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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors ("**Board**") of Sany Heavy Equipment International Holdings Company Limited (the "**Company**") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018, together with comparative figures for the financial year ended 31 December 2017. These annual results have been reviewed by the audit committee of the Company (the "**Audit Committee**"), comprising solely the independent non-executive Directors.

FINANCIAL SUMMARY

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

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

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	**2018** RMB'000	2017 RMB'000
REVENUE	4	**4,416,944**	2,481,365
Cost of sales		**(3,119,322)**	(1,743,814)
Gross profit		**1,297,622**	737,551
Other income and gains	4	**301,197**	339,304
Selling and distribution expenses		**(329,462)**	(299,483)
Administrative expenses		**(492,128)**	(341,851)
Other expenses		**(32,951)**	(118,313)
Finance costs	6	**(18,220)**	(2,634)
Profit before tax	5	**726,058**	314,574
Income tax expense	7	**(122,584)**	(83,637)
PROFIT FOR THE YEAR		**603,474**	230,937
Attributable to:			
Owners of the parent		**600,209**	229,436
Non-controlling interests		**3,265**	1,501
		603,474	230,937
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB Yuan)	9	**0.20**	0.08
Diluted (RMB Yuan)	9	**0.17**	0.07

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,462,871**	2,584,817
Prepaid land lease payments		**1,678,377**	561,964
Goodwill		**1,129,520**	1,129,520
Trade receivables	*11*	**89,826**	46,609
Available-for-sale investments		–	10,636
Non-current prepayments		**144,709**	1,332,808
Deferred tax assets		**390,667**	435,561
Total non-current assets		**5,895,970**	6,101,915
CURRENT ASSETS			
Inventories	*10*	**1,534,274**	1,246,415
Trade receivables	*11*	**2,127,075**	1,559,621
Bills receivable	*11*	**498,997**	265,696
Prepayments, other receivables and other assets		**634,396**	268,059
Financial assets at fair value through profit or loss		**1,046,022**	–
Available-for-sale financial investments		–	682,200
Pledged deposits		**33,813**	15,345
Cash and cash equivalents		**1,069,906**	814,221
		6,944,483	4,851,557
Assets of a disposal group classified as held for sale		**84,241**	245,578
Total current assets		**7,028,724**	5,097,135
CURRENT LIABILITIES			
Trade and bills payables	*12*	**1,819,648**	1,192,789
Other payables and accruals		**1,423,100**	1,318,215
Dividend payable		**75,675**	–
Interest-bearing bank and other borrowings	*13*	**1,399,951**	–
Tax payable		**267,725**	296,863
Provision for warranties		**9,888**	4,872
Government grants		**91,087**	97,026
		5,087,074	2,909,765
Liabilities directly associated with the assets classified as held for sale		**82,098**	8,941

	Notes	2018 RMB'000	2017 RMB'000
Total current liabilities		**5,169,172**	2,918,706
NET CURRENT ASSETS		**1,859,552**	2,178,429
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,755,522**	8,280,344
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*13*	–	429,127
Government grants		**1,297,833**	1,454,876
Deferred tax liabilities		**15,622**	34,170
Total non-current liabilities		**1,313,455**	1,918,173
Net assets		**6,442,067**	6,362,171
EQUITY			
Equity attributable to owners of the parent			
Share capital	*14*	**302,214**	302,214
Reserves		**6,128,292**	6,001,499
		6,430,506	6,303,713
Non-controlling interests		**11,561**	58,458
Total equity		**6,442,067**	6,362,171

1. CORPORATE AND GROUP INFORMATION

Sany Heavy Equipment International Holdings Company Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 23 July 2009. The Company's registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, and the head office and principal place of business of the Company is located at No.25, 16 Kaifa Road, Economic and Technological Development Area, Shenyang City, Liaoning Province, the People's Republic of China (the "PRC"). During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the manufacture and sale of roadheaders, combined coal mining units ("CCMU"), mining transport equipment (including underground and surface equipment), port machinery and spare parts and the provision of related services in Mainland China.

In the opinion of the directors of the Company (the "Directors"), the immediate holding company and the ultimate holding company of the Company are Sany Hongkong Group Limited ("Sany HK"), a company incorporated in Hong Kong, and Sany Heavy Equipment Investments Company Limited ("Sany BVI"), a company incorporated in the British Virgin Islands, respectively.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IAS") and Interpretations) issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for bills receivable and financial assets at fair value through profit or loss which have been measured at fair value. Disposal groups classified as held for sale are stated at the lower of their carrying amounts and fair value less costs to sell. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

Classification and measurement

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

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

		IAS39 Measurement		Re-		IFRS9 Measurement	
	Notes	Category	Amount	classification	ECL	Amount	Category
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	
Financial assets							
Available-for-sale investments		AFS[1]	10,636	(10,636)	–	–	N/A
To: Financial assets at fair value through profit or loss	*(i)*			10,636	–		
Available-for-sale financial investments		AFS	682,200	(682,200)	–	–	N/A
To: Financial assets at fair value through profit or loss	*(ii)*			682,200	–		
Financial assets at fair value through profit or loss		N/A	–	692,836	–	692,836	FVPL[2] (mandatory)
From: Available-for-sale investments	*(i)*			(10,636)	–		
From: Available-for-sale financial investments	*(ii)*			(682,200)	–		
Trade receivables		L&R[3]	1,606,230	–	–	1,606,230	AC[4]
Bills receivable	*(iii)*	L&R	265,696	–	–	265,696	FVOCI[5] (debt)
Financial assets included in prepayments, other receivables and other assets		L&R	138,161	–	–	138,161	AC
Pledged deposits		L&R	15,345	–	–	15,345	AC
Cash and cash equivalents		L&R	814,221	–	–	814,221	AC
Total assets			3,532,489	–	–	3,532,489	
Financial liabilities							
Trade and bills payables		AC	1,192,789	–	–	1,192,789	AC
Financial liabilities included in other payable and accruals		AC	536,114	–	–	536,114	AC
Interest bearing bank and other borrowings		AC	429,127	–	–	429,127	AC
Total liabilities			2,158,030	–	–	2,158,030	

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

Notes:

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

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

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

Impairment

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

(b) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

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

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

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

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

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

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
	Note	**IFRS15** *RMB'000*	**Previous IFRS** *RMB'000*	**Increase/ (decrease)** *RMB'000*
Other payables and accruals				
Deposit received from customers	*(i)*	–	694,787	(694,787)
Contract liabilities	*(i)*	694,787	–	694,787
		694,787	694,787	–

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

		Amounts prepared under		
	Note	**IFRS15** *RMB'000*	**Previous IFRS** *RMB'000*	**Increase/ (decrease)** *RMB'000*
Cost of sales	*(ii)*	3,119,322	2,991,772	127,550
Gross profit		1,297,622	1,170,072	127,550
Selling expenses	*(ii)*	329,462	457,012	(127,550)
Profit before tax		726,058	726,058	–

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

(i) Consideration received from customers in advance

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

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

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

(ii) Transportation costs

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

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) Energy equipment segment

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

(b) Port machinery segment

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

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

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

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

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

Year ended 31 December 2018

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

Year ended 31 December 2017

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

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

Geographical information

Revenue from external customers

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

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

Information about major customers

Revenue of approximately RMB395,220,000 (2017: RMB402,813,000) was derived from sales to a fellow subsidiary, including sales to a group of entities which are known to be under common control with that customer.

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 is as follows:

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

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

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

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

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

(ii) Performance obligations

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

Sale of industrial products

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

Maintenance services

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

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

5. PROFIT BEFORE TAX

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

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold	**3,129,274**	1,493,807
Cost of services provided	**76,026**	249,055
Depreciation	**210,346**	211,976
Amortisation of land lease prepayments**	**13,942**	15,492
Amortisation of intangible assets**	**–**	21,366
Auditors' remuneration	**2,480**	2,480
Provison/(reversal) of warranties*	**10,597**	(607)
Research and development costs**	**241,779**	118,013
Loss on inventories due to typhoon***	**–**	20,045
Loss on property, plant and equipment due to typhoon***	**–**	39,959
Minimum lease payments under operating leases	**4,355**	4,231
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	**338,489**	213,262
Equity-settled share option expense	**25,829**	1,097
Employee retirement benefits	**37,991**	22,718
Other staff welfare	**19,569**	11,398
	421,878	248,475
Foreign exchange differences, net***	**9,137**	14,888
Impairment of financial assets, net***:		
Impairment of trade receivables, net	**8,931**	14,905
Impairment of other receivables, net	**1,425**	17,881
	10,356	32,786
(Write-back of)/provision against slow-moving and obsolete inventories****	**(85,978)**	952
Loss on disposal of items of property, plant and equipment***	**6,137**	152
Loss from sales of scrap materials***	**3,140**	–
Fair value gains, net:		
Financial assets at fair value through profit or loss – mandatorily classified as such***	**31,173**	–

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

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

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

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

6. FINANCE COSTS

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

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 year.

Pursuant to the PRC Income Tax Law and the respective regulations, except for certain preferential tax treatments available to certain subsidiaries operating in Mainland China, the companies of the Group which operate in Mainland China were subject to Corporate Income Tax ("CIT") at a rate of 25% on their respective taxable income for the year ended 31 December 2018.

Three of the Group's principal operating companies, Sany Heavy Equipment, Hunan Sany Port Equipment and Sany Marine Heavy Industry, were recognised as High and New Technology Enterprise and were therefore subject to CIT at a rate of 15% in 2018.

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

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

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

8. DIVIDEND

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

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

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

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

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

The calculation of the diluted earnings per share amount is based on the profit for the year ended 31 December 2018 attributable to ordinary equity holders of the parent, adjusted to reflect the preferred distribution on the convertible preference shares. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

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

10. INVENTORIES

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

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

	2018	2017
	RMB'000	*RMB'000*
At 1 January	**356,576**	355,624
Charge for the year *(note 5)*	**(85,978)**	952
At 31 December	**270,598**	356,576

* After deducting the insurance indemnity of RMB25,000,000 received by the Group for the loss on inventories due to typhoon in 2017, a net loss on inventories of RMB20,045,000 *(note 5)* has been recorded in other expenses in the consolidated statement of profit or loss.

11. TRADE AND BILLS RECEIVABLES

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

The Group generally requires its customers to make payments at various stages of the sales transactions, however, the Group grants certain credit periods to old customers with a good payment history. The credit periods of individual customers are considered on a case-by-case basis and are set out in the sales contracts, as appropriate. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. At the end of the reporting period, the Group had a certain concentration of credit risk as 7% (2017: 19%) of the Group's trade receivables due from a single customer, including a group of entities which are known to be under common control with that customer. Included in the trade receivables was an amount due from fellow subsidiaries in aggregate of RMB271,943,000 as at 31 December 2018 (2017: RMB296,666,000) for sales of products by the Group, which accounted for 12% (2017: 18%) of the Group's trade receivables at the end of the reporting period. Trade receivables are non-interest-bearing.

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

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

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

	2018	2017
	RMB'000	*RMB'000*
At beginning of year	**759,941**	807,096
Impairment losses, net *(note 5)*	**8,931**	14,905
Amount written off as uncollectible	**(80,515)**	(62,060)
At end of year	**688,357**	759,941

Impairment under IFRS 9 for the year ended 31 December 2018

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

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

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

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivable, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017 was a provision for individually impaired trade receivable of RMB759,941,000 with a carrying amount before provision of RMB773,358,000. As at 31 December 2017, trade receivables with a gross amount of RMB323,140,000 were under litigation filed by the Group against customers and were fully impaired by the Group. The Directors of the Company consider that there is no adverse impact to the Group relating to these litigations.

As at 31 December 2018, among the balance of RMB323,140,000 above, RMB123,258,000 was resolved on consensus with repayment schedules, RMB68,354,000 was collected, RMB15,094,000 was written-off as uncollectible, and the rest remained in progress of litigation.

The individually impaired trade receivable as at 31 December 2017 related to customers that were in financial difficulties or were in default in payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

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

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

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

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

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

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

Included in the bills receivable was an amount of RMB13,000,000 as at 31 December 2018 (2017: RMB8,100,000) which was endorsed to fellow subsidiaries for purchasing raw materials by the Group.

Transferred financial assets that are not derecognised in their entirety

At 31 December 2018, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB236,616,000 (2017: RMB88,995,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the Directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB236,616,000 (2017: RMB88,995,000) as at 31 December 2018.

Transferred financial assets that are derecognised in their entirety

At 31 December 2018, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB612,636,000 (2017: RMB290,567,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

12. TRADE AND BILLS PAYABLES

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

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

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

The bills payable are normally due within 180 days.

Included in the trade and bills payables was an amount due to fellow subsidiaries in aggregate of RMB180,429,000 as at 31 December 2018 (2017: RMB137,523,000) for purchasing raw materials by the Group.

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

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

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

Except for the non-current bank loans of RMB431,601,000 (31 December 2017: 429,127,000) which are denominated in Euro, all borrowings are in RMB.

14. SHARE CAPITAL

Shares

	2018	2017
	HK$'000	*HK$'000*
Authorised:		
4,461,067,880 (2017: 4,461,067,880) ordinary shares of HK$0.10 each	**446,107**	446,107
538,932,120 (2017: 538,932,120) convertible preference shares of HK$0.10 each	**53,893**	53,893
Total authorised capital	**500,000**	500,000
Issued and fully paid:		
3,041,025,000 (2017: 3,041,025,000) ordinary shares of HK$0.10 each	**304,103**	304,103
479,781,034 (2017: 479,781,034) convertible preference shares of HK$0.10 each	**47,978**	47,978
Total issued and fully paid capital	**352,081**	352,081
Equivalent to RMB'000	**302,214**	302,214

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

Movements of issued capital were as follows:

	Issued ordinary shares	**Issued convertible preference shares**	**Share premium**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2017 and 31 December 2018	264,366	37,848	2,239,502	2,541,716

15. COMMITMENTS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

Major products

The Group divides its products into two categories, namely (1) the energy equipment business sector, which includes coal machinery business products, such as roadheaders (all types of soft rock, hard rock roadheader and integrated excavation, bolting and self-protection machine) and CCMU (hydraulic support system, coal mining machines (shearer), scraper conveyor (Armored-Face Conveyer), etc.); and the non-coal business products, such as mining transport equipment (mechanical drive off-highway dump truck, electric drive off-highway dump truck, articulated truck and underground coal mining vehicle) and excavation equipment (tunnel and excavation series) and other relevant products; and (2) the port machinery business sector, which includes port machinery products (reach stacker, empty container handler, quayside container crane, forklift, steel and material gripper and pure electric port tractors) and offshore heavy machineries.

Research and development capability

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

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

As of 31 December 2018, the Group obtained 23 invention patents, 2 utility model patents, 3 design patents, and 4 copyrights.

Production and Manufacturing

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

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

Marketing and Service

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

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

FINANCIAL REVIEW

Revenue

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

Other income and gains

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

Cost of sales

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

Gross profit and gross profit margin

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

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

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

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

Selling and distribution expenses

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

R&D expenses

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

Administrative expenses

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

Finance costs

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

Profit margin before tax

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

Taxation

For the year ended 31 December 2018, the Group's effective tax rate was 16.9% (the year ended 31 December 2017: 26.6%). For details regarding income tax, please refer to the above section headed "Notes to Financial Statements – 7. Income Tax".

Profit attributable to owners of the parent

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

Liquidity and financial resources

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

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

Trade and bills receivables

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

Interest-bearing bank and other borrowings

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

Cash flow

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

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

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

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

Turnover days

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

The turnover days of trade and bills receivables as at 31 December 2018 were approximately 249.4 days, representing a decrease of 139.8 days from approximately 389.2 days as at 31 December 2017. Please refer to the above paragraphs headed "Revenue" and "Trade and bills receivables" for the main reasons of such decrease.

Excluding the impairment losses for inventories provided, turnover days of trade and bills payables decreased by approximately 53.5 days from approximately 225.0 days as at 31 December 2017 to approximately 171.5 days as at 31 December 2018, which was mainly due to the shortened payment period to suppliers to ensure sufficient raw materials for the sales orders.

Financing guarantee contracts

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

Capital commitment

As at 31 December 2018, the contracted capital commitments of the Group which are not provided for in the financial statements were approximately RMB4,207.0 million (31 December 2017: approximately RMB3,569.7 million).

Employees and remuneration policy

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

Material acquisition and disposal

Reference is made to the announcement dated 5 December 2017, pursuant to which, the Group agreed to dispose Shanxi Sany Coal Mining Equipment Co., Ltd.* (山西三一煤機裝備有限公司), a then wholly-owned subsidiary of the Group, to an independent third party and such buyer also agreed to undertake the shareholder's loan therein. The Group has received the consideration of RMB200.0 million and RMB44.0 million during the year ended 31 December 2017 and 2018, respectively. The disposal was completed in April 2018 and a disposal gain of RMB3.9 million was recorded in other income for the year ended 31 December 2018.

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

Pledge on assets

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

Foreign exchange risk

As at 31 December 2018, the Group's cash and bank balances denominated in foreign currency such as US$ and Euro were equivalent to approximately RMB466.5 million. The Group will monitor the risk exposures and may consider hedging against material currency risk if required.

Social responsibility

The Group has a high sense of social responsibility. Apart from its commitment to business growth, it also actively participates in social activities to support public welfare, striving to contribute to the local economy, people's livelihood and harmonious environment. In addition to cash donations to charity organizations, the management and staff of the Group provides human and material resources to help and support local community development. During the Spring Festival, the Group launched activities to give warmth and help staff mitigate their financial stress. The management visited staff with family difficulties and provided them with consolation money and items; presented family package insurance to staff; and organised staff health check. The Group also raised funds for staff requiring assistance and spread love and care to staff who were in need of support.

FUTURE DEVELOPMENT

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

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

DIVIDENDS

Final Dividend

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

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

As at the date of this announcement, there were 479,781,034 outstanding Convertible Preference Shares registered under the name of Sany Hongkong Group Limited. Accordingly, the holder of the outstanding Convertible Preference Shares are entitled to (a) the Preferred Distribution of approximately HK$289,164.0, representing the preferred distribution accumulated from 1 January 2018 to 31 December 2018, and (b) the final dividend of HK10 cents per Convertible Preference Share, amounting to approximately HK$47,978,103.4. The Preferred Distribution and the dividends for the Convertible Preference Shares are proposed to be distributed on or around 20 June 2019, on the same distribution date as the final dividend for ordinary shares.

Special Dividend

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

As of 23 January 2018, there were 479,781,034 outstanding Convertible Preference Shares registered under the name of Sany Hongkong Group Limited. Accordingly, the holder of the outstanding Convertible Preference Shares are entitled to (a) the Preferred Distribution of approximately HK$289,164.0, representing the preferred distribution accumulated from the issue date of the Convertible Preference Shares to 31 December 2017, and (b) the special dividend of HK$0.18 per Convertible Preference Share, amounting to approximately HK$86,360,586.1. Such Preferred Distribution and special dividend had been distributed on 15 March 2018.

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

CORPORATE GOVERNANCE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible enterprise 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. The Board focuses 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 the foundation for creating more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for Shareholders.

Except for the code provision A.2.1, the Company has complied with the Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Listing Rules from 1 January 2018 to 31 December 2018. In accordance with code provision A.2.1 of the CG Code, the roles of chairman of the Board and chief executive officer should be separate and should not be performed by the same individual. Further, the division of responsibilities between the chairman and chief executive officer should be clearly established. Since 6 August 2015, Mr. Qi Jian had been appointed as both of the chairman of the Board and the chief executive officer. The Board considers that vesting the role of both chairman of the Board and the chief executive officer in Mr. Qi Jian providing the Company with consistent leadership, facilities effective and efficient planning and implementation of business decisions and strategies. Thus, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company.

ANNUAL GENERAL MEETING

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

CLOSURE OF REGISTER OF MEMBERS – ANNUAL GENERAL MEETING

The register of members of the Company will be closed from Friday, 3 May 2019 to Friday, 10 May 2019, both days inclusive, during which period no transfer of shares will be registered. The record date for entitlement to attend and vote at the annual general meeting is Friday, 10 May 2019. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Friday, 10 May 2019, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 2 May 2019.

CLOSURE OF REGISTER OF MEMBERS – FINAL DIVIDEND PAYMENT

The register of members of the Company will also be closed from Monday, 20 May 2019 to Friday, 24 May 2019, both days inclusive, during which period no transfer of shares will be registered. The record date for entitlement to the proposed dividends is Friday, 24 May 2019. In order to be entitled to the proposed dividends, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 17 May 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the listed shares of the Company (2017: nil).

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**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. All Directors declared that they had complied with the Model Code for the year ended 31 December 2018.

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 place in compliance with the Corporate Governance Code. The Audit Committee consists of three members, namely Mr. Ng Yuk Keung, Mr. Poon Chiu Kwok and Mr. Hu Jiquan, all of whom are independent non-executive Directors. Mr. Poon Chiu Kwok, who possesses professional accounting qualifications, was appointed as the chairman of the Audit Committee. The Audit Committee has reviewed the consolidated annual results of the Group for the full year ended 31 December 2018, including the accounting principles and standard practices adopted by the Group and selection and appointment of the external auditors.

FINANCIAL INFORMATION

The financial information set out in this announcement does not constitute the Group's audited accounts for the year ended 31 December 2018, but represents an extract from those accounts.

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 year ended 31 December 2018.

PUBLICATION OF INFORMATION ON THE WEBSITES

The annual report of the Company for the year ended 31 December 2018 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 at www.hkex.com.hk and the website of the Company at http://www.sanyhe.com in due course.

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

Hong Kong, 20 March 2019

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