continued)

The Group as a lessee (continued)

(d) The total cash outflow for leases is disclosed in note 36(c) to the consolidated financial statements.

The Group as a lessor

The Group leases certain area of land which was classified as right-of-use assets, and office buildings, and machinery which were classified as property, plant and equipment under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits. Rental income recognised by the Group during the year was RMB8,762,000 (2019: RMB8,357,000), details of which are included in note 5 to the consolidated financial statements.

At the end of the reporting period, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020	2019
	RMB'000	RMB'000
Within 1 year	8,666	9,840
After 1 year but within 2 years	5,581	6,826
After 2 years but within 3 years	1,000	4,627
	15,247	21,293

The net carrying amounts of the Group's assets held under operating leases included in the total amounts of leasehold land, office buildings and machinery as at 31 December 2020 were RMB24,050,000, RMB17,799,000 and RMB9,679,000, respectively (2019: RMB33,070,000, RMB18,994,000 and RMB16,406,000).

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16. GOODWILL

	RMB'000
At 31 December 2019 and 31 December 2020:	
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:

- Logistics equipment cash-generating unit

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

	2020 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 17% (2019: 17%). The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2019: 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 2020. 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.

NOTES TO FINANCIAL STATEMENTS

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17. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	572,953	513,293
Work in progress	594,717	403,660
Finished goods	758,991	652,114
	1,926,661	1,569,067
Less: Provision against slow-moving and obsolete inventories	(105,859)	(130,795)
	1,820,802	1,438,272

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

	2020 RMB'000	2019 RMB'000
At 1 January	130,795	270,598
Charged for the year (note 6)	39,953	—
Write-back for the year (note 6)	(64,889)	(22,795)
Write-off	—	(117,008)
At 31 December	105,859	130,795

18. PROPERTIES UNDER DEVELOPMENT

	Note	2020 RMB'000	2019 RMB'000
Carrying amount as at 1 January		760,002	—
Transferred from right-of-use assets	15(a)	—	643,755
Additions		123,850	116,247
Carrying amount as at 31 December		883,852	760,002

No impairment/reversal of impairment was recognised in the consolidated statement of profit or loss for the year ended 31 December 2020.

All properties under development are situated in Mainland China.

NOTES TO FINANCIAL STATEMENTS

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19. TRADE AND BILLS RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	3,973,124	3,344,547
Impairment	(424,209)	(564,151)
	3,548,915	2,780,396
Less: Trade receivables due after one year	(261,116)	(145,973)
	3,287,799	2,634,423
Bills receivable	595,116	424,485

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 6% (2019: 4%) 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 RMB355,709,000 as at 31 December 2020 (2019: RMB283,324,000) for sales of products by the Group, which accounted for 9% (2019: 10%) of the Group's trade receivables at the end of the reporting period. Trade receivables are non-interest-bearing.

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

	2020 RMB'000	2019 RMB'000
Within 180 days	2,107,968	1,562,378
181 to 365 days	985,333	776,888
1 to 2 years	384,728	357,836
2 to 3 years	61,935	57,257
Over 3 years	8,951	26,037
	3,548,915	2,780,396

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31 December 2020

19. TRADE AND BILLS RECEIVABLES (continued)

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

	2020 RMB'000	2019 RMB'000
At beginning of year	564,151	688,357
Reversal of impairment, net (note 6)	(72,524)	(54,665)
Amount written off as uncollectible	(67,418)	(69,541)
At end of year	424,209	564,151

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.

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

	Ageing				Total
	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	
As at 31 December 2020					
Expected credit loss rate	1.54%	14.09%	49.26%	96.58%	10.68%
Gross carrying amount (RMB'000)	3,141,555	447,806	122,055	261,708	3,973,124
Expected credit losses (RMB'000)	48,254	63,078	60,119	252,758	424,209
As at 31 December 2019					
Expected credit loss rate	2.37%	18.05%	38.77%	93.78%	16.87%
Gross carrying amount (RMB'000)	2,396,078	436,671	93,507	418,291	3,344,547
Expected credit losses (RMB'000)	56,812	78,835	36,250	392,254	564,151

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31 December 2020

19. TRADE AND BILLS RECEIVABLES (continued)

Bills receivable have been classified as financial assets at fair value through other comprehensive income. The maturity profile of the bills receivable of the Group as at the end of the reporting period is as follows:

	2020	2019
	RMB'000	RMB'000
Within six months	456,376	244,801
Over six months	138,740	179,684
	595,116	424,485

Included in the bills receivable was an amount of RMB118,034,000 as at 31 December 2020 (2019: RMB43,987,000) which was pledged for the issuance of a letter of guarantee.

Included in the bills receivable was an amount of RMB3,900,000 as at 31 December 2020 (2019: RMB450,000) 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 2020, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB183,465,000 (2019: RMB191,510,000) 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 RMB183,465,000 (2019: RMB191,510,000) as at 31 December 2020.

Transferred financial assets that are derecognised in their entirety

At 31 December 2020, 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 RMB464,930,000 (2019: RMB574,697,000). 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.

NOTES TO FINANCIAL STATEMENTS

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20. CONTRACT ASSETS

	31 December 2020 RMB'000
Contract assets arising from:	
Sale of industrial products	41,544
Impairment	(755)
	40,789

Contract assets are initially recognised for revenue earned from the sale of industrial products as the receipt of consideration is conditional on successful assurance during the warranty periods. When passing the warranty periods, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2020 was the result of the increase of sales contracts with payment terms relating to the guarantee deposits.

During the year ended 31 December 2020, RMB755,000 was recognised as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 19 to the financial statements.

The expected timing of recovery or settlement for contract assets as at 31 December is as follows:

	2020 RMB'000
Within one year	19,517
After one year	21,272
Total contract assets	40,789

The movements in the loss allowance for impairment of contract assets are as follows:

	2020 RMB'000
At beginning of year	—
Impairment losses, net (note 6)	755
At end of year	755

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31 December 2020

20. CONTRACT ASSETS (continued)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms 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.

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

	2020 RMB'000
Expected credit loss rate	1.82%
Gross carrying amount (RMB'000)	41,544
Expected credit losses (RMB'000)	755

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 RMB'000	2019 RMB'000
Non-current prepayments	9,650	144,689
Current assets:		
Prepayments	131,371	149,390
Deposits and other receivables	130,882	145,375
Loans to related parties	100,000	300,000
Loans to third parties	53,933	107,739
Gross balance	416,186	702,504
Impairment allowance	(57,146)	(87,665)
	359,040	614,839

NOTES TO FINANCIAL STATEMENTS

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

Non-current prepayments represent prepayments for the acquisition of land and property, plant and equipment. On 15 May 2020, non-current prepayments of RMB138,857,000 for land has been transferred to right-of-use assets as the land use right certificate has been obtained by Zhuhai Sany.

No amount included in the current prepayments was due from fellow subsidiaries as at 31 December 2020 (31 December 2019: Nil) for purchasing raw materials by the Group.

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 2020 was 3.0% (2019: 0.7%).

Loans to related parties of RMB100,000,000 as at 31 December 2020 (31 December 2019: RMB300,000,000) are unsecured, bear interest at rates of 3.85% per annum (31 December 2019: 5.6%) and repayable in 2021. There was no recent history of default and past due amounts for the balances. As at 31 December 2020 and 2019, the loss allowance was assessed to be minimal.

Loans to third parties of RMB756,000 as at 31 December 2020 (31 December 2019: RMB21,863,000) are unsecured, repayable within one year and bear interest at the prevailing market rate. As at 31 December 2020 and 2019, except for the defaulted receivables, the Group assessed the expected loss rate for the rest to be minimal.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 RMB'000	2019 RMB'000
Unlisted investments		
Financial investments at fair value through profit or loss	4,023,670	3,276,414

The above unlisted investments were wealth management products issued by banks, trusts and funds in Mainland China. 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.

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23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020 RMB'000	2019 RMB'000
Cash and bank balances	397,234	665,982
Time deposits	544,672	439,199
	941,906	1,105,181
Less: Pledged time deposits for banking facilities	(455)	(2,010)
Cash and cash equivalents	941,451	1,103,171
Cash and cash equivalents, time deposits and pledged deposits denominated in		
— RMB	879,075	948,334
— Hong Kong dollar ("HK\$")	24,300	116,875
— United States dollar ("US\$")	37,751	30,162
— Euro ("EUR")	235	9,810
— Australian Dollar ("AUD")	545	—
	941,906	1,105,181

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

At 31 December 2020, bank balances of RMB230,000,000 (2019: RMB280,000,000) are deposited in Sanxiang Bank, a related company of the Group.

NOTES TO FINANCIAL STATEMENTS

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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:

	2020 RMB'000	2019 RMB'000
Within 30 days	1,057,094	521,693
31 to 90 days	884,439	811,072
91 to 180 days	724,199	393,677
181 to 365 days	150,052	49,141
Over 1 year	76,795	55,969
	2,892,579	1,831,552

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 RMB1,463,131,000 as at 31 December 2020 (2019: RMB93,821,000) for purchasing raw materials by the Group.

25. BONDS PAYABLE

	2020 RMB'000
Bonds payable, unsecured	
Nominal value of bonds issued during the year	500,000
Direct transaction costs	(563)
Interest expense	218
Carrying amount at 31 December	499,655

On 6 May 2020, the Group registered its super & short-term commercial paper (the "SCP") amounting to RMB1 billion with the National Association of Financial Market Institutional Investors, which will be valid for a period of two years.

On 14 September 2020, the Group issued the first tranche of the SCP with a total principal amount of RMB500,000,000 in the national inter-bank market in Mainland China, at an interest rate of 3.35% and with a maturity period of 270 days. The related commissions amounting to RMB562,500 have been paid and netted off against the cash proceeds.

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26. OTHER PAYABLES AND ACCRUALS

	Notes	31 December 2020 RMB'000	31 December 2019 RMB'000
Contract liabilities	(a)	947,632	590,809
Deposits received for disposal groups	13	175,433	135,433
Other payables	(b)	733,487	747,605
Accruals		60,945	61,279
		1,917,497	1,535,126

(a) Details of contract liabilities are as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Sales of industrial products	947,632	590,809

Contract liabilities include short-term advances received to deliver industrial products. The increase in contract liabilities in 2020 and 2019 was mainly due to the increase in short-term advances received from customers in relation to the delivery of industrial products at the end of the year.

Included in the contract liabilities was an amount of RMB198,553,000 as at 31 December 2020 (2019: RMB50,361,000) payable to a fellow subsidiary for the purchase of products.

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

Included in the other payables was an amount due to fellow subsidiaries in aggregate of RMB294,170,000 as at 31 December 2020 (2019: RMB361,298,000), which is non-interest-bearing and is repayable on demand.

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2020			31 December 2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — secured	3.00	2021	507,969	4.00	2020	200,000
Bank loans — unsecured	1.14–3.70	2021	1,637,143	2.92–4.35	2020	2,308,954
Lease liabilities (note 15(b))	—	—	—	4.75	2020	3,391
			2,145,112			2,512,345
Non-current						
Bank loans — unsecured	2.92–3.40	2023	492,754	4.17–4.28	2022	747,181
Analysed into:						
Bank loans repayable:						
Within one year			2,145,112			2,508,954
In the third to fifth years, inclusive			492,754			747,181
						2,637,866
Other borrowings:						
Within one year						3,391
						2,637,866

- (a) As at 31 December 2020, financial investments at fair value through profit or loss of RMB300,000,000 and RMB250,000,000 have been pledged for the Group's bank loans of RMB300,000,000 from The Export-Import Bank of China and RMB207,968,583 from Industrial Bank Co., Ltd at the end of the reporting period, respectively.

As at 31 December 2019, financial investments at fair value through profit or loss of RMB208,000,000 have been pledged for the Group's bank loans of RMB200,000,000 from China Construction Bank Co., Ltd. at the end of the reporting period.

- (b) As at 31 December 2020, Sany Group Co., Ltd. has guaranteed certain of the Group's bank loans up to RMB1,513,722,000 (2019: RMB1,186,136,000) as at the end of the reporting period.
- (c) Except for a secured bank loan of RMB775,051,000 which is denominated in United States dollars, all borrowings are in RMB (2019: Nil).

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28. PROVISION FOR WARRANTIES

	2020 RMB'000	2019 RMB'000
At 1 January	32,496	9,888
Additional provision (note 6)	32,009	41,328
Amounts utilised during the year	(16,839)	(8,832)
Reversal of unutilised amounts (note 6)	(15,657)	(9,888)
At 31 December	32,009	32,496

The Group provides warranties within one year for coal mining machinery, and the earlier of two years and 4,000 hours during usage for logistics equipment) 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.

29. GOVERNMENT GRANTS

	2020 RMB'000	2019 RMB'000
At 1 January	1,289,373	1,388,920
Received during the year	112,265	185,964
Released to the statement of profit or loss during the year (note 5)	(200,028)	(285,511)
At 31 December	1,201,610	1,289,373
Current portion	(96,164)	(94,231)
Non-current portion	1,105,446	1,195,142

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.

NOTES TO FINANCIAL STATEMENTS

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30. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 Liabilities RMB'000	2019 Liabilities RMB'000
Interest rate swaps	5,407	3,864

The interest rate swaps are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging interest rate swaps amounting to RMB45,000 (2019: RMB2,102,000) were charged to the statement of profit or loss during the year.

31. DEFERRED TAX

Deferred tax assets

	Deductible temporary differences RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2019	388,204	2,463	390,667
(Charged)/credited to the consolidated statement of profit or loss (note 10)	(42,249)	76	(42,173)
At 31 December 2019 and 1 January 2020	345,955	2,539	348,494
Charged to the consolidated statement of profit or loss (note 10)	(50,730)	(2,179)	(52,909)
At 31 December 2020	295,225	360	295,585

The Group has tax losses arising in Hong Kong of RMB41,724,000 (2019: RMB49,156,000) 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 RMB34,097,000 (2019: RMB23,356,000) that will expire in one to ten 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 certain subsidiaries 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

31. DEFERRED TAX (continued)

Deferred tax liabilities

	Fair value adjustments arising from financial assets at fair value RMB'000	Withholding taxes on dividend RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Total RMB'000
At 1 January 2019	—	14,260	1,362	—	15,622
Charged/(credited) to the consolidated statement of profit or loss (note 10)	2,982	18,664	(29)	—	21,617
At 31 December 2019 and 1 January 2020	2,982	32,924	1,333	—	37,239
Charged/(credited) to the consolidated statement of profit or loss (note 10)	8,164	11,475	(29)	11,748	31,358
At 31 December 2020	11,146	44,399	1,304	11,748	68,597

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 2020, the Group has not recognised deferred tax liabilities of RMB103,159,000 (2019: RMB76,824,000) in respect of temporary differences relating to the unremitted profits of subsidiaries amounting to RMB2,063,170,000 (2019: RMB1,536,487,000), 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.

NOTES TO FINANCIAL STATEMENTS

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32. SHARE CAPITAL

Shares

	2020 HK\$'000	2019 HK\$'000
Authorised:		
4,461,067,880 (2019: 4,461,067,880) ordinary shares of HK\$0.10 each	446,107	446,107
538,932,120 (2019: 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:		
3,125,981,250 (2019: 3,100,762,500) ordinary shares of HK\$0.10 each	312,598	310,076
479,781,034 (2019: 479,781,034) convertible preference shares of HK\$0.10 each	47,978	47,978
Total issued and fully paid capital	360,576	358,054
Equivalent to RMB'000	309,707	307,469

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.

NOTES TO FINANCIAL STATEMENTS

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32. SHARE CAPITAL (continued)

Shares (continued)

A summary of movements in the Company's share capital is as follows:

	Number of convertible shares	Number of ordinary shares	Share capital HK\$'000	Equivalent to RMB'000
At 1 January 2019	479,781,034	3,041,025,000	352,081	302,214
Issue of shares (note)	—	59,737,500	5,973	5,255
Release of share-based compensation reserve to share premium upon exercise of share options (note)	—	—	—	—
At 31 December 2019	479,781,034	3,100,762,500	358,054	307,469

	Number of convertible shares	Number of ordinary shares	Share capital HK\$'000	Equivalent to RMB'000
At 1 January 2020	479,781,034	3,100,762,500	358,054	307,469
Issue of shares (note)	—	25,218,750	2,522	2,238
Release of share-based compensation reserve to share premium upon exercise of share options (note)	—	—	—	—
At 31 December 2020	479,781,034	3,125,981,250	360,576	309,707

Note:

During the year ended 31 December 2020, 25,218,750 (2019: 59,737,500) new ordinary shares were issued for the share options exercised. Cash proceeds of HK\$33,567,000 (equivalent to RMB29,793,000) (2019: HK\$79,539,000, equivalent to RMB69,974,000) were received with no transaction costs borne by the Company, and the related share option reserve of RMB12,331,000 (2019: RMB29,456,000) was transferred to share premium accordingly.

NOTES TO FINANCIAL STATEMENTS

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33. 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 share options under the Scheme were granted 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

33. SHARE OPTION SCHEME (continued)

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

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

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

	Year ended 31 December 2020		Year ended 31 December 2019	
	Price HK\$	Number of options	Price HK\$	Number of options
At 1 January	1.32	69,000,000	1.33	138,400,000
Exercised during the year	1.33	(25,218,750)	1.33	(59,737,500)
Forfeited during the year	1.28	(5,293,750)	1.29	(9,662,500)
31 December	1.32	38,487,500	1.32	69,000,000

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

31 December 2020

Number of options	Exercise price* per share HK\$	Exercise period
34,590,000	1.22	15-12-2017 to 15-3-2021
580,000	1.71	29-12-2017 to 15-3-2021
3,317,500	2.30	14-11-2018 to 31-3-2021
38,487,500		

31 December 2019

Number of options	Exercise price* per share HK\$	Exercise period
62,100,000	1.22	15-12-2017 to 15-3-2021
800,000	1.71	29-12-2017 to 15-3-2021
6,100,000	2.30	14-11-2018 to 31-3-2021
69,000,000		

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31 December 2020

33. SHARE OPTION SCHEME (continued)

There were 38,487,000 (31 December 2019: 69,000,000) share options outstanding and 6,062,500 of which were exercisable as at 31 December 2020.

The Group recognised a share option expense of RMB11,305,000 (31 December 2019: RMB16,559,000) during the year.

The fair value of the share options granted in the years of 2017 and 2018 was HK\$72,776,000 (HK\$0.53 each) (equivalent to RMB61,641,000), of which the Group recognised a share option expense of HK\$12,764,000 (equivalent to RMB11,305,000) (2019: HK\$18,793,000 (equivalent to RMB16,559,000)) during the year ended 31 December 2020.

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 38,487,500 share options outstanding under the Scheme, which represented approximately 1.2% of the Company's ordinary shares in issue as at that date.

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34. SHARE AWARD SCHEME

The Company operates a restricted share award scheme (the "Share Award Scheme") for the purpose of recognition and reward the contribution of the grantees to the Group's development and to maintain long-term stability of the core management team so as to enhance the Group's competitiveness and sustain the Group's future development. Eligible participants of the Share Award Scheme include the Company's executive directors and other employees of the Group. The Share Award Scheme became effective on 18 December 2020 (the "Date of Grant") and the share awards granted shall vest in the proposed grantees in accordance with the timetable below:

Vesting date	Number of restricted shares involved	Percentage of restricted share to vest
18 March 2021	1,048,412	20%
18 March 2022	1,048,412	20%
18 March 2023	1,048,412	20%
18 March 2024	1,048,412	20%
18 March 2025	1,048,551	20%
	5,242,199	100%

The following shares award were outstanding during the year:

	Year ended 31 December 2020 Number of shares award
At 1 January	—
Granted during the year	5,242,199
Lapsed during the year	(2,545)
31 December	5,239,654

There were 5,239,654 shares award outstanding and none of which were vested as at 31 December 2020.

The Group recognised a share award expense of RMB868,000 during the year.

The fair value of the share awards granted was HK\$27,679,000 (HK\$5.28 each) (equivalent to RMB23,321,000), of which the Group recognised a share award expense of HK\$1,153,000 (equivalent to RMB868,000) during the year.

The fair value of share awards granted during the period was estimated using the fair value of stock price as at the grant date, which was HK\$5.28 each.

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35. 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 in 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.

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2020, the Group had non-cash additions to property, plant and equipment of RMB32,593,000, which were transferred from trade receivables due to a customer used a barge to offset the payment.

During the year ended 31 December 2019, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB6,628,000 and RMB6,628,000, respectively, in respect of lease arrangements for a production plant.

NOTES TO FINANCIAL STATEMENTS

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36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings RMB'000	Lease liabilities RMB'000	Interest payables included in other payables and accruals RMB'000	Derivative financial instruments RMB'000	Bonds Payable RMB'000	Total RMB'000
At 31 December 2019	3,256,135	3,391	2,072	3,864	—	3,265,462
Changes from financing cash flows	(612,862)	(3,391)	(113,660)	(3,864)	499,437	(234,340)
Interest rate swaps	(5,407)	—	—	5,407	—	—
Interest expense	—	86	131,979	—	218	132,283
Interest paid classified as operating cash flows	—	(86)	(9,340)	—	—	(9,426)
At 31 December 2020	2,637,866	—	11,051	5,407	499,655	3,153,979

	Interest-bearing bank and other borrowings RMB'000	Lease liabilities RMB'000	Interest payables included in other payables and accruals RMB'000	Derivative financial instruments RMB'000	Total RMB'000
At 31 December 2018	1,399,951	—	1,401	—	1,401,352
Effect of adoption of IFRS 16	—	6,628	—	—	6,628
At 1 January 2019 (restated)	1,399,951	6,628	1,401	—	1,407,980
Changes from financing cash flows	1,860,048	(3,237)	(79,017)	—	1,777,794
Interest rate swaps	(3,864)	—	—	3,864	—
Interest expense	—	240	85,233	—	85,473
Interest paid classified as operating cash flows	—	(240)	(5,545)	—	(5,785)
At 31 December 2019	3,256,135	3,391	2,072	3,864	3,265,462

NOTES TO FINANCIAL STATEMENTS

31 December 2020

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

- (c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 RMB'000	2019 RMB'000
Within operating activities	7,231	7,451
Within financing activities	3,391	3,237

37. COMMITMENTS

- (a) The Group had the following capital commitments as at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for:		
Buildings	212,608	188,497
Plant and machinery	1,625,730	3,269,088
	1,838,338	3,457,585

- (b) Operating lease commitments as at 31 December 2020

At 31 December 2020, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2020 RMB'000
Within one year	153

NOTES TO FINANCIAL STATEMENTS

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38. 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	2020 RMB'000	2019 RMB'000
Sales of products to:			
Sany America Inc. (三一美國)	(i)&(v)	142,041	135,908
Sany International Development Limited (三一國際發展有限公司)	(i)&(v)	113,825	126,694
Sany Heavy Machinery Co., Ltd. (三一重機有限公司)	(i)&(v)	70,427	445
PT.SANY INDONESIA MACHINERY (印度尼西亞三一機械有限公司)	(i)&(v)	61,159	26,772
Sany Special Purpose Vehicle Co., Ltd. (三一專用汽車有限責任公司)	(i)&(v)	62,955	—
SANY Europe GmbH (三一歐洲)	(i)&(v)	53,320	—
Sany Heavy Industry India Pvt Ltd. (三一重工印度私人有限公司)	(i)&(v)	53,371	—
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(i)&(v)	44,850	12,680
Sany Automobile Lifting Machinery Co., Ltd. (三一汽車起重機械有限公司)	(i)&(v)	44,157	7,502
Beijing Sany Technology Co., Ltd. (北京三一智造科技有限公司)	(i)&(v)	41,915	—
Loudi Zhongxing Hydraulic Parts Co., Ltd. (婁底市中興液壓件有限公司)	(i)&(v)	23,288	—
Suote Transmission Equipment Co., Ltd. (索特傳動設備有限公司)	(i)&(v)	21,275	228
Hunan Sany Medium Lifting Machinery Co. Ltd. (湖南三一中型起重機械有限公司)	(i)&(v)	21,274	—
Shanghai Sany Heavy Machinery Co., Ltd. (上海三一重機股份有限公司)	(i)&(v)	17,628	2,597
Hunan Sany Building Co., Ltd. (湖南三一快而居住宅工業有限公司)	(i)&(v)	7,479	—
Sany Heavy Industry Co., Ltd. (三一重工股份有限公司)	(i)&(v)	5,568	6,724
Zhejiang Sany Equipment Co., Ltd. (浙江三一裝備有限公司)	(i)&(v)	3,831	—
Hunan Sany Zhongyang Machinery Co., Ltd. (湖南三一中陽機械有限公司)	(i)&(v)	3,301	1,327
Hunan Sany Tower Lifting Machinery Co., Ltd. (湖南三一塔式起重機械有限公司)	(i)&(v)	3,129	—
Sany Heavy Energy Equipment Co., Ltd. (三一重能有限公司)	(i)&(v)	2,101	2,124
Changsha Branch of Hunan Automobile Manufacturing Co., Ltd. (湖南汽車製造有限責任公司長沙分公司)	(i)&(v)	1,946	—
Sany (Russia) Co., Ltd. (俄羅斯三一有限責任公司)	(i)&(v)	1,385	—
Hangzhou Lilong Hydraulic Co., Ltd. (杭州力龍液壓有限公司)	(i)&(v)	682	—
Loudi Zhongyuan New Material Co., Ltd. (婁底市中源新材料有限公司)	(i)&(v)	633	—
Changde Sany Machinery Co., Ltd. (常德市三一機械有限公司)	(i)&(v)	517	—
Sany Group Co., Ltd. (三一集團有限公司)	(i)&(v)	308	74,135
Sany Hong Kong Group Co., Ltd. (三一香港集團有限公司)	(i)&(v)	—	3,227
Hunan Anren Sany Construction Technology Co., Ltd. (湖南安仁三一築工科技有限公司)	(i)&(v)	—	759
Others	(i)&(v)	1,543	—
		803,908	401,122

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. RELATED PARTY TRANSACTIONS (continued)

(1) Recurring transactions (continued)

	Notes	2020 RMB'000	2019 RMB'000
Sales of raw materials, parts and equipment to:			
Sany International Development Limited. (三一國際發展有限公司)	(i)&(v)	41,214	—
Loudi Zhongxing Hydraulic Parts Co., Ltd. (婁底市中興液壓件有限公司)	(i)&(v)	28,338	15,417
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(i)&(v)	15,183	11,870
Sany America Inc (三一美國)	(i)&(v)	4,695	—
PT.Sany Indonesia Machinery (印度尼西亞三一機械有限公司)	(i)&(v)	3,896	326
Sany Southern Africa (PTY) Ltd. (三一南非有限公司)	(i)&(v)	3,876	—
SANY Europe GmbH (三一歐洲)	(i)&(v)	1,820	—
Sany Heavy Industry India Pvt Ltd. (三一重工印度私人有限公司)	(i)&(v)	1,557	—
Sany Heavy Industry Co., Ltd. (三一重工股份有限公司)	(i)&(v)	854	888
Sany Automobile Lifting Machinery Co., Ltd. (三一汽車起重機械有限公司)	(i)&(v)	377	1,860
Sany Special Purpose Vehicle Co., Ltd. (三一專用汽車有限責任公司)	(i)&(v)	237	—
Suote Transmission Equipment Co., Ltd. (索特傳動設備有限公司)	(i)&(v)	164	35
Hunan Sany Intelligent Control Equipment Co., Ltd. (湖南三一智能控制設備有限公司)	(i)&(v)	30	220
Sany Group Co., Ltd. (三一集團有限公司)	(i)&(v)	11	10
Loudi Zhongyuan New Material Co., Ltd. (婁底市中源新材料有限公司)	(i)&(v)	11	—
Zhejiang Sany Equipment Co., Ltd. (浙江三一裝備有限公司)	(i)&(v)	1	578
Beijing Sany Technology Co., Ltd. (北京三一智造科技有限公司)	(i)&(v)	—	429
Hunan Sany Zhongyang Machinery Co., Ltd. (湖南三一中陽機械有限公司)	(i)&(v)	—	269
Changde Sany Machinery Co., Ltd. (常德市三一機械有限公司)	(i)&(v)	—	171
Shanghai Sany Heavy Machinery Co., Ltd. (上海三一重機股份有限公司)	(i)&(v)	—	58
Hunan Automobile Manufacturing Co., Ltd. (湖南汽車製造有限責任公司)	(i)&(v)	—	17
Sany Petroleum Intelligent Equipment Co., Ltd. (三一石油智能裝備有限公司)	(i)&(v)	—	9
Others	(i)&(v)	1,247	111
		103,511	32,268

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. RELATED PARTY TRANSACTIONS (continued)

(1) Recurring transactions (continued)

	Notes	2020 RMB'000	2019 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)	127,202	115,951
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(ii)&(v)	31,175	30,537
Loudi Zhongyuan New Material Co., Ltd. (婁底市中源新材料有限公司)	(ii)&(v)	26,214	29,181
Hunan Sany Intelligent Control Equipment Co., Ltd. (湖南三一智能控制設備有限公司)	(ii)&(v)	19,229	15,867
Suote Transmission Equipment Co., Ltd. (索特傳動設備有限公司)	(ii)&(v)	16,072	22,687
Sany Heavy Machinery Co., Ltd. (三一重機有限公司)	(ii)&(v)	11,953	4,514
Sany Special Purpose Vehicle Co., Ltd. (三一專用汽車有限責任公司)	(ii)&(v)	3,995	988
Zhejiang Sany Equipment Co., Ltd. (浙江三一裝備有限公司)	(ii)&(v)	3,755	836
Hunan Sany Culture Co. Ltd. (湖南三一文化產業有限公司)	(ii)&(v)	2,124	3,125
Hunan Sany Hoisting Machinery Co., Ltd. (湖南三一汽車起重機械有限公司)	(ii)&(v)	2,098	2,467
Shanghai Sany Heavy Machinery Co., Ltd. (上海三一重機有限公司)	(ii)&(v)	1,715	1,848
Shanghai Huaxing Digital Technology Co., Ltd. (上海華興數字科技有限公司)	(ii)&(v)	1,094	819
Beijing Sany Technology Co., Ltd. (北京三一智造科技有限公司)	(ii)&(v)	139	2,244
Sany Germany GmbH (三一德國有限公司)	(ii)&(v)	—	6,731
Loudi Zhongyuan Machinery Co., Ltd. (婁底市中源機械有限公司)	(ii)&(v)	—	1,921
Sany Group Co., Ltd. (三一集團有限公司)	(ii)&(v)	—	166
Hunan Automobile Manufacturing Co., Ltd. (湖南汽車製造有限責任公司)	(ii)&(v)	—	19
Sany Heavy Energy Equipment Co., Ltd. (三一重能有限公司)	(ii)&(v)	—	17
Sany Heavy Industry Co., Ltd. (三一重工股份有限公司)	(ii)&(v)	—	1
Others	(ii)&(v)	271	594
		247,036	240,513

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31 December 2020

38. RELATED PARTY TRANSACTIONS (continued)

(1) Recurring transactions (continued)

	Notes	2020 RMB'000	2019 RMB'000
Purchases of equipment from:			
Hunan Zizhuyuan Real Estate Co., Ltd. (湖南紫竹源房地產有限公司)	(ii)&(v)	5,776	—
Rootcloud Technology Co., Ltd. (樹根互聯技術有限公司)	(ii)&(v)	3,589	—
Hunan Xingxiang Construction Supervision Consulting Co. Ltd (湖南興湘建設監理諮詢有限公司)	(ii)&(v)	2,430	—
Sany Group Co., Ltd. (三一集團有限公司)	(ii)&(v)	1,821	—
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(ii)&(v)	520	—
Sany Construction Industry Co., Ltd. (三一築工科技有限公司)	(ii)&(v)	181	—
Hunan Trinity Industrial Vocational and Technical College (湖南三一工業職業技術學院)	(ii)&(v)	154	—
Jiangsu Sany Environmental Technology Co., Ltd. (江蘇三一環境科技有限公司)	(ii)&(v)	—	6,372
Hunan Sany Kuaierju Housing Industry Co., Ltd. (湖南三一快而居住宅工業有限公司)	(ii)&(v)	—	1,122
Others	(ii)&(v)	210	87
		14,681	7,581
Rental fees paid to:			
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(iii)&(v)	3,379	3,566
Hunan Zhongtai Equipment Engineering Co., Ltd. (湖南中泰設備工程有限公司)	(iii)&(v)	—	1,533
Others	(iii)&(v)	548	—
		3,927	5,099
Service fees paid to:			
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	(iv)&(v)	3,146	5,007
Sany Group Co., Ltd. (三一集團有限公司)	(iv)&(v)	518	—
Shenyang Sany Architectural Design Research Co., Ltd. (瀋陽三一建築設計研究有限公司)	(iv)&(v)	—	55,779
Others		22	—
		3,686	60,786
Service income from :			
Suote Transmission Equipment Co., Ltd. (索特傳動設備有限公司)	(iv)&(v)	8,883	—
Sany Automobile Lifting Machinery Co., Ltd. (三一汽車起重機械有限公司)	(iv)&(v)	5,377	—
Beijing Sany Technology Co., Ltd. (北京三一智造科技有限公司)	(iv)&(v)	4,420	—
Hunan Sany Medium Lifting Machinery Co. Ltd. (湖南三一中型起重機械有限公司)	(iv)&(v)	1,634	—
Zhejiang Sany Equipment Co., Ltd. (浙江三一裝備有限公司)	(iv)&(v)	1,628	—
		21,942	—

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. RELATED PARTY TRANSACTIONS (continued)

(1) Recurring transactions (continued)

	Notes	2020 RMB'000	2019 RMB'000
Purchases of logistics service from:			
Hunan Sany Logistics Co., Ltd. (湖南三一物流有限責任公司)	(iv)&(v)	158,803	148,304

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”) and 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. RELATED PARTY TRANSACTIONS (continued)

(2) Non-recurring transactions

	2020 RMB'000	2019 RMB'000
Supervisor fee paid to:		
Hunan Xingxiang Construction Consultation Co., Ltd. (湖南興湘建設監理諮詢有限公司)	556	330
Service fees paid to:		
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	1,372	—
Hunan Zizhuyuan Real Estate Co. Ltd. (湖南紫竹源房地產有限公司)	943	—
Shugen Internet Technology Co., Ltd. (樹根互聯技術有限公司)	601	—
Hunan Zhongtai Equipment Engineering Co., Ltd. (湖南中泰設備工程有限公司)	530	—
Hunan Sany Vocational and Technical College of Industry (湖南三一工業職業技術學院)	273	313
Sany America Inc. (三一美國)	—	2,764
Shanghai Zhushengyuan Properties Co., Ltd. (上海竹勝園地產有限公司)	—	385
Sany Group Co., Ltd. (三一集團有限公司)	—	63
Others	652	—
	4,371	3,525
Service income from:		
Sany Heavy Machinery Co., Ltd. (三一重機有限公司)	904	—
Sales of equipment to:		
Sany Automobile Lifting Machinery Co., Ltd. (三一汽車起重機械有限公司)	—	1,912
Sany Automobile Manufacturing Co., Ltd. (三一汽車製造有限公司)	—	1,028
Sany Heavy Machinery Co., Ltd. (三一重機有限公司)	—	45
Sany Group Co., Ltd. (三一集團有限公司)	—	2
	—	2,987
Rental fees paid to:		
Ningxia Sany Machinery Co., Ltd. (寧夏三一機械有限公司)	—	78
Shanxi Sany Machinery Co., Ltd. (陝西三一機械有限公司)	—	12
	—	90
Rental income received from:		
Shenyang Sanyiyuan Construction Machinery Co., Ltd. (瀋陽三益源工程機械有限公司)	238	—
Shenyang Sany Architectural Design and Research Co. Ltd. (瀋陽三一建築設計研究有限公司)	103	—
Beijing Sany Technology Co., Ltd. (北京三一智造科技有限公司)	66	—
Shenyang Zhushengyuan Properties Ltd. (瀋陽竹盛園地產有限公司)	—	20
Others	26	—
	433	20

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. RELATED PARTY TRANSACTIONS (continued)

(2) Non-recurring transactions (continued)

	Notes	2020 RMB'000	2019 RMB'000
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)	300,000	400,000
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
		300,000	700,000
Repayment of loans from related parties:			
Hunan Zhonghong Finance Lease Co., Ltd. (湖南中宏融資租賃有限公司, "Hunan Zhonghong")	(i)	400,000	300,000
China Kangfu Finance Lease Co., Ltd. (中國康富國際租賃股份有限公司, "Kangfu Leasing")	(i)	100,000	300,000
		500,000	600,000
Deposits to a related party:			
Sanxiang Bank (湖南三湘銀行股份有限公司)	(ii)	230,000	200,000
Interest 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)	3,707	16,952
China Kangfu Finance Lease Co., Ltd. (中國康富國際租賃股份有限公司, "Kangfu Leasing")	(i)	5,147	12,437
Sanxiang Bank (湖南三湘銀行股份有限公司)	(ii)	10,264	13,154
		19,118	42,543

NOTES TO FINANCIAL STATEMENTS*31 December 2020***38. RELATED PARTY TRANSACTIONS** (continued)**(2) Non-recurring transactions** (continued)

Notes:

- (i) On 12 July 2019, a loan of RMB200,000,000 was lent to Hunan Zhonghong at an interest rate of 5.50% per annum and was guaranteed by Sany Group Co., Ltd. ("Sany Group"), which has been repaid on 20 January 2020. On 17 January 2020, a loan of RMB200,000,000 was lent to Hunan Zhonghong at an interest rate of 4.60% per annum and was guaranteed by Sany Group, which has been repaid on 6 May 2020. On 16 November 2020, a loan of RMB100,000,000 was lent to Hunan Zhonghong at an interest rate of 3.85% per annum for a maximum term of 180 days and were guaranteed by Sany Group.

On 29 November 2019, a loan of RMB100,000,000 was lent to Kangfu Leasing at an interest rate of 5.60% per annum and has been repaid on 27 November 2020.

- (ii) On 14 May 2018, the Group deposited RMB100,000,000 at an interest rate of 5.00% per annum and the deposit was withdrawn in advance on 17 April 2020. On 8 August 2018, the Group deposited RMB130,000,000 at an interest rate of 4.90% and the deposit was withdrawn in advance on 17 April 2020. On 27 September 2019, the Group deposited RMB100,000,000 at an interest rate of 3.9875% per annum, RMB50,000,000 of which was withdrawn in advance on 21 November 2019, and the remaining RMB50,000,000 was withdrawn in advance on 28 March 2020. On 17 April 2020, the Group deposited RMB230,000,000 at an interest rate of 3.85% per annum and the deposit agreement will be due on 17 April 2022.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. RELATED PARTY TRANSACTIONS (continued)

(3) Compensation of key management personnel

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	18,621	13,503
Equity-settled share-based payment expenses	1,703	5,251
Employee retirement benefits and other staff welfare	6,056	1,577
Total compensation paid to key management personnel	26,380	20,331

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:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	1,632	495
Equity-settled share-based payment expenses	70	180
Employee retirement benefits and other staff welfare	56	67
Total	1,758	742

Number of members of senior management personnel above by remuneration band:

Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	1	—

NOTES TO FINANCIAL STATEMENTS

31 December 2020

39. 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:

2020 Financial assets	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income (debt instruments) RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	—	—	3,548,915	3,548,915
Bills receivable	—	595,116	—	595,116
Financial assets included in prepayments, other receivables and other assets	—	—	235,806	235,806
Financial assets at fair value through profit or loss	4,023,670	—	—	4,023,670
Pledged deposits	—	—	455	455
Cash and cash equivalents	—	—	941,451	941,451
	4,023,670	595,116	4,726,627	9,345,413

2020 Financial liabilities	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	—	2,892,579	2,892,579
Bonds payable	—	499,655	499,655
Financial liabilities included in other payables and accruals	—	689,661	689,661
Interest — bearing bank and other borrowings	—	2,637,866	2,637,866
Derivative financial instruments	5,407	—	5,407
	5,407	6,719,761	6,725,168

NOTES TO FINANCIAL STATEMENTS

31 December 2020

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2019	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income (debt instruments) RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Financial assets				
Trade receivables	—	—	2,780,396	2,780,396
Bills receivable	—	424,485	—	424,485
Financial assets included in prepayments, other receivables and other assets	—	—	465,449	465,449
Financial assets at fair value through profit or loss	3,276,414	—	—	3,276,414
Pledged deposits	—	—	2,010	2,010
Cash and cash equivalents	—	—	1,103,171	1,103,171
	3,276,414	424,485	4,351,026	8,051,925
2019				
Financial liabilities				
Trade and bills payables	—	—	1,831,552	1,831,552
Financial liabilities included in other payables and accruals	—	—	747,605	747,605
Interest — bearing bank and other borrowings	—	—	3,259,526	3,259,526
Derivative financial instruments	—	3,864	—	3,864
	—	3,864	5,838,683	5,842,547

NOTES TO FINANCIAL STATEMENTS

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40. 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	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Financial assets				
Trade receivables, non-current portion	261,116	145,973	243,784	145,973
Bills receivable	595,116	424,485	595,116	424,485
Financial assets at fair value through profit or loss	4,023,670	3,276,414	4,023,670	3,276,414
	4,879,902	3,846,872	4,862,570	3,846,872
Financial liabilities				
Interest-bearing bank and other borrowings, non-current portion	492,754	747,181	469,255	747,181
Derivative financial instruments	5,407	3,864	5,407	3,864
	498,161	751,045	474,662	751,045

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, the current portion of trade receivables, the current portion of contract assets, financial assets included in prepayments, other receivables and other assets, the current portion of interest-bearing bank and other borrowings, trade and bills payables, bonds payable, 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(continued)

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

The fair values of the non-current portion of trade receivable and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2020 were assessed to be insignificant.

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, trusts and funds 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.

The Group enters into interest rate swaps with a bank in Mainland China. The derivative financial instruments are measured using present value calculations. The models incorporate market observable inputs including the credit quality of the bank and benchmark interest rate. The carrying amounts of interest rate swaps are the same as their fair values.

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2020	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Bills receivable	—	595,116	—	595,116
Financial assets at fair value through profit or loss	—	4,023,670	—	4,023,670
	—	4,618,786	—	4,618,786

NOTES TO FINANCIAL STATEMENTS

31 December 2020

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(continued)

Assets measured at fair value: (continued)

As at 31 December 2019	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Bills receivable	—	424,485	—	424,485
Financial assets at fair value through profit or loss	—	3,276,414	—	3,276,414
	—	3,700,899	—	3,700,899

Liabilities measured at fair value:

As at 31 December 2020	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	—	5,407	—	5,407

As at 31 December 2019	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	—	3,864	—	3,864

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 and liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(continued)

Assets for which fair values are disclosed:

As at 31 December 2020	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Trade receivables, non-current portion	—	243,784	—	243,784

As at 31 December 2019	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Trade receivables, non-current portion	—	145,973	—	145,973

Liabilities for which fair values are disclosed:

As at 31 December 2020	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank and other borrowings (other than lease liabilities), non-current portion	—	469,255	—	469,255

NOTES TO FINANCIAL STATEMENTS

31 December 2020

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(continued)

Liabilities for which fair values are disclosed: (continued)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 31 December 2019				
Interest-bearing bank and other borrowings (other than lease liabilities), non-current portion	—	747,181	—	747,181

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, bonds payable 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, trade payables and bills payable, 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 2020, 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 RMB430,000 on the profit before tax for the year (2019: RMB582,000).

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 18.5% (2019: 18.8%) 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

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 2020		
If RMB weakens against HK\$	5	1,448
If RMB strengthens against HK\$	(5)	(1,448)
If RMB weakens against US\$	5	17,474
If RMB strengthens against US\$	(5)	(17,474)
If RMB weakens against EUR	5	(4,595)
If RMB strengthens against EUR	(5)	4,595
31 December 2019		
If RMB weakens against HK\$	5	2,148
If RMB strengthens against HK\$	(5)	(2,148)
If RMB weakens against US\$	5	14,186
If RMB strengthens against US\$	(5)	(14,186)
If RMB weakens against EUR	5	(2,211)
If RMB strengthens against EUR	(5)	2,211

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (Continued)*Maximum exposure and year-end staging*

The tables below show 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. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2020	12-month	Lifetime ECLs			Total
	ECLs	ECLs			
	Stage 1	Stage 2	Stage 3	Simplified	
	RMB'000	RMB'000	RMB'000	approach	RMB'000
				RMB'000	
Trade receivables*	—	—	—	3,973,124	3,973,124
Bills receivable	595,116	—	—	—	595,116
Contract assets*	—	—	—	41,544	41,544
Financial assets included in prepayments, other receivables and other assets					
— Normal**	239,019	—	—	—	239,019
— Doubtful**	53,933	—	—	—	53,933
Pledged deposits					
— Not yet past due	455	—	—	—	455
Cash and cash equivalents					
— Not yet past due	941,451	—	—	—	941,451
Guarantees given to financial institutions/finance lease companies in connection with facilities granted to customers***					
— Not yet past due	1,001,959	—	—	—	1,001,959
	2,831,933	—	—	4,014,668	6,846,601

NOTES TO FINANCIAL STATEMENTS

31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (Continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2019	12-month ECLs		Lifetime ECLs		Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	—	—	—	3,344,547	3,344,547
Bills receivable	424,485	—	—	—	424,485
Financial assets included in prepayments, other receivables and other assets					
— Normal**	445,375	—	—	—	445,375
— Doubtful**	107,739	—	—	—	107,739
Pledged deposits					
— Not yet past due	2,010	—	—	—	2,010
Cash and cash equivalents					
— Not yet past due	1,103,171	—	—	—	1,103,171
Guarantees given to financial institutions/finance lease companies in connection with facilities granted to customers***					
— Not yet past due	439,703	—	—	—	439,703
	2,522,483	—	—	3,344,547	5,867,030

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 and note 21 to the financial statements, respectively.

** 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".

NOTES TO FINANCIAL STATEMENTS

31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (Continued)*Maximum exposure and year-end staging* (continued)

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

	Notes	2020 RMB'000	2019 RMB'000
Guarantees given to financial institutions in connection with loans granted to customers	(a)	20,448	18,599
Guarantees given to the finance lease companies in connection with the unsettled lease amounts due from customers	(b)/(c)	981,511	421,104
		1,001,959	439,703

Notes:

- (a) Hunan Sany Port Equipment enters into sale agreements with end-user customers directly for the sale of logistics equipment. The end-user customers enter into equipment mortgage loan agreements with financial institutions 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 financial institutions under which it has the obligation to repay the outstanding loan from the relevant financial institutions if the end-user customers default loan repayments.
- (b) Hunan Sany Port Equipment sells logistics equipment 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (Continued)*Maximum exposure and year-end staging* (continued)

Notes: (continued)

- (c) Sany Heavy Equipment enters into an agreement with Kangfu Leasing or Hunan Zhonghong to which Sany Heavy Equipment agrees to:
- either sell the equipment to Kangfu Leasing or Hunan Zhonghong for leasing to lessees or sell the equipment to the lessees who will then on-sell the equipment to Kangfu Leasing or Hunan Zhonghong for leasing back to lessees; and
 - provide a financial guarantee to Kangfu Leasing or Hunan Zhonghong in favour of the lessees in respect of the leasing of the equipment by Kangfu Leasing or Hunan Zhonghong and repurchase the equipment under certain circumstances.

The sales of equipment to Kangfu Leasing and Hunan Zhonghong were RMB656,452,000 and RMB138,387,000 respectively in 2020.

The sales of equipment to Kangfu Leasing and Hunan Zhonghong were RMB451,955,000 and nil respectively in 2019.

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 2020.

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 2020			Total RMB'000
	On demand RMB'000	Less than 1 year RMB'000	Over 1 year RMB'000	
Trade and bills payables	—	2,892,579	—	2,892,579
Bonds payable	—	499,655	—	499,655
Financial liabilities included in other payables and accruals	—	689,661	—	689,661
Interest-bearing bank and other borrowings	—	2,156,164	492,754	2,648,918
Derivative financial instruments	—	5,407	—	5,407
	—	6,243,466	492,754	6,736,220

NOTES TO FINANCIAL STATEMENTS

31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	On demand RMB'000	31 December 2019		Total RMB'000
		Less than 1 year RMB'000	Over 1 year RMB'000	
Trade and bills payables	—	1,831,552	—	1,831,552
Financial liabilities included in other payables and accruals	—	747,605	—	747,605
Lease liabilities	—	3,391	—	3,391
Interest-bearing bank and other borrowings (excluding lease liabilities)	—	2,606,184	842,446	3,448,630
Derivative financial instruments	—	3,864	—	3,864
	—	5,192,596	842,446	6,035,042

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 2020 and 2019.

42. EVENTS AFTER THE REPORTING PERIOD

On 26 January 2021, the Group acquired a 70% interest in Sany Construction Robot (Xi'an) Research Institute Co., Ltd., a fellow subsidiary of the Group, which is engaged in the research and development, manufacture and sale of robots and automation equipment, to further expedite the Group's development of advanced technological equipment with automatic control and accelerate the Group's research and development in smart technologies. The purchase consideration of RMB17,822,000 for the acquisition was in the form of cash and was fully paid in January 2021.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

43. 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:

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	3	6
Investment in subsidiaries	3,476,344	3,464,585
Total non-current assets	3,476,347	3,464,591
CURRENT ASSETS		
Trade receivables	111,322	—
Tax recoverable	—	34
Dividend receivable	67,391	67,391
Due from subsidiaries	811,442	806,469
Financial assets at fair value through profit or loss	239,765	—
Cash and cash equivalents	20,242	87,288
Total current assets	1,250,162	961,182
CURRENT LIABILITIES		
Due to subsidiaries	103,570	—
Other payables and accruals	3,650	—
Dividend payable	72,584	77,349
Interest-bearing bank and other borrowings	520,030	—
Derivative financial instruments	1,986	—
Total current liabilities	701,820	77,349
NET CURRENT ASSETS	548,342	883,833
TOTAL ASSETS LESS CURRENT LIABILITIES	4,024,689	4,348,424
Net assets	4,024,689	4,348,424
EQUITY		
Issued capital	309,707	307,469
Reserves (note)	3,714,982	4,040,955
Total equity	4,024,689	4,348,424

NOTES TO FINANCIAL STATEMENTS

31 December 2020

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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

	Share premium account RMB'000	Contributed surplus RMB'000	Share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital redemption reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
As at 1 January 2019	2,239,502	1,676,409	40,776	(7,268)	5,744	318,540	4,273,703
Loss for the year	—	—	—	—	—	(14,996)	(14,996)
Other comprehensive income for the year:							
Exchange differences on translation of foreign operations	—	—	—	22,193	—	—	22,193
Total comprehensive income for the year	—	—	—	22,193	—	(14,996)	7,197
Issue of shares	64,719	—	—	—	—	—	64,719
Dividends declared	—	—	—	—	—	(321,223)	(321,223)
Share-based payments	—	—	16,559	—	—	—	16,559
Release of share-based compensation reserve to share premium upon exercise of share options (note 32)	29,456	—	(29,456)	—	—	—	—
As at 31 December 2019 and 1 January 2020	2,333,677	1,676,409	27,879	14,925	5,744	(17,679)	4,040,955
Profit for the year	—	—	—	—	—	57,646	57,646
Other comprehensive income for the year:							
Exchange differences on translation of foreign operations	—	—	—	(26,171)	—	—	(26,171)
Total comprehensive income for the year	—	—	—	(26,171)	—	57,646	31,475
Issue of shares	27,555	—	—	—	—	—	27,555
Dividends declared	(394,052)	—	—	—	—	—	(394,052)
Share-based payments	—	—	12,173	—	—	—	12,173
Repurchase of issued shares	—	—	—	—	(3,124)	—	(3,124)
Release of share-based compensation reserve to share premium upon exercise of share options (note 32)	12,331	—	(12,331)	—	—	—	—
As at 31 December 2020	1,979,511	1,676,409	27,721	(11,246)	2,620	39,967	3,714,982

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

NOTES TO FINANCIAL STATEMENTS*31 December 2020***44. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 18 March 2021.

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				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
REVENUE	7,363,859	5,656,064	4,416,944	2,481,365	1,841,834
Cost of sales	(5,403,087)	(3,987,034)	(3,119,322)	(1,743,814)	(1,565,670)
Gross profit	1,960,772	1,669,030	1,297,622	737,551	276,164
Other income and gains	456,307	488,827	301,197	339,304	179,358
Gain on disposal of non-current assets classified as held for sale	—	—	—	—	—
Selling and distribution expenses	(430,465)	(387,756)	(329,462)	(299,483)	(321,115)
Administrative expenses	(706,904)	(642,739)	(492,128)	(341,851)	(314,047)
Reversal of impairment on financial and contract assets, net	74,205	32,083	—	—	—
Other expenses	(31,355)	(4,246)	(32,951)	(118,313)	(526,164)
Finance costs	(132,283)	(85,473)	(18,220)	(2,634)	(2,208)
PROFIT/(LOSS) BEFORE TAX	1,190,277	1,069,726	726,058	314,574	(708,012)
Income tax expense	(138,728)	(147,819)	(122,584)	(83,637)	49,732
PROFIT/(LOSS) FOR THE YEAR	1,051,549	921,907	603,474	230,937	(658,280)
Attributable to:					
Owners of the parent	1,045,144	919,706	600,209	229,436	(644,375)
Non-controlling interests	6,405	2,201	3,265	1,501	(13,905)
	1,051,549	921,907	603,474	230,937	(658,280)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
TOTAL ASSETS	17,464,161	15,546,436	11,914,694	11,199,151	11,139,179
TOTAL LIABILITIES	(9,605,260)	(8,400,871)	6,481,617	(4,836,879)	(4,114,943)
NON-CONTROLLING INTERESTS	20,167	13,762	11,561	58,458	56,957