SANYI

SANY HEAVY EQUIPMENT INTERNATIONAL HOLDINGS COMPANY LIMITED

三一重裝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 631)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

The board ("**Board**") of directors (the "**Directors**") of Sany Heavy Equipment International Holdings Company Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2016. These interim results have been reviewed by the audit committee of the Company (the "**Audit Committee**"), comprising solely the independent non-executive Directors, one of whom chairs the Audit Committee.

FINANCIAL SUMMARY

- For the six months ended 30 June 2016, the Group recorded revenue of approximately RMB859.5 million, representing a decrease of approximately 29.1% as compared to approximately RMB1,212.2 million for the six months ended 30 June 2015. Such decrease was mainly due to (1) the continued adjustment of coal industry in the PRC, which affected the sales of coal machinery products; (2) the long lead-time of large port machinery products. The continuing increase of the sales proportion of the marine engineering business, together with the gradual recovery of the coal machinery market and the stable implementation of the international strategy of the Company will lay a solid foundation for the Group's long-term development.

- As of 30 June 2016, the Group's trade receivables and bills receivable recorded an decrease of approximately 35.9% to RMB2,164.8 million as compared to RMB3,378.1 million as of 31 December 2015, in which trade receivables decreased by approximately 38.9% to RMB1,903.1 million as compared to RMB3,115.3 million as of 31 December 2015, and bills receivable decreased by approximately 0.4% to RMB261.7 million as compared to RMB262.8 million as of 31 December 2015. Such change was mainly due to the facts that (1) the Group commenced the receivables non-recourse factoring business in the first half of 2016, (2) the management of the Group strengthened its risk management and control of receivables and implemented the "one policy for one client" policy to improve its recovery situation, and (3) the Group increased its provision for bad debts of trade receivables for the six months ended 30 June 2016 under the principle of prudence.

- For the six months ended 30 June 2016, the net cash inflow of the Group from operating activities was approximately RMB1,010.7 million (six months ended 30 June 2015: net cash outflow of approximately RMB498.6 million). Such change was mainly driven by the same reasons as stated in the change in trade and bills receivables above.

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*4*	**859,455**	1,212,195
Cost of sales		**(586,727)**	(823,593)
Gross profit		**272,728**	388,602
Other income and gains	*4*	**81,761**	168,787
Selling and distribution expenses		**(107,035)**	(130,958)
Administrative expenses		**(160,338)**	(196,877)
Other expenses		**(138,979)**	(149,334)
Operating (loss)/profit		**(51,863)**	80,220
Finance costs	*6*	**(960)**	(4,644)
(Loss)/profit before tax	*5*	**(52,823)**	75,576
Income tax expense	*7*	**11,977**	(26,463)
(LOSS)/PROFIT FOR THE PERIOD		**(40,846)**	49,113
Attributable to:			
Owners of the parent		**(36,027)**	48,758
Non-controlling interests		**(4,819)**	355
		(40,846)	49,113
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB)	*9*	**(0.01)**	0.02
Diluted (RMB)	*9*	**(0.01)**	0.01

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(LOSS)/PROFIT FOR THE PERIOD	**(40,846)**	49,113
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**2,256**	(255)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**2,256**	(255)
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX	**2,256**	(255)
TOTAL COMPREHENSIVE (LOSS)/INCOME, NET OF TAX	**(38,590)**	48,858
Attributable to:		
Owners of the parent	**(33,771)**	48,503
Non-controlling interests	**(4,819)**	355
	(38,590)	48,858

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016

	Notes	**30 June 2016 RMB'000 (Unaudited)**	31 December 2015 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**2,726,086**	2,732,946
Prepaid land lease payments		**687,384**	694,930
Goodwill		**1,129,520**	1,129,520
Intangible assets		**32,794**	44,218
Trade receivables	*11*	**115,308**	99,923
Available-for-sale investment		**10,636**	10,636
Non-current prepayments		**736,501**	736,722
Deferred tax assets		**432,739**	463,520
Total non-current assets		**5,870,968**	5,912,415
CURRENT ASSETS			
Inventories	*10*	**1,150,637**	1,179,787
Trade receivables	*11*	**1,787,769**	3,015,396
Bills receivable	*11*	**261,718**	262,822
Prepayments, deposits and other receivables		**484,322**	423,319
Pledged deposits		**11,812**	14,651
Cash and cash equivalents		**985,937**	522,796
Total current assets		**4,682,195**	5,418,771
CURRENT LIABILITIES			
Trade and bills payables	*12*	**816,560**	841,966
Other payables and accruals		**846,984**	1,665,123
Interest-bearing bank and other borrowings	*13*	**45,145**	14,920
Tax payable		**293,209**	341,776
Provision for warranties		**10,860**	14,148
Government grants		**35,953**	20,645
Total current liabilities		**2,048,711**	2,898,578
NET CURRENT ASSETS		**2,633,484**	2,520,193
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,504,452**	8,432,608

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	Notes	**30 June 2016** **RMB'000** **(Unaudited)**	31 December 2015 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**19,507**	16,287
Interest-bearing bank and other borrowings	*13*	**160,474**	–
Government grants		**1,573,310**	1,627,353
Total non-current liabilities		**1,753,291**	1,643,640
Net assets		**6,751,161**	6,788,968
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*15*	**302,214**	302,214
Reserves		**6,382,904**	6,415,892
		6,685,118	6,718,106
Non-controlling interests		**66,043**	70,862
Total equity		**6,751,161**	6,788,968

1. Corporate Information

Sany Heavy Equipment International Holdings Company Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 23 July 2009. The Company's registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman 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"). The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sale of roadheader, combined coal mining unit ("CCMU"), mining transport equipment (including underground and surface), port machinery, spare parts and the provision of related service in Mainland China.

In the opinion of the directors of the Company (the "Directors"), as at the date of these interim condensed consolidated financial statements, 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.

2.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015.

2.2 Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are the same as those used in the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of the revised International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs") and Interpretations that the Group has adopted for the first time for the current period as disclosed below.

IFRS 14	*Regulatory Deferral Accounts*
Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs

The adoption of these revised IFRSs has no significant effect on these interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.3 Issued but not yet effective IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the interim condensed consolidated financial statements:

IFRS 9	*Financial Instruments*[2]
IFRS 15	*Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application, but is not in a position to state whether these new and revised IFRSs will have a significant impact on the Group's results of operations and financial position.

3. Operating Segment Information

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

(a) Coal mining equipment segment

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

(b) Port machinery segment

The port machinery segment engages in the production and sale of large-size port machinery (including gantry crane, ship to shore crane and yard crane) and mobilised port machinery (including reach stacker, empty container handle and heavy duty forklift truck), spare parts and the provision of related services.

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

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

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

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	Coal mining equipment *RMB'000*	Port machinery *RMB'000*	Total *RMB'000*
Period ended 30 June 2016 (Unaudited)			
Segment revenue			
Sales to customers	**386,221**	**473,234**	**859,455**
Other revenue	**9,669**	**72,092**	**81,761**
Revenue from operations	**395,890**	**545,326**	**941,216**
Segment results	**(186,850)**	**132,201**	**(54,649)**
Interest income			**2,786**
Finance costs			**(960)**
Loss before tax			**(52,823)**
Income tax expense			**11,977**
Loss for the period			**(40,846)**
Segment assets	**7,243,512**	**3,540,262**	**10,783,774**
Reconciliation:			
Elimination of intersegment receivables			**(1,661,099)**
Corporate and other unallocated assets			**1,430,488**
Total assets			**10,553,163**
Segment liabilities	**1,523,130**	**3,421,636**	**4,944,766**
Reconciliation:			
Elimination of intersegment payables			**(1,661,099)**
Corporate and other unallocated liabilities			**518,335**
Total liabilities			**3,802,002**
Other segment information:			
Depreciation and amortisation	**80,466**	**14,766**	**95,232**
Capital expenditure*	**4,302**	**98,787**	**103,089**
Loss on disposal of items of property, plant and equipment	**1,522**	**17**	**1,539**
Impairment losses recognised in profit or loss	**133,743**	**1,377**	**135,120**

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

	Coal mining equipment	Port machinery	Total
	RMB'000	*RMB'000*	*RMB'000*
Period ended 30 June 2015 (Unaudited)			
Segment revenue			
Sales to customers	586,488	625,707	1,212,195
Other revenue	47,116	121,671	168,787
Revenue from operations	633,604	747,378	1,380,982
Segment results	(90,849)	167,235	76,386
Interest income			3,834
Finance costs			(4,644)
Profit before tax			75,576
Income tax expense			(26,463)
Profit for the period			49,113
Segment assets	8,820,052	3,654,175	12,474,227
Reconciliation:			
Elimination of intersegment receivables			(830,873)
Corporate and other unallocated assets			613,199
Total assets			12,256,553
Segment liabilities	2,236,522	3,455,351	5,691,873
Reconciliation:			
Elimination of intersegment payables			(830,873)
Corporate and other unallocated liabilities			582,959
Total liabilities			5,443,959
Other segment information:			
Depreciation and amortisation	78,086	12,257	90,343
Capital expenditure*	91,129	290,746	381,875
Loss on disposal of items of property, plant and equipment	552	–	552
Impairment losses recognised in profit or loss	144,962	3,820	148,782

Geographical information

Except that over 86% of the Group's revenue is derived from customers based in Mainland China, the revenue from individual foreign country did not exceed 10% of the Group's revenue, and most of the Group's identifiable assets and liabilities are located in Mainland China, no geographical information is presented in accordance with IFRS 8 *Operating Segments*.

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Information about major customers

Revenue of approximately RMB47,717,000 (six months ended 30 June 2015: RMB174,552,000) was derived from sales to a single customer, including sales to a group of entities which are known to be under common control with that customer.

Revenue of approximately RMB394,022,000 (six months ended 30 June 2015: RMB625,707,000) was derived from sales to a fellow subsidiary, including sales to a group of entities which are known to be under common control with that customer.

4. Revenue, Other Income and Gains

Revenue represents the net invoiced value of goods sold and services rendered, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	**850,770**	1,188,092
Rendering of services	**8,685**	24,103
	859,455	1,212,195
Other income and gains		
Interest income	**2,786**	3,834
Profit from sale of scrap materials	**–**	5,983
Government grants	**75,346**	152,327
Foreign exchange difference, net	**–**	3,316
Others	**3,629**	3,327
	81,761	168,787

5. (Loss)/profit before Tax

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

	Note	**Six months ended 30 June 2016 RMB'000 (Unaudited)**	2015 RMB'000 (Unaudited)
Cost of inventories sold		**450,687**	805,158
Cost of services provided		**126,853**	18,435
Depreciation		**76,262**	69,688
Amortisation of land lease prepayments**		**7,546**	7,746
Amortisation of intangible assets**		**11,424**	12,909
Auditors' remuneration		**430**	480
Reversal of warranties, net*		**(919)**	(10,193)
Research and development costs**		**54,880**	95,860
Minimum lease payments under operating leases:			
Dormitories for staff		**501**	230
Warehouses		**2,454**	3,239
Office equipment		**7**	–
		2,962	3,469
Employee benefit expenses:			
Wages and salaries		**98,533**	184,746
Share-based payment		**783**	1,940
Pension scheme contributions		**5,006**	15,651
Other staff welfare		**2,378**	8,485
		106,700	210,822
Foreign exchange differences, net***		**233**	(3,316)
Impairment of trade receivables***	11	**125,676**	147,865
Impairment of other receivables***		**257**	917
Write-down of inventories to net realisable value#		**9,187**	2,354
Loss on disposal of items of property, plant and equipment***		**1,539**	552

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

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

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

Included in "Cost of sales" in the interim condensed consolidated statement of profit or loss.

6. Finance Costs

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on discounted bills	**–**	1,462
Interest on interest-bearing bank and other borrowings	**715**	3,053
Interest on documentary bills	**245**	129
	960	4,644

7. Income Tax

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

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

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 30 June 2016.

Two of the Group's principal operating companies, Sany Heavy Equipment Co., Ltd. (三一重型裝備有限公司) and Hunan Sany Port Equipment Co., Ltd. (湖南三一港口設備有限公司) ("Hunan Sany Port Equipment"), were recognized as the High and New Technology Enterprise and were therefore subject to CIT at a rate of 15% for the six months ended 30 June 2016.

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current – Mainland China		
Charge for the period	**(45,978)**	46,792
Deferred	**34,001**	(20,329)
Total tax charge for the period	**(11,977)**	26,463

8. Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

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9. **(Loss)/earnings per Share attributable to Ordinary Equity Holders of the Parent**

The calculation of basic loss/earnings per share is based on the loss/profit for the six months ended 30 June 2016 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,041,025,000 (six months ended 30 June 2015: 3,041,025,000) in issue during the period.

The calculation of the diluted loss/earnings per share amount is based on the loss/profit for the six months ended 30 June 2016 attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible preference shares, where applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic loss/earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss)/earnings		
(Loss)/earnings attributable to ordinary equity holders of the parent, used in the basic (loss)/earnings per share calculation	**(36,027)**	48,758
Preferred distribution to the convertible preference shares	**24**	–
(Loss)/earnings attributable to ordinary equity holders of the parent, used in the diluted (loss)/earnings per share calculation	**(36,003)**	48,758

	Number of shares	
	30 June 2016	30 June 2015
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic (loss)/earnings per share calculation	**3,041,025,000**	3,041,025,000
Effect of dilution – convertible preference shares	**479,781,034**	479,781,034
Weighted average number of ordinary shares used in the diluted (loss)/earnings per share calculation	**3,520,806,034**	3,520,806,034

The Company's share options have no dilution effect for the six months ended 30 June 2016 and 2015 as the impact of the share options outstanding had an anti-dilutive effect on the basic loss/earnings per share amounts presented.

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10. Inventories

	30 June 2016 *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
Raw materials	**441,851**	431,148
Work in progress	**278,667**	336,917
Finished goods	**474,538**	446,955
	1,195,056	1,215,020
Provision against slow-moving and obsolete inventories	**(44,419)**	(35,233)
	1,150,637	1,179,787

11. Trade and Bills Receivables

	30 June 2016 *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
Trade receivables	**2,373,736**	3,559,206
Impairment	**(470,659)**	(443,887)
	1,903,077	3,115,319
Less: Trade receivables due after one year	**(115,308)**	(99,923)
	1,787,769	3,015,396
Bills receivable	**261,718**	262,822

The Group generally requires its customers to make payments at various stages of the sales transactions, however, the Group grants certain credit periods to old customers with 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 30 June 2016, the Group had certain concentrations of credit risk as 34% (31 December 2015: 26%) of the Group's trade receivables were due from the Group's largest customer, including a group of entities which are known to be under common control with that customer. Included in the trade receivables was an amount due from fellow subsidiaries in aggregate of RMB475,439,000 as at 30 June 2016 (31 December 2015: RMB508,882,000) for sales of products by the Group. Trade receivables are non-interest-bearing.

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

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 180 days	**473,442**	677,181
181 to 365 days	**401,566**	555,562
1 to 2 years	**967,992**	1,383,503
2 to 3 years	**53,165**	261,367
Over 3 years	**6,912**	237,706
	1,903,077	3,115,319

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

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
At 1 January	**443,887**	296,625
Impairment losses recognised	**126,006**	148,766
Reverse for the period/year	**(330)**	–
Amount written off as uncollectible	**(98,904)**	(1,504)
At 30 June/31 December	**470,659**	443,887

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Neither past due nor impaired	**875,008**	1,223,921
Past due but not impaired:		
Within 1 year past due	**967,992**	1,366,614
1 to 2 years past due	**53,165**	262,945
Over 2 years past due	**6,912**	261,839
Total	**1,903,077**	3,115,319

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

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

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

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 6 months	**251,998**	242,567
Over 6 months	**9,720**	20,255
	261,718	262,822

Included in the bills receivable was an amount of RMB2,100,000 as at 30 June 2016 (31 December 2015: RMB5,038,000) which was endorsed to a fellow subsidiary for purchasing raw materials by the Group.

Transfer of financial assets that are not derecognised in their entirety

At 30 June 2016, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB25,530,000 (31 December 2015: RMB31,706,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB25,530,000 (31 December 2015: RMB31,706,000) as at 30 June 2016.

Transfer of financial assets that are derecognised in their entirety

At 30 June 2016, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB72,064,000 (31 December 2015: RMB224,704,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

12. Trade and Bills Payables

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

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 30 days	**292,098**	240,468
31 to 90 days	**215,536**	235,351
91 to 180 days	**162,270**	213,035
181 to 365 days	**91,049**	99,942
Over 1 year	**55,607**	53,170
	816,560	841,966

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

The bills payable are all due within 180 days.

Included in the trade and bills payables was an amount due to fellow subsidiaries in aggregate of RMB80,226,000 as at 30 June 2016 (31 December 2015: RMB113,709,000) for purchasing raw materials by the Group.

13. Interest-Bearing Bank and Other Borrowings

	30 June 2016 (Unaudited)			31 December 2015 (Audited)		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Bank loans – unsecured	**2.80-4.35**	**2016-2017**	**45,145**	2.8-3.4	2016	14,920
Non-current						
Other borrowings *(note 14)*	**1.18**	**2020-2026**	**160,474**			–

A fellow subsidiary of the Group has guaranteed certain of the Group's bank loans up to RMB20,000,000 as at 30 June 2016.

14. Borrowings from National Development Fund

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

On 14 March 2016, the Group received the amount of RMB160 million in cash from National Development Fund. According to the valuation report issued by an independent third party valuer on 18 March 2016, the Investment subscribed for 14.56% of the enlarged registered capital of Sany Marine Heavy Industry Co., Ltd.. In the opinion of the Directors, the Investment was recognised as a loan from National Development Fund and subsequently measured at amortised cost, using the effective interest rate method.

The balance of borrowings from national development fund was as follows:

	30 June 2016 *RMB'000* **(Unaudited)**
Amounts repayable:	
In the third to fifth years, inclusive	**7,680**
Beyond five years	**168,640**
Total payables	**176,320**
Future finance charge	**(15,846)**
Net borrowing balance	**160,474**

15. Share Capital

	30 June 2016 *HK$'000* (Unaudited)	31 December 2015 *HK$'000* (Audited)
Authorised:		
4,461,067,880 (31 December 2015: 4,461,067,880) ordinary shares of HK$0.10 each	**446,107**	446,107
538,932,120 (31 December 2015: 538,932,120) convertible preference shares of HK$0.10 each	**53,893**	53,893
Total authorised capital	**500,000**	500,000
Issued and fully paid:		
3,041,025,000 (31 December 2015: 3,041,025,000) ordinary shares of HK$0.10 each	**304,103**	304,103
479,781,034 (31 December 2015: 479,781,034) convertible preference shares of HK$0.10 each	**47,978**	47,978
Total issued and fully paid capital	**352,081**	352,081
Equivalent to RMB'000	**302,214**	302,214

16. Commitments

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

	30 June 2016 *RMB'000* (Unaudited)	31 December 2015 *RMB'000* (Audited)
Contracted, but not provided for:		
Buildings	**147,067**	269,403
Plant and machinery	**3,885,289**	3,961,716
	4,032,356	4,231,119

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2016, China's economy continued to adjust with a great pressure on economic decline. Under the complex economic environment, the Group actively responded by adhering to "transition and upgrading" approach and procuring international development which allowed the Group to expand its port machinery business and to keep enhancing the market competitiveness of coal machinery by exploring the marine engineering market. Meanwhile, the Group focused on value of sales and strengthened its risk management to keep enhancing its operation quality.

Major products

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

Research and development capability

As a leading enterprise spearheading the industry's technological advances, the Group considered research and development ("**R&D**") as one of its most important competitive strengths and a main drive to provide customers with products of higher quality at a more reasonable price, which differentiates the Group from the peers in the industry. In the first half of 2016, the port machinery sector of the Group has completed its new product planning and development with breakthroughs in 3 core technologies such as obtaining products APP, container weighing and printing system and unbalanced load detection, weighing and printing system; completed the first phase of the digital platform verification for large port machinery and continuously applied in various bridge projects; and achieved a breakthrough in R&D of smart mooring system with its automatic bridge development entering the testing and detection phase. In respect of coal machinery sector, the Group has finalised the development of EBZ260A mining and digging machine and STR260 underground tunneling equipment, which are ready to be put into use; completed the small quantities of acceptance of 1202 shearer project; finished the water bracket test, the result of which was accepted by client, and finalised the water treatment equipment electrical systems solutions, drawing design and prototype production; and finalised the top-level design, overall plan, construction design and project approval of the automatic mining and excavation project. For the six months ended 30 June 2016, the Group obtained 32 invention patents, 25 utility model patents and 2 exterior design patents.

Production and Manufacturing

Currently, the Group has production and manufacturing bases in Shenyang, Changsha and Zhuhai respectively. There are eight plants in the coal machinery industrial park located in the Economic and Technological Development Zone of Shenyang with a total area of approximately 629,000 sq.m. The industrial park for small port equipment is located in the Changsha Industrial Zone with an area of approximately 100,000 sq.m., with several plants and commissioning fields. The 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 Group focused on enhancement of processing and assembly techniques, and adopted various measures to cut production costs.

Marketing and Service

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

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2016, the Group recorded revenue of approximately RMB859.5 million, representing a decrease of approximately 29.1% as compared to approximately RMB1,212.2 million for the six months ended 30 June 2015. Such decrease was mainly due to: (1) the continued adjustment of coal industry in the PRC, which affected the sales of coal machinery products; and (2) the long lead-time of large port machinery products.

Although the Group's revenue decreased for the six months ended 30 June 2016, it is expected that the continuing increase of the sales proportion of the marine engineering business, together with the gradual recovery of the coal machinery market and the stable implementation of the international strategy of the Company will lay a solid foundation for the Group's long-term development.

Other income and gains

For the six months ended 30 June 2016, the Group's other income and gains was approximately RMB81.8 million, representing a decrease of approximately 51.6% against approximately RMB168.8 million for the six months ended 30 June 2015. Such decrease was mainly due to the decrease in the government subsidies obtained.

Cost of sales

For the six months ended 30 June 2016, the Group's cost of sales was approximately RMB586.7 million, representing a decrease of approximately 28.8% against approximately RMB823.6 million for the six months ended 30 June 2015. The change was mainly due to the decrease in the overall sales of the Group.

Gross profit and gross profit margin

For the six months ended 30 June 2016, the gross profit margin of the Group was approximately 31.7%, representing a decrease of approximately 0.4 percentage point against approximately 32.1% for the six month ended 30 June 2015. Such decrease was mainly due to change in product sales mix.

Loss/profit margin before tax

For the six months ended 30 June 2016, the Group's loss margin before tax was approximately 6.1%, as compared to the profit margin before tax of approximately 6.2% for the six months ended 30 June 2015. Such change was mainly due to (1) a decrease in other income and gains caused by a decrease in government's subsidies obtained during the six months ended 30 June 2016; (2) a decrease in the overall sales of the Group and an increase in the ratio of selling, distribution and administrative expenses to gross sales proceeds; and (3) an increase in provision for bad debts of trade receivables for the six months ended 30 June 2016 under the principle of prudence.

Selling and distribution expenses

For the six months ended 30 June 2016, the selling and distribution expenses were approximately RMB107.0 million, representing a decrease of approximately 18.3% against approximately RMB131.0 million for the six months ended 30 June 2015. For the six months ended 30 June 2016, the ratio of the Group's selling and distribution expenses to sales revenue was approximately 12.5%, representing an increase of approximately 1.7 percentage points as compared to approximately 10.8% for the six months ended 30 June 2015. Such increase was due to the fact that the Group increased the distribution input in port machinery.

Research and development expenses

For the six months ended 30 June 2016, the research and development expenses were approximately RMB54.9 million, representing a decrease of approximately 42.7% as compared to approximately RMB95.9 million for the six months ended 30 June 2015. For the six months ended 30 June 2016, the ratio of research and development expenses of the Group to its sales revenue was approximately 6.4%, representing a decrease of approximately 1.5 percentage points as compared to approximately 7.9% for the six months ended 30 June 2015. Such changes were mainly due to a decrease in the Company's R&D, design and technological transformation costs resulting from the continuous improvement of its product technology and the well-developed coal machinery products. To ensure the continuous development, the Company will continue to put its R&D resources into the research such as energy-saving technology, ergonomics engineering and smart control technology for port machinery products and will also strengthen its research effort in excavation products, coal mining vehicle and natural gas equipment.

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Administrative expenses

For the six months ended 30 June 2016, administrative expenses of the Group were approximately RMB160.3 million (six months ended 30 June 2015: approximately RMB196.9 million). The administrative expenses excluding research and development expenses were approximately RMB105.5 million (six months ended 30 June 2015: approximately RMB101.0 million), representing an increase in the proportion of sales revenue of approximately 4.0 percentage points to 12.3% (six months ended 30 June 2015: approximately 8.3%). Such changes were mainly attributable to the depreciation of the coal machinery equipment industrial park and an increase in relevant taxes.

Finance costs

For the six months ended 30 June 2016, finance costs of the Group were approximately RMB1.0 million (six months ended 30 June 2015: approximately RMB4.6 million), mainly due to a decrease in bank loans of the Group; and a lower interest rate bore by the other borrowings from National Development Fund.

Taxation

For the six months ended 30 June 2016, the Group's effective tax rate was approximately 22.7% (six months ended 30 June 2015: approximately 35.0%). For details regarding income tax, please refer to note 7 on page 12 of this announcement.

Loss/profit attributable to owners of the parent

For the six months ended 30 June 2016, the Group's loss attributable to owners of the parent was approximately RMB36.0 million (six months ended 30 June 2015: the Group's profit attributed to owners of the parent of approximately RMB48.8 million). For the main reasons of the loss, please refer to the paragraphs headed "Revenue", "Gross profit and gross profit margin" and "Profit margin before tax" above.

Liquidity and financial resources

As at 30 June 2016, current assets of the Group were approximately RMB4,682.2 million (31 December 2015: approximately RMB5,418.8 million). As at 30 June 2016, current liabilities of the Group were approximately RMB2,048.7 million (31 December 2015: approximately RMB2,898.6 million).

As at 30 June 2016, total assets of the Group were approximately RMB10,553.2 million (31 December 2015: approximately RMB11,331.2 million), and total liabilities were approximately RMB3,802.0 million (31 December 2015: approximately RMB4,542.2 million). As at 30 June 2016, the gearing ratio (the asset to liability ratio) was approximately 36.0% (31 December 2015: approximately 40.1%).

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Trade and bills receivables

As of 30 June 2016, the Group's trade receivables and bills receivable recorded a decrease of approximately 35.9% to RMB2,164.8 million as compared to RMB3,378.1 million as of 31 December 2015, in which trade receivables decreased by approximately 38.9% to RMB1,903.1 million as compared to RMB3,115.3 million as of 31 December 2015; and bills receivable decreased by approximately 0.4% to RMB261.7 million as compared to RMB262.8 million as of 31 December 2015. Such change was mainly due to (1) the Group commenced the receivables non-recourse factoring business in the first half of 2016; (2) the management of the Group strengthened its risk management and control of receivables and implemented the "one policy for one client" policy to improve its recovery situation; and (3) the Group increased its provision for bad debts of trade receivables for the six months ended 30 June 2016 under the principle of prudence.

Other borrowings

As at 30 June 2016, other borrowings of the Group were approximately RMB160.5 million (as at 31 December 2015: nil). Such change was due to the fact that the Group obtained an investment from National Development Fund Co., Ltd. For further details, please refer to the circular of the Company dated 6 May 2016.

Cash flow

As at 30 June 2016, cash and cash equivalents of the Group and deposits with maturity of three months or more were approximately RMB985.9 million in total. For the six months ended 30 June 2016, the net cash inflow of the Group from operating activities was approximately RMB1,010.7 million (six months ended 30 June 2015: net cash outflow of approximately RMB498.6 million). Such change was mainly driven by the same reasons as stated in the paragraph headed "Trade and bills receivables" above.

For the six months ended 30 June 2016, the net cash outflow from investing activities was approximately RMB134.4 million (six months ended 30 June 2015: net cash inflow of approximately RMB467.6 million). Such change was mainly due to the recovery of investment deposits incurred in the same period of last year.

For the six months ended 30 June 2016, the net cash outflow of the Group from financing activities was approximately RMB415.4 million (six months ended 30 June 2015: net cash outflow of approximately RMB145.4 million) mainly due to repayment of affiliates borrowings.

Turnover days

The Group's average turnover days of inventory were approximately 362.4 days as at 30 June 2016, representing an increase of approximately 32.0 days from 330.4 days as at 30 June 2015, mainly due to the continuous adjustment of coal machinery industry, which decreased the sales of the coal mining equipment. The Group conducted impairment tests on our existing inventory and made provision for the inventory with indication of impairment according to the age of inventory.

The turnover days of trade and bills receivables as at 30 June 2016 were approximately 685.6 days, representing an increase of approximately 85.3 days from approximately 600.3 days as at 30 June 2015. Such increase was mainly due to a decrease in sales during the current period.

Turnover days of trade and bills payables decreased by approximately 20.1 days from approximately 278.0 days as at 30 June 2015 to approximately 257.9 days as at 30 June 2016, which was due to the fact that the bills payables became due during the current period.

Contingent liabilities

As at 30 June 2016, the Group had contingent liability of RMB102.4 million, being the financial guarantee under equipment mortgage loan agreements and financing lease arrangements provided by Hunan Sany Port Equipment (31 December 2015: RMB139.3 million).

Capital commitment

As at 30 June 2016, the contracted capital commitments of the Group which are not provided for in the financial statements were approximately RMB4,032.4 million (31 December 2015: approximately RMB4,231.1 million).

Employees and remuneration policy

The Group persists in training and developing talents. Accordingly, it provides internal training, external training and correspondence courses to its staff according to their ranking and at different times with an aim to self-improving and enhancing their skills relevant to work as well as strengthening their senses of belonging. In addition, the Group paid year-end bonuses to staff to reward them for their contributions and dedication to the Group. The remuneration of the directors of the Group was determined with reference to their positions, responsibilities and experience and prevailing market conditions.

Material Acquisition and Disposal

There were no material acquisitions or disposals of the Group for the six months ended 30 June 2016.

Pledge on assets

As at 30 June 2016, the Group recorded pledged deposits and pledged bills with an aggregate value of approximately RMB11.8 million (31 December 2015: approximately RMB14.7 million), for the purpose of issuing bills payable and banking facilities. As at 30 June 2016, none of the Group's bank loans were secured by property, plant and equipment and prepaid land lease payments (31 December 2015: nil).

Foreign exchange risk

As at 30 June 2016, the Group's cash and bank balances denominated in HK$ and US$ were equivalent to approximately RMB29.7 million. The Group will monitor the risk exposures and may consider hedging against material currency risk if required.

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Social responsibility

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

CORPORATE GOVERNANCE PRACTICES

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

Except for the code provision A.2.1, the Company has complied with the code provisions under the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") from 1 January 2016 to 30 June 2016.

In accordance with code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Further, the division of responsibilities between the chairman and chief executive officer should be clearly established. Since 6 August 2015, Mr. Qi Jian has been appointed as the chairman of the Board and the chief executive officer of the Company. The Board considers vesting the role of both the chairman of the Board and the chief executive officer of the Company in Mr. Qi Jian because Mr. Qi Jian has in-depth knowledge in the business of the Company and can make appropriate decisions promptly and efficiently and this arrangement provides the Company with consistent leadership and facilitates effective and efficient planning and implementation of business decisions and strategies. The Board believes this structure did not impair the balance of power and authority between the Board and the management of the Company. As the Board comprises of experienced and qualified calibre (including sufficient number of independent non-executive Directors), balance between duty and right can be assured. The Board will continue to review the effectiveness of the Company's corporate governance structure to assess whether the separation of the positions of chairman of the Board and chief executive officer of the Company is necessary.

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COMPLIANCE WITH THE MODEL CODE FOR DIRECTOR 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, for the six months ended 30 June 2016, they were in compliance with the required provisions set out in the Model Code.

AUDIT COMMITTEE

The Audit Committee was established in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The Audit Committee consists of three members, namely Mr. Poon Chiu Kwok, Mr. Xu Yaxiong and Mr. Ng Yuk Keung, all of whom are independent non-executive Directors. Mr. Poon Chiu Kwok, who has appropriate professional qualifications and experiences in the field of accounting, was appointed as the chairman of the Audit Committee. The Audit Committee has held meetings to discuss the auditing, internal controls, risk management and financial reporting matters including the review of the unaudited interim financial statements of the Group for the six months ended 30 June 2016.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The interim financial results for the six months ended 30 June 2016 have not been audited or reviewed by the Company's external auditor.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

For the six months ended 30 June 2016, neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the listed securities of the Company (for the year ended 31 December 2015: nil).

SUFFICIENCY OF PUBLIC FLOAT

Based on information available to the Company and within the knowledge of the Directors, the Company had maintained sufficient public float throughout the six months ended 30 June 2016.

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PUBLICATION OF INFORMATION ON THE WEBSITES

The interim report of the Company for the six months ended 30 June 2016 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the website of The Stock Exchange of Hong Kong Limited and the website of the Company at www.sanyhe.com in due course.

By the Order of the Board
Sany Heavy Equipment International Holdings Company Limited
Qi Jian
Chairman

Hong Kong, 24 August 2016

As at the date of this announcement, the executive Directors are Mr. Qi Jian, Mr. Fu Weizhong and Mr. Xiao Huishu, the non-executive Directors are Mr. Tang Xiuguo, Mr. Xiang Wenbo and Mr. Mao Zhongwu, and the independent non-executive Directors are Mr. Xu Yaxiong, Mr. Ng Yuk Keung and Mr. Poon Chiu Kwok.

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