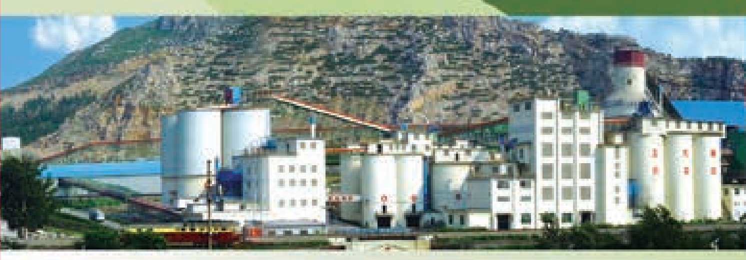
# CHINA SHANSHUI CEMENT GROUP LIMITED
# 中國山水水泥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 691

# 2015 Annual Report

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# Definitions

In this annual report, unless the context otherwise requires, the following words and expressions have the following meanings:

| | |
|---|---|
| "Company" or "Shanshui Cement" | China Shanshui Cement Group Limited |
| "Group" or "Shanshui Group" | the Company and its subsidiaries |
| "Reporting Period" | 1 January 2015 to 31 December 2015 |
| "Directors" | Directors of the Company |
| "Board" | Board of Directors of the Company |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "SFO" | Securities and Futures Ordinance (Cap. 571) (as amended, supplemented or otherwise modified from time to time) |
| "Hong Kong" | Hong Kong Special Administrative Region of the PRC |
| "Shares" | the ordinary shares in the share capital of the Company with a nominal value of US$0.01 each |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Articles of Association" | the articles of association of the Company |
| "Clinker" | a semi-finished product in the cement production process |
| "RMB" | Renminbi |
| "PRC" | The People's Republic of China |
| "Shandong Region" | Shandong Province and the areas covered by the Company's business, including Hebei Province, Henan Province, Tianjin etc. |
| "Northeast Region" | Liaoning Province and the areas covered by the Company's business, including Eastern part of Inner Mongolia, Jilin Province etc. |
| "Shanxi Region" | Shanxi Province and the areas covered by the Company's business, including Shaanxi Province etc. |
| "Xinjiang Region" | The areas covered by the Company's business in Kashi, Xinjiang |
| "National Bureau of Statistics of China" | The National Bureau of Statistics of the People's Republic of China |

# (I) Corporate Information

| | | | |
|---|---|---|---|
| (1) | Company Name | | |
| | Company Name in Chinese | : | 中國山水水泥集團有限公司 |
| | Official English Name of the Company | : | China Shanshui Cement Group Limited |
| (2) | Registered Office | : | P.O. Box 10008, Willow House,<br>Cricket Square, Grand Cayman KY1-1001,<br>Cayman Islands |
| (3) | Principal Places of Business | | |
| | Principal Place of Business in China | : | Sunnsy Industrial Park, Gushan Town,<br>Changqing District, Jinan, Shandong, China |
| | Principal Place of Business in Hong Kong | : | Room 2609, 26/F, Tower 2, Lippo Centre,<br>89 Queensway, Admiralty, Hong Kong |
| (4) | Contact details of the Company | | |
| | Telephone | : | +852-25257918 |
| | Fax | : | +852-25257998 |
| | E-mail address | : | ir@csc-grp.com |
| (5) | Website | : | www.shanshuicement.com |
| (6) | Authorised Representatives | : | Liu Yiu Keung, Stephen and Cheung Yuk Ming |
| (7) | Joint Company Secretary | : | Tsang Wing Tai and Yu Chun Liang |
| (8) | Principal Bankers | : | Industrial and Commercial Bank of China<br>China Construction Bank Corporation<br>Bank of China |
| (9) | Listing Date | : | 4 July 2008 |
| (10) | Website for publication of this report | : | www.shanshuicement.com |
| (11) | Exchange on which the Company's shares are listed | : | The Hong Kong Stock Exchange |
| (12) | Stock code | : | 00691 |
| (13) | Stock Short Name | : | Shanshui Cement |
| (14) | Hong Kong Share Registrar and Transfer Office | : | Computershare Hong Kong Investor Services Ltd. |
| | Address | : | Shops 1712-1716, 17/F, Hopewell Centre,<br>183 Queen's Road East, Wan Chai, Hong Kong |
| (15) | Legal Advisers | | |
| | as to PRC laws | : | Tiantai Law Firm |
| | as to Hong Kong laws | : | Wilkinson & Grist |
| (16) | Auditor | : | KPMG |

# (II) Corporate Profile

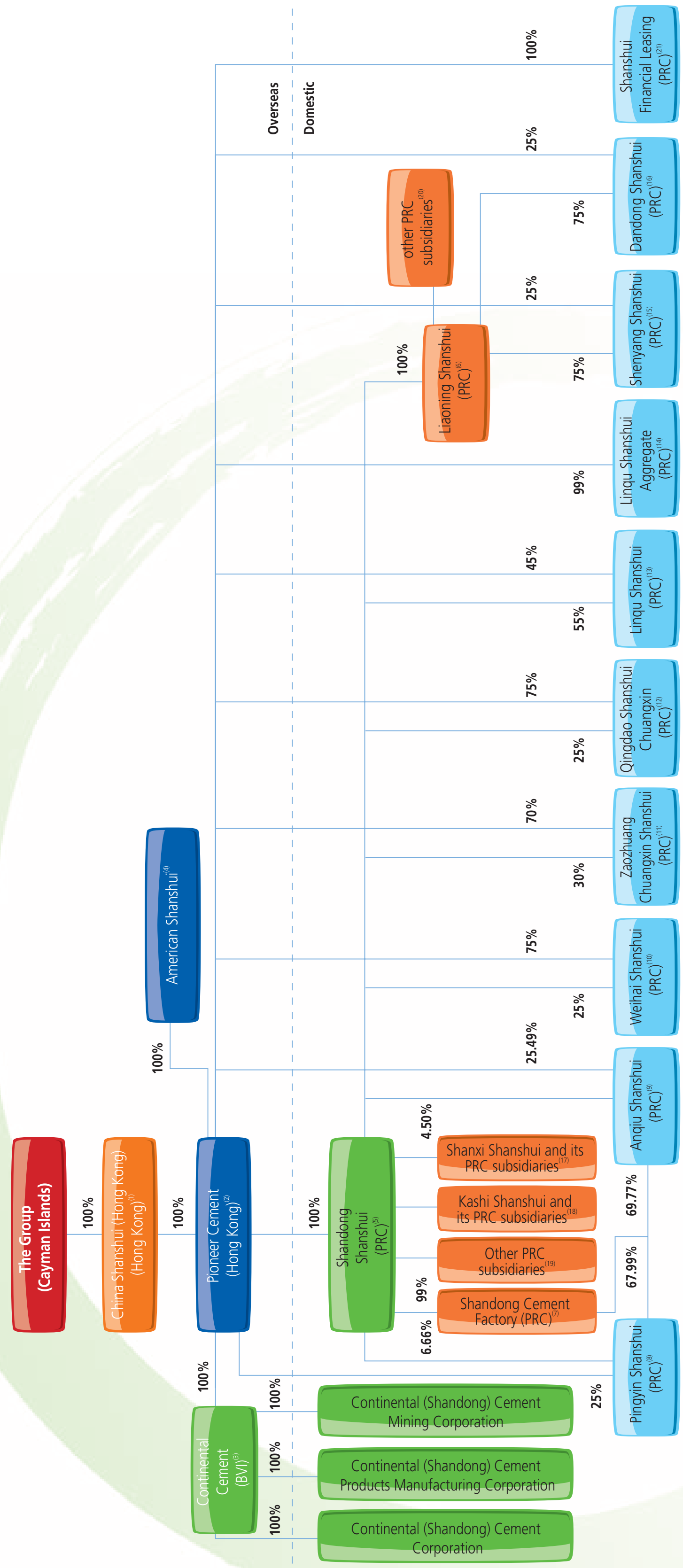
## 1. BUSINESS

Shanshui Group is one of the active cement producers in Shandong and Liaoning Provinces of China. From 2009 onwards, the Group started to establish presence in eastern part of Inner Mongolia, Shanxi and Kashi region of Xinjiang.

## 2. KEY BUSINESS DATA

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Sales volume of cement ('000 tonnes) | **45,821** | 53,146 | 53,422 |
| Sales volume of clinker ('000 tonnes) | **8,421** | 9,818 | 9,218 |
| Sales volume of concrete ('000 $m^3$) | **2,370** | 3,471 | 2,864 |
| Unit selling price of cement (RMB/tonne) | **198.8** | 235.4 | 249.9 |
| Unit selling price of clinker (RMB/tonne) | **154.3** | 191.6 | 195.3 |
| Unit selling price of concrete (RMB/$m^3$) | **267.6** | 298.6 | 296.7 |

## 3. DIAGRAM OF SHAREHOLDING STRUCTURE OF THE GROUP



# (II) Corporate Profile

Notes:

(1) China Shanshui Cement Group (Hong Kong) Company Limited. Its principal business is investment holding.

(2) China Pioneer Cement (Hong Kong) Company Limited. Its principal business is investment holding.

(3) Continental Cement Corporation ("Continental Cement"). Its principal business is investment holding.

(4) American Shanshui Development Inc. ("American Shanshui"). Its principal business is acting as an agent of sales of cement, cement products and construction materials.

(5) Shandong Shanshui Cement Group Company Limited ("Shandong Shanshui"). Its principal businesses are design, manufacturing and sale of cement, cement products and construction materials.

(6) Liaoning Shanshui Gongyuan Cement Company Limited ("Liaoning Shanshui"). Its principal businesses are cement production, sale of cement products, cement packaging, steel, metals and chemical products.

(7) Shandong Cement Factory Company Limited ("Shandong Cement Factory"). The remaining 1% equity interest is held by Jinan Shanshui Group Co., Ltd. ("Jinan Shanshui"). Its principal businesses are manufacturing of cement and slag fine powder.

(8) Pingyin Shanshui Cement Company Limited ("Pingyin Shanshui"). The remaining 0.35% of the equity interest is held by Jinan Shanshui. Its principal businesses are manufacturing and sale of cement, clinker, slag powder and fly ash powder.

(9) Anqiu Shanshui Cement Company Limited ("Anqiu Shanshui"). The remaining 0.24% of the equity interest is held by Jinan Shanshui. Its principal businesses are manufacturing and sale of cement and clinker, and limestone mining.

(10) Weihai Shanshui Cement Company Limited ("Weihai Shanshui"). Its principal businesses are manufacturing and sale of cement.

(11) Zaozhuang Chuangxin Shanshui Cement Company Limited ("Zaozhuang Chuangxin Shanshui"). Its principal businesses are manufacturing and sale of cement.

(12) Qingdao Shanshui Chuangxin Cement Company Limited ("Qingdao Shanshui Chuangxin"). Its principal businesses are manufacturing and sale of cement.

(13) Linqu Shanshui Cement Company Limited ("Linqu Shanshui"). Its principal businesses are manufacturing and sale of cement.

(14) Linqu Shanshui Building Materials Aggregate Company Limited ("Linqu Shanshui Aggregate"). The remaining 1% of the equity interest is held by Shandong Shanshui Building Materials Company Limited. Its principal businesses are research, manufacturing and sale of various aggregate as well as desulfurized limestone powder processing.

(15) Shenyang Shanshui Gongyuan Cement Company Limited ("Shenyang Shanshui"). Its principal businesses are manufacturing and sale of cement.

(16) Dandong Shanshui Gongyuan Cement Company Limited ("Dandong Shanshui"). Its principal businesses are manufacturing and sale of cement.

(17) The details of Shanxi Shanshui Cement Company Limited ("Shanxi Shanshui") and its subsidiaries are set out in Note 16 to Financial Statements.

(18) The details of Kashi Shanshui Cement Company Limited ("Kashi Shanshui") and its subsidiaries are set out in Note 16 to Financial Statements.

(19) The details of other subsidiaries of Shandong Shanshui are set out in Note 16 to Financial Statements.

(20) The details of other subsidiaries of Liaoning Shanshui are set out in Note 16 to Financial Statements.

(21) Shandong Shanshui Financial Leasing Company Limited ("Shanshui Financial Leasing"). Its principal business is financial leasing.

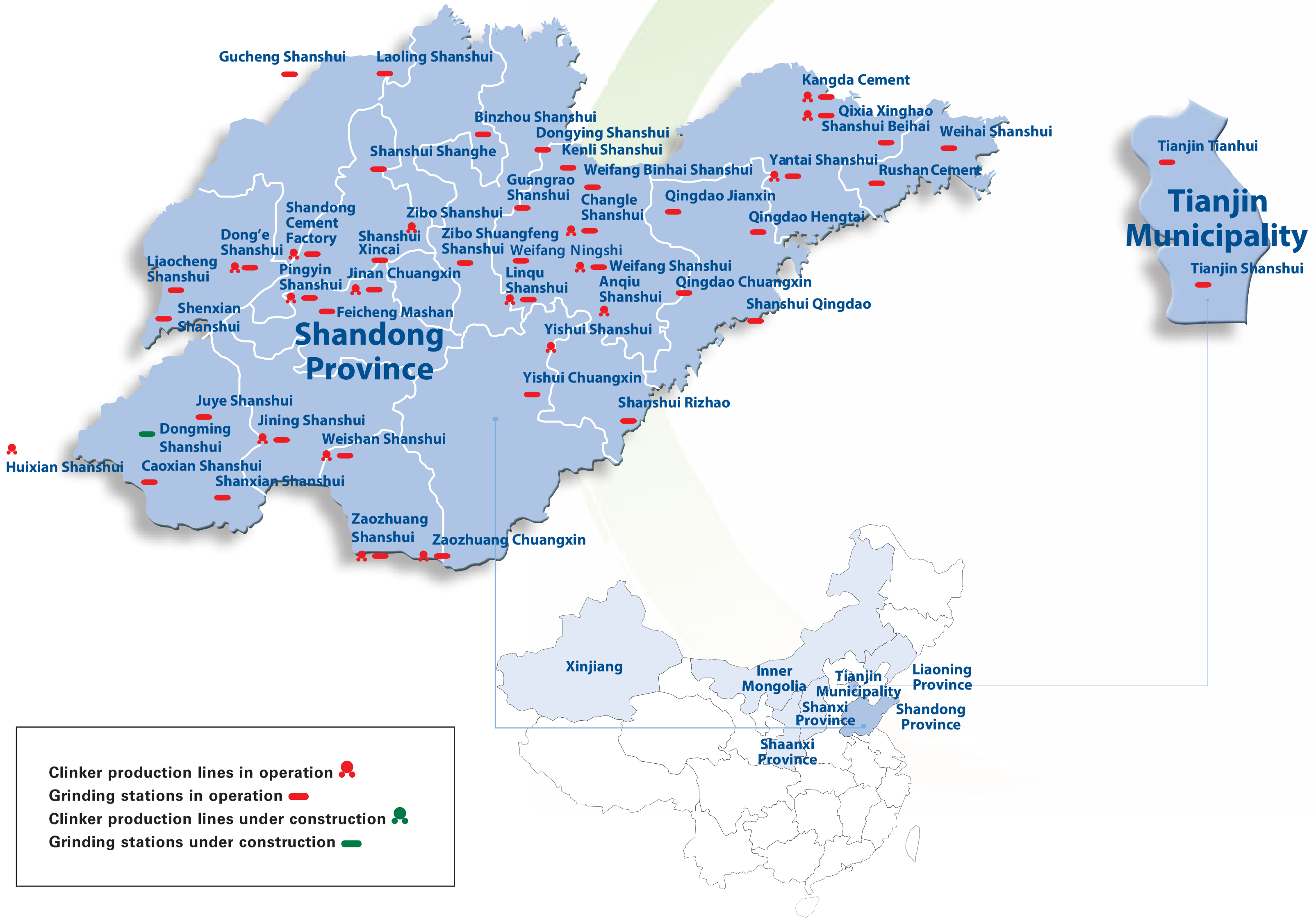
## 4. DISTRIBUTION OF PRODUCTION FACILITIES AND CAPACITY

The Group's production facilities are principally located in Shandong Province, Liaoning Province, the eastern part of Inner Mongolia, Shanxi Province, the northern part of Shaanxi Province and Kashi region in Xinjiang Province. Its clinker production facilities are located near limestone mines serving cement grinding stations that are located in close proximity to the Group's end-markets and customers.

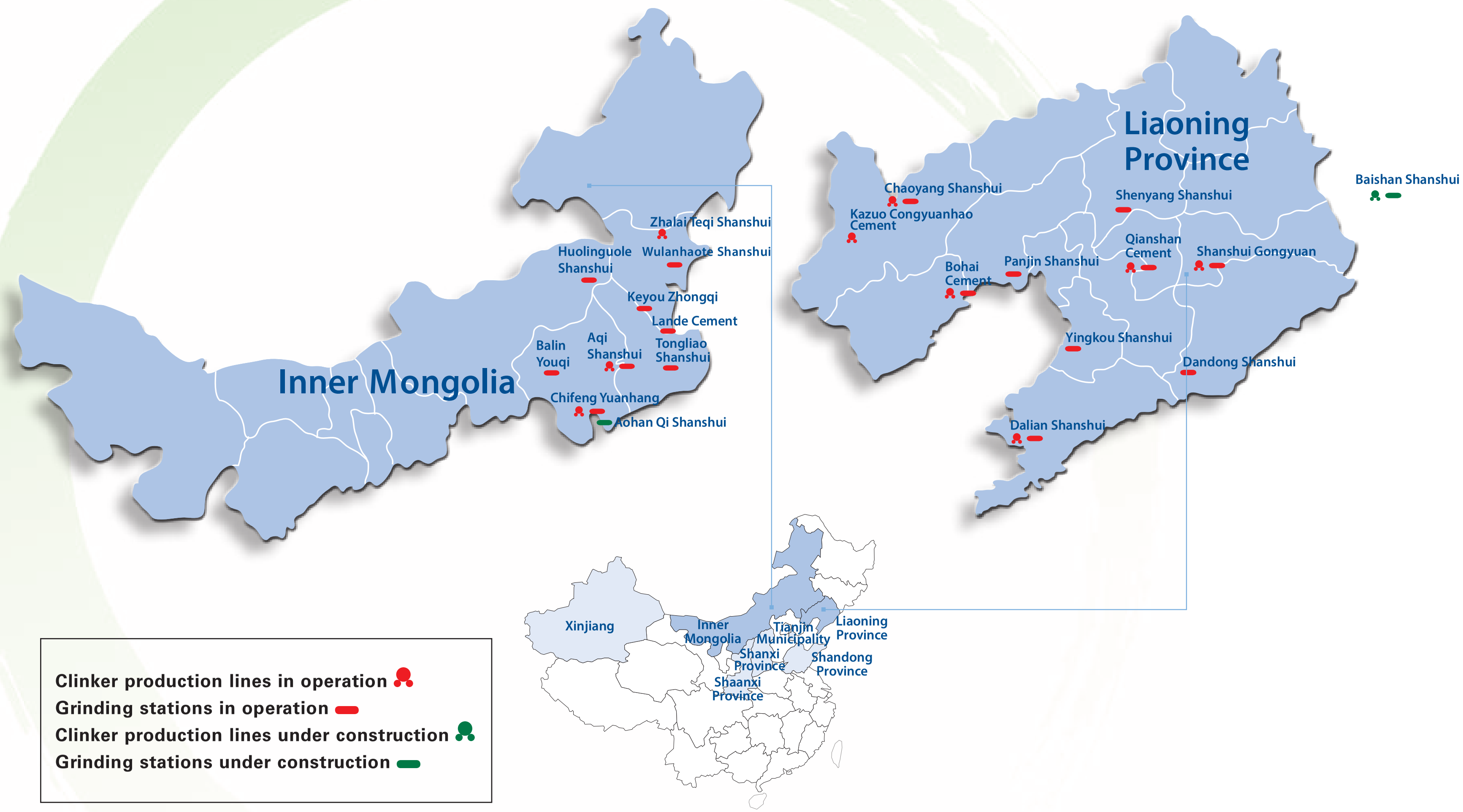
As of 31 December 2015, The Company had a total cement production capacity (included greenfield projects at final stage) of 106.76 million tonnes and clinker production capacity (included production lines in test run) of 52.29 million tonnes. Separately, the total capacity of cement and clinker in Shandong Region reached 59.16 million tonnes and 26.85 million tonnes respectively, while the total capacity of cement and clinker in Northeast Region reached 27.70 million tonnes and 14.56 million tonnes respectively. The cement and clinker capacity in Shanxi Region reached 15.90 million tonnes and 9.28 million tonnes respectively. The cement and clinker capacity in Xinjiang Region reached 4.00 million tonnes and 1.60 million tons respectively.

# (II) Corporate Profile

**The diagram below shows the locations of major production facilities (including projects under construction) in Shandong Region as of 31 December 2015:**

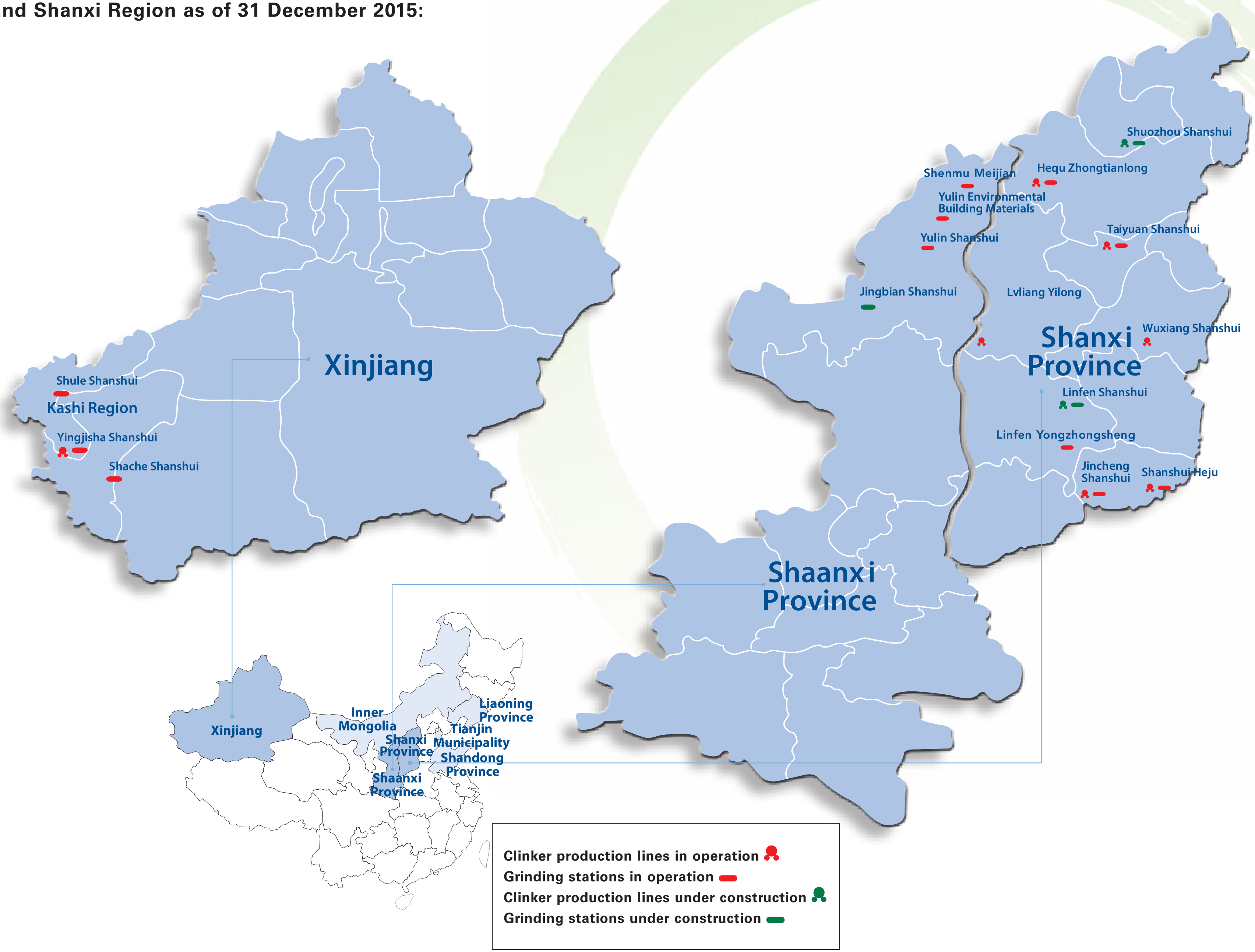


**The diagram below shows the locations of major production facilities (including projects under construction) in Northeast Region as of 31 December 2015:**



# (II) Corporate Profile

**The diagram below shows the locations of our major production facilities (including projects under construction) in Xinjiang and Shanxi Region as of 31 December 2015:**



## 5. BOARD OF DIRECTORS

### Executive Directors

Li Liufa *(Chairman)*
Li Heping *(Chief Executive Officer)*
Liu Yiu Keung, Stephen *(Yen Ching Wai, David as his alternate)*
Cheung Yuk Ming

Note: Mr. Cheung Yuk Ming was appointed as an Independent Non-Executive Director of the Company on 1 December 2015 and has been re-designated from Independent Non-Executive Directors to Executive Director with effect from 2 February 2016.

### Non-Executive Directors

Hwa Guo Wai, Godwin
Chong Cha Hwa

Note: Mr. Hwa Guo Wai, Godwin and Mr. Chong Cha Hwa were appointed as Executive Directors on 1 December 2015 and have been re-designated as Non-Executive Directors with effect from 2 February 2016. Mr. Ng Qing Hai was appointed as Non-Executive Director of the Company and has resigned with effect from 2 February 2016.

### Independent Non-Executive Directors

Ho Man Kay Angela
Law Pui Cheung
Wong Chi Keung

Note: Mr. Wong Chi Keung has been appointed as an Independent Non-Executive Director with effect from 2 February 2016.

### Audit Committee

Law Pui Cheung *(Chairman)*
Ho Man Kay Angela
Wong Chi Keung

Note: Mr. Cheung Yuk Ming was appointed as the Chairman of the Audit Committee of the Company on 1 December 2015 and has resigned as the Chairman of the Audit Committee with effect from 2 February 2016.

Mr. Law Pui Cheung was appointed as a member of the Audit Committee of the Company on 1 December 2015 and has been appointed as the Chairman of the Audit Committee with effect from 2 February 2016. Mr. Wong Chi Keung has been appointed as a member of the Audit Committee of the Company with effect from 2 February 2016.

# (II) Corporate Profile

## Remuneration Committee

Ho Man Kay Angela *(Chairman)*
Law Pui Cheung
Wong Chi Keung

Note: Mr. Cheung Yuk Ming was appointed as a member of the Remuneration Committee of the Company on 1 December 2015 and has resigned as a member of the Remuneration Committee of the Company with effect from 2 February 2016. Mr. Wong Chi Keung has been appointed as a member of the Remuneration Committee of the Company with effect from 2 February 2016.

## Executive Committee

Li Liufa *(Chairman)*
Li Heping
Liu Yiu Keung, Stephen
Cheung Yuk Ming

Note: Mr. Chong Cha Hwa was appointed as a member of the Executive Committee of the Company on 1 December 2015 and has resigned as a member of the Executive Committee of the Company with effect from 2 February 2016. Mr. Cheung Yuk Ming has been appointed as a member of the Executive Committee of the Company with effect from 2 February 2016.

## Nomination Committee

Li Liufa *(Chairman)*
Liu Yiu Keung, Stephen
Ho Man Kay Angela
Law Pui Cheung
Wong Chi Keung

Note: Mr. Cheung Yuk Ming was appointed as a member of the Nomination Committee of the Company on 1 December 2015 and has resigned as a member of the Nomination Committee of the Company with effect from 2 February 2016. Mr. Wong Chi Keung has been appointed as a member of the Nomination Committee of the Company with effect from 2 February 2016.

## Investigation Committee

Ho Man Kay Angela
Law Pui Cheung
Wong Chi Keung

Note: Mr. Cheung Yuk Ming was appointed as a member of the Investigation Committee of the Company on 1 December 2015 and has resigned as a member of the Investigation Committee of the Company with effect from 2 February 2016. Mr. Wong Chi Keung has been appointed as a member of the Investigation Committee of the Company with effect from 2 February 2016.

# (III) Financial Data Summary

## 1. CONSOLIDATED INCOME STATEMENT

(Unit: RMB'000, unless stated otherwise)

For the 12 months ended 31 December

| | **2015** | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Revenue | **11,166,212** | 15,596,440 | 16,535,204 | 16,160,981 | 16,861,956 |
| Gross profit | **1,228,285** | 3,346,865 | 3,829,237 | 4,111,316 | 5,079,125 |
| Gross profit margin | **11.0%** | 21.5% | 23.2% | 25.4% | 30.1% |
| (Loss)/Profit from operations | **(4,869,076)** | 1,812,813 | 2,557,206 | 3,099,324 | 3,856,493 |
| (Loss)/Profit margin from operations | **(43.6%)** | 11.6% | 15.5% | 19.2% | 22.9% |
| EBITDA | **(3,430,464)** | 3,172,359 | 3,798,678 | 4,264,574 | 4,801,392 |
| EBITDA margin | **(30.7%)** | 20.3% | 23.0% | 26.4% | 28.5% |
| Net (loss)/profit | **(6,693,655)** | 308,578 | 1,074,712 | 1,603,763 | 2,311,654 |
| Attributable to: | | | | | |
| Equity shareholders of the Company | **(6,387,259)** | 347,650 | 1,016,707 | 1,518,529 | 2,225,290 |
| Minority interests | **(306,396)** | (39,072) | 58,005 | 85,234 | 86,364 |
| Basic (loss)/earnings per share (RMB) | **(1.89)** | 0.12 | 0.36 | 0.54 | 0.79 |
| Diluted (loss)/earnings per share (RMB) | **(1.89)** | 0.12 | 0.36 | 0.54 | 0.79 |

## 2. CONSOLIDATED BALANCE SHEET

(Unit: RMB'000)

As at 31 December

| | **2015** | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Non-current assets | **23,109,951** | 26,645,735 | 24,992,311 | 21,725,658 | 16,791,916 |
| Current assets | **3,903,749** | 7,049,762 | 7,244,085 | 6,307,719 | 8,289,757 |
| Total assets | **27,013,700** | 33,695,497 | 32,236,396 | 28,033,377 | 25,081,673 |
| Total liabilities | **22,520,535** | 22,329,171 | 22,269,670 | 18,636,875 | 16,915,000 |
| Equity attributable to equity shareholders of the Company | **4,030,252** | 10,597,967 | 9,245,952 | 8,650,849 | 7,709,037 |
| Non-controlling interests | **462,913** | 768,359 | 720,774 | 745,653 | 457,636 |
| Non-current liabilities | **772,186** | 12,484,072 | 10,222,513 | 11,115,759 | 8,833,518 |
| Current liabilities | **21,748,349** | 9,845,099 | 12,047,157 | 7,521,116 | 8,081,482 |
| Total equity and liabilities | **27,013,700** | 33,695,497 | 32,236,396 | 28,033,377 | 25,081,673 |
| Net gearing ratio | **77.6%** | 56.9% | 60.4% | 56.9% | 50.9% |

# (III) Financial Data Summary

## 3. CONSOLIDATED CASH FLOW STATEMENT

(Unit: RMB'000)

| | For the 12 months ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| Net cash (used in)/generated from operating activities | **(342,913)** | 1,375,826 | 1,924,751 | 1,930,088 | 1,549,263 |
| Net cash used in investing activities | **(1,591,087)** | (2,184,284) | (4,395,283) | (4,339,932) | (3,370,683) |
| Net cash generated from financing activities | **1,002,770** | 682,207 | 2,665,505 | 485,264 | 3,686,949 |
| Net (decrease)/increase in cash and cash equivalents | **(931,230)** | (126,251) | 194,973 | (1,924,580) | 1,865,529 |

# (IV) Share Capital and Shareholdings of Substantial Shareholders and the Directors

## 1. CHANGES IN SHARE CAPITAL AND GENERAL INFORMATION ON THE LISTING OF SHARES

As of 31 December 2015, the authorised share capital was US$100,000,000 divided into 10,000,000,000 Shares of par value of US$0.01 each. There was no change during the year.

The Company had not issued new share during the year.

As of 31 December 2015, the Company had a total issued capital of 3,379,140,240 Shares.

## 2. SUMMARY OF SHARE TRADING PRICES IN 2015

The highest and lowest stock trading prices for each of the months during the Reporting Period are as follows:

| **Month** | **Highest price** (HK$) | **Lowest price** (HK$) |
|---|---|---|
| January | 3.83 | 3.35 |
| February | 4.66 | 3.30 |
| March | 6.38 | 4.20 |
| April | 6.88 | 5.28 |
| May | – | – |
| June | – | – |
| July | – | – |
| August | – | – |
| September | – | – |
| October | – | – |
| November | – | – |
| December | – | – |

Note: As at 16 April 2015, the public float of the Company was below 25%. As such, at the request of the Company, trading in the Shares and debt securities of the Company was suspended as from 9:00 a.m. on 16 April 2015. The Stock Exchange indicated that the trading in the Shares and debt securities of the Company will remain suspended until the 25% minimum public float is restored. The Board has discussed options available to resolve the public float issue. The Board will continue to monitor the progress of the above matters, and take action to comply the Listing Rules.

For details of the above matters, please refer to the announcements published by the Company on 16 April 2015 and 22 May 2015.

## 3. SHAREHOLDINGS OF SHAREHOLDERS AND DIRECTORS

### (1) Shareholdings of substantial shareholders

As at 31 December 2015, the interests or short positions of persons, other than Directors and Chief Executives of the Company, in the Shares and underlying shares of the Company, which would be required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO, were as follows:

| Name of shareholder | Number of Ordinary Shares Interested[1] | Nature of interest | Percentage of shares in issue |
|---|---|---|---|
| Tianrui (International) Holding Company Limited[2] | 951,462,000(L) | Interest of corporations controlled by substantial shareholder | 28.16% |
| China Shanshui Investment Company Limited[3] | 847,908,316(L) | Beneficial owner | 25.09% |
| Asia Cement Corporation[4] | 426,383,000(L) | Interest of corporations controlled by substantial shareholder | 12.62% |
| | 279,870,500(L) | Beneficial owner | 8.28% |
| China National Building Material Company Limited[5] | 563,190,040(L) | Interest of corporations controlled by substantial shareholder | 16.67% |

# (IV) Share Capital and Shareholdings of Substantial Shareholders and the Directors

Notes:

(1) The letter "L" denotes a long position in such Shares.

(2) As stated in the form of disclosure of shareholder's interest submitted by Tianrui (International) Holding Company Limited on 16 April 2015 (the date of the relevant event set out in the form was 15 April 2015). These Shares were held via Tianrui (International) Holding Company Limited.

(3) As stated in the form of disclosure of shareholder's interest submitted by China Shanshui Investment Company Limited on 18 November 2014 (the date of the relevant event set out in the form was 3 November 2014). These Shares were held via China Shanshui Investment Company Limited.

(4) As stated in the form of disclosure of shareholder's interest submitted by Asia Cement Corporation on 2 December 2014 (the date of the relevant event set out in the form was 1 December 2014). These Shares were held via Asia Cement Corporation and its subsidiaries.

(5) As stated in the form of disclosure of shareholder's interest submitted by China National Building Material Company Limited on 5 November 2014 (the date of the relevant event set out in the form was 3 November 2014), these Shares were held via China National Building Material Company Limited.

Save as disclosed above, and so far as the Directors are aware, as of the year-end date, no person, other than Directors or the Chief Executive of the Company, had an interest or short position in the Shares or underlying shares of the Company which would need to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register maintained pursuant to Section 336 of the SFO.

On 22 March 2016, Tianrui (International) Holding Company Limited, a substantial shareholder of the Company which holds 951,462,000 shares of the Company (representing approximately 28.16% of the issued share capital of the Company), informed the Company that it has pledged 791,000,000 shares of the Company (representing approximately 23.41% of the issued share capital of the Company) in favour of China Bohai Bank for a bank loan.

# (IV) Share Capital and Shareholdings of Substantial Shareholders and the Directors

### (2) Directors' and chief executives' interests in the Shares, underlying shares and debentures

As at 31 December 2015, the interests of Directors and Chief Executives of the Company in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) ("Associated Corporations"), which would be required to be notified to the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange"), pursuant to Divisions 7 and 8 and section 352 of Part XV of the SFO to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing of Rules of the Stock Exchange, were as follows:

| Name of Director | The Company/ Name of Associated Corporations | Nature of Interests | Number of Shares Interested[1] | Percentage of Shares in issue as of 31 December 2015 |
|---|---|---|---|---|
| Li Liufa | The Company | Interest in a controlled corporation | 951,462,000(L)[2] | 28.16% |
| Liu Yiu Keung Stephen | The Company | Interest in a controlled corporation | 847,908,316(L)[3] | 25.09% |
| Hwa Guo Wai Godwin | The Company | Interest in a controlled corporation | 847,908,316(L)[3] | 25.09% |
| Chong Cha Hwa | The Company | Interest in a controlled corporation | 847,908,316(L)[3] | 25.09% |

Notes:

(1) The Letter "L" donates a long position in such Shares.

(2) The 951,462,000 Shares were held by Tianrui (International) Holding Company Limited. Mr. Li Liufa as a discretionary trustee holds, and has the absolute discretion to manage and control, more than 50% of the shares of Tianrui (International) Holding Company Limited. Therefore, Mr. Li Liufa is deemed under the SFO to be interested in all the Shares registered in the name of Tianrui (International) Holding Company Limited.

(3) The 847,908,316 Shares were held by China Shanshui Investment Company Limited ("Shanshui Investment"). Of Which, Mr. Liu Yiu Keung Stephen, Mr. Hwa Guo Wai Godwin and Mr. Chong Cha Hwa are directors.

Save as disclosed above, as at the end of the Reporting Period, none of the Directors or the Chief Executives of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations, which would be required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Division 7 and 8 of Part XV of the SFO, or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code contained in the Listing Rules.

## 4. PURCHASE, SALE AND REDEMPTION OF LISTED SHARES

During the Reporting Period, neither the Company nor its subsidiaries purchased, sold or redeemed any listed shares of the Company.

## 5. SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on 14 June 2008. The Company has granted respectively: (1) options for subscription of 7,300,000 Shares on 25 May 2011, and the closing price of the Shares as at the date of grant was HK$7.83 per Share; and (2) options for subscription of 207,300,000 Shares on 27 January 2015, and the closing price of the Shares as at the date of grant was HK$3.68 per Share. Details of the options are set out as follows:

| Type of Grantee | Date of Grant | Granted | Vesting Period | Exercise Price | Exercise during the Reporting Period | Lapsed during the Reporting Period | Cancelled during the Reporting Period | Expired during the Reporting Period | Not yet exercised during the Reporting Period |
|---|---|---|---|---|---|---|---|---|---|
| Zhang Bin, *Executive Director removed* | 25 May 2011 | Options for subscription of 5,000,000 Shares | Nil | HK$7.90 | Nil | Nil | Nil | Nil | Options for subscription of 5,000,000 Shares |
| | 27 January 2015 | Options for subscription of 20,000,000 Shares[1] | Six months after the Date of Grant | HK$3.68 | Nil | Nil | Nil | Nil | Options for subscription of 20,000,000 Shares |
| Zhang Caikui, *Executive Director removed* | 27 January 2015 | Options for subscription of 23,600,000 Shares[1] | Six months after the Date of Grant | HK$3.68 | Nil | Nil | Nil | Nil | Options for subscription of 23,600,000 Shares |
| Li Cheung Hung, *Executive Director removed* | 25 May 2011 | Options for subscription of 200,000 Shares | Nil | HK$7.90 | Nil | Nil | Nil | Nil | Options for subscription of 200,000 Shares |
| | 27 January 2015 | Options for subscription of 9,000,000 Shares[1] | Six months after the Date of Grant | HK$3.68 | Nil | Nil | Nil | Nil | Options for subscription of 9,000,000 Shares |
| Xiao Yu, *Non-Executive Director resigned* | 25 May 2011 | Options for subscription of 100,000 Shares | Nil | HK$7.90 | Nil | Nil | Nil | Nil | Options for subscription of 100,000 Shares |
| Employees | 25 May 2011 | Options for subscription of 2,000,000 Shares | Nil | HK$7.90 | Nil | Nil | Nil | Nil | Options for subscription of 2,000,000 Shares |
| | 27 January 2015 | Options for subscription of 154,700,000 Shares[1] | Nil | HK$3.68 | Nil | Nil | Nil | Nil | Options for subscription of 154,700,000 Shares |
| | **Total number of options granted and accepted** | Options for subscription of 214,600,000 Shares | | | Nil | Nil | Nil | Nil | Options for subscription of 214,600,000 Shares |

Note 1: The Company has granted options for subscription of 207,300,000 Shares to certain directors and employees of the Company on 27 January 2015.

# (IV) Share Capital and Shareholdings of Substantial Shareholders and the Directors

By virtue of the High Court Miscellaneous Proceedings No. 593 of 2015 ("HCMP 593 of 2015"), China Shanshui Investment Company Limited ("CSI"), a shareholder of over 25% of the Company, has commenced an Injunction Application to apply to set aside the grant of the 207.3 million Share Options in early 2015. A Consent Summons with Wong & Lawyers (for CSI in its capacity as minority shareholders) and Mayor Brown JSM (for CSI in its corporate capacity) was signed on 6 January 2016 in which the Company gave an undertaking to the Court that it will not take step to implement the share options offered as described in its public announcement dated 27 January 2015 until 28 days from the handing down of the judgment in relation to the substantive hearing of the Petitioner's Summons dated 17 August 2015 or until further Order of the Court.

Note 2: As disclosed in note 1, 43,600,000 options were granted to Mr. Zhang Caikui and Mr. Zhang Bin, the ex-directors of the Company. According to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Share Option Scheme of the Company, the options granted to Mr. Zhang Caikui and Mr. Zhang Bin need to be approved by the Extraordinary General Meeting of the Company. However, up until the date of this report, the required Extraordinary General Meeting has not been held.

### Summary of the principal terms of the Share Option Scheme

The purpose of the Share Option Scheme is to provide an incentive for the Qualified Participants (as defined below) to work with commitment towards enhancing the value of our Company and the Shares for the benefit of our Shareholders, and to retain and attract talents and working partners whose contributions are or may be beneficial to the growth and development of our Group.

Subject to the terms of the Share Option Scheme, the board of directors of our Company (the "Board") may at its discretion grant options to (i) any executive director, or employee (whether full time or part time) of our Company, any member of our Group or any entity in which any member of our Group holds an equity interest ("Invested Entity"); (ii) any non-executive director (including independent non-executive director) of our Company, any member of our Group or any Invested Entity; (iii) any supplier of goods or services to our Company, any member of our Group or any Invested Entity; (iv) any customer of our Company, any member of our Group or any Invested Entity; and (v) any such person (including but not limited to consultant, adviser, contractor, business partner or service provider of our Company or any member of our Group or any Invested Entity) who in the absolute discretion of the Board has contributed or will contribute to our Group (collectively "Qualified Participants").

The Shares that will be issued upon full exercise of the options currently granted under the Share Option Scheme are 214,600,000 Shares, representing approximately 6.35% of our share capital in issue (3,379,140,240 Shares) as of 31 December 2015.

Unless approved by our Shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that grantee on exercise of his options during any 12-month period exceeding 1% of the total Shares then in issue.

The validity of the options granted by the Board on 25 May 2011 shall be ten years from 25 May 2011. The validity of the options granted by the Board on 27 January 2015 shall be ten years from 27 January 2015.

The price at which the Shares may be subscribed upon exercise of an option granted shall be at least the highest of: (i) the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets on the date of grant (and which must be a business day); (ii) the average of the closing prices of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Shares.

## 6. PRE-EMPTIVE RIGHTS

Pursuant to the articles of association of the Company ("Articles of Association") and the laws of the Cayman Islands, the Company is not required to offer to its existing shareholders the pre-emptive right to acquire new shares in proportion to their shareholdings.

# (V) Basic Information on Directors, Senior Management and Employees

## 1. BASIC INFORMATION ON DIRECTORS

| Name | Position | Gender | Age | Term of Office (Subject to renewal) |
|---|---|---|---|---|
| Li Liufa (李留法) | Chairman and Executive Director | M | 59 | – |
| Li Heping (李和平) | Chief Executive Officer and Executive Director | M | 60 | – |
| Liu Yiu Keung Stephen (廖耀強) | Executive Director | M | 57 | – |
| Cheung Yuk Ming (張鈺明) | Executive Director | M | 63 | 2 February 2016 –2 February 2017 |
| Chong Cha Hwa (張家華) | Non-Executive Director and Chief Financial Officer | M | 50 | 2 February 2016 –2 February 2017 |
| Hwa Guo Wai, Godwin (華國威) | Non-Executive Director | M | 54 | 2 February 2016 –2 February 2017 |
| Law Pui Cheung (羅沛昌) | Independent Non-Executive Director | M | 61 | 2 February 2016 –2 February 2017 |
| Ho Man Kay Angela (何文琪) | Independent Non-Executive Director | F | 53 | 2 February 2016 –2 February 2017 |
| Wong Chi Keung (黃之強) | Independent Non-Executive Director | M | 61 | 2 February 2016 –2 February 2017 |

Note: Mr. Yen Ching Wai, David (閻正為) is an alternate director to Mr. Liu Yiu Keung, Stephen.

# (V) Basic Information on Directors, Senior Management and Employees

## 2. BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

### (a) Executive Directors

**Mr. Li Liufa** (李留法), aged 59, is the Chairman of the Board. He is currently the chairman of the board of Tianrui Group Company Limited and a non-executive director and the chairman of the board of China Tianrui Group Cement Company Limited. He has also been appointed as directors of both China Shanshui Cement Group (Hong Kong) Company Limited ("CSCG(HK)") and China Pioneer Cement (Hong Kong) Company Limited ("Pioneer Cement"), subsidiaries of the Company, with effect from 1 December 2015. Mr. Li obtained his executive MBA degree from Guanghua School of Management of Peking University. Mr. Li was the representative of the Tenth, Eleventh and Twelfth National People's Congress.

**Mr. Li Heping** (李和平), aged 60, is the Chief Executive Officer of the Group and the Chairman and legal representative of Shandong Shanshui Cement Group Co., Ltd., a subsidiary of the Company. He had been the chief accountant of Luoyang Mining Machinery Factory, the deputy head of the Commission for Restructuring the Economic System of Henan Province and the general manager of Zhongxin Heavy Machinery Company, the non-executive director and the chairman of the board of Sanmenxia Tianyuan Aluminum Company Limited, the chief executive officer of Tianrui Group Cement Company Limited. Mr. Li has also been appointed as directors of both CSCG(HK) and Pioneer Cement with effect from 1 December 2015. He graduated from Henan University of Science & Technology (formerly known as Luoyang Institute of Agricultural Machinery) with a bachelor's degree in mechanic engineering in 1982 and Tsinghua University with a master's degree in engineering in 1988. Mr. Li also got a PhD degree from Huazhong University of Science and Technology. He also holds qualifications of "Senior Engineer" and "Senior Accountant".

**Mr. Liu Yiu Keung, Stephen** (廖耀強), aged 57, is an executive director of the Company. He has been working with Ernst & Young for over 30 years since 1983. Mr. Liu was admitted as an associate member of the Institute of Chartered Secretaries and Administrators in 1987 and as an associate member of The Hong Kong Institute of Chartered Secretaries in 1994. Mr. Liu was appointed as the chairman and executive director of Birmingham International Holdings Limited (stock code: 2309), a company listed on the Main Board of Stock Exchange on 9 March 2015. He has also been appointed as directors of both CSCG(HK) and Pioneer Cement, subsidiaries of the Company, with effect from 1 December 2015.

# (V) Basic Information on Directors, Senior Management and Employees

**Mr. Cheung Yuk Ming** (張鈺明), aged 63, is an executive director of the Company. He joined China Energy Engineering Group Co., Ltd. in May 2015 as an independent non-executive Director. Mr. Cheung is also an independent non-executive director of TravelSky Technology Limited and Birmingham International Holdings Limited. Mr. Cheung has been with Pricewaterhouse from December 1979 to February 1984, a partner of Lau, Cheung, Fung & Chan Certified Public Accountants since October 1985, a director of Lawrence CPA Limited from January 2005 to March 2015, an independent non-executive director of Metallurgical Corporation of China Limited from June 2009 to September 2014 and an independent non-executive director of EPI Holdings Limited from June 2011 to July 2013. Mr. Cheung is a member of the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Mr. Cheung has worked in the fields of construction management and manufacturing management before 1979. He has studied at the Construction Management Association of America and the Institute of Construction Claims Practitioners and is a member of both organizations. Mr. Cheung has completed the Pace University's New York Bar Preparatory Course and the professional course of the Chartered Institute of Arbitrators. He is a member of the Chartered Institute and the Society of Construction Law in Hong Kong.

**Mr. Yen Ching Wai, David** (閻正為), aged 46, has been appointed as an alternate director to Mr. Liu Yiu Keung, Stephen with effect from 16 December 2015. Mr. Yen is an executive director and chief executive officer of Birmingham International Holdings Limited (stock code: 2309), a company whose shares are listed on the Stock Exchange. He has been working with Ernst & Young for over 20 years. Mr. Yen is also a member of the American Institute of Certified Public Accountants since 2003, has been a member of the HKICPA since 2003 and a fellow member of the HKICPA since 2011.

## (b) Non-Executive Directors

**Mr. Chong Cha Hwa** (張家華), aged 50, is a fellow member of the Association of Chartered Certified Accountants and a member of the Malaysian Institute of Accountants. Mr. Chong received a bachelor degree of management with honours from the University of Science, Malaysia. Mr. Chong has gained more than 24 years of experience in the accounting and finance area servicing private and publicly listed companies in Hong Kong and the Southern Asia region. Currently, Mr. Chong is an independent non-executive director of China Mining Resources Group Limited (Stock Code: 340), a company listed on the Main Board of the Stock Exchange. Mr. Chong is a director of China Shanshui Investment Company Limited, a substantial shareholder of the Company. Mr. Chong has also been appointed as directors of both CSC(HK) and Pioneer Cement, subsidiaries of the Company, with effect from 1 December 2015. During 2 January 2014 to 14 November 2014, Mr. Chong was an executive Director of Sing Pao Media Enterprises Limited (Stock Code: 8010), a company listed on the Growth Enterprise Market of the Stock Exchange and also held the position as the chairman and chief executive officer of Sing Pao Media Enterprises Limited during the period from 7 April 2014 to 28 October 2014. During 26 February 2014 to 30 October 2014, Mr. Chong was an executive Director of Ding He Mining Holdings Limited (Stock Code: 705), a company listed on the Main Board of the Stock Exchange. Between 10 May 2012 and 27 October 2014, Mr. Chong was an independent non-executive director of Boshiwa International Holding Limited (Stock Code: 1698), a company listed on the Main Board of the Stock Exchange. Mr. Chong was an executive director of RCG Holdings Limited (Stock Code: 802; AIM Stock Code: RCG), a company listed on the Main Board of the Stock Exchange during the period from 1 July 2012 to 13 November 2012. Mr. Chong had also been an independent non-executive director of both Rui Kang Pharmaceutical Group Investments Limited (Formerly Known as Longlife Group Holdings Limited) (Stock Code: 8037), a company listed on the Growth Enterprise Market of the Stock Exchange during the period from 3 December 2007 to 28 February 2013 and CGN Mining Company Limited (Stock Code: 1164, formerly known as Vital Group Holdings Limited), a company listed on the Main Board of the Stock Exchange during the period from 19 October 2006 to 18 August 2011.

**Mr. Hwa Guo Wai, Godwin** (華國威), aged 54, holds a Master Degree of Business Administration from McGill University, Montreal, Canada and Master Degree of Engineering from Cornell University, Ithaca, New York, USA. Mr. Hwa gained more than 25 years of experience in the corporate finance sector, servicing private and publicly listed companies in Hong Kong and the Southern Asia region. Currently, Mr. Hwa is a senior advisor to a company which provides advisory services for opportunities in Myanmar. Mr. Hwa is a director of China Shanshui Investment Company Limited, a substantial shareholder of the Company. Mr. Hwa has also been appointed as directors of both CSC(HK) and Pioneer Cement, subsidiaries of the Company, with effect from 1 December 2015. Between 7 April 2014 and 13 February 2015, Mr. Hwa was an executive director of Sing Pao Media Enterprises Limited (Stock Code: 8010), a company listed on the Growth Enterprise Market of the Stock Exchange. Prior to that, Mr. Hwa held senior management positions in various listed companies in Hong Kong, and the U.S. In addition, Mr. Hwa devotes a fair amount of his time involving in various non-profit organizations in Hong Kong, currently, he is the chairman of the board of an independent international school.

### (c) Independent Non-Executive Directors

**Mr. Law Pui Cheung** (羅沛昌), aged 61, was admitted as a fellow member of the HKICPA in 1993, a fellow member of The Chartered Association of Certified Accountants in 1990, a fellow member of the Hong Kong Institute of Directors in 2011, an associate member of the Institute of Chartered Accountants in England & Wales (the "ICAEW") in 2005 and subsequently as a fellow member of the ICAEW in March 2015, a member of Macau Society of Certified Practising Accountants in 1995 and a fellow member of the Hong Kong Securities and Investment Institute in 2015. Mr. Law is currently a holder of practicing certificate issued by the HKICPA. Mr. Law had been a senior audit executive in Ernst and Whinney (the predecessor firm of EY, Hong Kong) specializing in listed companies and financial services audit and restructuring services. Mr. Law currently is a partner of Li, Tang, Chen & Co., a fully-fledged and well established practicing certified public accountants firm which has been operated for over 50 years in Hong Kong. Mr. Law has been appointed as an independent non-executive Director of Birmingham International Holdings Limited, the chairman of its remuneration committee, and a member of each of its audit committee and nomination committee since March 2015. Mr. Law is presently a member of the Disciplinary Panel of the HKICPA.

**Ms. Ho Man Kay Angela** (何文琪), age 53, is a founding partner of Angela Ho & Associates. Prior to founding Angela Ho & Associates, she was a partner of the Messrs. P. C. Woo & Co. Solicitors & Notaries. She has been a practicing lawyer in Hong Kong since 1989, specializing in corporate commercial law and is also admitted as a solicitor in England, the Australian Capital Territory, Queensland, New South Wales, Victoria of Australia and Singapore. Ms. Ho acted as an independent non-executive director of TC Orient Lighting Holdings Limited (formerly known as TC Interconnect Holdings Limited) from June 2006 to February 2012. Ms. Ho was the president of the Hong Kong Federation of Women Lawyers from 2002 to 2005. Ms. Ho has been appointed as an independent non-executive Director of Jiashili Group Limited, the chairman of its remuneration committee, and a member of each of its nomination committee and audit committee from August 2014 up to present.

**Mr. Wong Chi Keung** (黃之強), aged 61, holds a master's degree in business administration from the University of Adelaide in Australia. He is a fellow member of HKICPA, The Association of Chartered Certified Accountants and CPA Australia; an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. Mr. Wong was a Responsible Officer for asset management, advising on securities and advising on corporate finance for Greater China Capital Limited under the Securities and Futures Ordinance of Hong Kong and an executive director, the deputy general manager, group financial controller and company secretary of Yuexiu Property Company Limited (formerly known as Guangzhou Investment Company Limited), a company listed on the Stock Exchange, for a number of years. He is also an independent non-executive director and a member of the audit committee of Asia Orient Holdings Limited, Asia Standard International Group Limited, Century City International Holdings Limited, Nickel Resources International Holdings Company Limited, China Ting Group Holdings Limited, ENM Holdings Limited, Fortunet e-Commerce Group Limited, Golden Eagle Retail Group Limited, Paliburg Holdings Limited, Regal Hotels International Holdings Limited, TPV Technology Limited, Yuan Heng Gas Holdings Limited and Zhuguang Holdings Group Company Limited, all of these companies are listed on The Stock Exchange of Hong Kong Limited. Mr. Wong has over 37 years of experience in finance, accounting and management.

## (d) Senior Management

**Mr. Mi Jingtian** (宓敬田), aged 54, is the Deputy Chairman of Shandong Shanshui, primarily responsible for managing the daily operation of Shandong Shanshui. Mr. Mi has 35 years of experience in the building materials industry and gained his experience from managing several companies in the industry. Mr. Mi joined Shandong Shanshui as the Assistant to the General Manager in December 2001. In February 2004, he was appointed as the Assistant to the General Manager, the Deputy Secretary and the Deputy Manager of the party branch of the sales department. From August 2007 to 2013, he was appointed as the Deputy General Manager and the Deputy General Manager of the sales department of Shandong Shanshui. Mr. Mi graduated from the Jinan Provincial Party School with a vocational diploma in June 1994.

# (V) Basic Information on Directors, Senior Management and Employees

**Mr. Yang Yongzheng** (楊勇正), aged 47, is the General Manager of Shandong Shanshui, primarily responsible for managing the overall business of Shandong Shanshui. Mr. Yang has extensive experience in the cement industry, he joined the Tianrui Group in 2004 and used to serve several positions in Tianrui Group, such as the deputy general manager of Shangqiu Tianrui Cement Company Limited (商丘天瑞水泥有限公司) and Dalian Tianrui Cement Company Limited (大連天瑞水泥有限公司), the general manager of Yingkou Tianrui Cement Company Limited (營口天瑞水泥有限公司) and the chairman and general manager of Liaoyang Tianrui Cement Company Limited (遼陽天瑞水泥有限公司). Mr. Yang has been appointed as the General Manager of Shandong Shanshui since December 2015. Mr. Yang obtained his bachelor degree in Petroleum and Engineering from Henan University in 1991 and obtained his EMBA from Peking University in 2012. In June 2012, Mr. Yang was awarded "Advanced Worker in the Mining Industry and Building Material Industry of Small and Medium Enterprises in Liaoning Province" (遼寧省中小企業礦業建材行業先進工作者). In 2013, Mr. Yang was awarded with the title of senior economist.

**Mr. Li Maohuan** (李茂桓), aged 67, is the Deputy General Manager and the secretary of party committee of Shandong Shanshui, primarily responsible for party-masses work. Mr. Li has over 47 years of experience in the building materials industry and gained his experience from working at and managing companies in this industry. Mr. Li started working at Jinan Cement Products Factory in July 1968 and was appointed as the Head of Jinan Cement Products Factory in September 1976. Mr. Li has been the Deputy General Manager of Shandong Shanshui since August 2001. Outside the Group, he was the Deputy Head of Jinan Building Materials Bureau from August 1988 to August 2004. Mr. Li graduated from the Party's School of Shandong Province with a Master's degree in Management in December 1996.

**Mr. Zhao Yongkui** (趙永魁), aged 51, is the Deputy General Manager and Chief Financial Officer of Shandong Shanshui, primarily responsible for overseeing the accounting and finance aspects of our Group's operations and is in charge of our Group's finance department. Mr. Zhao has over 32 years of experience in accounting and gained his experience from working in the cement industry and managing the finance of cement companies. Mr. Zhao joined Shandong Cement Plant as an accountant in July 1984. He was the Deputy General Accountant and Assistant to the Head of the Shandong Cement Plant in December 1990. In December 2001, he was appointed the Assistant to the General Manager and the Head of the finance department of our Group. Mr. Zhao was appointed Deputy General Manager of our Group during November 2005 to 2013. Mr. Zhao has been appointed as the Deputy General Manager of Shandong Shanshui since December 2015. Mr. Zhao qualified as a Senior Accountant in 2003. Mr. Zhao graduated from the Shanghai Institute of Building Materials in July 1984.

# (V) Basic Information on Directors, Senior Management and Employees

**Mr. Yu Yuchuan** (于玉川), aged 57, is the Deputy General Manager and Chief Engineer of Shandong Shanshui, primarily responsible for company development, production management and cement technology aspects. He has over 33 years of experience in cement technology and engineering. Mr. Yu joined Shandong Cement Plant in 1983, and was appointed Chief Engineer in 1995. He has been Deputy General Manager and Chief Engineer of Shandong Shanshui since August 2001. He has been executive director of Shandong Shanshui during the period from July 2008 to August 2013. In December 2015, he was appointed as Deputy General Manager of Shandong Shanshui. Mr. Yu is currently Vice President of the New Type Dry-Process Cement Association (a division under the Chinese Cement Association) and a visiting professor at the University of Jinan.

**Mr. Zhao Liping** (趙利平), aged 55, is the Deputy General Manager of Shandong Shanshui, primarily responsible for sales and marketing. He has 36 years of experience in the cement industry and gained his experience from working in the industry and managing cement companies. He joined Shandong Cement Plant in July 1980 as an engineer. He was appointed as the Deputy Head and the assistant to the Head of Shandong Cement Plant in June 1990. In December 2001, he was appointed as the Assistant to the General Manager and the General Manager of the sales unit of Shandong Shanshui. Mr. Zhao was appointed as the Deputy General Manager of Shandong Shanshui during July 2004 to 2013. Mr. Zhao has been appointed as the Deputy General Manager of Shandong Shanshui since December 2015. He graduated from Shandong Jianshe Industry School in July 1980 with a Bachelor's degree.

**Mr. Chen Zhongsheng** (陳仲聖), aged 45, is the Deputy General Manager of Shandong Shanshui, primarily responsible for the technological design, development and management aspects. Mr. Chen has 22 years of experience in the cement industry and gained his experience from working in and managing several cement companies. Mr. Chen joined Shandong Cement Plant in August 1994 and has been responsible for the technological and engineering aspects of our Group's operations as the Deputy Chief Engineer and the Deputy Head of the technology centre of our Group. He was appointed as the Deputy General Manager of Shandong Shanshui during November 2007 to 2013. In December 2015, he was appointed as Deputy General Manager of Shandong Shanshui. Mr. Chen has, since 2000, published a number of academic papers in national journals such as Cement Engineering Journal. He was also appointed the Vice President of the Professional Cement and Concrete Division of the Shandong Silicate Association in March 2007. Mr. Chen graduated from the Shandong Building Materials Technical School with a Bachelor's degree in Silicate Engineering in July 1994.

**Mr. Gao Yong** (高勇), aged 42, is the Deputy General Manager of Shandong Shanshui, primarily responsible for production management. Mr. Gao has 22 years of experience in the cement industry. Mr. Gao joined Shandong Cement Plant in August 1994 and has served as deputy manager of workshop and deputy manager of the factory, and has served as General Manager of Jinan Shiji Chuangxin Cement Company Limited and Zaozhuang Shanshui Cement Co., Ltd and Deputy General Manager of Shanxi Shanshui Cement Co., Ltd March 2004. Mr. Gao was appointed as the Deputy Manager of CNBM Construction Co., Limited in March 2013. Mr. Gao was appointed as the Deputy General Manager of Shandong Shanshui in December 2015. Mr. Gao graduated from the Shandong Building Material Industrial School in July 1994.

# (V) Basic Information on Directors, Senior Management and Employees

**Mr. Wu Rantao** (吳然濤), aged 60, is the Deputy General Manager of Shandong Shanshui, primarily responsible for procurement and supply management. Mr. Wu has 41 years of experience in the cement industry. In 1980, Mr. Wu joined Shandong Cement Plant as manager of the Planning Department, had served as the General Manager of the Group's logistic center since December 2002 and the Deputy General Manager of Liaoning Shanshui in December 2008. Mr. Wu was appointed as the Deputy General Manager of Shandong Shanshui in December 2015. Mr. Wu graduated from Shandong TV University in July 1985.

**Mr. Liu Dequan** (劉德權), aged 41, is the Deputy General Manager of Shandong Shanshui, primarily responsible for assisting Mr. Zhao Yongkui with accounting, finance, legal and securities affairs. In July 1999, Mr. Liu joined Shandong Cement Plant as Monitor and Statistical Monitor. Mr. Liu has served as Manager of Department of Finance and Department of Internal Audit. Mr. Liu was the Chief Financial Officer of Zhongrun Real Estate Group Co., Ltd from January to November 2009. Mt. Liu was the General Manager of Audit Department of China United Cement Corporation from December 2009 to December 2015. Mr. Liu was appointed as the Deputy Manager of Shandong Shanshui in January 2016. Mr. Liu graduated from Shandong Economics University with a Bachelor's degree in international business administration in July 1999.

**Mr. Zhao Dongwei** (趙東偉), aged 44, is the Deputy General Manager of Shandong Shanshui, primarily responsible for the daily operation and management of Western Shandong Region. Mr. Zhao has 21 years of experience in the cement industry. Mr. Zhao joined Shandong Cement Plant in August 1995; since February 2004, he had served as the deputy manager of subsidiary factory and the manager of subsidiary factory, and had served as the General Manager of Jinan Shanshui Construction Equipment Installation Co., Ltd., Zibo Shuangfeng Shanshui Cement Co., Ltd., Binzhou Shanshui Cement Co., Ltd. and Continental (Shandong) Cement Corporation. Mr. Zhao was appointed as the Deputy General Manager of Shandong Shanshui in December 2015. Mr. Zhao graduated from Northwestern Polytechnical University in July 1995.

**Mr. Li Rongjin** (李榮金), aged 51, is the Deputy General Manager of Shandong Shanshui, primarily responsible for the daily operation and management of Eastern Shandong Region. Mr. Li has 35 years of experience in the cement industry. Mr. Li joined Shandong Cement Plant in December 1981 and served as manager of workshop and production manager of the factory. He had served as the General Manager of Qingdao branch of Shandong Shanshui, Zibo Shanshui Cement Co., Ltd., Shandong Cement Factory Co., Ltd. since May 2003. Mr. Li was appointed as the Assistant of General Manager in February 2014 and the Deputy General Manager of Shandong Shanshui in December 2015. Mr. Li graduated from Shandong provincial Party School in July 1986.

## (V) Basic Information on Directors, Senior Management and Employees

**Mr. Zhao Hongbo** (趙洪波), aged 39, is the Deputy General Manager of Shandong Shanshui, primarily responsible for the daily operation and management of Liaoning Region. Mr. Zhao joined the Group in 1996 and had served as manager of Quality Control Department, manager of workshop and deputy manager of factory. Mr. Zhao had served as Project Manager and General Manager of Panjin Shanshui Cement Co., Ltd. and Baishan Shanshui Cement Co., Ltd. since March 2010 and was appointed as Assistant of General Manager of Liaoning Shanshui in November 2011. Mr. Zhao was appointed as the Deputy General Manager of Shandong Shanshui in December 2015. Mr. Zhao graduated from Nankai University with a Bachelor's degree business administration in July 2015 and obtained his MBA degree the Shandong University of Finance and Economics.

**Mr. Chen Xinsheng** (陳新生), aged 52, is the Deputy General Manager of Shandong Shanshui, primarily responsible for the daily operation and management of Shanxi Region. Mr. Chen has 29 years of experience in the cement industry. Mr. Chen joined Weifang Cement Plant as Deputy Manager in 1987. Since April 2003, Mr. Chen had served as General Manager of Changle Shanshui Cement Company Limited and Continental (Shandong) Cement Corporation. Mr. Chen is appointed as the Deputy General Manager of Shandong Shanshui in December 2015. Mr. Chen graduated from South China University of Technology with a Bachelor's degree of materials science in July 1987.

**Mr. Feng Cunwei** (馮存偉), aged 46, is the Deputy General Manager of Shandong Shanshui, primarily responsible for assisting Mr. Zhao Liping with sales and marketing. Mr. Feng has 25 years of experience in the cement industry. Mr. Feng joined Shandong Cement Plant in 1991 and had served as Technician, Deputy Officer and Equipment Officer. In February 2004, Mr. Feng was appointed as the Officer of the Monitoring Department. Since May 2005, Mr. Chen had served as the Sale Manager of Dongying Shanshui Cement Co., Ltd., Tianjin City Tianhui Cement Co., Ltd., Gucheng Shanshui Cement Co., Ltd. and Shandong Cement Plant and General Sales Manager of Shanxi Shanshui. In December 2015, Mr. Feng was appointed as the Deputy General Manager of Shandong Shanshui. Mr. Fung graduated from Beijing Building Material Industrial School in July 1991.

### (e) Joint Company Secretary

**Mr. Tsang Wing Tai** (曾永泰), aged 34, is the company secretary of the Company. Mr. Tsang has over 10 years of experience in audit, financial operations and enterprise management. He is a fellow member of the Association of Chartered Certified Accountants since 2014, an associate member of HKICPA since 2010 and a certified fraud examiner of the Association of Certified Fraud Examiners since 2011. Mr. Tsang was admitted as an associate member of each of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in 2015. Mr. Tsang passed the Licensing Examination for Securities and Futures Intermediaries and obtained HKSI practising certificates (securities and corporate finance) in 2015. Mr. Tsang obtained a bachelor's degree in science (majoring in biochemistry) with honours and a master of philosophy degree in medical sciences in the Chinese University of Hong Kong.

# (V) Basic Information on Directors, Senior Management and Employees

**Mr. Yu Chun Liang** (喻春良), aged 46, has been one of the joint company secretaries of China Tianrui Group Cement Company Limited (a company listed on the Stock Exchange, "Tianrui Cement") since 9 December 2011. Mr. Yu joined Tianrui Cement as deputy head of the general office. He was later appointed as deputy head of the human resources department of Tianrui Cement. He was then appointed as head of the administrative office and head of the board office of Tianrui Cement. Prior to joining Tianrui Cement, he was the secretary of the disciplinary committee of Pingdingshan Xingfeng Group Cement Co., Ltd. Mr. Yu obtained his bachelor's degree in arts from Xinyang Normal University in 1992 and his postgraduate degree in economic management from the Party School of CPC of Henan province in 2007. He holds the qualifications of "Ideological and political work of senior professional title" and "National Second Level Corporate Human Resources Manager".

## 3. APPOINTMENT OR RETIREMENT OF DIRECTORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

Pursuant to Article 16.18 of the Articles of Association, Mr. Wang Jian, Mr. Xiao Yu and Mr. Hou Huailiang retired as Directors by rotation at the 2014 Annual General Meeting held on 22 May 2015. Mr. Chang Zhangli and Mr. Lee Kuan-chun have been appointed as non-executive Directors of the Company.

Ms. Zeng Xuemin and Mr. Shen Bing have been appointed as independent non-executive Directors of the Company at the meeting of the Board held on 10 June 2015. Pursuant to Article 16.2 of the Articles of Association, Ms. Zeng Xuemin and Mr. Shen Bing shall hold office only until the next general meeting of the Company and shall then be subject to re-election at that meeting. Ms. Zeng Xuemin and Mr. Shen Bing have been re-elected as Directors of the Company at the extraordinary general meeting (the "EGM") held on 29 July 2015.

Mr. Wu Ling-ling is appointed as an alternative Director of Mr. Lee Kuan-chun at the Board meeting held on 11 October 2015.

The ordinary resolutions that Mr. Zhang Caikui, Mr. Li Cheung Hung and Ms. Wu Xiaoyun be removed as directors of the Company were passed at the EGM held on 13 October 2015. Therefore, Mr. Zhang Caikui and Mr. Li Cheung Hung are removed from their positions as executive Directors of the Company and Ms. Wu Xiaoyun is removed from her position as independent non-executive Director of the Company at the conclusion of the EMG.

Mr. Cai Guobin is appointed as a Non-Executive Director of the Company, Dr. Ou Chin-Der is appointed as an independent non-executive Director of the Company, Ms. Wu Ling-ling is appointed as the executive Director of the Company, and Mr. Chang Zhangli, a Non-Executive Director of the Company, is re-designated as an executive Director at the Board meeting held at 14 October 2015.

The ordinary resolutions that Mr. Zhang Bin, Mr. Chang Zhangli, Ms. Wu Ling-ling, Mr. Lee Kuan-chun, Mr. Cai Guobin, Dr. Ou Chin-Der, Ms. Zeng Xuemin and Mr. Shen Bing be removed from as directors of the Company are passed at the Adjourned EGM held on 1 December 2015. Therefore, Mr. Zhang Bin, Mr. Chang Zhangli and Ms. Wu Ling-ling are removed from their positions as executive Directors of the Company, Mr. Lee Kuan-chun and Mr. Cai Guobin are removed from their positions as non-executive Directors of the Company and Dr. Ou Chin-Der are removed from their position as independent non-executive Director of the Company at the conclusion of the Adjourned EGM.

Mr. Li Liufa and Mr. Li Heping are appointed as executive Directors of the Company, Mr. Liu Yiu Keung, Mr. Hwa Guo Wai and Mr. Ng Qing Hai are appointed as non-executive Directors of the Company, Mr. Chong Cha Hwa is appointed as non-executive Directors, Joint Company Secretary and Chief Financial Officer, Ms. Ho Man Kay Angela, Mr. Cheung Yuk Ming and Mr. Law Pui Cheung are appointed as independent non-executive Director of the Company at the Adjourned EMG held on 1 December 2015.

The Board of the Company announced that Mr. Liu Yiu Keung, Mr. Hwa Guo Wai and Mr. Chong Cha Hwa have been re-designated as executive Directors with effect from 1 December 2015.

Mr. Li Liufa is appointed as chairman of the Board, Mr. Li Heping is appointed as the chief executive officer of the Company, Mr. David Yen Ching Wai, David, is appointed as an alternative director to Mr. Liu Yiu Keung, Stephen and Mr. Tsang Wing Tai is appointed as the joint company secretary at the Board meeting held on 16 December 2015. Mr. Chong Cha Hwa has resigned as the joint company secretary with effect from 18 December 2015.

At the Board meeting held on 2 February 2016, Mr. Cheung Yuk Ming is re-designated from an independent non-executive Director to an executive Director, Mr. Hwa Guo Wai and Mr. Chong Cha Hwa are re-designated from executive Directors to non-executive Directors, Mr. Wong Chi Keung is appointed as an independent non-executive Director, Mr. Yu Chun Liang is appointed as a joint company secretary. The Board also announced that Mr. Ng Qing Hai has resigned as a non-executive Director.

## 4. THE SERVICE CONTRACTS AND THE INTEREST OF CONTRACTS OF DIRECTORS

The Company has entered a service contract with each of Mr. Cheung Yuk Ming, Mr. Hwa Guo Wai, Mr. Chong Cha Hwa, Mr. Wong Chi Keung, Ms. Ho Man Kay Angela and Mr. Law Pui Cheung for an initial term of one year from 2 February 2016 up to 2 February 2017. Each of them is entitled to receive an annual salary respectively which was determined by the Board with reference to their respective qualifications, experiences, duties and responsibilities within the Company as well as the prevailing market conditions. Each of them is subject to retirement by rotation and re-election in accordance with the Memorandum and Articles of Association of the Company.

# (V) Basic Information on Directors, Senior Management and Employees

Save as disclosed above, none of our Directors has or is proposed to enter into any service contract with any member of our Group.

During the Reporting Period, none of the Directors or senior management of the Company had any material interest in any contract entered into by the Company or its subsidiaries.

## 5. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT FOR THE YEAR

Please refer to Note 7 to the financial statements in this annual report on details of the remuneration of Directors and senior management of the Group during the Reporting Period.

## 6. HIGHEST PAID INDIVIDUALS

Please refer to Note 8 to the financial statements in this annual report for details of the remuneration of the five highest paid individuals of the Group during the Reporting Period.

## 7. EMPLOYEES

As at 31 December 2015, the Group had 21,759 employees of which 12,383 are in Shandong Region, 7,071 are in Northeast Region, 1,792 are in Shanxi Region and 513 are in Xinjiang Region, including 13,708 in production, 1,592 in sales, 1,687 in technical areas, 741 in finance, 1,564 in the administrative and management areas, and 2,467 in other areas. 14,190 of the employees had secondary and higher education, of which 5,464 received tertiary or above education. The aggregate remuneration of the employees of the Group for the year amounted to RMB1,239.71 million. For expenses related to employees who have resigned or retired, please refer to Note 26 to the financial statements in this annual report.

## 8. PENSION INSURANCE

Details of the pension insurance are set out in Note 5 to the financial statements. Pension booked in the income statement of the Group for the year ended 31 December 2015 amounted to RMB152.17 million.

## 9. STAFF HOUSING

Pursuant to the relevant regulations of the PRC government, the Group makes contributions to the housing provident fund for employees based on a certain percentage of their salaries. The Group has no other obligation nor plan to provide housing benefits to the employees. For the year ended 31 December 2015, the total contributions made by the Group to the housing provident fund amounted to approximately RMB59.13 million.

# (VI) Report on Corporate Governance

## 1. CODE ON CORPORATE GOVERNANCE PRACTICES

The Internal Audit Department of the Company has carried out an annual review of the risk management and internal control of the Company and compliance with the Corporate Governance Code of the Listing Rules.

The Company was in breach of the Corporate Governance Code in respect of the following matters during 2015.

They were rectified on 10 June 2015 and 1 December 2015 respectively.

(1) From 22 May 2015 to 9 June 2015, upon retirement of Wang Jian and Hou Huailiang as independent non-executive Directors, the Board had only one independent non-executive Director, one Audit Committee member, one Remuneration Committee member and two Nomination Committee members. The numbers have fallen below the minimum number required under Rule 3.10(1), Rule 3,10A, Rule 3.21 and Rule 3.25 of the Listing Rules and the requirement under the Appendix 14 A.5.1 of the Corporate Governance Code. Further, the Company was not in compliance with Rule 3.10(2) of the Listing Rules as the independent non-executive Director did not have appropriate accounting or related financial management qualification or expertise.

On 10 June 2015, the Company has appointed Wu Xiaoyun as chairman of the Audit Committee, Lee Kuan-chun (also known as Champion Lee) as member of the Nomination Committee, Shen Bing and Zeng Xuemin as independent non-executive Director, Shen Bing as chairman of the Remuneration Committee and member of the Audit Committee and Nomination Committee, and Zeng Xuemin as member of the Audit Committee, Remuneration Committee and Nomination Committee. Upon such appointments, the minimum number required under Rule 3.10(1), Rule 3.10A, Rule 3.21 and Rule 3.25 of the Listing Rules, the requirement under the Appendix 14 A.5.1 of the Corporate Governance Code and the requirement under Rule 3.10(2) of the Listing Rules, are not adhered to by the Company.

(2) From 1 January 2015 to 1 December 2015, Zhang Bin was both the Chairman and General Manager. This was a deviation from Appendix 14 A.2.1 of the Corporate Governance Code.

This deviation is rectified since 16 December 2015 when Li Liufa becomes the Chairman of the board and Li Heping becomes the Chief Executive.

## 2. CODE ON SECURITIES TRANSACTIONS

The Company confirmed that all current Directors have complied with the required standard regarding securities transactions by Directors as set out in the Model Code for Securities Transactions by Directors of Listed Issuers during the Reporting Period.

## 3. THE BOARD

The key responsibilities of the Board include, among others, formulating the Group's overall strategies, setting management targets, monitoring internal controls and financial management, supervising the performance of our management, developing and reviewing the policies and practices of corporate governance, while day-to-day operations and management are delegated by the Board to the executives of the Company. The Board operates in accordance with established practices (including those relating to reporting and supervision).

Composition of the Board is as follows:

| **Name** | **Position** |
|---|---|
| Li Liufa | Chairman and Executive Director |
| Li Heping | Chief Executive Officer and Executive Director |
| Liu Yiu Keung, Stephen | Executive Director |
| Cheung Yuk Ming | Executive Director |
| Hwa Guo Wai, Godwin | Non-Executive Director |
| Chong Cha Wa | Non-Executive Director |
| Ho Man Kay Angela | Independent Non-Executive Director |
| Law Pui Cheung | Independent Non-Executive Director |
| Wong Chi Keung | Independent Non-Executive Director |

Note: Mr. Yen Ching Wai, David is an alternate director of Mr. Liu Yiu Keung, Stephen.

There is no financial, business or other material relationship between members of the Board.

## 4. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Company is Mr. Li Liufa. The Chief Executive Officer is Mr. Li Heping.

The principal duties of Chairman are: (a) to lead the Board and ensure that the Board operates effectively and performs its duties and discusses any significant and appropriate matters on a timely basis; (b) to ensure that all Directors at the meetings of the Board are properly informed of the current affairs; and (c) to ensure that all Directors receive sufficient information which are complete and reliable, on a timely basis; and (d) to review the implementation of the Board resolutions passed.

The principal duties of the Chief Executive Officer are: (a) to oversee the management of the Group's daily production and operations with the assistance of executive directors and senior management; (b) to implement major strategies and development plans adopted by the Board, including coordination of implementing the Board resolutions, annual business plans and investment proposals of the Company; (c) to prepare the proposal on the establishment of internal management structure, to organize and formulate the roles and responsibilities of various departments, standards of various positions and professional management procedures, to formulate the basic management system and the standards for performance appraisal of management officers of various levels; (d) to propose the engagement, dismissal or re-designation of deputy general managers or financial controller of the Company; (e) to convene and chair the general manager office meetings and professional management seminars; and (f) to perform other duties and exercise other powers granted by the Articles of Association and the Board.

## 5. TENURE OF NON-EXECUTIVE DIRECTORS AND CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

For the tenure of non-executive directors, please refer to the aforementioned section "1. Basic Information on Directors" of "Basic Information on Directors, Senior Management and Employees".

The Company has received confirmation from Mr. Ho Man Kay Angela, Mr. Law Pui Cheung and Mr. Wong Chi Keung, being the independent non-executive directors, pursuant to Rule 3.13 of the Listing Rules of the Stock Exchange in respect of their independence for the year. The Company concurs with their independence.

## 6. REMUNERATION COMMITTEE OF THE BOARD

Pursuant to the Listing Rules of the Stock Exchange, the Board of the Company has established the Remuneration Committee under the Board. It makes recommendations to the Board on the remuneration packages of individual executive directors and senior management and is principally responsible for formulating the remuneration policy for the executive directors and senior management of the Company and make recommendations to the Board of the Company. The Remuneration Committee is a standing committee of the Board.

Members of the Remuneration Committee were Ms. Ho Man Kay Angela, Mr. Law Pui Cheung and Mr. Wong Chi Keung, of whom Ms. Ho Man Kay Angela acts as the chairman.

Ms. Ho Man Kay Angela is appointed as the chairman of the Remuneration Committee of the Board of the Company on 1 December 2015. Mr. Law Pui Cheung and Mr. Cheung Yuk Ming are appointed as members of the Remuneration Committee on 1 December 2015. Mr. Cheung Yuk Ming is no longer a member of the Remuneration Committee since 2 February 2016. Mr. Wong Chi Keung has been appointed as a member of the Remuneration Committee with effect from 2 February 2016.

Mr. Wang Jian and Mr. Hou Huailiang resigned as members of the Remuneration Committee of the Board of the Company on 22 May 2015.

Mr. Shen Bing and Ms. Zeng Xuemin are appointed as the chairman and a member of the Remuneration Committee of the Board of the Company respectively on 10 June 2015.

Ms. Wu Xiaoyun resigned as a member of the Remuneration Committee of the Board of the Company in 13 October 2015. Dr. Ou Chin-Der and Ms. Wu Ling-ling are appointed as members of the Remuneration Committee of the Board of the Company on 14 October 2015.

Mr. Shen Bing, Ms. Zeng Xuemin, Dr. Ou Chin-Der and Ms. Wu Ling-ling has been removed as the chairman and members of the Remuneration Committee of the Board of the Company respectively with effect from 1 December 2015.

## 7. AUDIT COMMITTEE

The Board of the Company has established the Audit Committee pursuant to the Listing Rules of the Stock Exchange to monitor the independence of external auditors, the financial reporting process and effectiveness of the internal control system. The Audit Committee is a standing committee of the Board.

The Audit Committee of the Board of the Company comprised Mr. Law Pui Cheung, Ms. Ho Man Kay Angela and Mr. Wong Chi Keung, of whom Mr. Law Pui Cheung acts as the chairman.

Mr. Law Pui Cheung is appointed as a member of the Audit Committee of the Board of the Company on 1 December 2015 and is appointed as the chairman of the Audit Committee with effective from 2 February 2016. Ms. Ho Man Kay Angela and Mr. Cheung Yuk Ming are appointed as members of the Audit Committee of the Board of the Company on 1 December 2015. Mr. Cheung Yuk Ming is no longer a member of the Audit Committee of the Board of the Company since 2 February 2016. Mr. Wong Chi Keung has been appointed as a member of the Audit Committee with effect from 2 February 2016.

Mr. Wang Jian and Mr. Hou Huailiang have resigned as the chairman and a member of the Audit Committee of the Board of the Company respectively with effect from 22 May 2015.

Mr. Shen Bing and Ms. Zeng Xuemin are appointed as members of the Audit Committee of the Board of the Company on 10 June 2015.

Ms. Wu Xiaoyun resigned as a member of the Audit Committee of the Board of the Company on 13 October 2015. Dr. Ou Chin-Der is appointed as a member of the Audit Committee of the Board of the Company on 14 October 2015.

Mr. Shen Bing, Ms. Zeng Xuemin and Dr. Ou Chin-Der are removed as the chairman and members of the Audit Committee of the Board of the Company on 1 December 2015.

The results of the Group for the year ended 31 December 2015 were reviewed by the Audit Committee at the meeting held on 29 March 2016. At such meeting, the Audit Committee considered and approved the audited financial statements of the Company for the year ended 31 December 2015 prepared in accordance with IFRS and the internal audit report.

## 8. EXECUTIVE COMMITTEE OF THE BOARD

To improve working efficiency, the Company established an execution committee under the Board (the "Execution Committee") to manage the overall business and to assist the Board in performing its duties. The Execution Committee is a standing committee under the Board and accountable to it.

Members of the Execution Committee are Mr. Li Liufa, Mr. Li Heping, Mr. Liu Yiu Keung, Stephen and Mr. Cheung Yuk Ming, among them Mr. Li Liufa acts as the chairman.

Mr. Li Liufa is appointed as the chairman of the Execution Committee on 1 December 2015, Mr. Li Heping, Mr. Liu Yiu Keung, Stephen and Mr. Chong Cha Hwa are appointed as members of the Execution Committee on 1 December 2015. Mr. Chong Cha Hwa has resigned as a member of the Execution Committee with effect from 2 February 2016. Mr. Cheung Yuk Ming is appointed as a member of the Execution Committee on 2 February 2016.

Mr. Zhang Caikui and Mr. Li Cheung Hung are removed as members of the Execution Committee on 13 October 2015, Mr. Chang Zhangli and Ms. Wu Ling-ling are appointed as members of the Execution Committee on 14 October 2015.

Mr. Zhang Bin, Mr. Chang Zhangli and Ms. Wu Ling-ling are removed as the chairman and member of the Execution Committee on 1 December 2015.

## 9. NOMINATION COMMITTEE OF THE BOARD

In order to improve its corporate governance structure, the Company established a nomination committee (the "Nomination Committee"). Its principal duties are (i) to review the structure, size and composition of the Board on a regular basis; (ii) to consider the succession arrangement of the directors and other senior management members; (iii) where necessary, to identify suitable candidates to fill the vacancy of the Board and recommend such candidates to the Board for approval; (iv) to review the length of time which non-executive directors are required to contribute and the independence of each independent non-executive director; and (v) to make recommendations to the Board in respect of the appointment and re-appointment of directors. The Nomination Committee is a standing committee under the Board and accountable to the Board.

Members of the Nomination Committee are Mr. Li Liufa, Mr. Liu Yiu Keung, Stephen, Ms. Ho Man Kay Angela, Mr. Law Pui Cheung and Mr. Wong Chi Keung, among them Mr. Li Liufa acts as the chairman.

Mr. Li Liufa is appointed as the chairman of the Nomination Committee on 1 December 2015, Mr. Liu Yiu Keung, Stephen, Ms. Ho Man Kay Angela, Mr. Cheung Yuk Ming and Mr. Law Pui Cheung are appointed as members of the Nomination Committee on 1 December 2015. Mr. Cheung Yuk Ming is no longer a member of the Nomination Committee since 2 February 2016, Mr. Wong Chi Keung is appointed as a member of the Nomination Committee on 2 February 2016.

Mr. Hou Huailiang resigned as a member of the Nomination Committee on 22 May 2015.

Mr. Li Kuan-chun, Mr. Shen Bing and Ms. Zeng Xuemin are appointed as members of the Nomination Committee on 10 June 2015.

Ms. Wu Xiaoyun resigned as a member of the Nomination Committee on 13 October 2015, Dr. Ou Chin-Der is appointed as a member of the Nomination Committee on 14 October 2015.

Mr. Zhang Bin, Mr. Li Kuan-chun, Mr. Shen Bing, Ms. Zeng Xuemin and Dr. Ou Chin-Der are removed as the chairman and members of the Nomination Committee on 1 December 2015.

During the Reporting Period, the current Nomination Committee of the Company performed its responsibility in accordance with the written terms of reference of the Nomination Committee.

## 10. INVESTIGATION COMMITTEE OF THE BOARD

To reinforce the Company's corporate governance structure, the Board established the Investigation Committee on 1 December 2015. The responsibility of the Investigation Committee is to investigate certain events in the past. The Investigation Committee is a temporary committee under the Board of the Company and is accountable to the Board.

The Investigation Committee is composed of 3 independent non-executive directors, namely Ms. Ho Man Kay Angela, Mr. Law Pui Cheung and Mr. Wong Chi Keung.

Ms. Ho Man Kay Angela, Mr. Cheung Yuk Ming and Mr. Law Pui Cheung are appointed as members of the Investigation Committee under the Board of the Company on 1 December 2015.

Mr. Cheung Yuk Ming used to be a member of the Investigation Committee since 2 February 2016, Mr. Wong Chi Keung is appointed as a member of the Investigation Committee since 2 February 2016.

## 11. DIRECTOR TRAINING

The Directors participated in continuing development and training in their respective fields.

## 12. DUTIES OF COMPANY SECRETARY

Joint Company Secretary of the Company are Mr. Tsang Wing Tai and Mr. Yu Chun Liang.

The principal duties of the Company Secretary are: (a) to assist directors in daily operations of the Board, to support directors in understanding the rules and requirements of regulatory authorities and to assist directors in compliance of regulations and laws; (b) to organize the preparation of board meeting materials, to provide illustration for the items on the agenda so that directors could fully understand the content of each resolutions and to provide directors with relevant information and figures.

## 13. AUDITORS AND REMUNERATION

Pursuant to the proposal from the Audit Committee, the Company engaged KPMG as the auditor of the Company for the year ended 31 December 2015. The audit remuneration payable amounted to RMB8.53 million on top of travelling and accommodation expenses.

## 14. SHAREHOLDER AND GENERAL MEETING

To protect all shareholders in their exercise of rights, the Company convenes an annual general meeting and extraordinary general meetings whenever the Board considers appropriate in accordance with the articles of association of the Company ("Articles").

General meetings will also be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong (or in the event the Company ceases to have such a principal office, the registered office) specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong (or in the event the Company ceases to have such a principal office, the registered office) specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

The written requisition clearly specifying the objects of the meeting by the requisitionists is required. Shareholders are able to put forward their inquiries to the Board through communication with Joint Company Secretary by email and telephone number indicated in the sector "Company Profile" of this Report.

The annual general meeting ("AGM") of the Company for 2014 was held on 22 May 2015. Four ordinary resolutions (including the adoption of the audited consolidated financial statements for 2014, rotation of directors and granting general mandates to the Board) were approved and adopted, details of which were disclosed in the AGM poll results announcement dated 22 May 2015.

At the extraordinary general meeting ("EGM") of the Company held on 29 July 2015, a poll was conducted for 17 ordinary resolutions on removal and appointment of Directors, 2 ordinary resolutions were approved, details of which were disclosed in the EGM poll results announcement dated 29 July 2015.

At the EGM of the Company held on 13 October 2015, a poll was conducted for 7 ordinary resolutions on removal and appointment of Directors, 3 ordinary resolutions were approved, details of which were disclosed in the EGM poll results announcement dated 13 October 2015.

At the EGM of the Company held on 1 December 2015, a poll was conducted for 21 ordinary resolutions on removal and appointment of Directors, 18 ordinary resolutions were approved, details of which were disclosed in the EGM poll results announcement dated 1 December 2015.

During the Reporting Period, the Company has held one AGM and has three EGMs. The current Directors are not able to locate the attendance records of the previous general meetings when they took over management of the Company's office in Hong Kong in December 2015. As far as the current Directors know, the ex-directors did not attend the EMG held on 1 December 2015.

## 15. INTERNAL CONTROL SYSTEM ON OPERATIONS

The control system on operations in 2015 was as follows:

(1) Production management: The Group maintained a product planning, implementation and monitoring system. After discussion, the Group issues annual and monthly production plans on a unified basis. In accordance with real-time statistical data generated by the production digital system, the Monitoring Department at the Group's headquarters carries out daily reporting, weekly dispatch and monthly analysis. The Technical Department provides technical consultation to ensure smooth implementation of the production plan.

(2) Equipment management: The Group has established an equipment examination and process overhaul system. The overhaul of small equipment of subsidiaries are carried out by themselves after approval. The overhaul of large equipment are carried out by the Technical Department of the Group. Strict acceptance procedures are implemented. The Technical Department monitors data on the operation of equipment to prevent equipment breakdown and accident.

(3) Quality control: The Group enforces national quality standards and implements real-time quality control. The Quality Control Department inspects samples of the subsidiaries and new product research and development to ensure products of the Group attain national standards.

(4) Financial management: The Group maintains a budgetary system, formulates a set of unified financial management procedures and supervises the financial manager appointment procedures to ensure their independence. It also implements a centralised funding management system. All financing activities are approved by the Group's headquarters and financing sources are arranged on unified channels. The Group implements a strict funding approval procedure. The Group's Treasury Department supervises the use of fund through the funding settlement centre to prevent funding risks.

(5) Material procurement management: The Group has established a set of material procurement procedures to implement unified bidding procedures and to make purchases by comparing quality and prices for coal, spare parts, supplies and equipment. The Group and its subsidiaries control material procurement risks by monitoring quality, price, inventory and payment through the "one vehicle one inspection, one vehicle one settlement" system for raw materials, and the intelligent storage management system for spare parts.

(6) Sales management: The Company implements unified policies for regional market development, pricing and product sales, and has been carrying out a "cash before delivery" selling policy to non-major ordinary customers. The Sales and Marketing Department of the Group monitors invoicing, goods delivery and pricing of its subsidiaries through the intelligent sales system, and collects market information and customer feedbacks to the Group for improvement of product quality and sales service.

(7) Project investment management: The Group formulates medium-to-long-term development strategic plans and submits results for approval by the Board before implementation. For construction projects, the Engineer Department at the Group's headquarters carries out project design. The Strategic Department is responsible for project construction management and production debugging. The Audit Department performs audit of project budgets and final accounts.

(8) Human resources management: The Group maintains policies and procedures for contract management, employment, work and rest, performance appraisal, rewards and punishment, and has developed staffing and wage standards on a unified basis for its subsidiaries. The Human Resources Department of the Group has implemented supervision to control employment risks. The Group implements a unified talent recruitment and development plan.

(9) The Group encountered cash flow problem in 2015. The Group obtained financial support from Tianrui Group, a substantial shareholder, which provided interest-free loans of RMB233 million during the period from December 2015 to March 2016. Tianrui Group has provided a Letter of Support to the Group.

# (VI) Report on Corporate Governance

(10) Up to the date of issue of this Annual Report, the Group has about 100 outstanding legal actions initiated by creditors demanding repayment of debts. With the support of the Tianrui Group, the Group is working with some creditors on debt restructuring.

(11) On taking over the Hong Kong office and the head office building of Shandong Shanshui in Jinan, the Group discovered that certain documents and assets are missing. These matters are under investigation.

## 16. CORPORATE GOVERNANCE – SUMMARY OF COMPLIANCE

(1) The Company's internal audit department has reviewed the provisions of the Corporate Governance Code and conducted an annual internal audit of compliance of the Code in February 2016.

(2) The breaches of the code and the listing rules are summarized in sub-section (VI)1 above.

(3) The Company has enquired to all directors on their compliance with the code of director's securities transactions and the result is satisfactory.

(4) Due to loss of the relevant records, the number of board meetings held before 30 November 2015 is not known.

(5) A board meeting was held on 1 December 2015 immediately after an extraordinary meeting of shareholders held on the same day. All the current directors other than Wong Chi Keung attended the said directors' meeting.

Total of five meetings of the board was held in December 2015. The attendance was as follows:

| Director | No. of attendance | Director | No. of attendance | Director | No. of attendance |
|---|---|---|---|---|---|
| Li Liufa | 2 | Cheung Yiu Ming | 5 | Hwa Guo Wai | 3 |
| Li Heping | 3 | Yen Ching Wai | 2 | Law Pui Cheung | 2 |
| Liu Yiu Keung | 3 | Chong Cha Hwa | 5 | Ho Man Kay | 3 |

(6) A meeting of the Audit Committee was held in December 2015 with a subsequent conference with the auditors of the Company on the planning of the 2015 annual audit and the year-end stock-taking. All the members consisting of Mr. Cheung Yuk Ming, Ms. Ho Man Kay and Mr. Law Pui Cheung attended the Committee meeting.

(7) Another meeting of the Audit Committee consisting of Mr. Law Pui Cheung, Ms. Ho Man Kay and Mr. Wong Chi Keung was held on 29 March 2016 to review the audited financial statements of 2015 and the report of the annual internal audit review of the risk management and internal controls of the Group. The results of the reviews are satisfactory.

(8) Main works of the new Board constituted after the EGM on 1 December 2015 were focused on finding out the major problems of the Group and taking effective action to remedy the situation such as to study the law suits taken against the group companies for failure to pay debts due and attempt to get back the official chop of Shandong Shanshui to enable it to resume its normal business activities and to defend against law suits.

(9) All major breaches of the listing rules in 2015 are rectified by the subsequent appointments to committees and separation of the roles of the chairman of the Board and the Chief Executive.

(10) A meeting of the Remuneration Committee was held in December 2015 to determine the policy for the remuneration of the executive directors.

(11) A review of the works of the external auditors was made and it was found that the main work performed during the year was audit of the consolidated financial statements of 2015.

(12) Shareholders have made three requests to hold extraordinary meetings and the meetings were organized as requested.

(13) Despite disruption to production operations due to several shareholders' litigation against certain previous directors, and the liquidity problem arising from downturn in the cement industry and management's neglect, the internal audit department's annual review of 2015 finds that the risk management and internal control systems on operations, finance and compliance with law and regulations remained broadly effective and adequate during the year.

(14) We will study development of corporate governance practices of other corporations, regulatory changes and requirements of the investors on an ongoing basis. We will review and enhance our practices from time to time to maintain good governance of the Company.

# (VII) Management Discussion and Analysis

## 1. DOMESTIC OPERATING ENVIRONMENT AND OPERATING CONDITIONS OF THE CEMENT INDUSTRY

In 2015, aggregate cement production volume throughout the country amounted to 2.348 billion tonnes, representing a decrease of 4.9% as compared with the previous year. The cement industry in China recorded a profit of RMB32.97 billion, representing a year-on-year decrease of 57.9%. Regionally, cement enterprises in Northern China were mostly not profitable. The profitability of cement enterprises in Northeast, Northwest and Southwest China deceased by more than 80%. The profitability of cement enterprises in Eastern China and Southern China had decreased by almost 40%. (Source: Digital Cement)

## 2. OPERATIONS OVERVIEW

In 2015, development of the Company was at a standstill. The quality of operations fell sharply.

During the Reporting Period, the following projects had commenced operations or trial operations:

| | **Added/ (deducted) clinker capacity (10,000 tonnes)** | **Added cement capacity (10,000 tonnes)** |
|---|---|---|
| **New production lines:** | | |
| Linqu Shanshui Cement Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities) (Phase 2) | 128 | – |
| Linfen Shanshui Cement Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities)* | 128 | 200 |
| Shuozhou Shanshui New Era Cement Company Limited 4,500t/d clinker production line project (equipped with residual heat generation facilities) | 144 | 200 |
| Yantai Shanshui Cement Company Limited Beihai Branch grinding production line technology transformation project with annual production capacity of 0.7 million tonnes** | – | 16 |
| Weifang Shanshui Cement Co., Limited 2,000 t/d clinker production line*** | (64) | – |
| **Total new production capacity for the year** | **336** | **416** |

* This is a greenfield project at final stage.

** The original annual production capacity of this production line is 540,000 tonnes; the annual production capacity is increased by 160,000 tonnes after technological transformation.

*** This product line will be dismantled after commencement of the operation of the clinker production line project (Phase 2) of Linqu Shanshui Cement Company Limited.

# (VII) Management Discussion and Analysis

During the Reporting Period, the Group added new cement production capacity and new clinker production capacity (included a greenfield project at final stage) of 4.16 and 3.36 million tonnes respectively. As at the end of the Reporting Period, most clinker production lines had been equipped with residual heat generation facilities, and the total installed capacity amounted to 292MW. As at the end of the Reporting Period, the total installed capacity of the Group's commercial concrete production lines amounted to 19.40 million cubic meters.

During the Reporting Period, the Group sold a total of 54.242 million tonnes of cement and clinker, representing a year-on-year decline of 13.85%. Sales revenue was RMB11,166 million, representing a year-on-year decrease of 28.4%. Net loss for the year was RMB6,694 million while a profit was recorded in the previous year.

## (I) Business review

### *(a) Sales revenue analysis and the respective year-on-year changes*

(Unit: RMB million)

| | **2015** | | 2014 | | |
|---|---|---|---|---|---|
| **Product** | **Sales revenue** | **Sales proportion** | Sales revenue | Sales proportion | Change in sales revenue |
| Cement | **9,111** | **81.6%** | 12,511 | 80.2% | -27.2% |
| Clinker | **1,299** | **11.6%** | 1,881 | 12.1% | -30.9% |
| Concrete | **634** | **5.7%** | 1,036 | 6.6% | -38.8% |
| Others | **122** | **1.1%** | 168 | 1.1% | -27.4% |
| Total | **11,166** | **100%** | 15,596 | 100% | -28.4% |

During the Reporting Period, the Company's sales revenue decreased by 28.4% to RMB11,166 million. Cement revenue amounted to RMB9,111 million, representing a year-on-year decline of 27.2%. Clinker revenue amounted to RMB1,299 million, representing a year-on-year decline of 30.9%. Revenue from concrete amounted to RMB634 million, representing a year-on-year decline of 38.8%. The fall in sales were due to excess capacity of the cement industry and shrinking of the property development market.

### *(b) Sales volume, unit selling prices and their respective year-on-year changes*

*(1) Comparison of sales volume and unit selling price for the Group*

| Product | **2015 Sales volume ('000 tonnes)** | 2014 Sales volume ('000 tonnes) | Sales volume change | **2015 Unit selling price (RMB/ tonne)** | 2014 Unit selling price (RMB/ tonne) | Change in selling price |
|---|---|---|---|---|---|---|
| Cement | **45,821** | 53,146 | -13.8% | **198.8** | 235.4 | -15.5% |
| Clinker | **8,421** | 9,818 | -14.2% | **154.3** | 191.6 | -19.5% |
| | **('000 $m^3$)** | ('000 $m^3$) | | **(RMB/$m^3$)** | (RMB/$m^3$) | |
| Concrete | **2,370** | 3,471 | -31.7% | **267.6** | 298.6 | -10.4% |

During the Reporting Period, the sales volume of cement of the Company amounted to 45.821 million tonnes, representing a year-on-year decline of 13.8%, while the sales volume of commercial clinker decreased to 8.421 million tonnes, representing a year-on-year decline of 14.2%. The unit selling price of cement decreased by 15.5% to RMB198.8 per tonne, while the unit selling price of clinker decreased by 19.5% to RMB154.3 per tonne. The sales volume of concrete decreased to 2,370 million cubic meters, representing a year-on-year decline of 31.7%. The unitselling price of concrete decreased by 10.4% to RMB267.6/$m^3$.

*(2) Comparison of unit selling price of cement between regions*

| **Region** | **Average unit selling price in 2015 (RMB/tonne)** | Average unit selling price in 2014 (RMB/tonne) | Change in selling price |
|---|---|---|---|
| Shandong Region | **192.5** | 233.3 | -17.5% |
| Northeastern Region | **214.6** | 246.6 | -13.0% |
| Shanxi Region | **161.3** | 202.1 | -20.2% |
| Xinjiang Region | **267.5** | 241.0 | 11.0% |

During the Reporting Period, the average unit selling price of cement of our operating companies in Shandong Region was RMB192.5 per tonne, representing a year-on-year decrease of 17.5%, that in Northeast Region was RMB214.6 per tonne, representing a year-on-year decrease of 13.0%, that in Shanxi Region was RMB161.3 per tonne, representing a year-on-year decrease of 20.2%, and that in Xinjiang Region was RMB267.5 per tonne, representing a year-on-year increase of 11.0%.

*(3) Comparison of sales volume and sales proportion between high and low grade cement products*

| | **2015** | | 2014 | | |
|---|---|---|---|---|---|
| **Product** | **Sales volume ('000 tonnes)** | **Sales proportion** | Sales volume ('000 tonnes) | Sales proportion | Change in sales volume |
| High grade cement | **29,433** | **64.23%** | 35,578 | 66.9% | -17.27% |
| Low grade cement | **16,388** | **35.77%** | 17,568 | 33.1% | -6.72% |

Note: High grade cement refers to products with compressive strength equal to or higher than 42.5 megapascals (MPa).

During the Reporting Period, sales volume of high grade cement was 29.433 million tonnes, representing a year-on-year decrease of 17.27%, and sales volume of low grade cement was 16.388 million tonnes, representing a year-on-year decrease of 6.72%.

### (c) *Analysis of sales revenue by region and their respective year-on-year changes*

(Unit: RMB'000)

| Region | 2015 Sales revenue | 2015 Sales proportion | 2014 Sales revenue | 2014 Sales proportion | Change in sales revenue |
|---|---|---|---|---|---|
| Shandong Region | **7,103,105** | **63.6%** | 10,479,307 | 67.2% | -32.2% |
| Northeastern Region | **3,108,476** | **27.8%** | 4,028,333 | 25.8% | -22.8% |
| Shanxi Region | **598,521** | **5.4%** | 759,243 | 4.9% | -21.2% |
| Xinjiang Region | **356,110** | **3.2%** | 329,557 | 2.1% | 8.1% |
| Total | **11,166,212** | **100%** | 15,596,440 | 100% | -28.4% |

In 2015, our operating companies in Shandong Region recorded sales revenue of RMB7,103 million, accounting for 63.6% of the Group's total sales revenue, representing a year-on-year decline of 32.2%. Our operating companies in Northeast Region reported sales revenue of RMB3,108 million, accounting for 27.8% of the Group's total sales revenue and representing a year-on-year decrease of 22.8%.

## (II) Profit analysis

### (a) *Key profit and loss items and their respective changes*

(Unit: RMB'000)

| | 2015 | 2014 | Change |
|---|---|---|---|
| Revenue | **11,166,212** | 15,596,440 | -28.4% |
| Gross profit | **1,228,285** | 3,346,865 | -63.3% |
| EBITDA | **(3,430,464)** | 3,172,359 | -208.1% |
| (Loss)/Profit from operations | **(4,869,076)** | 1,812,813 | -368.6% |
| (Loss)/Profit before taxation | **(6,495,603)** | 690,123 | -1,041.2% |
| Net (loss)/profit for the year | **(6,693,655)** | 308,578 | -2,269.2% |
| (Loss)/Profit attributable to equity holders of the Company | **(6,387,259)** | 347,650 | -1,937.3% |

During the Reporting Period, the Group recorded sales revenue of RMB11,166 million, representing a year-on-year decrease of 28.4%; loss from operations was RMB4,869 million while a profit was recorded in the previous year; loss for the year was RMB6,694 million while a profit was recorded in the previous year; loss attributable to equity shareholders of the Company was RMB6,387 million while a profit was recorded in the previous year. The decrease in profit was mainly due to the sharp decrease of sale volumes and selling prices. The decrease in selling prices were greater than the decrease in cost of sales. Gross profit for the year has decreased from 21.5% to 11.0%. The unreasonably high costs of construction and acquisition in the past caused a high level of impairment during the year when volume and price fell significantly.

### *(b) Comparison analysis of the proportion of cost of sales to revenue*

(Unit: RMB'000)

| | **2015** | | 2014 | | Change of |
|---|---|---|---|---|---|
| **Cost of sales** | **Amount** | **Proportion to revenue** | Amount | Proportion to revenue | proportion to revenue |
| Raw materials | **3,185,792** | **28.5%** | 4,120,774 | 26.4% | 2.1 P.Pt. |
| Coal | **2,130,174** | **19.1%** | 3,136,584 | 20.1% | -1.0 P.Pt. |
| Power | **1,618,000** | **14.5%** | 1,812,545 | 11.6% | 2.9 P.Pt. |
| Depreciation and amortisation | **1,072,460** | **9.6%** | 1,108,744 | 7.1% | 2.5 P.Pt. |
| Others | **1,931,501** | **17.3%** | 2,070,928 | 13.3% | 4.0 P.Pt. |
| Total cost of sales | **9,937,927** | **89.0%** | 12,249,575 | 78.5% | 10.5 P.Pt. |

During the Reporting Period, the proportion of the Group's total cost of sales to revenue was 89.0%, representing a year-on-year increase of 10.5 percentage points. Of which, the proportion of raw materials costs, power costs, depreciation and amortisation to revenue increased by 2.1%, 2.9% and 2.5% respectively. The main reason is the significant decrease in sale revenue while the decrease of cost of purchases is smaller than the decrease in sale revenue. The proportion of coal costs to revenue was 19.1%, representing a year-on-year decrease of 1%. The decrease of proportion of coal costs to revenue is mainly contributed by the decrease of the Group's average unit purchase price of coal in 2015 by 14.5% to RMB453.0/tonne, and the decrease in coal consumption in relation to production of clinker from 136kg/tonne to 130kg/tonne. Thus reducing the cost of clinker by RMB326 million.

## 3. FINANCIAL REVIEW

### (a) Expenses during the year

(Unit: RMB'000)

| | **2015** | | 2014 | | Proportion |
|---|---|---|---|---|---|
| | | **Proportion** | | Proportion | to sales |
| | | **to sales** | | to sales | revenue |
| | **Amount** | **revenue** | Amount | revenue | change |
| Sales and marketing expenses | **514,469** | **4.61%** | 527,168 | 3.38% | 1.23 P.Pt. |
| Administrative expenses | **2,316,895** | **20.75%** | 1,246,446 | 7.99% | 12.76 P.Pt. |
| Finance costs | **1,597,179** | **14.30%** | 1,140,985 | 7.32% | 6.98 P.Pt. |
| Total | **4,428,543** | **39.66%** | 2,914,599 | 18.69% | 20.97 P.Pt. |

During the Reporting Period, the proportion of sales and marketing expenses to sales revenue increased by 1.23% as compared with that of 2014. Due to the increase of bad debt provision of RMB605 million, the expenses on clinker production lines which were suspended operation in certain months and the increase in depreciation by RMB238 million, the proportion of administrative expenses to sales revenue increased by 12.76% as compared with that of 2014. Net interest expenses increased by RMB300 million. Handling charges on the Group's repayments of USD Senior Notes and the default of repayment of short term financing bills increased by RMB148 million. Thus, the proportion of the Group's finance costs to sales revenue increased by 6.98% as compared with that of 2014.

### (b) Changes in balance sheet items

(Unit: RMB'000)

| | 31 December 2015 | 31 December 2014 | Change |
|---|---|---|---|
| Non-current assets | **23,109,951** | 26,645,735 | -13.3% |
| Current assets | **3,903,749** | 7,049,762 | -44.6% |
| Total assets | **27,013,700** | 33,695,497 | -19.8% |
| Current liabilities | **21,748,349** | 9,845,099 | 120.9% |
| Non-current liabilities | **772,186** | 12,484,072 | -93.8% |
| Total liabilities | **22,520,535** | 22,329,171 | 0.9% |
| Minority interest | **462,913** | 768,359 | -39.8% |
| Equity attributable to equity shareholders of the Company | **4,030,252** | 10,597,967 | -62.0% |
| Total liabilities and equity | **27,013,700** | 33,695,497 | -19.8% |
| Net gearing ratio | **77.6%** | 56.9% | 20.7 P.Pt. |

As at 31 December 2015, the Group's total assets were RMB27,014 million, total liabilities were RMB22,521 million and its net assets were RMB4,493 million. The net gearing ratio (net liabilities/(net liabilities + equity of the Company)) was 77.6%, representing an increase of 20.7 percentage points as compared with the end of the previous year. The Group's total current assets were RMB3,904 million, its total current liabilities were RMB21,748 million, and its net current liabilities were RMB17,845 million. Due to debt default by group companies, long term borrowings were reclassified as short-term borrowings. Due to the fact that the official chop has not been returned by the previous management, Shandong Shanshui was unable to obtain additional financing. Up to the date of this report, the Company obtained financial support from its substantial shareholder Tianrui Group to repay the USD senior notes, short-term financing bills and medium-term senior notes. Meanwhile, the Company obtained majority of creditor banks' understanding and support to maintain the current scale of borrowing by substituting old borrowings by new borrowings or extending the repayment term. Since December 2015, the Company completed the substitution of old borrowings by new borrowings or extending the repayment terms of loans by about RMB1,300 million.

### (c) Long-term and short-term bank loans and other loans

(Unit: RMB'000)

| Term of borrowings | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Short-term borrowings (including long-term borrowings with maturity within one year) | **15,601,437** | 4,244,120 |
| Long-term borrowings | **211,713** | 11,904,899 |
| Total | **15,813,150** | 16,149,019 |

As at 31 December 2015, the Company's total borrowings were RMB15,813 million, a decrease of RMB336 million as compared with the end of 2014. Of this, short-term borrowings (including long-term borrowings with maturity within 1 year) amounted to RMB15,601 million and accounted for 98.66% of the Group's total borrowings.

### (d) Capital expenditures

During the Reporting Period, capital expenditures invested were approximately RMB1,673 million, which were mainly in respect of cement and clinker production lines.

Outstanding capital commitments under production facility construction contracts and the equipment purchase contracts not provided for in the financial statements as at 31 December 2015 were:

(Unit: RMB'000)

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Authorised and contracted for – plant and equipment | **401,982** | 594,894 |
| Authorised but not contracted for – plant and equipment | **249,435** | 517,243 |
| Total | **651,417** | 1,112,137 |

As at 31 December 2015, the capital commitments authorised and contracted for by the Group amounted to RMB402 million, which represents a decrease of RMB193 million or 32.4% as compared with the end of 2014. Capital commitments authorised but not contracted for amounted to RMB249 million.

### (e) Net cash flow analysis

(Unit: RMB'000)

| | **2015** | 2014 |
|---|---|---|
| Net cash (used in)/generated from operating activities | **(342,913)** | 1,375,826 |
| Net cash used in investing activities | **(1,591,087)** | (2,184,284) |
| Net cash generated from financing activities | **1,002,770** | 682,207 |
| Net changes in cash and cash equivalents | **(931,230)** | (126,251) |
| Balance of cash and cash equivalents at 1 January | **1,151,353** | 1,277,369 |
| Effect of foreign exchange rate changes | **2,784** | 235 |
| Balance of cash and cash equivalents at 31 December | **222,907** | 1,151,353 |

During the Reporting Period, the Group's net cash used in operating activities was RMB343 million, representing a decrease of RMB1,719 million over the corresponding period of the previous year. The negative net cash flow used in investing activities amounted to RMB1,591 million, representing a decrease of RMB593 million compared with the same period of the previous year. Net cash generated from financing activities increased by RMB321 million to RMB1,003 million over the corresponding period of the previous year.

## 4. FINANCIAL REPORTING AND CORPORATE ACCOUNTING POLICY

The Company has adopted the International Financial Reporting Standards issued by the International Accounting Standard Board (IASB).

## 5. OUTLOOK FOR 2016

### (a) Outlook of the operating environment

Certain short-term boost in demand was noted in the first quarter of 2016. Unfavorable factors in the industry include excess capacity and the continued weakness in cement price.

### (b) Business outlook of the Company

In 2016, the Group will put more efforts in the following areas:

(i) The Company will continue to enforce the implementation of the centralized procurement and supply policy at three levels of the group, region and operating companies;

(ii) The Company will adjust its sales network and marketing strategies;

(iii) The Company will improve production efficiency and cost control; and

(iv) The Company will review results of operating companies on a monthly basis and adhere to the laid-down reward and punishment system.

## 1. PRINCIPAL ACTIVITIES

The Company's core businesses are the production and sales of various types of cements and clinkers. Clinkers produced by the Company were mainly sold to customers with cement grinding stations. The cements produced by the Company under the brand of "Shanshui Dongyue" are widely used in construction works for roads, bridges, housing and other types of construction projects.

## 2. MAJOR INVESTMENT DURING THE REPORTING PERIOD

### (1) The major investments were:

| Serial No. | Name of Project | Status | Amounts invested during the Reporting Period (RMB'000) |
|---|---|---|---|
| 1 | Kazuo Congyuanhao Cement Co., Ltd. 4,000t/d clinker production line (equipped with residual heat generation facilities) | Commenced operation | 107,820 |
| 2 | Zalaite Qi Shanshui Cement Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities) | Commenced operation | 78,370 |
| 3 | Linfen Shanshui Cement Co., Ltd. 4,000t/d clinker production line (equipped with residual heat generation facilities) and with an annual production capacity of 2 million tonnes cement grinding production line | Commenced operation | 105,440 |
| 4 | Shuozhou Shanshui New Era Cement Company Limited 4,500t/d clinker production line project (equipped with residual heat generation facilities) with an annual production capacity of 2 million tonnes cement grinding production line | Commenced operation | 101,009 |
| 5 | Linqu Shanshui Cement Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities) (Phase 2) | Commenced operation | 33,774 |

| Serial No. | Name of Project | Status | Amounts invested during the Reporting Period (RMB'000) |
|---|---|---|---|
| 6 | Jingbian Shanshui Cement Company Limited cement grinding production line with annual production capacity of 1 million tonnes | Commenced operation | 38,000 |
| 7 | Dongming Shanshui Cement Company Limited grinding production line project with annual production capacity of 1 million tonnes | Commenced operation | 20,040 |
| 8 | Aohan Qi Shanshui Cement Company Limited grinding production line project with annual production capacity of 1 million tonnes | Commenced operation | 38,500 |
| 9 | Yantai Shanshui Cement Company Limited Beihai Branch grinding production line technology transformation project with annual production capacity of 1 million tonnes | Commenced operation | 17,400 |
| 10 | Baishan Shanshui Cement Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities) with an annual production capacity of 1 million tonnes cement grinding production line | Under construction | 68,440 |
| 11 | Jinan Shi-ji Chuang-xin Cement Co., Ltd. grinding production line technology transformation project with annual production capacity of 2.7 million tonnes | Under construction | 18,872 |

### (2) Capital increase in subsidiaries during the Reporting Period

| Serial No. | Name of company | Capital injection | Registered capital after the capital increased |
|---|---|---|---|
| (1) | Shandong Shanshui Heavy Industries Co., Ltd. | RMB26,000,000 | RMB171,000,000 |
| (2) | Chifeng Shanshui Yuanhan Cement Company Limited | RMB100,000,000 | RMB200,000,000 |
| (3) | Weifang Shanshui Cement Co., Ltd. | RMB100,000,000 | RMB150,000,000 |
| (4) | Zibo Shuangfeng Shanshui Cement Co., Ltd. | RMB140,000,000 | RMB150,000,000 |
| (5) | Zalaite Qi Shanshui Cement Company Limited | RMB55,000,000 | RMB120,000,000 |
| (6) | Shenyang Shanshui Gongyuan Cement Co., Ltd. | RMB23,931,143.98 | RMB111,993,468.19 |

### (3) De-registration of subsidiaries during the Reporting Period

During the Reporting Period, no subsidiary of the Group has been de-registered.

## 3. MAJOR SUBSIDIARIES WITH CONTROLLING INTERESTS

As at 31 December 2015, the Company had controlling interests in 116 subsidiaries. For details, please refer to Note 16 to the Financial Statements of this report.

During the Reporting Period, the top five most profitable subsidiaries were as follows:

| Name of company | Revenue (RMB'000) | Profit from operations (RMB'000) | Net profit (RMB'000) |
|---|---|---|---|
| Zibo Shanshui Cement Company Limited | 428,423 | 61,827 | 55,942 |
| Pingyin Shanshui Cement Co., Ltd. | 644,788 | 30,936 | 20,450 |
| Anqiu Shanshui Cement Co., Ltd. | 413,525 | 20,886 | 20,861 |
| Shandong Shanshui Financial Leasing Co., Ltd. | 68,308 | 14,272 | 18,073 |
| Qingdao Shanshui Chuangxin Cement Co., Ltd. | 262,692 | 25,198 | 17,660 |

## 4. DIVIDEND FOR 2015

The Company incurred a loss of RMB6.694 billion. The Board of Directors does not recommend dividend payment for the year ended 31 December 2015. The aforesaid recommendation is to be authorized at the forthcoming Annual General Meeting.

## 5. TAXATION

Details relating to taxation matters of the Group for the Reporting Period are set out in Note 6 to the Financial Statements.

## 6. MAJOR CUSTOMERS AND SUPPLIERS

For 2015, total sales attributable to the top five customers of the Group were less than 30% of total sales of the Group, and total purchases attributable to the top five suppliers of the Group were less than 30% of total purchases of the Group.

## 7. LAND LEASES, REAL PROPERTIES, PLANT AND EQUIPMENT

During the Reporting Period, the changes in the land leases, real estate to properties, plant and equipment are set out in Note 11 to the Financial Statements.

## 8. TOTAL ASSETS

As on 31 December 2015, the total assets of the Group were RMB27,014 million, representing a decrease of RMB6,682 million compared to the previous year due to operating losses and impairments of plant, goodwill and other assets.

## 9. RESERVES

Changes in reserves of the Group for the year ended 31 December 2015 are set out in Note 30 to the Financial Statements.

## 10. DEPOSITS, LOANS AND CAPITALIZED INTEREST

Details of the Company's loans for the year ended 31 December 2015 are set out in Notes 21 and 22 of the Financial Statements. Deposits of the Company for the year ended 31 December 2015 are placed with commercial banks with good creditworthiness. Certain deposits of the Group have been frozen due to litigation, the details of which are set out in Note 20 to the Financial Statements. During the year, capitalised interest for projects under construction amounted to RMB28.478 million, the details of which are set out in Note 5 to the Financial Statements.

## 11. PARTICULARS MATERIAL FOR THE APPRECIATION OF THE STATE OF THE COMPANY'S AFFAIR

Significant events during 2015 are those summarized in the "Major Developments in 2015" of the Preliminary Announcements of Results for the year ended 31 December 2015 published on 31 March 2016, They include:

(1) the approval by the Board of Directors to offer 207,300,000 options to subscribe for new shares to certain ex-directors and employees of the Group;

(2) the announcement to make a joint voluntary cash general offer for all shares of the Company by Asian Cement Corporation and China National Building Material Company Limited; and

(3) the appointments of five new Directors to the Board of Directors during the year and their removal on 1 December 2015;

## 12. OTHER MAJOR EVENTS

Other events that have an impact on the state of the Company's affairs include the followings:

(1) losses of a number of documents and records when the current Directors took over control of the Hong Kong office of the Company and their discovery of significant number of default in the repayments of loans and bonds of group companies;

(2) the financial assistance provided by a major shareholder, the Tianrui Group Co., Ltd, in the form of interest-free loans to the Group to pay overdue interests;

(3) the discovery of the change in the articles of Shandong Shanshui Cement Group Co., Ltd that enables Mr. Zhang Caikui, Mr. Zhang Bin and Mr. Chen Xueshi to remain as directors of the said company for three years; and

(4) the discovery of the loss of the official chop of Shandong Shanshui Cement Group Co., Ltd that inhabits the Company to take a number of corporate activities including the submission of legal defence in respect of about 100 litigations for defaults in repayment of liabilities.

## 13. DIRECTORS' INTEREST IN CONTRACTS

Mr. Li Liufa is a director of Tianrui Group Co., Ltd which made interest-free loans for a total of RMB65 million (up to the end of 2015) to the group companies to pay interest on overdue loans and notes.

## 14. NOTES ISSUED DURING THE YEAR

A 7.50% Senior Notes due 2020 of US$500 million was issued on 4 March 2015.

## 15. RESIGNATION OF DIRECTORS

Mr. Ng Qing Hai resigned as a director of the Company on 2 February 2016 due to the fact that he was not able to participate fully in the management of the Company's affairs as he lives and works in Shanghai.

## 16. BUSINESS REVIEW

### (1) Main activities

The group companies are principally engaged in the production and sales of cement products.

### (2) Principal risks and uncertainties

The principal risks and uncertainties the group companies are facing include the followings:

(i) the state of the economy in the provinces in which the group companies sell their products. The Chinese economy in general is in a downward mode during the last two years and there is uncertainty as to the extent macroeconomic policies of the government are able to improve the situation;

(ii) the cement industry is in excess capacity and mid-term downward price pressure is a concern for all players in the sector; and

(iii) the Company's finance is not in a good shape and a number of borrowings are in default.

### (3) Important events since the end of financial year

About 50 creditors have sued the group companies for overdue payments. The Company is negotiating with the creditors with a view to defer the payments of principal and interest.

The Company has also made applications to courts to stop the litigation pending resolution of the problem of loss of legal status to act as a defendant by Shandong Shanshui due to retention of its official chop by certain members of the previous management.

### (4) Likely future development

With financial assistance of the Tianrui Group, the group companies are striving to return to profitable operations and stability in their relation with major customers, suppliers and creditors.

A number of creditors are pressing for repayment but most of them are aware of the need to give time to the new management of the Company to sort out its affairs and to return to financial health.

### (5) Financial performance indicators

(i) Sales decreased from RMB16.54 billion in 2013 to RMB15.60 billion in 2014. Revenue further deteriorated to RMB11.17 billion in 2015. The fall was mainly due to collapse of the housing and infrastructural markets in mainland China.

(ii) Gross profit ratios for 2013, 2014 and 2015 are 23.2%, 21.5% and 11.0%. The general trend was an indication of increased competition due to excessive supply in the industry.

(iii) Net loss after taxation in 2015 was RMB6,693.7 million due to normal operating losses of about RMB2,856.3 million, impairments of factory capital expenditures of about RMB673.5 million due to fall in cash flows and financial assets of about RMB11.2 million, loss of cash on hand of RMB2.7 million, expenses without supporting of RMB14.3 million, impairment of trade receivable of RMB153.9 million and inventories of RMB60.9 million, payment in relation of share option of RMB18.7 million, impairment of goodwill of about RMB2,331.6 million, provision for losses of investment in associates of RMB407.7 million and of lendings of RMB151.4 million due to loss of control of the companies and the individuals in question after former management left the Company on 1 December 2015 without proper handing-over.

(iv) Liquidity of the Company deteriorated in 2015. Current liabilities increased from RMB9,845 million in 2014 to RMB21,748 million in 2015 as a result of default in repayments of liabilities by the former management and the subsequent shifting of the non-current obligation to current obligation because of the trigger of default clauses of contracts.

## 17. ENVIRONMENT POLICIES AND PERFORMANCE

The cement production industry involves the emission of nitrogen oxide, sulfur dioxide and carbon monoxide, which cause respiration, cardiovascular and other health problems.

The Company is committed in investing in reducing pollution. During the year there was no major violation of law and regulation in the environmental protection arena.

## 18. COMPLIANCE WITH LAW AND REGULATIONS AND RELATION WITH KEY STAKEHOLDERS

As a manufacturing group, the Company's operations are subject to a number of law and regulation in the protection of customers, suppliers, creditors, employees and members of the public. There was no significant breach of law and regulations during the year.

## 19. DIVIDEND

The Directors do not recommend the payment of dividend for the year.

## 20. OBLIGATION OF THE GROUP

Except the Senior Notes due 2020, all the major borrowings are in Renminbi. As can be seen in the consolidated financial statements, much of non-current loans and notes have become current. The group companies are in discussion with creditors and note holders with a view to re-structure or extend the payments to future times.

As can be seen in Note 31 to the financial statements, RMB11.54 billion or 73% of total borrowings is fixed-rate borrowing. In view of the short-term nature of the notes payable, the Group has not employed financial instrument to hedge against exchange risk.

## 21. RESERVE AVAILABLE FOR DISTRIBUTION

At 31 December 2015 the Company had RMB541.6 million of distributable reserves. The Company is unable to make any distributions due to the liquidity constrains. For details, please see note 30(e) to the financial statements in this Report.

## 22. DIRECTOR'S INTEREST IN THE SUPPLIERS AND CUSTOMERS

The current Directors do not have interest in the suppliers and customers of the Company.

## 23. CHARGES ON ASSETS

The charges on significant assets as at the year-end are:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Bank deposits | **33,324** | 134,662 |
| Properties, equipment and interest in leasehold land | **4,579** | 4,679 |
| | **37,903** | 139,341 |

## 24. MATERIAL ASSET ACQUISITIONS, DISPOSALS AND RESTRUCTURING MATTERS

The former management of the Company sold 55% shares of Shandong Shanshui Heavy Industries Co., Ltd.

The Company acquired 30% shares of Qilu Property Co., Ltd.

The Company entered into a contract with 29 natural person shareholders of Dalian Heyuan Investment Management Company Limited (大連合源投資管理有限公司) ("Dalian Heyuan") to acquire 100% in the shares of Dalian Heyuan. After the acquisition, the Company owns 22.04% shares of Dalian Cement Group Co. Ltd..

## 25. CONNECTED TRANSACTIONS

During the Reporting Period, the Company has no continuing connected transactions.

In December 2015 the Group borrowed RMB65 million on an interest-free basis from Tianrui Group which was mainly used to settle the interest payable on certain borrowings.

After the year end and up to the date of the issue of this Annual Report, the Group has borrowed about RMB168 million on an interest-free basis from Tianrui Group which was mainly used to pay interest of borrowings including the USD500 million Senior Notes due 2020 issued by the Company in early 2015.

## 26. MATERIAL CONTRACTS

During the Reporting Period, the Company has not entered into major transactions other than those mentioned elsewhere in this Report or provided guarantee to an entity outside the Group.

Subsequent to the year-end, the Company's directors resolved on 6 April 2016 to provide guarantee to the Industrial and Commercial Bank, Bank of China, China Construction Bank, Agricultural Bank of China, China Everbright Bank and the China Guangfa Bank in relation to their financing for the re-purchases of the US$500 million Senior Notes due 2020.

# (IX) Independent Auditor's Report

KPMG

**Independent auditor's report to the shareholders of**
**China Shanshui Cement Group Limited**
(Incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of China Shanshui Cement Group Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 70 to 192, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, it is not possible to form an opinion on the consolidated financial statements due to the limitations in the scope of our audit and the potential interaction of the uncertainties and their possible cumulative effect on the consolidated financial statements.

## BASIS FOR DISCLAIMER OF OPINION

As disclosed in note 1(b), as at 30 November 2015, the Company has 8 directors ("the ex-directors") with Mr. Zhang Bin, the son of Mr. Zhang Caikui who is the founder of the Company (together referred as "the Mr. Zhangs"), as the chairman of the board. Pursuant to the resolution of the extraordinary general meeting of the Company held on 1 December 2015, the Company removed all of the ex-directors from the board of the Company and newly appointed 9 directors on the same date ("the existing directors" or "the New Board").

Since 1 December 2015, the New Board began to take over the management of the Company and its subsidiaries from the ex-directors. As at 31 December 2015, the existing directors had taken over most subsidiaries of the Company. The existing directors accessed and took over the management of Shandong Shanshui Cement Group Co., Ltd. ("Shandong Shanshui"), a subsidiary of the Group which is the headquarter of the Group in Jinan City, and three subsidiaries of Shandong Shanshui on 30 January 2016. As at this report date, there is still one subsidiary under the management of the Mr. Zhangs, which is Jinan Changqing Shanshui Micro Finance Co., Ltd. ("Shanshui Micro Finance"). Given these circumstances, the scope of our audit work was limited as follows:

(a) The existing directors of the Company were appointed on 1 December 2015 and the ex-directors did not perform the hand-over with the existing directors. Without the hand-over procedures and due to the limited period of time since the New Board was appointed, the existing directors could not ensure whether the accounting books and records have been properly maintained. Accordingly, we were unable to obtain the written representations that the accounting records were properly maintained throughout the year ended 31 December 2015.

(b) As disclosed in note 13, the existing directors have recognized impairment losses of RMB2,332 million as at 31 December 2015 against the carrying value of goodwill. Due to the limited period of time since the New Board was appointed, the existing directors were not able to carry out a full scope annual assessment of the recoverable amount for each of the groups of cash generating units to which goodwill has been allocated. Therefore the existing directors' final assessment was made without the benefit of detailed supporting computations.

In the absence of the assessments of the recoverable amounts as at 31 December 2015 for each of the groups of cash generating units to which goodwill has been allocated, we were unable to obtain sufficient audit evidence to satisfy ourselves as to the reasonableness of the impairment loss recognized for goodwill and there were no other practical alternative audit procedures that we could perform to determine whether the carrying amount of goodwill is fairly stated as at 31 December 2015.

(c) As disclosed in note 11 to the consolidated financial statements, there were indications of possible impairment in respect of the Group's fixed assets as at 31 December 2015 in view of the substantial losses incurred by the Group and the declining trend of the cement market in 2015. The impairment assessments on the fixed assets were performed by the Group, based on a value in use calculation (the "Valuation"), and provisions for impairment of RMB674 million in total was recorded in the current year. The major assumptions used in the Valuation included discount rates of 9% and the projected sales volume for each of related cash generating units which has taken into account the existing directors' consideration that the future performance of these cash generating units will be consistent with the relevant cash-generating unit's past performance and management's expectation for the market development.

However, we were unable to obtain sufficient audit evidence to satisfy ourselves as to the reasonableness of the above assumptions used in the Valuation within the time limit allowed and there were no other practical alternative audit procedures that we could perform to determine whether the carrying amount of fixed assets is fairly stated as at 31 December 2015.

(d) The Group acquired an investment in an associate ("the Transaction") with consideration of RMB147 million in 2015 and the consideration was fully paid by the Group in 2015 as disclosed in note 15 to the consolidated financial statements. The existing directors have represented to us that they were unable to obtain the equity transfer agreement of the Transaction or access to any books and records of the associate for the year of 2015. Based on the company registration information, the chairman and legal representative of the associate is a predecessor independent non-executive director of the Company, who has resigned on 22 May 2015. Due to the lack of available information and books and records of the associate, the Company has fully impaired the carrying amount of the investment of RMB147 million as at 31 December 2015. In the absence of any available information and books and records of the associate being provided by the Group's management, we were unable to obtain satisfactory audit evidence as to the relationships, if any, among the associate and the Group or to satisfy ourselves as to the substance of the Transaction. We are therefore unable to satisfy ourselves as to the existence and accuracy of the investment in associates, share of profits less losses of associates and the impairment for investment in associates or that the related parties' transaction recognised or disclosed for the year ended 31 December 2015 have been accurately presented.

(e) Included in the other receivables and prepayments as of 31 December 2015 were loans to third parties of RMB151 million which were recorded by Shanshui Micro Finance for the loans lent out to the individual borrowers. As disclosed in note 19, the Company has fully impaired these receivables as the Company's management has been unable to obtain the original loan contracts or provide other reliable information relating to the identity of the borrowers and the terms of the loans as of the date of this report. In the absence of sufficient information being provided by the management, we were unable to obtain satisfactory audit evidence as to the substance of these loans receivable. We are therefore unable to satisfy ourselves as to the existence and accuracy of the other receivables and prepayments or that their impairment has been accurately recognised and appropriately disclosed.

(f) As disclosed in note 35 to the consolidated financial statements, the Group sold 55% interest in Shandong Shanshui Heavy Industries Co., Ltd. ("Shanshui Heavy Industries") in 2015, to two suppliers of the Group ("the Two Suppliers", which just began business with the Group in 2015) with a total consideration of RMB94.05 million ("the Disposal Transaction"), among which RMB49.55 million has been settled and the remaining balance of RMB44.5 million was unsettled and recorded as other receivables as at 31 December 2015. Within the settled consideration of RMB49.55 million in 2015, management has asserted that RMB12.74 million was offset against trade payable balances due to the Two Suppliers and RMB30.28 million was offset against trade payables balances due to other nine suppliers of the Group ("the Nine Suppliers"), among which one supplier just began business with the Group in 2015. In addition, the existing directors have represented to us that they were unable to obtain the equity transfer agreement of the Disposal Transaction.

In the absence of sufficient information being provided by the management, we have been unable to obtain satisfactory audit evidence as to the Disposal Transaction or to satisfy ourselves as to the relationships, if any, among the Two Suppliers, the Nine Suppliers and the Group. We are therefore unable to satisfy ourselves as to the existence and accuracy of the Disposal Transaction and that the corresponding investment in Shanshui Heavy Industries and settlement of trade payable balances, and the related party transactions have been accurately presented/disclosed.

(g) The existing directors have taken over Shandong Shanshui from the ex-directors of the Company in January 2016. The carrying amount of cash on hand of Shandong Shanshui as at 31 December 2015 recorded in the management accounts of Shandong Shanshui was RMB4.24 million. Based on the cash counting and roll-back procedures performed by the existing directors and the management after they took over Shandong Shanshui, the existing directors and management found that the shortfall of cash on hand of Shandong Shanshui as at 31 December 2015 was RMB2.67 million. The directors have represented to us that they were unable to find or obtain any supporting documents of cash transactions or books and records in relation to the shortfall of cash on hand. Due to the lack of available supporting documents and books and records, the directors have fully recognised the shortfall of cash of RMB2.67 million as other net expenses as at 31 December 2015 as disclosed in note 4 to the consolidated financial statements.

In the absence of sufficient supporting documents of cash transactions or books and records in relation to the shortfall of cash on hand, we were unable to obtain satisfactory audit evidence as to the transactions which led to the shortfall of cash. We are therefore unable to satisfy ourselves as to the completeness of cash transactions during year 2015 or the accuracy of consolidated statement of cash flows disclosed for the year ended 31 December 2015.

(h) As at the date of this report, the ex-directors did not give the original reserved signature chops of certain bank accounts to the existing directors. In the absence of the original reserved signature chops, the existing directors cannot obtain the bank statements at year end for these bank accounts. As disclosed in note 20, the carrying amount of these bank accounts as at 31 December 2015 is RMB12.9 million. We sent bank confirmations to these banks with the signature of the existing directors but we have not received the confirmations back as at the date of this report.

In the absence of sufficient supporting documents relating to the balance of cash at bank, we were unable to obtain satisfactory audit evidence as to the existence of the balance of cash at bank as at 31 December 2015. We are therefore unable to satisfy ourselves as to the existence and accuracy of cash and cash equivalents as at 31 December 2015 or the accuracy of consolidated statement of cash flows disclosed for the year ended 31 December 2015.

(i) During the course of our audit on the consolidated financial statements for the year ended 31 December 2015, it came to our attention that the personnel expenses and other net expenses of RMB18.7 million and RMB14.3 million respectively, which were disclosed in note 5(b) and note 4 to the consolidated financial statements, were not substantiated with relevant supporting documentation. The existing directors of the Company advised that the payment of these expenses was approved by the ex-directors of the Company who have left the Company. We have been unable to obtain sufficient audit evidence as to support the existence of these expenses and there were no other satisfactory audit procedures that we could adopt to satisfy ourselves that these expenses as recognised were properly accounted for and disclosed. Consequently, we were unable to satisfy ourselves that all of these expenses included in the consolidated financial statements for the year ended 31 December 2015 were fairly stated.

Had we been able to satisfy ourselves in respect of the matters mentioned in the items (a) to (i) above, adjustments might have been found to be necessary which would have had a consequential impact on the net assets of the Group as at 31 December 2015 and its net loss for the year ended 31 December 2015 and may have resulted in additional information being disclosed in the financial statements as to the nature of these transactions and any material non-adjusting post balance sheet events.

## MULTIPLE UNCERTAINTIES RELATING TO GOING CONCERN

As set out in Note 1(b) to the consolidated financial statements, the Group incurred a net loss of approximately RMB6,694 million and had a net operating cash outflow of approximately RMB343 million during the year ended 31 December 2015. As of the same date, the Group's current liabilities exceeded its current assets by RMB17,845 million. In addition, as at the same date certain loan principal repayments and interest payments were overdue and the Group also breached the default clauses of the lending arrangements with financial institutions and, up to the date of the approval of the consolidated financial statements, the Group is facing a significant number of legal actions from creditors demanding immediate repayment. These conditions, further details of which are described in Note 1(b) to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The existing directors of the Company have been undertaking certain measures to improve the Group's liquidity and financial position, which are set out in Note 1(b) to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) whether the Group is able to successfully negotiate with the lenders for the extension or renewal of all the outstanding borrowings, including those with overdue principal repayments and interest payments, and/or obtaining additional financing as and when required, and waiver from complying with certain restrictive financial covenants of certain borrowings; (ii) whether the Group is able to obtain financial support from the major shareholder, Tianrui Group Co., Ltd, as needed, the achievability of which depends on the major shareholder's ability to support; (iii) whether the Group is able to generate adequate cash flows from its operations, the achievability of which depends on the market environment which is expected to remain challenging.

These facts and circumstances indicate the existence of multiple material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

## DISCLAIMER OF OPINION

Because of the limitations in the scope of our audit and the potential interaction of the uncertainties and their possible cumulative effect on the consolidated financial statements described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the financial statements as to whether they give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and as to whether the financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

31 March 2016

# (X) Financial Statements
# Consolidated Statement of Profit or Loss

For the year ended 31 December 2015
(Expressed in Renminbi)

| | Note | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|---|
| **Turnover** | 3 | **11,166,212** | 15,596,440 |
| Cost of sales | | **(9,937,927)** | (12,249,575) |
| **Gross profit** | | **1,228,285** | 3,346,865 |
| Other revenue | 4 | **146,323** | 262,559 |
| Other net expenses | 4 | **(3,412,320)** | (22,997) |
| Selling and marketing expenses | | **(514,469)** | (527,168) |
| Administrative expenses | | **(2,316,895)** | (1,246,446) |
| **(Loss)/profit from operations** | | **(4,869,076)** | 1,812,813 |
| Finance costs | 5(a) | **(1,597,179)** | (1,140,985) |
| Share of profits less losses of associates | | **(29,348)** | 18,295 |
| **(Loss)/profit before taxation** | 5 | **(6,495,603)** | 690,123 |
| Income tax | 6(a) | **(198,052)** | (381,545) |
| **(Loss)/profit for the year** | | **(6,693,655)** | 308,578 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **(6,387,259)** | 347,650 |
| Non-controlling interests | | **(306,396)** | (39,072) |
| **(Loss)/profit for the year** | | **(6,693,655)** | 308,578 |
| **Earnings per share** | 10 | | |
| Basic (RMB) | | **(1.89)** | 0.12 |
| Diluted (RMB) | | **(1.89)** | 0.12 |

The notes on pages 76 to 192 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 30(b).

# (X) Financial Statements

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015
(Expressed in Renminbi)

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **(Loss)/profit for the year** | | **(6,693,655)** | 308,578 |
| **Other comprehensive expenses for the year (after tax and reclassification adjustments)** | 9 | | |
| Item that will not be reclassified to profit or loss: | | | |
| Remeasurements of net defined benefit obligations | 26(c) | **(7,150)** | (14,300) |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of financial statements of overseas subsidiaries | | **(239,458)** | (15,579) |
| Available-for-sale securities: net movement in the fair value reserve | | **(347)** | 2,849 |
| **Other comprehensive expenses for the year** | | **(246,955)** | (27,030) |
| **Total comprehensive (expenses)/income for the year** | | **(6,940,610)** | 281,548 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **(6,634,214)** | 320,620 |
| Non-controlling interests | | **(306,396)** | (39,072) |
| **Total comprehensive (expenses)/income for the year** | | **(6,940,610)** | 281,548 |

The notes on pages 76 to 192 form part of these financial statements.

# (X) Financial Statements
# Consolidated Statement of Financial Position

At 31 December 2015
(Expressed in Renminbi)

| | Note | 31 December 2015 RMB'000 | 31 December 2014 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | 11 | | |
| – Property, plant and equipment | | **18,925,772** | 20,108,485 |
| – Land lease prepayments | | **2,350,193** | 2,450,209 |
| | | **21,275,965** | 22,558,694 |
| Intangible assets | 12 | **554,683** | 485,308 |
| Goodwill | 13 | **14,223** | 2,345,857 |
| Other financial assets | 14 | **621,329** | 674,793 |
| Investments in associates | 15 | **293,353** | 336,197 |
| Deferred tax assets | 28(b) | **112,390** | 244,886 |
| Other long-term assets | | **238,008** | – |
| | | **23,109,951** | 26,645,735 |
| **Current assets** | | | |
| Inventories | 17 | **1,217,259** | 2,055,585 |
| Trade and bills receivable | 18 | **1,540,908** | 2,090,619 |
| Other receivables and prepayments | 19 | **881,373** | 1,617,543 |
| Restricted bank deposits | 20 | **41,302** | 134,662 |
| Cash and cash equivalents | 20 | **222,907** | 1,151,353 |
| | | **3,903,749** | 7,049,762 |
| **Current liabilities** | | | |
| Short-term bank loans | 21 | **5,076,265** | 1,747,878 |
| Current portion of other borrowings | 22 | **2,800,329** | 2,496,242 |
| Current portion of long-term bonds | 23 | **7,724,843** | – |
| Trade and bills payable | 24 | **3,523,918** | 3,540,565 |
| Other payables and accrued expenses | 25 | **2,647,261** | 1,960,821 |
| Current portion of obligation under finance lease | | **7,639** | 10,530 |
| Current taxation | 28(a) | **(31,906)** | 89,063 |
| | | **21,748,349** | 9,845,099 |
| **Net current liabilities** | | **(17,844,600)** | (2,795,337) |
| **Total assets less current liabilities** | | **5,265,351** | 23,850,398 |

The notes on pages 76 to 192 form part of these financial statements.

# (X) Financial Statements
# Consolidated Statement of Financial Position

At 31 December 2015
(Expressed in Renminbi)

| | Note | **31 December 2015 RMB'000** | 31 December 2014 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Long-term bank loans | 21 | **208,200** | 2,775,390 |
| Other borrowings less current portion | 22 | **3,513** | 6,364 |
| Long-term bonds less current portion | 23 | **–** | 9,123,145 |
| Obligation under finance lease | | **–** | 9,718 |
| Defined benefit obligations | 26(c) | **174,660** | 173,808 |
| Deferred income | 27 | **295,599** | 301,186 |
| Long-term payables | | **20,986** | 32,475 |
| Deferred tax liabilities | 28(b) | **69,228** | 61,986 |
| | | **772,186** | 12,484,072 |
| **NET ASSETS** | | **4,493,165** | 11,366,326 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 30(c) | **227,848** | 227,848 |
| Other statutory capital reserves | | **4,654,010** | 4,654,010 |
| Share capital and other statutory capital reserves | | **4,881,858** | 4,881,858 |
| Other reserves | | **(851,606)** | 5,716,109 |
| **Total equity attributable to equity shareholders of the Company** | | **4,030,252** | 10,597,967 |
| **Non-controlling interests** | | **462,913** | 768,359 |
| **TOTAL EQUITY** | | **4,493,165** | 11,366,326 |

Approved and authorised for issue by the board of directors on 31 March 2016.

**LI Heping**
*Director*

**LIU Yiu Keung, Stephen**
*Director*

The notes on pages 76 to 192 form part of these financial statements.

# (X) Financial Statements

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2015
(Expressed in Renminbi)

| | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Statutory reserves** | **Other reserves** | **Exchange reserve** | **Fair value reserve** | **Retained profits/ (accumulated losses)** | **Total** | **Non-controlling interests** | **Total equity** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Balance at 1 January 2014** | 193,198 | 3,451,085 | 1,070,552 | 190,112 | 120,810 | 2,945 | 4,217,250 | 9,245,952 | 720,774 | 9,966,726 |
| **Changes in equity for 2014:** | | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | 347,650 | 347,650 | (39,072) | 308,578 |
| Other comprehensive (expenses)/income | – | – | – | – | (15,579) | 2,849 | (14,300) | (27,030) | – | (27,030) |
| Total comprehensive (expenses)/ income for the year | – | – | – | – | (15,579) | 2,849 | 333,350 | 320,620 | (39,072) | 281,548 |
| Issuance of new shares | 34,650 | 1,202,925 | – | – | – | – | – | 1,237,575 | – | 1,237,575 |
| Dividends approved in respect of the previous year | – | – | – | – | – | – | (206,180) | (206,180) | – | (206,180) |
| Acquisition of non-controlling interests | – | – | – | – | – | – | – | – | (224) | (224) |
| Increase in non-controlling interests attributable to acquisition of subsidiaries and capital contribution to subsidiaries | – | – | – | – | – | – | – | – | 117,758 | 117,758 |
| Distribution to non-controlling interests | – | – | – | – | – | – | – | – | (30,877) | (30,877) |
| Transfer between reserves | – | – | 71,803 | – | – | – | (71,803) | – | – | – |
| **Balance at 31 December 2014 and 1 January 2015** | 227,848 | 4,654,010 | 1,142,355 | 190,112 | 105,231 | 5,794 | 4,272,617 | 10,597,967 | 768,359 | 11,366,326 |
| **Changes in equity for 2015:** | | | | | | | | | | |
| Loss for the year | – | – | – | – | – | – | (6,387,259) | (6,387,259) | (306,396) | (6,693,655) |
| Other comprehensive expenses | – | – | – | – | (239,458) | (347) | (7,150) | (246,955) | – | (246,955) |
| Total comprehensive expenses for the year | – | – | – | – | (239,458) | (347) | (6,394,409) | (6,634,214) | (306,396) | (6,940,610) |
| Distribution to non-controlling interests | – | – | – | – | – | – | – | – | (7,810) | (7,810) |
| Acquisition of non-controlling interests | – | – | – | (374) | – | – | – | (374) | (614) | (988) |
| Increase in non-controlling interests attributable to capital contribution to subsidiaries | – | – | – | – | – | – | – | – | 10,000 | 10,000 |
| Equity settled share-based transactions | – | – | – | 73,423 | – | – | – | 73,423 | – | 73,423 |
| Disposal of a subsidiary | – | – | (6,550) | – | – | – | – | (6,550) | (626) | (7,176) |
| Transfer between reserves | – | – | 17,589 | – | – | – | (17,589) | – | – | – |
| **Balance at 31 December 2015** | 227,848 | 4,654,010 | 1,153,394 | 263,161 | (134,227) | 5,447 | (2,139,381) | 4,030,252 | 462,913 | 4,493,165 |

The notes on pages 76 to 192 form part of these financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2015
(Expressed in Renminbi)

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 20(b) | **1,203,823** | 2,854,240 |
| Interest paid | | **(1,367,569)** | (1,019,517) |
| Income tax paid | | **(179,167)** | (458,897) |
| **Net cash (used)/generated from operating activities** | | **(342,913)** | 1,375,826 |
| **Investing activities** | | | |
| Payment for purchase of fixed assets | | **(1,594,803)** | (1,881,608) |
| Payment for purchase of intangible assets | | **(78,161)** | (176,275) |
| Acquisition of subsidiaries, net of cash acquired | | **–** | (160,175) |
| New loans to associates | | **20,087** | (4,473) |
| Acquisition of non-controlling interests | | **(988)** | (224) |
| Proceeds from sale of fixed assets | | **201,393** | 22,421 |
| Disposal of subsidiary | 35 | **(2,967)** | – |
| Investment in an associate | | **(174,451)** | (34,013) |
| Interest received | | **38,456** | 49,729 |
| Dividend received | | **347** | 334 |
| **Net cash used in investing activities** | | **(1,591,087)** | (2,184,284) |
| **Financing activities** | | | |
| Capital element of finance lease rentals paid | | **(9,397)** | (9,131) |
| Proceeds from new loans and borrowings | | **6,898,611** | 5,651,331 |
| Proceeds from issue of long-term bonds | | **3,246,800** | 2,478,715 |
| Proceeds from capital injection in subsidiaries by non-controlling interests | | **10,000** | 54,513 |
| Proceeds from shares issued | | **–** | 1,237,575 |
| Proceeds from bills discounted | | **1,461,635** | – |
| Repayment of loans and borrowings | | **(5,849,315)** | (6,130,888) |
| Repayment of long-term bond | | **(4,718,489)** | (2,360,560) |
| Repayment of interest of bills receivable discounted | | **(27,977)** | – |
| Interest element of finance lease rentals paid | | **(1,339)** | (2,291) |
| Dividends paid to equity shareholders of the Company | 30(b) | **–** | (206,180) |
| Dividends paid to non-controlling interests | | **(7,759)** | (30,877) |
| **Net cash generated from financing activities** | | **1,002,770** | 682,207 |
| **Net decrease in cash and cash equivalents** | | **(931,230)** | (126,251) |
| **Cash and cash equivalents at 1 January** | 20(a) | **1,151,353** | 1,277,369 |
| **Effect of foreign exchange rate changes** | | **2,784** | 235 |
| **Cash and cash equivalents at 31 December** | 20(a) | **222,907** | 1,151,353 |

The notes on pages 76 to 192 form part of these financial statements.

# (X) Financial Statements
# Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates.

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

#### *(i) Matters arising from the change in directors on 1 December 2015*

As at 30 November 2015, the Company has 8 directors ("the ex-directors") with Mr. Zhang Bin, the son of Mr. Zhang Caikui who is the founder of the Company (together referred as "the Mr. Zhangs"), as the chairman of the board. Pursuant to the resolution of the extraordinary general meeting of the Company held on 1 December 2015, the Company removed all of the ex-directors from the board of the Company and newly appointed 9 directors on the same date ("the existing directors" or "the New Board").

Since 1 December 2015, the New Board began to take over the management of the Company and its subsidiaries from the ex-directors. The process of taking over the management of the Group was completed by 31 December 2015, with the following exceptions:

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (b) Basis of preparation of the financial statements *(continued)*

#### *(i) Matters arising from the change in directors on 1 December 2015 (continued)*

- the existing directors did not gain access to the headquarters of the Group in Jinan City until 30 January 2016. From that date onwards the existing directors took over the management of Shandong Shanshui Cement Group Co., Ltd. ("Shandong Shanshui"), a subsidiary of the Group, and three of its subsidiaries; and

- as at this report date, there is still one subsidiary under the management of the Mr. Zhangs, which is Jinan Changqing Shanshui Micro Finance Co., Ltd. ("Shanshui Micro Finance"). In addition, the existing directors have not yet been able to obtain Shandong Shanshui's official chop and the original reserved signature chops of certain bank accounts from the ex-directors.

As a result of these events, the directors' ability to access certain books and records or obtain supporting documents or information of certain transactions has been restricted. Further details of the impact of these circumstances on the financial statements for the year ended 31 December 2015 are set out in notes 4, 5, 7, 8, 11, 13, 15, 16, 19 to 24, 29, 33, 35 and 36.

#### *(ii) Material uncertainties relating to the Group's ability to continue as a going concern*

During the year ended 31 December 2015, the Group had incurred a loss of approximately RMB6,694 million and had a net operating cash outflow of approximately RMB343 million. As at the same date, the Group's current liabilities exceeded its current assets by RMB17,845 million. Its total interest-bearing borrowings liabilities amounted to RMB15,813 million, out of which RMB15,601 million is due within 12 months. The cash and cash equivalents of the Group amounted to RMB223 million as at 31 December 2015.

As disclosed in notes 21 to 23, the Group breached the default clauses of the lending agreements of short-term bank loans totaling RMB4,412 million, other borrowings totaling RMB2,800 million and long-term bonds totaling RMB7,725 million which are included in the Group's interest-bearing borrowings as at 31 December 2015. As of the date of the approval of these consolidated financial statements, through commencing legal proceedings, several banks have demanded that the Group repay the overdue principal of bank loans, other borrowings and long-term bonds of approximately RMB3,884 million, and certain suppliers also have demanded that the Group repay the overdue payables of approximately RMB550 million (see note 24). These facts and circumstances indicate the existence of multiple material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (b) Basis of preparation of the financial statements *(continued)*

#### *(ii) Material uncertainties relating to the Group's ability to continue as a going concern (continued)*

In view of such circumstances, the existing directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will be able to repay the outstanding interest-bearing borrowings and be able to finance its future working capital and financial requirements.

Certain measures have been and are being taken to manage its liquidity needs and to improve its financial position which include, but are not limited to, the following:

(i) The Company has borrowed in total RMB233 million from the largest shareholder of the Company, Tianrui Group Co., Ltd ("Tianrui Group", 天瑞集團股份有限公司) up to the date of issue of these financial statements as follows:

- during December 2015 the Group borrowed RMB65 million which was mainly used to settle the interest payable on certain overdue bank loans of the Company; and
- in 2016, the Group has borrowed nearly RMB168 million which was mainly used to settle the overdue interest of the USD senior notes issued by the Company in the Stock Exchange of Hong Kong Limited and to support the daily operation of the Company.

According to the loan contracts between Tianrui Group and the Company, the loans borrowed from Tianrui Group are unsecured, interest-free and repayable on demand. Tianrui Group has confirmed that it will use its best endeavours not to request the Company to repay the above loans totalling RMB233 million for at least twelve months from the end of the reporting period without first considering the Company's ability to repay.

(ii) The Group has been actively negotiating with a number of PRC banks for renewal and extension of loans and banking facilities with extended repayment terms and reduced interest rates, or securing new loans or facilities. In particular, as disclosed in note 21, the Group has agreed with certain PRC banks orally to successfully defer the repayment of RMB2,893 million overdue loans until the end of 2016. However, as the existing directors have not obtained Shandong Shanshui's official chop, the existing directors cannot sign the formal extension agreement for the above-mentioned overdue loans with the PRC banks yet.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (b) Basis of preparation of the financial statements *(continued)*

#### *(ii) Material uncertainties relating to the Group's ability to continue as a going concern (continued)*

(iii) The Group is also maximizing its sales effort, including speeding up sales of its existing inventories, seeking new orders and implementing comprehensive policies to improve operating cash flows. Tianrui Group has confirmed that it will continue to support the working capital of the Group for at least twelve months from the end of the reporting period.

(iv) Tianrui Group has confirmed that it will provide sufficient support to the Group when the Company faces difficulties in repaying the overdue principal and interest in relation to the above-mentioned bank loans, other borrowings and long-term bonds for at least twelve months from the end of the reporting period.

The existing directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the existing directors are of the opinion that it is appropriate to prepare the financial statements for the year ended 31 December 2015 on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the financial statements.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (b) Basis of preparation of the financial statements *(continued)*

#### *(iii) Measurement basis*

The financial statements are presented in Renminbi ("RMB") (the "presentation currency"), rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– available-for-sale securities (see note 1(g)).

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (c) Changes in accounting policies

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IAS 19, *Employee benefits: Defined benefit plans: Employee contributions*
- *Annual Improvements to IFRSs 2010-2012 Cycle*
- *Annual Improvements to IFRSs 2011-2013 Cycle*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended IFRSs are discussed below:

***Annual improvement to IFRSs 2010-2012 Cycle and 2011-2013 Cycle***

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, IAS 24, *Related party disclosures*, has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

### (d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (d) Subsidiaries and non-controlling interests *(continued)*

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(p) or (q) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(m)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(f) and (m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)).

In the Company's statement of financial position, investment in an associate is stated at cost less impairment losses (see note 1(m)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in notes 1(v)(iv) and (v).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (g) Other investments in debt and equity securities *(continued)*

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 1(m)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(m)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 1(v)(iv) and (v), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 1(m)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

### (h) Land lease prepayments

Land lease prepayments represent land use rights paid to the relevant government authorities. Land use rights are carried at cost less the accumulated amount charged to expense and impairment losses (note 1(m)). The cost of Land lease prepayments is charged to expenses on a straight-line basis over the respective periods of the rights.

### (i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(m)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(x)).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (i) Property, plant and equipment *(continued)*

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives.

The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| Plants and buildings | 10-40 years |
| Equipment | 10-20 years |
| Motor vehicles and others | 5-10 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (j) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 1(m)). Cost comprises direct costs of construction as well as interest expense capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

### (k) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation for intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (k) Intangible assets (other than goodwill) *(continued)*

The estimated useful lives are as follows:

| | |
|---|---|
| Limestone mining rights | 1-50 years |
| Customer relationships | 5 years |
| Trademarks | 1-10 years |
| Software and others | 5-10 years |

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

### (l) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### *(i) Classification of assets leased to the Group*

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

#### *(ii) Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present values of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(m). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (l) Leased assets *(continued)*

#### *(iii) Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

### (m) Impairment of assets

#### *(i) Impairment of investments in debt and equity securities and other receivables*

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(m)(ii).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (m) Impairment of assets *(continued)*

#### *(i) Impairment of investments in debt and equity securities and other receivables* *(continued)*

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (m) Impairment of assets *(continued)*

#### *(i) Impairment of investments in debt and equity securities and other receivables (continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

#### *(ii) Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– land lease prepayments;

– intangible assets;

– goodwill;

– investments in subsidiaries in the Company's statement of financial position; and

– investments in associates

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (m) Impairment of assets *(continued)*

#### *(ii) Impairment of other assets (continued)*

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (m) Impairment of assets *(continued)*

#### *(iii) Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1 (m)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase in recognised in other comprehensive income and not profit or loss.

### (n) Inventories

Inventories are measured at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

### (p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (q) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statements.

### (s) Employee benefits

#### *(i) Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

# Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (s) Employee benefits *(continued)*

#### *(ii) Defined benefit retirement plan obligations*

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense on the net defined benefit liability are recognised in profit or loss and allocated by function as part of "cost of sales", "selling and marketing expenses" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements, comprising actuarial gains and losses, arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (t) Income tax *(continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (u) Financial guarantees issued, provisions and contingent liabilities

#### *(i) Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(u)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the group under the guarantee, and (ii) the amount of that claim on the group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

#### *(ii) Contingent liabilities assumed in business combinations*

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(u)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(u)(iii).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (u) Financial guarantees issued, provisions and contingent liabilities *(continued)*

#### *(iii) Other provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

#### *(i) Sales of goods*

Revenue is recognised when goods are delivered at the customers' premises which are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

#### *(ii) Services rendered*

Revenue from the rendering of services is recognised upon the delivery of performance of the services.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (v) Revenue recognition *(continued)*

#### *(iii) Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

#### *(iv) Dividends*

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

#### *(v) Interest income*

– Interest income is recognised as it accrues using the effective interest method.

### (w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (w) Translation of foreign currencies *(continued)*

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

### (x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### (y) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (y) Related parties *(continued)*

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

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

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

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

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### (z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 2 ACCOUNTING JUDGEMENT AND ESTIMATES

Notes 26, 29 and 31 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

### (i) Impairments

– ***Goodwill***

As disclosed in note 13, due to the limited period of time since the New Board was appointed, the existing directors were not able to carry out a full scope annual assessment of the recoverable amount for each of the groups of cash generating units to which goodwill has been allocated. Instead, the existing directors engaged a valuation firm, which assessed the recoverable amount of the goodwill based on a combined forecast of the business enterprise for the groups of cash generating units as a whole, and then carried out their own evaluation to determine which of the groups of cash generating units to which goodwill has been allocated were impaired. Following this approach, the existing directors came to the view that only two of the groups of cash generating units to which goodwill has been allocated have recoverable amounts in excess of their carrying values. The goodwill allocated to these two groups of cash generating units is RMB14.2 million. The directors have assumed that the remaining goodwill is not recoverable. Accordingly, RMB2,332 million impairment losses for goodwill have been recognised as at 31 December 2015.

– ***Property, plant and equipment***

In considering the impairment losses that may be required for the Group's property, plant and equipment and construction in progress, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of fair value less cost of disposal and the value in use. It is difficult to precisely estimate fair value less cost of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to items such as the level of sales volume, selling price and amount of operating costs.

## 2 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

### (i) Impairments *(continued)*

#### – *Inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. The Group will reassess the estimations at each statement of financial position date.

#### – *Trade and other receivables*

Impairment losses for trade and other receivables are assessed and provided based on the Group's regular review of aging analysis and evaluation of collectibles.

In considering the impairment losses that may be required for current receivables, future cash flows need to be determined. One of the key assumptions that has to be adopted is about the ability of the debtors to settle the receivables. Even though the Group has used all available information to make this estimation, inherent uncertainty exists and actual un-collectable amounts may be higher than the amount estimated.

### (ii) Actuarial determined benefit obligations

The Group assesses the actuarial assumptions and methodology periodically to ensure their reasonableness at each end of the reporting period.

The Group would assess the assumptions of recognition, such as the discount rate and the benefit increase rate to assess the reasonableness of the methodology adopted. Should any of these factors change significantly and render the existing method inappropriate, the Group will consider a more appropriate methodology.

### (iii) Taxation

The Group assesses the tax effect of all transactions and make provision for tax obligations. The Group reviews the tax treatment of these transactions, considering all amendments of tax laws and regulations.

## 2 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

### (iii) Taxation *(continued)*

The Group consumed industrial waste in the production of cement and clinker. Such consumption may qualify for certain government subsidies and corresponding income tax exemptions pursuant to the applicable PRC tax laws and regulations. The tax refund or exemption is not recognised until the refund is received or the formal approval of exemption from the tax authorities is obtained.

Deferred tax assets of the Group were recognised from unused tax loss allowance and deductible temporary differences. As the deferred tax assets cannot be recognised until the allowance is probable for deduction against future taxable profits, the Group estimates the expected realisation of future taxable profits. The Group reviews the judgment continuously and recognises additional deferred tax assets if taxable profits are probable to be recognised.

### (iv) Going concern basis

Management makes an assessment of the Group's ability to continue as a going concern when preparing the financial statements. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the statement of financial position date. The degree of consideration depends on the facts in each case.

The Group is dependent upon future projections of the Group's cash inflows from operations and the ability of the Group to obtain continued bank financing to finance its continuing operations or obtain financial support from the major shareholder to meet the Group's future working capital and financing requirements. Management believes the Group is able to continue as a going concern after taking into account future projections of the Group's cash inflows from operations and the ability of the Group to obtain continued bank financing to finance its continuing operation and the confirmation from the major shareholder to provide continuing financial support to the Group. Accordingly, management has prepared the financial statements on a going concern basis. An adverse change in any of the above conditions would require the financial statements to be prepared on an alternative authoritative basis and such basis, together with the fact that the financial statements is not prepared on a going concern basis, would need to be disclosed. If the Group were unable to continue as a going concern, adjustments relating to the recoverability and classification of recorded asset amounts or classification of liabilities may need to be incorporated in the financial statements.

## 3 TURNOVER AND SEGMENT REPORTING

### (a) Turnover

The principal activities of the Group are manufacturing and sale of cement, clinker and concrete.

Turnover represents the sales value of cement, clinker and concrete supplied to customers, cement related products and the installation services.

The amount of each significant category of revenue recognised during the year is as follows:

| | **2015**<br>**RMB'000** | 2014<br>RMB'000 |
|---|---|---|
| Sales of cement | **9,110,516** | 12,511,031 |
| Sales of clinker | **1,299,026** | 1,880,675 |
| Sales of concrete | **634,294** | 1,036,440 |
| Sales of other products and rendering of services | **122,376** | 168,294 |
| | **11,166,212** | 15,596,440 |

### (b) Segment reporting

As the Group operates in a single business, the manufacturing and trading of cement, clinker and concrete in the PRC, the Group's risk and rates of return are affected predominantly by differences in the areas it operates.

The Group manages its businesses by geographical areas. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following four reportable segments. Each reportable segment has aggregated those operating segments which located in the geographical areas.

- Shandong Province – subsidiaries operated and located in the Shandong Province of the PRC.

- Northeastern China – subsidiaries operated and located in the Liaoning Province and Inner – Mongolia Autonomous Region of the PRC.

- Shanxi Province – subsidiaries operated and located in the Shanxi Province and Shaanxi Province of the PRC.

- Xinjiang Region – subsidiaries operated and located in the Kashi area of Xinjiang Uygur Autonomous Region of the PRC.

## 3 TURNOVER AND SEGMENT REPORTING *(continued)*

### (b) Segment reporting *(continued)*

#### *(i) Segment results, assets and liabilities*

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets, investments in financial assets and other corporate assets. Segment liabilities include trade and bills payable and other payables and accrued expenses and bank loans and other borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted profit before taxation". To arrive at adjusted profit before taxation, the Group's profits are further adjusted for items not specifically attributed to an individual reportable segment, such as share of profits less losses of associates, directors' remuneration, auditors' remuneration, finance costs in relation to the unallocated bank loans and borrowings, long-term bonds and other head office or corporate administration expenses.

In addition to receiving segment information concerning adjusted profit before taxation, management is provided with segment information concerning revenue, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

## 3 TURNOVER AND SEGMENT REPORTING *(continued)*

### (b) Segment reporting *(continued)*

#### *(i) Segment results, assets and liabilities (continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2015 and 2014 is set out below.

| | 2015 | | | | | 2014 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shandong Province RMB'000 | Northeastern China RMB'000 | Shanxi Province RMB'000 | Xinjiang Region RMB'000 | Total RMB'000 | Shandong Province RMB'000 | Northeastern China RMB'000 | Shanxi Province RMB'000 | Xinjiang Region RMB'000 | Total RMB'000 |
| Revenue from external customers | 7,103,105 | 3,108,476 | 598,521 | 356,110 | 11,166,212 | 10,479,307 | 4,028,333 | 759,243 | 329,557 | 15,596,440 |
| Inter-segment revenue | 84,315 | – | – | – | 84,315 | 61,268 | – | – | – | 61,268 |
| **Reportable segment revenue** | 7,187,420 | 3,108,476 | 598,521 | 356,110 | 11,250,527 | 10,540,575 | 4,028,333 | 759,243 | 329,557 | 15,657,708 |
| **Reportable segment (loss)/profit (adjusted (loss)/profit before taxation)** | (1,402,490) | (1,728,247) | (1,204,001) | 30,344 | (4,304,394) | 1,591,099 | 306,398 | (97,299) | 9,551 | 1,809,749 |
| Interest income | 22,588 | 1,350 | 500 | 11 | 24,449 | 2,999 | 22,030 | 205 | 26 | 25,260 |
| Interest expense | 75,726 | 29,889 | 437 | 15,944 | 121,996 | 64,274 | 43,274 | 400 | 19,344 | 127,292 |
| Depreciation and amortisation for the year | 698,086 | 495,427 | 227,232 | 41,949 | 1,462,694 | 708,429 | 418,035 | 171,224 | 40,323 | 1,338,011 |
| Impairment of plant and machinery | 79,894 | 74,335 | 519,287 | – | 673,516 | 28 | – | – | – | 28 |
| Impairment of goodwill | 927,953 | 1,029,242 | 374,439 | – | 2,331,634 | – | – | – | – | – |
| **Reportable segment assets** | 11,605,586 | 8,648,553 | 5,094,725 | 972,256 | 26,321,120 | 13,384,293 | 10,207,093 | 6,004,077 | 959,195 | 30,554,658 |
| Additions to fixed assets and intangible assets during the year | 581,791 | 395,813 | 443,657 | 87,077 | 1,508,338 | 858,587 | 772,926 | 897,175 | 42,848 | 2,571,536 |
| **Reportable segment liabilities** | 3,540,585 | 1,922,386 | 661,403 | 368,284 | 6,492,658 | 3,355,441 | 1,796,153 | 762,771 | 380,335 | 6,294,700 |

## 3 TURNOVER AND SEGMENT REPORTING *(continued)*

### (b) Segment reporting *(continued)*

#### *(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities*

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **Revenue** | | |
| Reportable segment revenue | **11,250,527** | 15,657,708 |
| Elimination of inter-segment revenue | **(84,315)** | (61,268) |
| Consolidated turnover | **11,166,212** | 15,596,440 |
| **(Loss)/Profit** | | |
| Reportable segment (loss)/profit | **(4,304,394)** | 1,809,749 |
| Elimination of inter-segment profits/(loss) | **1,483** | (7,902) |
| Reportable segment (loss)/profit derived from group's external customers | **(4,302,911)** | 1,801,847 |
| Share of profits less losses of associates | **(29,348)** | 18,295 |
| Unallocated finance costs | **(1,475,183)** | (1,013,693) |
| Unallocated head office and corporate expenses | **(688,161)** | (116,326) |
| Consolidated (loss)/profit before taxation | **(6,495,603)** | 690,123 |

## 3 TURNOVER AND SEGMENT REPORTING *(continued)*

### (b) Segment reporting *(continued)*

#### *(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities (continued)*

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| **Assets** | | |
| Reportable segment assets | **26,321,120** | 30,554,658 |
| Elimination of inter-segment profits | **(50,369)** | (51,852) |
| Elimination of inter-segment receivables | **(100,298)** | (40,056) |
| | **26,170,453** | 30,462,750 |
| Deferred tax assets | **112,390** | 244,886 |
| Investments in associates | **293,353** | 336,197 |
| Unallocated head office and corporate assets | **437,504** | 2,651,664 |
| Consolidated total assets | **27,013,700** | 33,695,497 |
| **Liabilities** | | |
| Reportable segment liabilities | **6,492,658** | 6,294,700 |
| Elimination of inter-segment payables | **(100,298)** | (40,056) |
| | **6,392,360** | 6,254,644 |
| Deferred tax liabilities | **69,228** | 61,986 |
| Unallocated bank loans and other borrowings | **7,077,172** | 6,079,511 |
| Unallocated long-term bonds | **7,724,843** | 9,123,145 |
| Unallocated head office liabilities | **1,256,932** | 809,885 |
| Consolidated total liabilities | **22,520,535** | 22,329,171 |

## 4 OTHER REVENUE AND OTHER NET EXPENSES

| | Note | **2015 RMB'000** | 2014 RMB'000 |
|---|---|---|---|
| *Other revenue* | | | |
| Interest income | | **38,456** | 49,729 |
| Government grants | | **81,046** | 163,922 |
| Amortisation of deferred income | 27 | **16,231** | 24,011 |
| Dividend income from listed securities | | **347** | 334 |
| Others | | **10,243** | 24,563 |
| | | **146,323** | 262,559 |
| *Other net expenses* | | | |
| Net foreign exchange losses | | **(17,632)** | (18,916) |
| Net gain from disposal of fixed assets | (i) | **76,042** | 6,843 |
| Impairment losses on fixed assets | 11 | **(673,516)** | (28) |
| Impairment losses on goodwill | 13 | **(2,331,634)** | – |
| Impairment losses on other financial assets | | **(11,193)** | – |
| Impairment losses on investments in associates | 15 | **(407,710)** | – |
| Penalties | | **(19,288)** | (3,189) |
| Donations | | **(5,781)** | (7,077) |
| Cash shortfall losses | (ii) | **(2,666)** | – |
| Expenses without supporting documents | (iii) | **(14,300)** | – |
| Others | | **(4,642)** | (630) |
| | | **(3,412,320)** | (22,997) |

Notes:

(i) Included in the net gain from disposal of fixed assets is a gain on disposal of RMB115 million, which arose when the Benxi government took back the land of a plant of Liaoning Shanshui Gongyuan Cement Co., Ltd. ("Liaoning Shanshui", a subsidiary of the Group) in 2015 for urban planning purposes, and losses of RMB39 million which were due to disposal of other fixed assets during the year ended 31 December 2015.

(ii) The existing directors took over the management of Shandong Shanshui from the ex-directors of the Company in January 2016. The carrying amount of cash on hand of Shandong Shanshui as at 31 December 2015 recorded in the management accounts of Shandong Shanshui was RMB4.24 million. Based on the cash counting and roll-back procedures performed by the existing directors and the management after they took over, the existing directors and management found that the shortfall of cash on hand of Shandong Shanshui as at 31 December 2015 was RMB2.67 million. The existing directors have recognised the shortfall losses as other net expenses.

(iii) The existing directors of the Company found that Shandong Shanshui has paid RMB14.3 million to certain legal firms and advertising agents before the existing directors took over in January 2016. The payment of these expenses was approved by the ex-directors of the Company. The existing directors do not know the purpose for the payment and cannot find any supporting documentation to verify the purpose. Since the cash has been paid out before 31 December 2015, the directors of the Company have recognised the amount of RMB14.3 million as other net expenses in the consolidated statement of profit or loss.

## 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

### (a) Finance costs

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Interest on bank loans, other borrowings and long-term bonds | | **1,371,014** | 1,210,153 |
| Less: capitalised interest expenses | (i) | **(28,478)** | (167,498) |
| Net interest expenses | | **1,342,536** | 1,042,655 |
| Unwinding of discount | (ii) | **10,332** | 13,230 |
| Finance charges on obligations under finance lease | | **1,339** | 2,291 |
| Bank charges | | **242,972** | 82,809 |
| | | **1,597,179** | 1,140,985 |

Notes:

(i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 6.50% (2014: 6.72%) per annum for the year ended 31 December 2015.

(ii) This item represents the unwinding of discount for the following liabilities using the effective interest rate:

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Defined benefit obligations | 26(c) | **6,230** | 6,880 |
| Long-term payables | | **4,102** | 6,350 |
| | | **10,332** | 13,230 |

## 5 PROFIT BEFORE TAXATION *(continued)*

### (b) Personnel expenses

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Salaries, wages and other benefits | | **1,239,706** | 1,353,331 |
| Contributions to defined contribution retirement plans | | **152,171** | 147,474 |
| Expense recognised in respect of defined benefit obligations | 26(c) | **7,310** | 12,280 |
| | | **1,399,187** | 1,513,085 |

Note:

The existing directors of the Company found that Shandong Shanshui has paid RMB18.7 million to certain ex-directors, ex-senior management and employees of the Company on 25 December 2015 which were approved by the ex-directors before the New Board took over in January 2016. The New Board does not know the purpose for the payments and cannot find any supporting documents to verify the purpose. Since the cash has been paid out, the directors of the Company have recognised the amount of RMB18.7 million as staff costs, which were included in administrative expenses in the consolidated statement of profit or loss.

## 5 PROFIT BEFORE TAXATION *(continued)*

### (c) Other items

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Amortisation | | | |
| – land lease prepayments | | **60,887** | 60,353 |
| – intangible assets | | **66,809** | 59,161 |
| | | **127,696** | 119,514 |
| Depreciation | | **1,340,264** | 1,221,737 |
| Impairment losses | | | |
| – fixed assets | 11 | **673,516** | 28 |
| – trade receivables | 18(b) | **153,887** | (16,633) |
| – inventories | 17(b) | **60,915** | 2,798 |
| – loans to third parties | 19(a) | **151,387** | – |
| – goodwill | 13 | **2,331,634** | – |
| – other financial assets | 14 | **200,443** | – |
| – investment in associates | 15 | **407,710** | – |
| | | **3,979,492** | (13,807) |
| Loss on the disposal of a subsidiary | 35 | **2,324** | – |
| Operating lease charges | | **26,083** | 24,828 |
| Auditors' remuneration | | | |
| – audit services | | **7,650** | 6,800 |
| – other services | | **880** | 2,480 |
| | | **8,530** | 9,280 |
| Cost of inventories | 17(b) | **9,937,927** | 12,249,575 |

Note:

Cost of inventories includes RMB1,800,629,000 (2014: RMB1,840,470,000) relating to personnel expenses, depreciation and amortisation expenses and provision of inventories for the year ended 31 December 2015, which are also included in the respective amounts disclosed separately above or in note 5(b) for each type of expenses.

## 6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

### (a) Taxation in the consolidated statement of profit or loss:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **Current tax** | | |
| Provision for PRC income tax | **56,699** | 417,134 |
| Under/(over)-provision in respect of prior years | **1,500** | (303) |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **139,853** | (35,286) |
| | **198,052** | 381,545 |

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

| | Note | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|---|
| (Loss)/profit before taxation | | **(6,495,603)** | 690,123 |
| Notional tax on profit before taxation, calculated at the PRC statutory income tax rate of 25% | (i) | **(1,623,901)** | 172,531 |
| Tax rate differential in foreign jurisdictions | (ii) | **213,957** | 121,225 |
| Effect of tax holiday | (iii) | **(4,230)** | (7,827) |
| Effect of non-deductible expenses | (iv) | **15,517** | 6,734 |
| Effect of non-taxable income | (v) | **–** | (475) |
| Effect of unused tax losses not recognised | | **507,092** | 110,506 |
| Effect of deductible temporary differences not recognised | | **1,035,245** | – |
| Effect of tax credit | (vi) | **(2,782)** | (4,176) |
| Tax effect of unrecognised prior year's tax losses utilised during the year | | **(1,415)** | (12,096) |
| Under/(over)-provision in respect of prior years | | **1,500** | (303) |
| Effect of share of profits less losses of associates | | **7,337** | (4,574) |
| Tax effect of write-down of deferred tax assets recognised in previous years | | **49,732** | – |
| Actual income tax expense | | **198,052** | 381,545 |
| Effective tax rate | | **(3.0%)** | 55.3% |

## 6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates: *(continued)*

Notes:

(i) The Group's PRC subsidiaries are subject to PRC income tax at the statutory rate of 25% (2014: 25%) unless otherwise specified.

(ii) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in those jurisdictions.

No provision for Hong Kong Profits Tax has been made as the subsidiaries incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax during the year ended 31 December 2015 (2014: nil).

(iii) According to Circular Cai Shui (2011) No. 53, Shule Shanshui Cement Co., Ltd. ("Shule Shanshui"), Yingjisha Shanshui Cement Co., Ltd. ("Yingjisha Shanshui") and Shache Shanshui Cement Co., Ltd. ("Shache Shanshui") were established in the difficult regions in Xinjiang Uygur Autonomous Region and were each entitled to a tax holiday of 2-year full exemption followed by 3-year 50% reduction in the PRC income tax rate commencing from the days when they first generate operating income. Shule Shanshui first generated operating income in 2012 and Yingjisha Shanhui and Shache Shanshui first generated operating income in 2013.

(iv) Non-deductible expenses mainly represent miscellaneous expenses in excess of statutory deductible limits for tax purposes according to the PRC tax laws and regulations.

(v) Non-taxable income mainly represents the income generated from production of certain products utilising industrial waste which is tax-exempted pursuant to the applicable PRC tax laws and regulations.

(vi) Tax credit represents income tax credit for purchase of certain energy saving equipment pursuant to the applicable PRC tax laws and regulations.

## 7 DIRECTORS' REMUNERATION

As disclosed in note 1(b), as at 30 November 2015, the Company has 8 directors ("the ex-directors") with Mr. Zhang Bin as the chairman of the board. Pursuant to the resolution of the extraordinary general meeting of the Company held on 1 December 2015, the Company removed all of the ex-directors from the board of the Company and newly appointed 9 directors on the same date ("the existing directors").

### 7 DIRECTORS' REMUNERATION *(continued)*

Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

| | Directors' fees RMB'000 | Salaries, allowances and other benefits RMB'000 (Note (ii)) | Bonuses RMB'000 | Contributions to defined contribution retirement plans RMB'000 | Subtotal RMB'000 | Share-based Payment (note 29) RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| ***<1> The ex-directors from 1 January 2015 to 30 November 2015 (Note (i))*** | | | | | | | |
| ***Chairman, Executive director*** | | | | | | | |
| Zhang Bin (removed on 1 December 2015) | – | 1,867 | – | 44 | 1,911 | * | 1,911 |
| ***Executive directors*** | | | | | | | |
| Zhang Caikui (removed on 13 October 2015) | – | 2,876 | – | – | 2,876 | * | 2,876 |
| Li Cheung Hung (removed on 13 October 2015) | – | 2,934 | – | 28 | 2,962 | 4,844 | 7,806 |
| Chang Zhangli (appointed on 22 May 2015 and removed on 1 December 2015) (note (iii)) | – | – | – | – | – | – | – |
| Wu Ling-ling (appointed on 14 October 2015 and removed on 1 December 2015) | – | – | – | – | – | – | – |
| ***Non-executive directors*** | | | | | | | |
| Xiao Yu (resigned on 22 May 2015) | – | – | – | – | – | – | – |
| Lee Kuan-chun (appointed on 22 May 2015 and removed on 1 December 2015) | – | – | – | – | – | – | – |
| Cai Guobin (appointed on 14 October 2015 and removed on 1 December 2015) | – | – | – | – | – | – | – |
| ***Independent non-executive directors*** | | | | | | | |
| Wang Jian (resigned on 22 May 2015) | – | – | – | – | – | – | – |
| Hou Huailiang (resigned on 22 May 2015) | – | – | – | – | – | – | – |
| Wu Xiaoyun (removed on 13 October 2015) | – | – | – | – | – | – | – |
| Zeng Xuemin (appointed on 10 June 2015 and removed 1 December 2015) | – | – | – | – | – | – | – |
| Shen Bing (appointed on 10 June 2015 and removed 1 December 2015) | – | – | – | – | – | – | – |
| Ou Chin-Der (appointed on 14 October 2015 and removed 1 December 2015) | – | – | – | – | – | – | – |
| ***Sub-total of the ex-directors*** | – | 7,677 | – | 72 | 7,749 | 4,844 | 12,593 |

* As disclosed in note 29, of the 207,300,000 options granted by the Company on 27 January 2015 to certain directors and employees of the Company, 43,600,000 options were granted to Mr. Zhang Caikui and Mr. Zhang Bin (together referred as "the Mr. Zhangs"), the ex-directors of the Company. According to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Share Option Scheme of the Company, the options granted to Mr. Zhang Caikui and Mr. Zhang Bin need to be approved by the Extraordinary General Meeting of the Company. However, up until the date of this report, the required Extraordinary General Meeting has not been held as all the options granted on 27 January 2015 are subject to the legal proceedings set out in note 33. As the required Extraordinary General Meeting has not been held, the existing directors consider that the options granted to the Mr Zhangs are not legally valid. Consequently, no staff cost has been accrued in respect of the fair value of the options granted to the Mr Zhangs.

## 7 DIRECTORS' REMUNERATION *(continued)*

| | Directors' fees RMB'000 | Salaries, allowances and other benefits RMB'000 | Bonuses RMB'000 | Contributions to defined contribution retirement plans RMB'000 | Subtotal RMB'000 | Share-based payment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| ***<2> The New Board from 1 December 2015 to 31 December 2015*** | | | | | | | |
| ***Chairman, Executive director*** | | | | | | | |
| Li Liufa (appointed on 1 December 2015 as an executive director and on 16 December 2015 as Chairman) | – | – | – | – | – | – | – |
| ***Executive directors*** | | | | | | | |
| Li Heping (appointed on 1 December 2015) | – | – | – | – | – | – | – |
| Liu Yiu Keung (appointed on 1 December 2015) (note (iv)) | – | – | – | – | – | – | – |
| Hwa Guo Wai (appointed on 1 December 2015) (note (v)) | – | – | – | – | – | – | – |
| Chong Cha Hwa (appointed on 1 December 2015) (note (v)) | – | – | – | – | – | – | – |
| ***Non-executive directors*** | | | | | | | |
| Ng Qing Hai (appointed on 1 December 2015 and resigned on 2 February 2016) (note (v)) | – | 42 | – | – | 42 | – | 42 |
| ***Independent non-executive directors*** | | | | | | | |
| Cheung Yuk Ming (appointed on 1 December 2015) (note (v)) | – | 42 | – | – | 42 | – | 42 |
| Ho Man Kay (appointed on 1 December 2015) | – | 42 | – | – | 42 | – | 42 |
| Law Pui Cheung (appointed on 1 December 2015) | – | 42 | – | – | 42 | – | 42 |
| ***Sub-total of the New Board*** | – | 168 | – | – | 168 | – | 168 |
| ***Total*** | – | 7,845 | – | 72 | 7,917 | 4,844 | 12,761 |

Notes:

(i) The New Board extracted the directors' remuneration for the ex-directors from the books and records of the Group. However, the New Board could not get the confirmation from each of the ex-directors for his/her remuneration information in 2015.

(ii) As disclosed in note 5(b), the ex-directors approved to pay RMB18.7 million to certain ex-directors, ex-senior management and employees of the Company in December 2015, among which RMB2.62 million, RMB1.42 million and RMB1 million were paid to Mr. Zhang Caikui, Mr. Zhang Bin and Mr. Li Cheung Hung respectively and recognised as salaries, allowances and other benefits in directors' remuneration listed above. The existing directors have a plan to investigate the validity of these payments.

(iii) Mr. Chang Zhangli is appointed as a non-executive directors of the Company on 22 May 2015 and has re-designated as an executive director on 14 October 2015, and removed from the board on 1 December 2015.

(iv) Mr. Yen Ching Wai has been appointed as an alternate director to Mr. Liu Yiu Keung on 16 December 2015.

## 7 DIRECTORS' REMUNERATION *(continued)*

Notes: *(continued)*

(v) Pursuant to the announcement of the Company on 2 February 2016, the board of the Company has been changed as:

– Mr. Hwa Guo Wai and Mr. Chong Cha Hwa have been re-designated from an executive director to a non-executive director;

– Mr. Ng Qing Hai has resigned as a non-executive director;

– Mr. Cheung Yuk Ming has been re-designated from an independent non-executive director to an executive director;

– Mr. Wong Chi Keung has been newly appointed as an independent non-executive director.

Details of the directors' remuneration for the year ended 31 December 2014 are as follows:

| | Note | Directors' fees RMB'000 | Salaries, allowances and other benefits RMB'000 | Bonuses RMB'000 | Contributions to defined contribution retirement plans RMB'000 | Subtotal RMB'000 | Share-based payment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| ***Chairman, Executive director*** | | | | | | | | |
| Zhang Bin | | – | 471 | – | 22 | 493 | – | 493 |
| ***Executive directors*** | | | | | | | | |
| Zhang Caikui | | – | 260 | – | – | 260 | – | 260 |
| Li Cheung Hung | | – | 232 | – | 7 | 239 | – | 239 |
| ***Non-executive directors*** | | | | | | | | |
| Jiao Shuge | (i) | – | – | – | – | – | – | – |
| Xiao Yu | | – | 596 | – | – | 596 | – | 596 |
| ***Independent non-executive directors*** | | | | | | | | |
| Wang Yanmou | (i) | – | – | – | – | – | – | – |
| Wang Jian | | 100 | – | – | – | 100 | – | 100 |
| Hou Huailiang | | – | – | – | – | – | – | – |
| Wu Xiaoyun | (ii) | 62 | – | – | – | 62 | – | 62 |
| | | 162 | 1,559 | – | 29 | 1,750 | – | 1,750 |

Notes:

(i) Mr. Jiao Shuge and Mr. Wang Yanmou were resigned from their relative director positions on 16 May 2014.

(ii) Mrs. Wu Xiaoyun was appointed as independent non-executive director on 16 May 2014.

## 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one director whose emoluments is disclosed in note 7 for the year ended 31 December 2015 (2014: One).

The aggregate of the remuneration in respect of the other four (2014: Four) individuals are as follows:

| | **2015 RMB'000** | 2014 RMB'000 |
|---|---|---|
| Salaries, allowances and other benefits (Note) | **4,485** | 766 |
| Bonuses | **56** | 1,551 |
| Contributions to defined contribution retirement plans | **175** | 93 |
| Share-based payment (note 29) | **15,554** | – |
| | **20,270** | 2,410 |

Note: As disclosed in note 5(b), the ex-directors approved the payment of RMB18.7 million to certain ex-directors, ex-senior management and employees of the Company in December 2015, among which RMB3.25 million was paid to four individuals with highest emoluments and recognised as salaries, allowances and other benefits. This amount is included in the amounts disclosed above.

The emoluments of the four (2014: Four) individuals with the highest remuneration are within the following bands:

| | **2015 Number of individuals** | 2014 Number of individuals |
|---|---|---|
| HKD500,001 to HKD1,000,000 | **–** | 4 |
| HKD5,000,001 to HKD6,000,000 | **2** | – |
| HKD6,000,001 to HKD7,000,000 | **1** | – |
| HKD7,000,001 to HKD8,000,000 | **1** | – |
| | **4** | 4 |

## 9 OTHER COMPREHENSIVE INCOME

Except for the following item, other components of other comprehensive income do not have any significant tax effect for the year ended 31 December 2015 and 2014.

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **Before-tax amount RMB'000** | **Tax expense RMB'000** | **Net-of-tax amount RMB'000** | Before-tax amount RMB'000 | Tax benefit RMB'000 | Net-of-tax amount RMB'000 |
| Available-for-sale securities: net movement in fair value reserve | **(462)** | **(115)** | **(347)** | 3,799 | 950 | 2,849 |

## 10 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2015 is based on the loss attributable to ordinary equity shareholders of the Company of RMB6,387,259,000 (2014: profit attributable to ordinary equity shareholders of the Company of RMB347,650,000) and the weighted average number of ordinary shares of 3,379,140,240 (2014: 2,906,986,398) shares in issue during the year.

### (b) Diluted earnings per share

As disclosed in note 29, the Company has granted two batches of share options to directors and employees, they are:

– On 25 May 2011, the Company granted 7,300,000 ordinary share options to certain directors and employees, which was vested immediately after being granted ("the 2011 Options"). The exercise price of the 2011 Options are HKD7.90.

– On 27 January 2015, the Company granted 207,300,000 ordinary share options to certain directors and employees, which vested six months after being granted ("the 2015 Options"). The exercise price of the 2015 Options are HKD3.68.

The average share prices of the Company for year ended 31 December 2014 and for the period from 1 January 2015 and 15 April 2015 were HKD2.93 and HKD4.49 respectively. However, the Company's shares have been suspended for trading since 16 April 2015. Also, as disclosed in notes 29 and 33, the options granted on 27 January 2015 are currently subject to legal proceedings which seek to restrain the Company from issuing any shares pursuant to the exercise of these options. Furthermore, included within these options are 43,600,000 options granted to ex-directors of the Company which are considered to be legally invalid. These events have been taken into account in the calculation of diluted EPS as follows:

The 2011 Options have not been included in the calculation of diluted earnings per share because they were anti-dilutive for the year ended 31 December 2014 and are assumed to have been anti-dilutive for the year ended 31 December 2015, on the assumption that in the period from 16 April 2015 to 31 December 2015 the share price of the Company will not have risen above its last quoted price on 15 April 2015 and therefore the average market price of the Company's shares for the year ended 31 December 2015 is assumed to be less than the exercise price of the options.

The existing directors of the Company are also of the opinion that the 2015 Options are anti-dilutive for the year ended 31 December 2015. This assumption has been made as the existing directors cannot conclude that the exercise of the 2015 Options would result in the issue of ordinary shares for less than the average market price of ordinary shares during 2015, in the absence of market price information from 16 April 2015 to 31 December 2015 and taking into account the adverse nature of the events which have affected the affairs of the Company and its subsidiaries since that date.

## 11 FIXED ASSETS

| | Plants and buildings RMB'000 | Equipment RMB'000 | Motor vehicles and others RMB'000 | Construction in progress ("CIP") RMB'000 | Sub-total RMB'000 | Land lease prepayments RMB'000 | Total fixed assets RMB'000 |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At 1 January 2014 | 8,904,553 | 11,330,334 | 490,735 | 3,707,483 | 24,433,105 | 2,729,107 | 27,162,212 |
| Additions | 42,081 | 82,688 | 27,618 | 2,017,270 | 2,169,657 | 41,810 | 2,211,467 |
| Transfers | 1,139,366 | 1,589,139 | 9,090 | (2,737,595) | – | – | – |
| Additions through business combinations | 149,125 | 67,984 | 13,428 | – | 230,537 | 9,897 | 240,434 |
| Transfer to CIP | (16,407) | (23,088) | – | 39,495 | – | – | – |
| Disposals | (10,218) | (38,364) | (18,213) | – | (66,795) | – | (66,795) |
| Reclassification | 5,603 | 37,898 | (43,501) | – | – | – | – |
| At 31 December 2014 | 10,214,103 | 13,046,591 | 479,157 | 3,026,653 | 26,766,504 | 2,780,814 | 29,547,318 |
| At 1 January 2015 | **10,214,103** | **13,046,591** | **479,157** | **3,026,653** | **26,766,504** | **2,780,814** | **29,547,318** |
| Additions | **26,188** | **117,919** | **10,367** | **1,145,560** | **1,300,034** | **77,533** | **1,377,567** |
| Transfers | **2,415,420** | **713,857** | **9,194** | **(3,138,471)** | **–** | **–** | **–** |
| Disposals | **(82,586)** | **(220,634)** | **(42,160)** | **–** | **(345,380)** | **(69,934)** | **(415,314)** |
| Disposals of a subsidiary | **(260,161)** | **(85,077)** | **(2,171)** | **(9,790)** | **(357,199)** | **(63,329)** | **(420,528)** |
| Reclassification | **(18,937)** | **18,531** | **406** | **–** | **–** | **–** | **–** |
| At 31 December 2015 | **12,294,027** | **13,591,187** | **454,793** | **1,023,952** | **27,363,959** | **2,725,084** | **30,089,043** |
| **Accumulated depreciation amortisation and impairment:** | | | | | | | |
| At 1 January 2014 | (1,049,720) | (4,253,301) | (184,450) | – | (5,487,471) | (270,252) | (5,757,723) |
| Charge for the year | (265,597) | (951,158) | (4,982) | – | (1,221,737) | (60,353) | (1,282,090) |
| Impairment loss for the year | – | (24) | (4) | – | (28) | – | (28) |
| Transfer to CIP | 1,014 | 5,124 | – | (6,138) | – | – | – |
| Written back on disposals | 880 | 34,311 | 16,026 | – | 51,217 | – | 51,217 |
| Reclassification | (538) | (220) | 758 | – | – | – | – |
| At 31 December 2014 | (1,313,961) | (5,165,268) | (172,652) | (6,138) | (6,658,019) | (330,605) | (6,988,624) |
| At 1 January 2015 | **(1,313,961)** | **(5,165,268)** | **(172,652)** | **(6,138)** | **(6,658,019)** | **(330,605)** | **(6,988,624)** |
| Charge for the year | **(296,684)** | **(993,422)** | **(50,158)** | **–** | **(1,340,264)** | **(60,887)** | **(1,401,151)** |
| Impairment loss for the year | **(397,675)** | **(243,452)** | **(5,513)** | **(26,876)** | **(673,516)** | **–** | **(673,516)** |
| Written back on disposals | **34,485** | **152,986** | **36,930** | **–** | **224,401** | **12,802** | **237,203** |
| Written back on disposals of a subsidiary | **1,635** | **6,817** | **759** | **–** | **9,211** | **3,799** | **13,010** |
| Reclassification | **1,081** | **(1,111)** | **30** | **–** | **–** | **–** | **–** |
| At 31 December 2015 | **(1,971,119)** | **(6,243,450)** | **(190,604)** | **(33,014)** | **(8,438,187)** | **(374,891)** | **(8,813,078)** |
| **Net book value:** | | | | | | | |
| At 31 December 2015 | **10,322,908** | **7,347,737** | **264,189** | **990,938** | **18,925,772** | **2,350,193** | **21,275,965** |
| At 31 December 2014 | 8,900,142 | 7,881,323 | 306,505 | 3,020,515 | 20,108,485 | 2,450,209 | 22,558,694 |

## 11 FIXED ASSETS *(continued)*

(a) All plants, buildings and land lease prepayments are located in the PRC. The Group's land lease prepayments expire between 25 years and 70 years.

(b) Construction in progress represents cement and clinker plants and residual heat generation plants.

(c) As at 31 December 2015, application for the registration of land lease prepayments with cost of approximately RMB113,335,000 (2014: RMB155,693,000) was still in progress.

(d) As 31 December 2015, the ownership certificates for certain plants and buildings with a carrying amount of RMB431,422,000 have not been obtained (2014: RMB453,514,000).

(e) As at the date of this report, the Group is in the process of obtaining construction permits for certain clinker and cement production lines. The carrying amount for these clinker and cement production lines as at 31 December 2015 was RMB1,678,413,000 (2014: RMB2,235,672,000).

(f) Certain land lease prepayments with an aggregate carrying amount of RMB4,579,000 (2014: RMB4,679,000) for the year ended 31 December 2015, are pledged to secure bank loans (see note 21) granted to the Group.

(g) As at the date of this report, land lease prepayments carried at RMB27 million and fixed assets carried at RMB523 million have been frozen by the PRC Court pending the outcome of the legal proceedings initiated by the Group's creditors relating to overdue bank loans, other borrowings and long-term bonds. Further details of this litigation are set out in notes 21 to 23. Under the Court order, the Group may continue to use these assets in its business but is prohibited from selling or transferring the assets until the litigation is resolved.

## 11 FIXED ASSETS *(continued)*

(h) Impairment of fixed assets

The existing directors of the Company determine whether there are indicators for impairment of fixed assets at the end of each reporting period. Should the indicators exist, the Group will estimate value in use of relevant cash generating units of fixed assets by estimating the future cash flows expected from those interests and a discount rate in order to calculate the present value.

The existing directors have determined that the poor operating results and the declining trend of the cement market in 2015 indicate that some of the cash generating units may be impaired. The existing directors re-assessed the recoverable amount of these cash generating units with reference to their value in use, derived by using discounted cash flow analysis as at 31 December 2015. The key assumptions for the value in use calculations are those regarding the discount rates, growth rate and expected changes to revenue and direct costs used in the cash flow forecasts.

Cash flow forecasts of each cash generating units of fixed assets are derived from financial budgets of 2016 approved by the existing directors of the Company. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market.The growth rates for the 4 years from 2017 to 2020 are based on the relevant cash generating unit's past performance and management's expectation for the market development. No further growth is assumed beyond 2020. The discount rate used in the value in use calculations is 9%.

Since the value in use calculated by the discounted cash flow analysis is lower than the carrying amount of certain cash generating units of fixed assets, the Company has provided fixed assets impairment of RMB673,516,000 for the year ended 31 December 2015.

(i) Property, plant and equipment held under finance lease

At the end of the reporting period, the carrying amount for the fixed assets held under finance lease was RMB31,494,000 (2014: RMB35,614,000).

## 12 INTANGIBLE ASSETS

| | Limestone mining rights RMB'000 | Customer relationships RMB'000 | Trademarks RMB'000 | Software and others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 January 2014 | 637,126 | 48,181 | 92,522 | 55,289 | 833,118 |
| Additions | 67,075 | – | – | 13,164 | 80,239 |
| At 31 December 2014 | 704,201 | 48,181 | 92,522 | 68,453 | 913,357 |
| At 1 January 2015 | **704,201** | **48,181** | **92,522** | **68,453** | **913,357** |
| Additions | **129,176** | **–** | **–** | **7,008** | **136,184** |
| At 31 December 2015 | **833,377** | **48,181** | **92,522** | **75,461** | **1,049,541** |
| **Accumulated amortisation and impairment:** | | | | | |
| At 1 January 2014 | (265,193) | (39,642) | (42,817) | (21,236) | (368,888) |
| Amortisation for the year | (44,095) | (4,360) | (7,138) | (3,568) | (59,161) |
| At 31 December 2014 | (309,288) | (44,002) | (49,955) | (24,804) | (428,049) |
| At 1 January 2015 | **(309,288)** | **(44,002)** | **(49,955)** | **(24,804)** | **(428,049)** |
| Amortisation for the year | **(49,093)** | **(4,179)** | **(5,938)** | **(7,599)** | **(66,809)** |
| At 31 December 2015 | **(358,381)** | **(48,181)** | **(55,893)** | **(32,403)** | **(494,858)** |
| **Net book value:** | | | | | |
| At 31 December 2015 | **474,996** | **–** | **36,629** | **43,058** | **554,683** |
| At 31 December 2014 | 394,913 | 4,179 | 42,567 | 43,649 | 485,308 |

## 12 INTANGIBLE ASSETS *(continued)*

(a) The limestone mining rights which are granted from the respective land resources bureaux are valid for a period of 1 to 50 years. The limestone mines are located in Shandong, Liaoning and Shanxi provinces and Inner Mongolia.

(b) As at 31 December 2015, the ownership certificates for certain limestone mining rights with a carrying amount of RMB92,893,000 have not been obtained (2014: RMB116,204,000).

(c) The carrying amount of trademarks represent valuation of "千山", "工源" and "遠航" brands acquired through acquisitions of Liaoyang Qianshan Cement Co., Ltd. ("Qianshan Cement") and Liaoning Shanshui in December 2007 and Chifeng Yuanhang Cement Co., Ltd. ("Chifeng Yuanhang") in September 2010.

According to the resolution of the Board of Directors of the Group, trademarks of "千山", and "工源" would be phased out in ten years. Management considers the estimated useful lives of trademarks are ten years though their legal rights are renewable.

Due to the good reputation of "遠航" brand in the local area, the Board of Directors of the Group assess that the useful life of "遠航" brand is indefinite. The carrying amount of "遠航" brand as at 31 December 2015 is RMB22,230,000.

## 13 GOODWILL

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| **Cost** | | |
| At 1 January | **2,345,857** | 2,323,762 |
| Additions | **–** | 22,095 |
| | **2,345,857** | 2,345,857 |
| **Impairment losses** | | |
| At 1 January | **–** | – |
| Impairment loss | **(2,331,634)** | – |
| | **(2,331,634)** | – |
| **Net book value** | | |
| At 31 December | **14,223** | 2,345,857 |

## 13 GOODWILL *(continued)*

### Impairment tests for cash-generating units containing goodwill

As set out in International Accounting Standard 36 ("IAS 36"), *Impairment of Assets*, cash generating units are the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of the cash flows from other assets. For the purpose of impairment testing of goodwill, goodwill is allocated to groups of cash-generating units (being subsidiaries acquired in each acquisition), which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and also is within the segment determined in accordance with IFRS 8 *Operating segments*.

The Group engaged a valuation firm to do the 2015 annual assessment of the recoverable amount of cash generating units in respect of goodwill. However, the valuation firm engaged by the Group did not carry out an assessment for each of the groups of cash generating units to which goodwill has been allocated. On the contrary, they adopted the combined forecast of the business enterprise for the groups of cash generating units as a whole, in order to evaluate the impairment of goodwill. As stated in the draft valuation report, the value of the goodwill for those groups of cash generating units, valued by the valuer, is zero.

Since the valuation firm did not follow the requirements of International Accounting Standard 36 ("IAS 36"), *Impairment of Assets*, to assess the recoverable amount for each cash generating unit individually, and in view of the limited remaining time available in which to finalise the financial statements, the existing directors carried out their own evaluation and came to the view that only two of the groups of cash generating units to which goodwill has been allocated have recoverable amounts in excess of their carrying values. The goodwill allocated to these two groups of cash generating units is RMB14.2 million. The directors were of the view that the remaining goodwill is not recoverable. Accordingly, RMB2,332 million impairment losses for goodwill have been recognised as at 31 December 2015. The losses are included in other net expenses (note 4).

## 14 OTHER FINANCIAL ASSETS

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Available-for-sale securities, at fair value | (a) | **8,263** | 8,725 |
| Unquoted equity investments in non-listed companies | (b) | **43,067** | 54,260 |
| Loans to an associate | (c) | **41,437** | 61,524 |
| Loans due from a third party | (d) | **154,211** | 343,461 |
| Amount due from third parties | | **374,351** | 206,823 |
| | | **621,329** | 674,793 |

Notes:

(a) Available-for-sale securities are valued with reference to the trading price at the end of the reporting period.

(b) Unquoted equity investments, representing equity investment in the PRC non-listed companies, are subsequently measured at cost less impairment loss at the end of each reporting period, because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. The Group has provided impairment loss of RMB11,193,000 for the year ended 31 December 2015, which were included in other net expenses in the consolidated statement of profit or loss (see note 4).

(c) The loans to an associate are unsecured, bear interest at one-year PRC bank loan interest rate of 6% (2014: 6%) and have no fixed repayment terms.

(d) Loans due from a third party represent advances due from a minority shareholder of Bohai Cement (Huludao) Co., Ltd. ("Bohai Cement"), a subsidiary of the Group, which has 30% interest in Bohai Cement as at 31 December 2015. Since the minority shareholder was in financial difficulties, the Group assessed that only a portion of the loan balance was recoverable. Accordingly, the Group has provided impairment loss of RMB189,250,000 for the year ended 31 December 2015, which were included in administrative expenses.

## 15 INVESTMENTS IN ASSOCIATES

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Cost | **701,063** | 336,197 |
| Less: impairment losses | **(407,710)** | – |
| Share of net assets | **293,353** | 336,197 |

(Expressed in Renminbi unless otherwise indicated)

## 15 INVESTMENTS IN ASSOCIATES *(continued)*

As at 31 December 2015, the Group held investments in the following associates:

| Name of associate | Place and date of incorporation | Principal activities | Registered capital | Paid-in capital | Proportion of ownership interest Direct | Proportion of ownership interest Indirect |
|---|---|---|---|---|---|---|
| Dong'e Shanshui Dongchang Cement Co., Ltd. ("Dong'e Shanshui") (Note a) | Shandong, PRC 2 February 2010 | Production and sales of cement, clinker and related products | RMB100,000,000 | RMB100,000,000 | – | 51% |
| Dalian Cement Group Co., Ltd. ("Dashui Group") (Note b) | Liaoning, PRC 21 June 1992 | Production and sales of cement and related products | RMB888,980,000 | RMB888,980,000 | – | 22.04% |
| Qilu Property Co., Ltd. ("Qilu Property") (Note c) | Shandong, PRC 16 May 1994 | Development of property | RMB83,529,200 | RMB83,529,200 | – | 30% |
| Shandong Shanshui Heavy Industries Co., Ltd. ("Shanshui Heavy Industries") (Note d) | Shandong, PRC 12 March 2012 | Installation of equipment and spare parts of cement machines | RMB100,000,000 | RMB100,000,000 | – | 44.99% |

Notes:

(a) According to the articles of association of Dong'e Shanshui, the resolutions in relation to material financial and operating decisions have to be passed by more than half of directors. As the Company only has rights to appoint two out of five directors of Dong'e Shanshui, the Company does not have the power to determine the relevant activities in relation to the financial and operating policies of Dong'e Shanshui although the Company owns more than half of equity interests in Dong'e Shanshui.

(b) Pursuant to the equity transfer agreement entered between the Group and Dalian Heyuan Investment Management Co. Ltd ("Dalian Heyuan") on 6 July 2015, the Group additionally acquired 7% equity interest in Dashui Group with a total consideration of RMB172 million. The acquisition is finished on 17 July 2015 and after the acquisition, the Group's interest in Dashui Group has changed from 15.04% to 22.4%. However, the 7% carrying amount of the net assets of Dashui Group is about RMB63 million as at the acquisition date.

As at 31 December 2015, the existing directors re-assessed the recoverable amount of the investment in Dashui Group with reference to its value in use, which is derived by using discounted cash flow analysis. Since the value in use calculated by the discounted cash flow analysis is lower than the carrying amount of investment in Dashui Group, the Company has provided impairment losses for investment in Dashui Group of RMB181.5 million for the year ended 31 December 2015. The losses are included in other net expenses (note 4).

## 15 INVESTMENTS IN ASSOCIATES *(continued)*

Notes: *(continued)*

(c) After the New Board took over the management of Shandong Shanshui in January 2016 (see note 1(b)), the New Board found that Shandong Shanshui has paid RMB146.88 million during July to September 2015 to acquire 30% interest in Qilu Property. The New Board cannot find the equity transfer agreement for this transaction and obtain the financial information or any books and records of Qilu Property for year 2015. In addition, based on the company registration information search performed by the Group, the chairman and legal representative of Qilu Property is an ex-independent non-executive director of the Company, who has resigned on 22 May 2015. Due to the lack of available information and books and records of Qilu Property, the Group has fully impaired the carrying amount of the investment in Qilu Property of RMB146.88 million as at 31 December 2015.

(d) After the New Board took over the management of Shandong Shanshui in January 2016, the New Board found that Shandong Shanshui sold 55% interest in Shanshui Heavy Industries to two suppliers of the Group with a total consideration of 94.05 million. After the disposal transaction, Shandong Shanshui's remaining interest in Shanshui Heavy Industries is 44.99%. The detailed information of this disposal transaction is disclosed in note 35.

As at 31 December 2015, the existing directors re-assessed the recoverable amount of the investment in Shanshui Heavy Industries with reference to its value in use, which is derived by using discounted cash flow analysis. Since the value in use calculated by the discounted cash flow analysis is lower than the carrying amount of investment in Shanshui Heavy Industries, the Company has fully impaired the investment in Shanshui Heavy Industries of RMB79.33 million. The loss is included in other net expenses (note 4).

All of the above associates are accounted for using the equity method in the consolidated financial statements.

The directors of the Company are of the opinion that no associates are individually material to the Group. Aggregate information of associates that are not individually material are listed below:

| | **2015**<br>**RMB'000** | 2014<br>RMB'000 |
|---|---|---|
| Aggregate carrying amount of individually immaterial associates in the consolidated financial statements | **293,353** | 336,197 |
| Aggregate amounts of the Group's share of those associates' | | |
| (Loss)/profit from continuing operation | **(29,348)** | 18,295 |
| Total comprehensive (expenses)/income | **(29,348)** | 18,295 |

(Expressed in Renminbi unless otherwise indicated)

## 16 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

| Name of Company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest Group's effective interest | Held by the Company | Held by sub-sidiaries | Principal activities |
|---|---|---|---|---|---|---|
| **(a) Enterprise established in Hong Kong** | | | | | | |
| China Shanshui Cement Group (Hong Kong) Company Limited ("Shanshui Cement Hong Kong") 中國山水水泥集團（香港）有限公司 | Hong Kong, PRC 25 January 2005 | HKD10,000 | 100.00 | 100.00 | – | Investment holding |
| China Pioneer Cement (Hong Kong) Company Limited ("Pioneer Cement") 中國先鋒水泥（香港）有限公司 | Hong Kong, PRC 25 January 2005 | HKD0.01 | 100.00 | – | 100.00 | Investment holding |
| **(b) Enterprise established outside the PRC** | | | | | | |
| Continental Cement Corporation 康達水泥有限公司 | British Virgin Islands 30 May 2000 | USD100 | 100.00 | – | 100.00 | Investment holding |
| American Shanshui Development INC. 美國山水發展公司 | Delaware, U.S.A 28 June 2012 | Paid-in capital USD1,000,000 | 100.00 | – | 100.00 | Selling agent of cement product and building materials |
| **(c) Wholly foreign owned enterprises established in the PRC** | | | | | | |
| Shandong Shanshui Cement Group Co., Ltd. ("Shandong Shanshui") 山東山水水泥集團有限公司 | Shandong, PRC 10 August 2001 | Registered capital of RMB3,633,000,000 and paid-in capital RMB3,623,028,752 | 100.00 | – | 100.00 | Investment holding |
| Continental (Shandong) Cement Corporation 康達（山東）水泥有限公司 | Shandong, PRC 6 April 2002 | USD11,980,000 | 100.00 | – | 100.00 | Production and sales of clinker |
| Continental (Shandong) Cement Product Manufacturing Corporation 康達（山東）水泥製成品有限公司 | Shandong, PRC 6 April 2002 | USD20,484,500 | 100.00 | – | 100.00 | Production and sales of cement |

(Expressed in Renminbi unless otherwise indicated)

## 16 INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name of Company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by sub-sidiaries | Principal activities |
|---|---|---|---|---|---|---|
| **(c) Wholly foreign owned enterprises established in the PRC** *(continued)* | | | | | | |
| Continental (Shandong) Cement Mining Corporation 康達（山東）水泥礦產品有限公司 | Shandong, PRC 6 April 2002 | USD7,101,000 | 100.00 | – | 100.00 | Mining, storage and sales of limestone |
| Shandong Shanshui Financial Leasing Co., Ltd. 山東山水融資租賃有限公司 | Shandong, PRC 18 July 2014 | RMB230,000,000 | 100.00 | – | 100.00 | Offering financial leasing service |
| **(d) Sino-foreign equity joint venture enterprises established in the PRC** | | | | | | |
| Pingyin Shanshui Cement Co., Ltd. ("Pingyin Shanshui") 平陰山水水泥有限公司 | Shandong, PRC 1 August 2003 | RMB178,000,000 | 98.97 | – | 99.65 | Production and sales of cement and clinker |
| Anqiu Shanshui Cement Co., Ltd. ("Anqiu Shanshui") 安丘山水水泥有限公司 | Shandong, PRC 4 August 2003 | RMB226,500,000 | 99.06 | – | 99.76 | Production and sales of cement and clinker |
| Weihai Shanshui Cement Co., Ltd. ("Weihai Shanshui") 威海山水水泥有限公司 | Shandong, PRC 25 March 2008 | USD24,000,000 | 100.00 | – | 100.00 | Production and sales of cement and concrete |
| Dandong Shanshui Gongyuan Cement Co., Ltd. 丹東山水工源水泥有限公司 | Liaoning, PRC 31 March 2008 | USD12,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Qingdao Shanshui Chuangxin Cement Co., Ltd. ("Qingdao Shanshui Chuangxin") 青島山水創新水泥有限公司 | Shandong, PRC 25 April 2008 | USD28,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Shenyang Shanshui Gongyuan Cement Co., Ltd. 瀋陽山水工源水泥有限公司 | Liaoning, PRC 9 July 2008 | USD16,587,400 | 100.00 | – | 100.00 | Production and sales of cement |
| Linqu Shanshui Cement Co., Ltd. ("Linqu Shanshui") 臨朐山水水泥有限公司 | Shandong, PRC 18 July 2008 | Registered capital of USD25,000,000 and paid-in capital USD24,990,700 | 100.00 | – | 100.00 | Production and sales of cement and clinker |

# (X) Financial Statements
# Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

## 16 INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name of Company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by sub-sidiaries | Principal activities |
|---|---|---|---|---|---|---|
| **(d) Sino-foreign equity joint venture enterprises established in the PRC** *(continued)* | | | | | | |
| Zaozhuang Chuangxin Shanshui Cement Co., Ltd. ("Zaozhuang Chuangxin Shanshui") 棗莊創新山水水泥有限公司 | Shandong, PRC 5 September 2008 | USD30,000,000 | 100.00 | – | 100.00 | Production and sales of cement and clinker |
| Linqu Shanshui Building Material Aggregate Co., Ltd. 臨朐山水建材骨料有限公司 | Shandong, PRC 27 December 2012 | USD5,060,000 | 100.00 | – | 100.00 | Production and sales of concrete aggregate |
| **(e) Domestic companies established in the PRC** | | | | | | |
| **Owned by Shandong Shanshui** | | | | | | |
| Qianshan Cement 遼陽千山水泥有限責任公司 | Liaoning, PRC 5 June 1989 | RMB100,000,000 | 73.00 | – | 73.00 | Production and sales of cement and clinker |
| Shandong Cement Factory Co., Ltd. 山東水泥廠有限公司 | Shandong, PRC 3 April 1990 | RMB182,000,000 | 99.00 | – | 99.00 | Production and sales of cement and concrete; production of limestone |
| Guangrao Shanshui Cement Co., Ltd. 廣饒山水水泥有限公司 | Shandong, PRC 8 May 1998 | RMB18,760,000 | 70.00 | – | 70.00 | Production and sales of cement |
| Liaoning Shanshui 遼寧山水工源水泥有限公司 | Liaoning, PRC 13 July 1998 | RMB2,000,000,000 | 100.00 | – | 100.00 | Production and sales of cement and related products |
| Feicheng City Mashan Cement Co., Ltd. ("Feicheng Mashan") 肥城市馬山水泥有限責任公司 | Shandong, PRC 6 June 1999 | RMB30,000,000 | 90.00 | – | 90.00 | Production and sales of cement |
| Chifeng Yuanhang 赤峰山水遠航水泥有限公司 | Inner Mongolia, PRC 5 August 2000 | RMB200,000,000 | 100.00 | – | 100.00 | Production and sales of cement and related products |
| Jinan Shi-ji Chuang-xin Cement Co., Ltd. 濟南世紀創新水泥有限公司 | Shandong, PRC 17 January 2002 | RMB41,460,000 | 95.18 | – | 95.18 | Production and sales of cement and related products |

(Expressed in Renminbi unless otherwise indicated)

## 16 INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name of Company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest: Group's effective interest | Proportion of ownership interest: Held by the Company | Proportion of ownership interest: Held by sub-sidiaries | Principal activities |
|---|---|---|---|---|---|---|
| **(e) Domestic companies established in the PRC** *(continued)* | | | | | | |
| **Owned by Shandong Shanshui** *(continued)* | | | | | | |
| Tianjin City Tianhui Cement Co., Ltd. 天津市天輝水泥有限公司 | Tianjin, PRC 22 July 2002 | RMB16,000,000 | 100.00 | – | 100.00 | Production and sales of cement and related products |
| Changle Shanshui Cement Co., Ltd. 昌樂山水水泥有限公司 | Shandong, PRC 30 July 2002 | RMB24,700,000 | 99.00 | – | 99.00 | Production and sales of cement, clinker and concrete |
| Yantai Shanshui Cement Co., Ltd. 煙台山水水泥有限公司 | Shandong, PRC 22 November 2002 | RMB155,500,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Jinan Shanshui Wuliugang Co., Ltd. 濟南山水物流港有限公司 | Shandong, PRC 28 March 2003 | RMB10,000,000 | 99.00 | – | 99.00 | Logistic service and sales of coal |
| Binzhou Shanshui Cement Co., Ltd. 濱州山水水泥有限公司 | Shandong, PRC 30 July 2003 | RMB5,000,000 | 99.00 | – | 99.00 | Production and sales of cement |
| Shandong Shanshui Cement Industrial Design Development Co., Ltd. 山東山水水泥工業設計開發有限公司 | Shandong, PRC 1 August 2003 | RMB6,000,000 | 90.00 | – | 90.00 | Development, manufacture, sales and technical support of cement related equipments |
| Liaocheng Shanshui Cement Co., Ltd. 聊城山水水泥有限公司 | Shandong, PRC 1 August 2003 | RMB20,000,000 | 99.00 | – | 99.00 | Production and sales of cement and concrete |
| Gucheng Shanshui Cement Co., Ltd. 故城山水水泥有限公司 | Hebei, PRC 4 August 2003 | RMB5,000,000 | 99.00 | – | 99.00 | Production and sales of cement |
| Dongying Shanshui Cement Co., Ltd. 東營山水水泥有限公司 | Shandong, PRC 4 August 2003 | RMB5,000,000 | 99.00 | – | 99.00 | Production and sales of cement |
| Zibo Shanshui Cement Co., Ltd. 淄博山水水泥有限公司 | Shandong, PRC 5 August 2003 | RMB60,000,000 | 99.00 | – | 99.00 | Production and sales of cement, clinker and limestone |

(Expressed in Renminbi unless otherwise indicated)

## 16 INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name of Company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by sub-sidiaries | Principal activities |
|---|---|---|---|---|---|---|
| **(e) Domestic companies established in the PRC** *(continued)* | | | | | | |
| **Owned by Shandong Shanshui** *(continued)* | | | | | | |
| Liaocheng Meijing Zhongyuan Cement Co., Ltd. 聊城美景中原水泥有限公司 | Shandong, PRC 5 August 2003 | RMB20,000,000 | 100.00 | – | 100.00 | Production and sales of cement and clinker |
| Weifang Shanshui Cement Co., Ltd. ("Weifang Shanshui") 濰坊山水水泥有限公司 | Shandong, PRC 29 December 2003 | RMB150,000,000 | 100.00 | – | 100.00 | Production and sales of cement, limestone and concrete |
| Qingdao Shanshui Hengtai Cement Co., Ltd. 青島山水恒泰水泥有限公司 | Shandong, PRC 10 June 2004 | RMB50,000,000 | 100.00 | – | 100.00 | Production and sales of cement and related products |
| Zibo Shuangfeng Shanshui Cement Co., Ltd. 淄博雙鳳山水水泥有限公司 | Shandong, PRC 1 July 2004 | RMB150,000,000 | 99.93 | – | 99.93 | Production and sales of cement |
| Zaozhuang Shanshui Cement Co., Ltd. 棗莊山水水泥有限公司 | Shandong, PRC 28 July 2004 | RMB70,000,000 | 100.00 | – | 100.00 | Production and sales of cement and clinker |
| Qixia City Xinghao Cement Co., Ltd. ("Xinghao Cement") 棲霞市興昊水泥有限公司 | Shandong, PRC 10 January 2005 | RMB200,000,000 | 100.00 | – | 100.00 | Production and sales of cement and clinker |
| Jining Shanshui Cement Co., Ltd. 濟寧山水水泥有限公司 | Shandong, PRC 21 January 2005 | RMB100,000,000 | 100.00 | – | 100.00 | Production and sales of cement, clinker, concrete, limestone and related products |
| Rushan Shanshui Cement Co., Ltd. 乳山山水水泥有限公司 | Shandong, PRC 17 November 2005 | RMB5,000,000 | 67.00 | – | 67.00 | Production and sales of cement and related products |
| Juye Shanshui Cement Co., Ltd. 巨野山水水泥有限公司 | Shandong, PRC 17 May 2006 | RMB10,000,000 | 99.96 | – | 100.00 | Production and sales of cement |
| Yishui Shanshui Cement Co., Ltd. 沂水山水水泥有限公司 | Shandong, PRC 28 September 2007 | RMB128,700,000 | 99.38 | – | 99.38 | Production and sales of clinker and limestone |

(Expressed in Renminbi unless otherwise indicated)

## 16 INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name of Company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by sub-sidiaries | Principal activities |
|---|---|---|---|---|---|---|
| **(e) Domestic companies established in the PRC** *(continued)* | | | | | | |
| **Owned by Shandong Shanshui** *(continued)* | | | | | | |
| Kenli Shanshui Cement Co., Ltd. 墾利山水水泥有限公司 | Shandong, PRC 21 December 2007 | RMB12,000,000 | 90.00 | – | 90.00 | Production and sales of cement |
| Qingdao Huading Building Material Co., Ltd. 青島華鼎建材有限公司 | Shandong, PRC 24 January 2008 | RMB20,000,000 | 100.00 | – | 100.00 | Production and sales of concrete |
| Weifang Ningshi Building Material Co., Ltd. 濰坊凝石建材有限公司 | Shandong, PRC 16 May 2008 | RMB20,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Yishui Chuangxin Shanshui Cement Co., Ltd. 沂水創新山水水泥有限公司 | Shandong, PRC 2 June 2009 | RMB10,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Qingdao Shanshui Jianxin Cement Co., Ltd. 青島山水建新水泥有限公司 | Shandong, PRC 18 June 2009 | RMB20,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Weifang Binhai Shanshui Cement Co., Ltd. 濰坊濱海山水水泥有限公司 | Shandong, PRC 4 August 2009 | RMB42,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Tianjin Shanshui Cement Co., Ltd. 天津山水水泥有限公司 | Tianjin, PRC 26 August 2009 | RMB100,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Shanxian Shanshui Cement Co., Ltd. 單縣山水水泥有限公司 | Shandong, PRC 27 August 2009 | RMB60,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Caoxian Shanshui Cement Co., Ltd. 曹縣山水水泥有限公司 | Shandong, PRC 28 August 2009 | RMB22,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Bozhou Shanshui Cement Co., Ltd. 亳州山水水泥有限公司 | Anhui, PRC 3 September 2009 | RMB40,000,000 | 100.00 | – | 100.00 | Establishment of cement production line |

(Expressed in Renminbi unless otherwise indicated)

## 16 INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name of Company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by sub-sidiaries | Principal activities |
|---|---|---|---|---|---|---|
| **(e) Domestic companies established in the PRC** *(continued)* | | | | | | |
| **Owned by Shandong Shanshui** *(continued)* | | | | | | |
| Bengbu Shanshui Cement Co., Ltd. 蚌埠山水水泥有限公司 | Anhui, PRC 4 September 2009 | RMB30,000,000 | 100.00 | – | 100.00 | Establishment of cement production line |
| Weishan Shanshui Cement Co., Ltd. 微山山水水泥有限公司 | Shandong, PRC 28 September 2009 | RMB100,000,000 | 100.00 | – | 100.00 | Production and sales of cement and clinker |
| Shanxi Shanshui Cement Co., Ltd. ("Shanxi Shanshui") 山西山水水泥有限公司 | Shanxi, PRC 25 December 2009 | RMB1,716,500,000 | 100.00 | – | 100.00 | Sales of cement and cement related products |
| Laoling Shanshui Cement Co., Ltd. 樂陵山水水泥有限公司 | Shandong, PRC 9 February 2010 | RMB30,000,000 | 100.00 | – | 100.00 | Production and sales of cement and related products |
| Qingdao Huading New Building Material Co., Ltd. 青島華鼎建築新材料有限公司 | Shandong, PRC 10 February 2010 | RMB16,103,200 | 100.00 | – | 100.00 | Production and sales of concrete |
| Dezhou Zhucheng Concrete Co., Ltd. 德州築城商品混凝土有限公司 | Shandong, PRC 2 March 2010 | RMB10,000,000 | 100.00 | – | 100.00 | Production and sales of concrete |
| Weifang Wanda Building materials Co., Ltd. 濰坊萬達建材有限公司 | Shandong, PRC 17 March 2010 | RMB10,000,000 | 100.00 | – | 100.00 | Production and sales of concrete |
| Kashi Shanshui Cement Co., Ltd. ("Kashi Shanshui") 喀什山水水泥有限公司 | Xinjiang, PRC 17 August 2010 | RMB500,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Dezhou Tianqi Concrete Co., Ltd. 德州天祺商品混凝土有限公司 | Shandong, PRC 31 August 2010 | RMB10,000,000 | 60.00 | – | 60.00 | Production and sales of concrete |
| Shenxian Shanshui Cement Co., Ltd. 莘縣山水水泥有限公司 | Shandong, PRC 22 October 2010 | RMB10,000,000 | 100.00 | – | 100.00 | Production and sales of cement and cement related products |

(Expressed in Renminbi unless otherwise indicated)

## 16 INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name of Company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest Group's effective interest | Held by the Company | Held by sub-sidiaries | Principal activities |
|---|---|---|---|---|---|---|
| **(e) Domestic companies established in the PRC** *(continued)* | | | | | | |
| **Owned by Shandong Shanshui** *(continued)* | | | | | | |
| Shandong Shanshui Building Materials Co., Ltd. 山東山水建築材料有限公司 | Shandong, PRC 2 March 2011 | RMB300,000,000 | 100.00 | – | 100.00 | Production and sales of building materials and related products |
| Huixian City Shanshui Cement Co., Ltd. 輝縣市山水水泥有限公司 | Henan, PRC 30 June 2011 | RMB100,000,000 | 100.00 | – | 100.00 | Establishment of clinker production line |
| Weifang City Leixin Concrete Co., Ltd. ("Weifang Leixin") 濰坊市磊鑫混凝土有限公司 | Shandong, PRC 16 August 2011 | RMB10,000,000 | 100.00 | – | 100.00 | Production and sales of concrete |
| Zhoukou Shanshui Pipeline Co., Ltd. 周口山水管道有限公司 | Henan, PRC 22 August 2011 | RMB30,000,000 | 100.00 | – | 100.00 | Production and sales of cement and cement related products |
| Dongming Shanshui Cement Co., Ltd. 東明山水水泥有限公司 | Shandong, PRC 20 March 2012 | RMB35,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Jiaxiang Shanshui Aggregate Co., Ltd. 嘉祥山水骨料有限公司 | Shandong, PRC 10 October 2012 | RMB10,000,000 | 100.00 | – | 100.00 | Production and sales of concrete aggregate |
| Shandong Shanshui Cement Group International Trading Co., Ltd. 山東山水水泥集團國際貿易有限責任公司 | Shandong, PRC 5 March 2013 | RMB10,000,000 | 100.00 | – | 100.00 | Import and export of cement, clinker and related products |
| Caoxian Chuangxin Concrete Co., Ltd. 曹縣創新商砼有限公司 | Shandong, PRC 27 March 2013 | RMB10,000,000 | 100.00 | – | 100.00 | Production and sales of concrete |
| FeiCheng Shanshui Concrete Co., Ltd. 肥城山水商砼有限公司 | Shandong, PRC 5 September 2013 | RMB10,000,000 | 100.00 | – | 100.00 | Production and sales of concrete |
| Zhangqiu Shanshui Trading Co., Ltd. 章丘山水商貿有限公司 | Shandong, PRC 3 January 2014 | RMB1,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Shanshui Micro Finance 濟南市長清區山水小額貸款有限公司 | Shandong, PRC 10 March 2014 | RMB100,000,000 | 49.00 note | – | 49.00 | Offering finance lending business |

(Expressed in Renminbi unless otherwise indicated)

## 16 INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name of Company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest Group's effective interest | Held by the Company | Held by sub-sidiaries | Principal activities |
|---|---|---|---|---|---|---|
| **(e) Domestic companies established in the PRC** *(continued)* | | | | | | |
| **Owned by Shandong Shanshui** *(continued)* | | | | | | |
| Qingdao Ji'an Concrete Co., Ltd. 青島基安混凝土有限公司 | Shandong, PRC 6 March 2014 | RMB10,200,000 | 70.00 | – | 70.00 | Production and sales of concrete |
| Heze Fuyu Concrete Co., Ltd. 菏澤福余混凝土有限公司 | Shandong, PRC 28 September 2014 | RMB15,000,000 | 100.00 | – | 100.00 | Production and sales of concrete |
| **Owned by Liaoning Shanshui** | | | | | | |
| Huludao Bohai Railway Co., Ltd. 葫蘆島渤海鐵路股份有限公司 | Liaoning, PRC 17 July 1993 | RMB52,000,000 | 50.917 | – | 72.739 | Development and maintenance of special railway-lines |
| Tongliao Shanshui Gongyuan Cement Co., Ltd. 通遼山水工源水泥有限公司 | Inner Mongolia, PRC 2 April 2004 | RMB25,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Chaoyang Shanshui Dongxin Cement Co., Ltd. 朝陽山水東鑫水泥有限公司 | Liaoning, PRC 22 March 2005 | RMB200,000,000 | 80.00 | – | 80.00 | Production and sales of cement |
| Bohai Cement 渤海水泥（葫蘆島）有限公司 | Liaoning, PRC 29 August 2005 | RMB74,000,000 | 70.00 | – | 70.00 | Production and sales of cement, clinker and related products |
| Zhalaite Qi Shanshui Cement Co., Ltd. 紮賚特旗山水水泥有限公司 | Inner Mongolia, PRC 17 January 2006 | RMB120,000,000 | 90.00 | – | 90.00 | Production and sales of cement |
| Yingkou Shanshui Cement Co., Ltd. 營口山水水泥有限公司 | Liaoning, PRC 5 December 2006 | RMB30,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Dalian Shanshui Cement Co., Ltd. 大連山水水泥有限公司 | Liaoning, PRC 17 August 2007 | RMB180,000,000 | 100.00 | – | 100.00 | Production and sales of cement, clinker and related products |
| Benxi Shanshui Mining Co., Ltd. 本溪山水礦業有限公司 | Liaoning, PRC 18 February 2009 | RMB500,000 | 100.00 | – | 100.00 | Mining and sales of limestone |

(Expressed in Renminbi unless otherwise indicated)

## 16 INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name of Company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by sub-sidiaries | Principal activities |
|---|---|---|---|---|---|---|
| **(e) Domestic companies established in the PRC** *(continued)* | | | | | | |
| **Owned by Liaoning Shanshui** *(continued)* | | | | | | |
| Kazuo Congyuanhao Cement Co., Ltd. 喀左叢元號水泥有限責任公司 | Liaoning, PRC 2 April 2009 | RMB110,000,000 | 80.00 | – | 100.00 | Production and sales of cement and clinker |
| Panjin Shanshui Cement Co., Ltd. 盤錦山水水泥有限公司 | Liaoning, PRC 1 September 2009 | RMB20,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Wulanhaote Shanshui Cement Co., Ltd. 烏蘭浩特山水水泥有限公司 | Inner Mongolia, PRC 13 November 2009 | RMB5,000,000 | 90.00 | – | 90.00 | Production and sales of cement |
| Alu Kerqin Qi Shanshui Cement Co., Ltd. 阿魯科爾沁旗山水水泥有限公司 | Inner Mongolia, PRC 23 December 2009 | RMB76,470,000 | 85.00 | – | 85.00 | Production and sales of cement and clinker |
| Balinyou Qi Shanshui Cement Co., Ltd. 巴林右旗山水水泥有限公司 | Inner Mongolia, PRC 19 March 2010 | RMB20,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Huolin Guole Shanshui Cement Co., Ltd. 霍林郭勒山水水泥有限公司 | Inner Mongolia, PRC 19 April 2010 | RMB20,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Bohai Cement (Jinzhou) Co., Ltd. 渤海水泥（錦州）有限公司 | Liaoning, PRC 5 July 2010 | RMB20,000,000 | 45.50 | – | 65.00 | Production and sales of cement, concrete and related products |
| Keyouzhong Qi Shanshui Cement Co., Ltd. 科右中旗山水水泥有限公司 | Inner Mongolia, PRC 7 April 2011 | RMB30,000,000 | 100.00 | – | 100.00 | Production and sales of cement |
| Benxi Shanshui Shiye Co., Ltd. 本溪山水實業有限公司 | Liaoning, PRC 2 June 2011 | RMB6,000,000 | 100.00 | – | 100.00 | Installation and maintenance of equipment and spare parts of cement machines |
| Baishan Shanshui Cement Co., Ltd. ("Baishan Shanshui") 白山山水水泥有限責任公司 | Jilin, PRC 11 November 2011 | RMB100,000,000 | 70.00 | – | 70.00 | Production and sales of cement and related products |

(Expressed in Renminbi unless otherwise indicated)

## 16 INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name of Company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by sub-sidiaries | Principal activities |
|---|---|---|---|---|---|---|
| **(e) Domestic companies established in the PRC** *(continued)* | | | | | | |
| **Owned by Liaoning Shanshui** *(continued)* | | | | | | |
| Aohan Qi Shanshui Cement Co., Ltd. 敖漢旗山水水泥有限公司 | Inner Mongolia, PRC 4 January 2012 | RMB16,000,000 | 80.00 | – | 80.00 | Production and sales of cement and related products |
| Dalian Heyuan 大連合源投資管理有限公司 | Liaoning, PRC 8 August 2013 | RMB62,230,000 | 100.00 | – | 100.00 | Investment and management; consulting; import of goods and technology |
| **Owned by Shanxi Shanshui** | | | | | | |
| Taiyuan Shanshui Cement Co., Ltd. ("Taiyuan Shanshui") 太原山水水泥有限公司 | Shanxi, PRC 27 October 1999 | RMB61,224,500 | 60.00 | – | 60.00 | Production and sales of cement |
| Jincheng Shanshui Heju Cement Co., Ltd. 晉城山水合聚水泥有限公司 | Shanxi, PRC 25 July 2006 | RMB240,000,000 | 90.00 | – | 90.00 | Production and sales of cement and clinker |
| Lvliang Yilong Cement Co., Ltd. 呂梁億龍水泥有限公司 | Shanxi, PRC 16 November 2007 | RMB170,000,000 | 90.00 | – | 90.00 | Production and sales of cement and clinker |
| Yulin Shanshui Cement Co., Ltd. 榆林山水水泥有限公司 | Shaanxi, PRC 7 August 2008 | RMB60,000,000 | 62.00 | – | 62.00 | Production and sales of cement and related products |
| Hequ Zhongtianlong Cement Co., Ltd. 河曲縣中天隆水泥有限公司 | Shanxi, PRC 31 August 2009 | RMB80,000,000 | 68.00 | – | 68.00 | Production and sales of cement and clinker |
| Wuxiang Shanshui Cement Co., Ltd. 武鄉山水水泥有限公司 | Shanxi, PRC 4 November 2009 | RMB75,490,000 | 55.00 | – | 55.00 | Production and sales of cement and clinker |
| Jincheng Shanshui Cement Co., Ltd. 晉城山水水泥有限公司 | Shanxi, PRC 22 January 2010 | RMB150,000,000 | 85.00 | – | 85.00 | Production and sales of cement and clinker |
| Yulin Shanshui environmental Building Materials Co., Ltd. 榆林山水環保建材有限公司 | Shaanxi, PRC 18 February 2011 | RMB80,400,000 | 85.00 | – | 85.00 | Production and sales of cement and related products |

(Expressed in Renminbi unless otherwise indicated)

## 16 INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name of Company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by sub-sidiaries | Principal activities |
|---|---|---|---|---|---|---|
| **(e) Domestic companies established in the PRC** *(continued)* | | | | | | |
| **Owned by Shanxi Shanshui** *(continued)* | | | | | | |
| Linfen Shanshui Cement Co., Ltd. 臨汾山水水泥有限公司 | Shanxi, PRC 13 May 2011 | RMB200,000,000 | 90.00 | – | 90.00 | Establishment of cement production line |
| Shuozhou Shanshui New Era Cement Co., Ltd. 朔州山水新時代水泥有限公司 | Shanxi, PRC 10 June 2011 | RMB160,000,000 | 75.00 | – | 75.00 | Establishment of cement and related products production line |
| Jingbian Xian Shanshui Cement Co., Ltd. ("Jingbian Shanshui") 靖邊縣山水水泥有限公司 | Shaanxi, PRC 15 November 2011 | RMB30,000,000 | 80.00 | – | 80.00 | Production and sales of cement |
| Shenmu Xian Meijian Cement Co., Ltd. ("Shenmu Meijian") 神木縣煤建水泥有限公司 | Shaanxi, PRC 16 January 2014 | RMB60,000,000 | 70.00 | – | 70.00 | Production and sales of cement |
| Shanxi Yongzhongsheng Environmental Building Material Co., Ltd. ("Yongzhongsheng") 山西永中晟環保建材有限公司 | Shanxi, PRC 8 February 2014 | RMB40,000,000 | 70.00 | – | 70.00 | Production and sales of cement |
| **Owned by Kashi Shanshui** | | | | | | |
| Shule Shanshui 疏勒山水水泥有限公司 | Xinjiang, PRC 24 August 2010 | RMB20,000,000 | 100.00 | – | 100.00 | Production and sales of cement and concrete |
| Yingjisha Shanshui 英吉沙山水水泥有限公司 | Xinjiang, PRC 24 August 2010 | RMB232,000,000 | 100.00 | – | 100.00 | Production and sales of cement, concrete and clinker |
| Shache Shanshui 莎車山水水泥有限公司 | Xinjiang, PRC 14 October 2010 | RMB20,000,000 | 100.00 | – | 100.00 | Production and sales of cement and concrete |
| Xinjiang Balikun Shanshui Mining Co., Ltd. 新疆巴里坤山水礦業有限公司 | Xinjiang, PRC 18 April 2012 | RMB10,000,000 | 100.00 | – | 100.00 | Oil shale, gypsum and other minerals investment |
| Kezhou Shanshui Materials Trading Co., Ltd. 克州山水物貿有限公司 | Xinjiang, PRC 17 April 2013 | RMB20,000,000 | 100.00 | – | 100.00 | Logistic service and sales of cement and materials |

## 16 INVESTMENTS IN SUBSIDIARIES *(continued)*

Note:

(i) Investments in subsidiaries with carrying amount of RMB3,215 million in the Shandong Shanshui's statement of financial position have been frozen by the PRC Court pending the outcome of the legal proceedings initiated by the Group's creditors relating to overdue bank loans, other borrowings, long-term bonds and trade payables. Further details of this litigation are set out in notes 21 to 24. Shandong Shanshui is prohibited from selling or transferring these investments until the litigation is resolved.

(ii) The operation of Shanshui Micro Finance is to provide financing to qualified individual borrowers. The Group dominates the loan approval process of Shanshui Micro Finance and the loan balances of each qualified borrower are guaranteed by his/her receivables from the Group. Due to these reasons, the directors of the Company are of the view that the Group has (i) existing rights that give it the current ability to direct the relevant activities which significantly affect Shanshui Micro Finance's returns; (ii) exposure and rights to variable returns from its involvement with Shanshui Micro Finance; and (iii) the ability to affect the returns of Shanshui Micro Finance through its power over Shanshui Micro Finance. Accordingly, the Group has treated Shanshui Micro Finance as a subsidiary.

The existing directors of the Company are of the opinion that none of its subsidiaries has non-controlling interests which are material to the Group.

## 17 INVENTORIES

### (a) Inventories in the statement of financial position comprise:

| | **2015**<br>**RMB'000** | 2014<br>RMB'000 |
|---|---|---|
| Raw materials | **330,533** | 579,454 |
| Semi-finished goods | **230,405** | 516,885 |
| Finished goods | **301,613** | 347,541 |
| Spare parts | **354,708** | 611,705 |
| | **1,217,259** | 2,055,585 |

### (b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

| | **2015**<br>**RMB'000** | 2014<br>RMB'000 |
|---|---|---|
| Carrying amount of inventories sold | **9,877,012** | 12,246,777 |
| Write-down of inventories | **60,915** | 2,798 |
| | **9,937,927** | 12,249,575 |

## 18 TRADE AND BILLS RECEIVABLE

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Bills receivable | | **190,846** | 662,881 |
| Trade debtors | | **1,564,012** | 1,488,581 |
| Less: allowance for doubtful debts | (b) | **(213,950)** | (60,843) |
| | | **1,540,908** | 2,090,619 |

### (a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable, based on the invoice date and net of allowance for doubtful debts, is as follows:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Within 3 months | **771,484** | 1,264,347 |
| 3 to 6 months | **246,074** | 304,207 |
| 6 to 12 months | **202,727** | 263,333 |
| Over 12 months | **320,623** | 258,732 |
| | **1,540,908** | 2,090,619 |

All of the trade and bills receivable (net of impairment losses for bad and doubtful debts) are expected to be recovered within one year. The detailed credit policy of bills receivable and trade debtors are set out in note 31(a).

### (b) Impairment of trade and bills receivable

Impairment losses in respect of trade and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivable directly (see note 1(m)(i)).

## 18 TRADE AND BILLS RECEIVABLE (CONTINUED)

### (b) Impairment of trade and bills receivable (Continued)

The movement in the allowance for doubtful debts during the year is as follows:

| | **2015** | 2014 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At 1 January | **60,843** | 79,062 |
| Impairment loss recognised | **165,303** | 21,229 |
| Uncollectible amounts written off | **(780)** | (1,586) |
| Reversal of doubtful debt | **(11,416)** | (37,862) |
| | **213,950** | 60,843 |

At 31 December 2015, the Group's trade and bills receivable of RMB362,139,000 (2014: RMB184,360,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. The Group does not hold any collateral over these balances.

### (c) Trade and bills receivable that are not impaired

The ageing analysis of trade and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

| | **2015** | 2014 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Neither past due nor impaired | **1,026,998** | 1,417,572 |
| Overdue within one year | **365,721** | 549,530 |
| | **1,392,719** | 1,967,102 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good credit track record with the Group. Based on past experience, management believes that no impairment allowance 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 over these balances.

## 19 OTHER RECEIVABLES AND PREPAYMENTS

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Prepayments for raw materials | | **14,152** | 75,940 |
| Prepayments for long-lived assets | | **267,460** | 557,073 |
| VAT recoverable | | **230,086** | 534,216 |
| Amount due from related parties | 34(c) | **41,505** | 2,036 |
| Amount due from third parties | | **252,569** | 294,499 |
| Loans to third parties | (a) | **–** | 92,013 |
| Others | | **75,601** | 61,766 |
| | | **881,373** | 1,617,543 |

Note:

(a) Loans to third parties represent to loans lent to qualified individual borrowers by Shanshui Micro Finance. As at 31 December 2015, the principal of loans to third parties is about RMB151 million. As the Company's management has been unable to obtain the original loan contracts or other reliable information relating to the identity of the borrowers and the terms of the loans from Shanshui Micro Finance as of the date of this report, the Company has fully impaired these receivables as at 31 December 2015 (note 5(c)). The losses are included in administrative expenses.

## 20 CASH AND CASH EQUIVALENTS

### (a) Cash and cash equivalents comprise:

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Cash at bank and in hand | | **264,209** | 1,286,015 |
| Less: Restricted bank deposits | | **(41,302)** | (134,662) |
| Cash and cash equivalents | (ii) | **222,907** | 1,151,353 |

## 20 CASH AND CASH EQUIVALENTS (CONTINUED)

### (a) Cash and cash equivalents comprise: (Continued)

Notes:

(i) Restricted bank deposits include RMB33,324,000 as at 31 December 2015 (2014: RMB134,662,000) of cash deposits pledged to banks for the performance guarantee in relation to certain sales or purchases contracts and overseas bank loans, and RMB7,978,000 (2014: nil) of cash and cash equivalents which has been frozen by the PRC Court pending the outcome of the legal proceedings initiated by the Group's creditors relating to overdue bank loans, other borrowings and long-term bonds. Further details of this litigation are set out in notes 21 to 23.

The pledged bank deposits will be released upon the expiry of the relevant guarantee in 2016. The frozen cash and cash equivalents may not be used by the Group until the litigation is resolved.

(ii) Among the carrying amount of cash and cash equivalents as at 31 December 2015, RMB2,613,000 was deposited in a custody bank account in Hong Kong managed by Wilkinson & Grist Solicitors & Notaries Firm on behalf of the Company.

The Company has entrusted Wilkinson & Grist Solicitors & Notaries Firm to set up this custody bank account as the existing directors are currently unable to access the Company's own bank accounts in Hong Kong (see note (iii) below). The account has been used to hold the loans borrowed from the Tianrui Group (see note 1(b)). Since the Company does not have any restriction on using the money in the custody bank account, the Company treats the balance of RMB2,613,000 as cash and cash equivalents as at 31 December 2015.

(iii) As at the date of this report, the ex-directors have not yet given the original reserved signature chops of certain bank accounts to the existing directors. In the absence of the original reserved signature chops, the existing directors cannot obtain the bank statements at year end for these bank accounts. As at 31 December 2015, the carrying amount of these bank accounts is RMB12.9 million.

## 20 CASH AND CASH EQUIVALENTS *(continued)*

### (b) Reconciliation of profit before taxation to cash generated from operations:

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| (Loss)/profit before taxation | | **(6,495,603)** | 690,123 |
| Adjustments for: | | | |
| Depreciation | 5(c) | **1,340,264** | 1,221,737 |
| Amortisation of land lease prepayments | 5(c) | **60,887** | 60,353 |
| Amortisation of intangible assets | 5(c) | **66,809** | 59,161 |
| Impairment losses on fixed assets | 4 | **673,516** | 28 |
| Impairment losses on goodwill | 4 | **2,331,634** | – |
| Impairment losses on other non-current assets | | **608,153** | – |
| Finance costs | 5(a) | **1,597,179** | 1,140,985 |
| Share of profits less losses of associates | | **29,348** | (18,295) |
| Interest income | 4 | **(38,456)** | (49,729) |
| Equity-settled share based payment expense | | **73,423** | – |
| Dividend income | 4 | **(347)** | (334) |
| Gain on sales of fixed assets | 4 | **(76,042)** | (6,843) |
| Foreign exchange (gain)/loss | | **(940)** | 4,784 |
| | | **169,825** | 3,101,970 |
| Changes in working capital: | | | |
| Decrease/(increase) in inventories | | **838,326** | (83,659) |
| Increase in trade and bills receivable | | **(911,924)** | (70,665) |
| Decrease/(increase) in restricted bank deposits | | **93,360** | (54,027) |
| Decrease in other receivables and prepayments | | **477,835** | 70,342 |
| Increase in other long-term assets | | **(238,008)** | – |
| Increase in other financial assets | | **(167,529)** | – |
| Increase in trade and bills payable | | **518,736** | 151,677 |
| Increase/(decrease) in other payables and accrued expenses | | **434,783** | (260,031) |
| (Decrease)/increase in defined benefit obligations | | **(5,378)** | 14,598 |
| Decrease in deferred income | | **(5,587)** | (15,965) |
| Decrease in long-term payable | | **(616)** | – |
| **Cash generated from operations** | | **1,203,823** | 2,854,240 |

## 21 BANK LOANS

At 31 December 2015, the bank loans were secured as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Bank loans – Secured (*) | **3,210,428** | 2,213,268 |
| Bank loans – Unsecured | **2,074,037** | 2,310,000 |
| | **5,284,465** | 4,523,268 |

* Bank loans were either pledged by certain land lease prepayments with an aggregate carrying amount of RMB4,579,000 (see note 11) or guaranteed by companies within the Group.

At 31 December 2015, the bank loans were repayable as follows:

| | Note | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|---|
| Within one year on demand | (i) | **5,076,265** | 1,747,878 |
| After one year but within two years | | **30,600** | 1,522,190 |
| After two years but within five years | | **177,600** | 1,206,000 |
| After five years | | **–** | 47,200 |
| | | **208,200** | 2,775,390 |
| | | **5,284,465** | 4,523,268 |

## 21 BANK LOANS *(continued)*

As at 31 December 2015, the Group had breached the default clauses of the lending arrangements of bank loans with carrying amount of RMB4,412 million (31 December 2014: RMB272 million). Since that date the following events have occurred:

(i) Several banks have commenced legal proceedings against the Group to demand immediate repayment of the overdue principal of bank loans of approximately RMB1,299 million, as well as demanding immediate repayment of short-term financing bills of RMB1,255 million (see note 22) and medium-term notes and other note of RMB1,330 million (see note 23), plus any interest, penalty interest and expenses incurred during the litigation. As of the date of this report, the status of these litigations so far as to relate to the bank loans is as follows:

- One litigation relating to RMB225 million overdue principal of bank loans has been judged by the PRC Court, with the Court orderings the Group to repay the overdue principal, the related interest, penalty interest and expenses incurred during the litigation. As at the date of this report, the Group has fully repaid the related interest, penalty interest and expenses incurred during the litigation. For the overdue principal of RMB225 million, the Group is still negotiating with the PRC bank for an extension or a restructuring plan.

- The remaining pending litigations with the overdue principal of RMB1,074 million are still in progress. As at the date of this report, the Group has fully repaid the related interest and penalty interest. For the overdue principal, the Group is still negotiating with the PRC banks for an extension or a restructuring plan.

Details of the status of this litigation so far as it relates to short-term financing bills, medium-term notes and other note are set out in notes 22 and 23 respectively.

(ii) The default has not yet resulted in any litigation in respect of the remaining overdue bank loans with the principal of RMB3,113 million (the "Overdue Loans"). The Group has fully settled the interest payable in relation to the Overdue Loans as at the date of this report and the management has been actively negotiating with these PRC banks for renewal or extension of these Overdue Loans. As at the date of this report, the Group has agreed with certain PRC banks orally to successfully defer the repayment of RMB2,893 million of these loans to the end of 2016. However, as the existing directors have not yet obtained Shandong Shanshui's official chop, the existing directors have been unable to sign the formal extension agreement for the above-mentioned overdue loans with the PRC banks.

(iii) Certain assets of the Group have been frozen by the PRC Courts in respect of the litigations relating to the above overdue bank loans, short-term financing bills, medium-term notes and other note. As at the date of this report, RMB8 million of cash and cash equivalents (see note 20), RMB3,195 million of investments in subsidiaries (see note 16), RMB27 million of land use rights (see note 11) and RMB523 million of fixed assets (see note 11) have been frozen by the PRC Courts.

### 22 OTHER BORROWINGS

The analysis of the carrying amount of other borrowings is as follows:

| | Note | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|---|
| Loan from government – Unsecured | (i) | **4,216** | 7,273 |
| Short-term financing bills | (ii) | **2,799,626** | 2,495,333 |
| | | **2,803,842** | 2,502,606 |

At 31 December 2015, other borrowings were repayable as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Within one year on demand | **2,800,329** | 2,496,242 |
| After one year but within two years | **703** | 909 |
| After two years but within five years | **2,107** | 2,727 |
| After five years | **703** | 2,728 |
| | **3,513** | 6,364 |
| | **2,803,842** | 2,502,606 |

Notes:

(i) The government loan was received by Liaoning Shanshui for constructing an environmental friendly production line. The loan is unsecured, bears interest at one-year PRC deposit interest rate plus 0.3% and is repayable in equal instalments from 2012 to 2021.

## 22 OTHER BORROWINGS *(continued)*

Notes: *(continued)*

(ii) All of the short-term financing bills are issued by Shandong Shanshui in the PRC inter-bank market. As at 31 December 2015, the details of short-term financing bills are listed below:

| Issuer | Principal (RMB'000) | Issue date | Maturity date | Interest rates (per annum) | Interest payment term |
|---|---|---|---|---|---|
| Shandong Shanshui | RMB2,000,000 | 14/04/2015 | 22/11/2015 | 5.3% | settled at the maturity date |
| Shandong Shanshui | RMB800,000 | 14/05/2015 | 12/02/2016 | 4.5% | settled at thematurity date |

Up the date of this report, all of the short-term financing bills issued by Shandong Shanshui are overdue.

As disclosed in note 21, several banks have commenced legal proceedings against the Group to demand immediate repayment of the overdue principal of short-term financing bills of approximately RMB1,255 million plus any interest, penalty interest and expenses incurred during the litigation. As of the date of this report, the status of these litigations is as follows:

– One litigation with RMB330 million overdue principal has been judged by the PRC Court, with the Court ordering the Group to repay the overdue principal, the related interest, penalty interest and expenses incurred during the litigation. As at the date of this report, the Group has fully repaid the related interest. For the overdue principal of RMB330 million, the Group is still negotiating with the PRC bank for an extension or a restructuring plan.

– The remaining pending litigations with the overdue principal of RMB925 million are still in progress. As at the date of this report, the Group has fully repaid the related interest. For the overdue principal, the Group is still negotiating with the PRC banks for an extension or a restructuring plan.

– Certain assets of the Group have been frozen by the PRC Courts in respect of the litigations of these short-term financing bills (see note 21).

The default has not yet resulted in any litigation in respect of the remaining overdue principal of RMB1,545 million. The Group has fully settled the interest payable in relation to these short-term financing bills as at the date of this report and the management has been actively negotiating with these PRC banks for a renewal or an extension or a restructuring plan.

## 23 LONG-TERM BONDS

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| Medium-term notes and other note | **4,290,514** | 4,278,019 |
| Less: Current portion of medium-term notes and other note | **(4,290,514)** | – |
| Senior notes | **3,434,329** | 4,845,126 |
| Less: Current portion of senior notes | **(3,434,329)** | – |
| Long-term bonds, less current portion | **–** | 9,123,145 |

Notes:

All of the long-term bonds are carried at amortised cost. The details of long-term bonds are listed below:

| **Issuer** | **Principal** (RMB'000/USD'000) | **Issue date** | **Maturity date** | **Interest rates** (per annum) | **Interest payment term** |
|---|---|---|---|---|---|
| **(a) Medium-term notes issued in the PRC inter-bank market (note (i))** | | | | | |
| Shandong Shanshui | RMB1,800,000 | 18/01/2013 | 21/01/2016 | 5.44% | annually |
| Shandong Shanshui | RMB1,000,000 | 27/02/2014 | 27/02/2017 | 6.10% | annually |
| Shandong Shanshui | RMB1,200,000 | 09/05/2014 | 12/05/2017 | 6.20% | annually |
| **(b) Senior notes issued in the Stock Exchange of Hong Kong Limited (note (iv))** | | | | | |
| The Company (note (ii)) | USD28,879 | 25/05/2011 | 25/05/2016 | 8.50% | semi-annually |
| The Company (note (iii)) | USD500,000 | 11/03/2015 | 10/03/2020 | 7.50% | semi-annually |
| **(c) Other note (note (i))** | | | | | |
| Shandong Shanshui | RMB300,000 | 31/03/2014 | 28/03/2017 | 6.60% | annually |

## 23 LONG-TERM BONDS *(continued)*

(i) Up the date of this report, all of the medium-term notes and other note issued by Shandong Shanshui are overdue or breached the default clauses of the lending arrangements.

As disclosed in note 21, several banks have commenced legal proceedings against the Group to demand immediate repayment of the overdue principal of medium-term notes and other note of approximately RMB1,330 million plus any interest, penalty interest and expenses incurred during the litigation. As of the date of this report, the status of these litigations is as follows:

– Three litigations with overdue principal of RMB940 million have been judged by the PRC Court, with the Court ordering the Group to repay the overdue principal of RMB940 million, the related interest, penalty interest and expenses incurred during the litigation with total amount of RMB65 million. As at the date of this report, the Group has settled RMB18.3 million and the remaining unpaid interest and penalties payable of RMB46.7 million are recorded as other payables as at 31 December 2015. For the overdue principal of RMB940 million, the Group is still negotiating with the PRC bank for an extension or a restructuring plan.

– The remaining pending litigations with the overdue principal of RMB390 million are still in progress. The Group is still negotiating with the PRC banks for an extension or a restructuring plan.

– Certain assets of the Group have been frozen by the PRC Court in respect of the litigations of these the medium-term notes and other note (see note 21).

The default has not yet resulted in any litigation in respect of the remaining overdue principal of RMB2,970 million. The Group has continued to settle the interest payable in relation to the medium-term notes and other note on the due date and the management has been actively negotiating with these PRC banks for a renewal or an extension or a restructuring plan.

(ii) On 8 May 2015, the Company proposed an offer to purchase back the senior note with a principal of USD400 million due to 25 May 2016 (the "2016 Note"). The Company re-purchased USD371,121,000 of the principal of 2016 Note by cash on 6 July 2015. After the finish of the re-purchase transaction, the outstanding principal of 2016 Note was USD28,879,000.

## 23 LONG-TERM BONDS *(continued)*

(iii) The Company issued a senior note with principal of USD500 million (five-year period) to corporate investors in The Stock Exchange of Hong Kong Limited on 11 March 2015 (the "2020 Note"). The 2020 Note bears fixed interest of 7.5% per annum payable semi-annually.

(iv) On 14 January 2016, the Company made an announcement to propose an offer to re-purchase the total outstanding principal amount of USD528,879,000 of the 2016 Note and the 2020 Note. As at the expiration date of the proposal on 14 March 2016, USD24,689,000 of the principal amount of the 2016 Note and USD484,971,000 of the principal amount of the 2020 Note have validly accepted the proposal. As at this report date, the re-purchase of these two Notes has not yet been completed.

## 24 TRADE AND BILLS PAYABLE

| | **2015** | 2014 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Trade payables | **3,523,918** | 3,539,553 |
| Bills payable | **–** | 1,012 |
| | **3,523,918** | 3,540,565 |

As at 31 December 2015 and 2014, all trade and bills payable of the Group are repayable on demand except for bills payable which are repayable within 6 months. All trade and bills payable are expected to be settled within one year.

## 24 TRADE AND BILLS PAYABLE *(continued)*

At as 31 December 2015, certain suppliers have filed 75 lawsuits against Shandong Shanshui and its subsidiaries to demand that the Group immediately settle trade payables with carrying amount of RMB550 million as at 31 December 2015 plus interest for late payment, if any. Since the existing directors took over Shandong Shanshui in January 2016, the Group has applied to relevant PRC courts to postpone the above 75 pending lawsuits, as the Group is unable to appoint legal representation in the hearings while the ex-directors continue to hold the Shandong Shanshui's official chop. As at the date of this report, the status is as follows:

- The Group have been successful in their application to postpone 54 of the pending lawsuits. These postponed lawsuits related to trade payables with carrying amount of RMB256 million as at 31 December 2015;

- Shanshui Heavy Industries, a previous subsidiary of the Group (see note 35) and currently under the control of ex-directors, has sued the Group to settle trade payables with carrying amount of RMB144 million as at 31 December 2015 plus interest for late payment on 11 January 2016. The PRC Court has frozen Shandong Shanshui's investment in Liaocheng Shanshui Cement Co., Ltd ("Liaocheng Shanshui"), a subsidiary of Shandong Shanshui, carried at RMB19.8 million in the Shandong Shanshui's statement of financial position (see note 16) on 25 January 2016. The net assets of Liaocheng Shanshui included in the consolidated statement of financial position as at 31 December 2015 are about RMB282 million. Such decision by the PRC court prohibited the sell or transfer of investment in Liaocheng Shanshui by Shandong Shanshui until the litigation is resolved. Up to date of this report, the PRC court did not determine the hearing date for this lawsuit yet.

- The remaining lawsuits relating to trade payables of RMB150 million as at 31 December 2015 are still in the duration of hearings.

The existing directors are continuing to negotiate with the suppliers to settle these amounts out of court. No adjustments have been made to the consolidated financial statements to accrue for any potential interest or other penalties that may arise through the Courts if the negotiations are not successful, as the existing directors of the Company consider that the eventual outcome of these litigations cannot presently be determined, given their preliminary status.

## 25 OTHER PAYABLES AND ACCRUED EXPENSES

| | Note | **2015 RMB'000** | 2014 RMB'000 |
|---|---|---|---|
| Customer deposits and receipts in advance | | **479,543** | 415,339 |
| Accrued payroll and welfare | | **119,962** | 135,152 |
| Taxes payable other than income tax | | **152,068** | 151,916 |
| Staff compensation and termination provisions | 26(b) | **192,205** | 162,326 |
| Amounts due to related parties | 34(c) | **200,232** | 21,185 |
| Payable to third parties of acquired subsidiaries | | **194,529** | 242,677 |
| Acquisition consideration payable | | **315,656** | 194,691 |
| Current portion of long-term payables | | **57,042** | 77,295 |
| Accrued expenses and other payables | | **936,024** | 560,240 |
| | | **2,647,261** | 1,960,821 |

## 26 EMPLOYEE BENEFITS

### (a) Defined contribution retirement plans

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial government authorities for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 20% to 24% of the salaries, wages, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date.

The Group has no other material obligation for the payment of pension benefits associated with these plans and other post-retirement beyond the annual contributions described above.

## 26 EMPLOYEE BENEFITS *(continued)*

### (b) Staff compensation and termination provision

| | Note | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|---|
| Staff compensation and termination provision | 25 | **192,205** | 162,326 |

Note: Pursuant to relevant agreements with related local governments entered into when Shandong Shanshui changed from being a state-owned enterprise to being a privately-owned enterprise, certain employees of certain subsidiaries of the Group are entitled to receive compensation and termination pay relating to their past employment prior to the change in status. Such amount is required to be paid to the employees as soon as they cease to be employed by the Group. This amount is included in other payables and accrued expenses in the consolidated statement of financial position (see note 25).

### (c) Defined benefit obligations

The liabilities recognised in the consolidated statement of financial position represent:

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| Present value of the defined benefit obligations | **174,660** | 173,808 |

The balance represents the provision for the post-employment benefits according to the non-cancellable staff relocation plans agreed in respect of Shandong Shanshui, Weifang Shanshui, Qianshan Cement (excluding the compensation stated in note 26(b)) and Liaoning Shanshui. The Group's obligations in respect of the defined benefit obligations at the end of the reporting period were reviewed by a qualified independent actuary, using the projected unit credit actuarial cost method.

## 26 EMPLOYEE BENEFITS *(continued)*

### (c) Defined benefit obligations *(continued)*

(i) Movements in the defined benefit obligations are set out as follows:

| | **2015 RMB'000** | 2014 RMB'000 |
|---|---|---|
| At 1 January | **173,808** | 159,210 |
| Remeasurements | **7,150** | 14,300 |
| Payments | **(13,608)** | (11,982) |
| Current service cost | **1,080** | 5,400 |
| Interest expense | **6,230** | 6,880 |
| At 31 December | **174,660** | 173,808 |

(ii) Expenses recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

| | **2015 RMB'000** | 2014 RMB'000 |
|---|---|---|
| Interest expense | **6,230** | 6,880 |
| Current service cost | **1,080** | 5,400 |
| Total amounts recognised in profit or loss | **7,310** | 12,280 |
| Actuarial losses recognised in other comprehensive income | **7,150** | 14,300 |
| Total defined benefit costs | **14,460** | 26,580 |

## 26 EMPLOYEE BENEFITS *(continued)*

### (c) Defined benefit obligations *(continued)*

(iii) The current service cost and the net interest on net defined benefit liability are recognised in the following line items in the consolidated statement of profit or loss:

| | **2015** | 2014 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Finance expenses | **6,230** | 6,880 |
| Administrative expenses | **1,080** | 5,400 |
| | **7,310** | 12,280 |

(iv) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:

| | **2015** | 2014 |
|---|---|---|
| Discount rate | **3.00%** | 3.75% |
| Annual growth rate of cost of living | **3.00%-8.00%** | 3.00%-8.00% |
| Social average salary increase rate | **10.00%** | 10.00% |
| Average expected remaining working life of eligible employees | **9 years** | 9 years |

The below analysis shows how the defined benefit obligation as at 31 December 2015 would have (increase)/decrease as a result of 0.5% change in the significant actuarial assumptions:

| **Discount rate** | **Increase in 0.5%** | **Decrease in 0.5%** |
|---|---|---|
| | RMB'000 | RMB'000 |
| Effect on defined benefit obligation | 165,670 | 184,550 |

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

## 27 DEFERRED INCOME

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| At 1 January | **301,186** | 317,151 |
| Additions | **10,644** | 8,046 |
| Recognised in consolidated statement of profit or loss | **(16,231)** | (24,011) |
| At 31 December | **295,599** | 301,186 |

Deferred income mainly represents the PRC local government grants received from relevant PRC authorities for fixed asset investment, such as cement and clinker plants and residual heat generation plants. The subsidies are recognised in the consolidated statement of profit or loss over the estimated useful lives of the respective assets. There are no unfulfilled conditions and contingencies relating to the grants.

## 28 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

### (a) Current taxation in the statement of financial position

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Provision for PRC income tax for the year | **56,699** | 417,134 |
| Over-provision in respect of prior years | **1,500** | (303) |
| Provisional income tax paid | **(90,104)** | (327,768) |
| | **(31,906)** | 89,063 |

## 28 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION *(continued)*

### (b) Deferred tax assets and liabilities recognised

Movements in deferred tax assets and liabilities for the year ended 31 December 2015 are as follows:

| | At 1 January 2015 RMB'000 | Recognised in profit or loss RMB'000 | Recognised in other comprehensive income RMB'000 | At 31 December 2015 RMB'000 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Intra-group unrealised profits | 44,653 | 679 | – | 45,332 |
| Depreciation of property, plant and equipment | 5,078 | (604) | – | 4,474 |
| Tax loss (*) | 68,516 | (60,915) | – | 7,601 |
| Impairment losses for property, plant and equipment | 28,035 | (23,299) | – | 4,736 |
| Write down of inventory | 2,333 | (2,333) | – | – |
| Deferred income | 38,423 | (1,336) | – | 37,087 |
| Accrued bonus | 20,201 | (20,201) | – | – |
| Long-term payables | 9,226 | (489) | – | 8,737 |
| Accrued expenses | 19,363 | (16,770) | – | 2,593 |
| Impairment of trade receivable | 26,522 | (20,076) | – | 6,446 |
| | 262,350 | (145,344) | – | 117,006 |
| **Deferred tax liabilities** | | | | |
| Change of fair value of available-for-sale securities | (1,930) | – | 115 | (1,815) |
| Fair value adjustments on: | | | | |
| Fixed assets | (72,019) | 2,020 | – | (69,999) |
| Intangible assets | (5,501) | 3,471 | – | (2,030) |
| | (79,450) | 5,491 | 115 | (73,844) |
| Total | 182,900 | (139,853) | 115 | 43,162 |

## 28 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION *(continued)*

### (b) Deferred tax assets and liabilities recognised *(continued)*

Movements in deferred tax assets and liabilities for the year ended 31 December 2014 are as follows:

| | At 1 January 2014 RMB'000 | Acquisition through business combination RMB'000 | Recognised in profit or loss RMB'000 | Recognised in other comprehensive income RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Intra-group unrealised profits | 51,660 | – | (7,007) | – | 44,653 |
| Fair value adjustment on fixed assets | 5,595 | – | (17) | – | 5,578 |
| Depreciation of property, plant and equipment | 5,078 | – | – | – | 5,078 |
| Tax loss (*) | 45,792 | – | 22,724 | – | 68,516 |
| Impairment losses for property, plant and equipment | 28,988 | – | (953) | – | 28,035 |
| Write down of inventory | 2,333 | – | – | – | 2,333 |
| Deferred income | 39,351 | – | (928) | – | 38,423 |
| Accrued bonus | 14,811 | – | 5,390 | – | 20,201 |
| Long-term payables | 9,715 | – | (489) | – | 9,226 |
| Accrued expenses | 20,529 | – | (1,166) | – | 19,363 |
| Impairment of trade receivable | 17,550 | – | 8,972 | – | 26,522 |
| | 241,402 | – | 26,526 | – | 267,928 |
| **Deferred tax liabilities** | | | | | |
| Change of fair value of available-for-sale securities | (980) | – | – | (950) | (1,930) |
| Fair value adjustments on: | | | | | |
| Fixed assets | (86,239) | 4,130 | 4,512 | – | (77,597) |
| Intangible assets | (9,749) | – | 4,248 | – | (5,501) |
| | (96,968) | 4,130 | 8,760 | (950) | (85,028) |
| Total | 144,434 | 4,130 | 35,286 | (950) | 182,900 |

* Deferred tax assets in respect of unused tax losses are related to subsidiaries that were established in recent years. They are now processing to their normal production stage and are deriving profits. Accordingly, it is considered probable that sufficient taxable profits will be available in the future to utilise their unused tax losses before they expire.

## 28 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION *(continued)*

### (b) Deferred tax assets and liabilities recognised *(continued)*

***Reconciliation to the consolidated statement of financial position***

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| Net deferred tax assets recognised in the consolidated statement of financial position | **112,390** | 244,886 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | **(69,228)** | (61,986) |
| | **43,162** | 182,900 |

### (c) Deferred tax assets not recognised

As at 31 December 2015, the Group did not recognise deferred tax assets in respect of unused tax losses and deductible temporary differences of certain PRC subsidiaries of RMB2,626,915,000 and RMB4,140,980,000 respectively (2014: RMB615,335,000 and RMB Nil), as it is not probable that future taxable profits which the losses can be utilised will be available.

### (d) Deferred tax liabilities not recognised

Under the prevailing PRC income tax law and its relevant regulations, foreign corporate investors are levied PRC dividend withholding tax at 10%, unless reduced by tax treaties/arrangements, on dividends declared by PRC-resident enterprises for profits earned subsequent to 1 January 2008.

As at 31 December 2015, temporary differences relating to the undistributed profits of the Company's PRC subsidiaries amounted to RMB3,001,176,000 (2014: RMB8,045,466,000). Deferred tax liabilities of RMB300,117,600 (2014: RMB804,546,600) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

(Expressed in Renminbi unless otherwise indicated)

## 29 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Pursuant to the written resolutions of the Company's shareholders passed on 14 June 2008, the Company has adopted the share option scheme ("the Share Option Scheme") whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, and any customer or supplier or any persons who has contributed or will contribute to the Group, to take up options at HKD1 consideration to subscribe for shares of the Company.

Pursuant to the written resolutions of the Company's board of director passed on 27 January 2015, the director of the Company has granted certain directors and employees of the Group to take up options to subscribe for 207,300,000 ordinary shares of the Company under the Share Option Scheme. The exercise price of these options is HKD3.68, being the weighted average closing price of the Company's ordinary shares immediately before the grant.

### (i) The terms and conditions of the grants are as follows:

| | Number of instruments | Vesting conditions | Contractual life of options |
|---|---|---|---|
| Options granted to directors and employees: | | | |
| – On 25 May 2011 | 7,300,000 | Immediately after the date of grant | 10 years |
| – On 27 January 2015 (*) | 207,300,000 | Six months after the date of grant | 10 years |
| Total share options granted | 214,600,000 | | |

* Of the 207,300,000 options granted by the Company on 27 January 2015 to certain directors and employees of the Company, 43,600,000 options were granted to Mr. Zhang Caikui and Mr. Zhang Bin, the ex-directors of the Company. According to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Share Option Scheme of the Company, the options granted to Mr. Zhang Caikui and Mr. Zhang Bin need to be approved by the Extraordinary General Meeting of the Company. However, up until the date of this report, the required Extraordinary General Meeting has not been held as all the options granted on 27 January 2015 are subject to the legal proceedings set out in note 33. As the required Extraordinary General Meeting has not been held, the existing directors consider that the options granted to the Mr Zhangs are not legally valid. Consequently, as disclosed in note 7, no staff cost has been accrued in respect of the fair value of the options granted to the Mr Zhangs in 2015.

No options were exercised during the year ended 31 December 2015.

(Expressed in Renminbi unless otherwise indicated)

## 29 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

### (ii) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the option is used as an input into this model.

| Fair value of share options and assumptions | **At 31 December 2015** |
|---|---|
| Fair value at measurement date | **HKD0.68** |
| Share price | **HKD3.68** |
| Exercise price | **HKD3.68** |
| Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model) | **33.58%** |
| Option life (expressed as weighted average life used in the modelling under binomial lattice model) | **10 years** |
| Expected dividends | **3.35%** |
| Risk-free interest rate (based on Hong Kong Exchange Fund Note) | **1.098%** |

The expected volatility is based on the volatility of share prices of the Company, adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

## 30 CAPITAL, RESERVES AND DIVIDENDS

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

***The Company***

| | Share capital RMB'000 | Share premium RMB'000 | Other reserves RMB'000 | Exchange reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Balance 1 January 2014** | 193,198 | 3,451,085 | 435,164 | (389,692) | (2,850,620) | 839,135 |
| **Changes in equity for 2014:** | | | | | | |
| Issuance of new shares | 34,650 | 1,202,925 | – | – | – | 1,237,575 |
| Dividend approved in respect of the previous year | – | – | – | – | (206,180) | (206,180) |
| Total comprehensive expenses for the year | – | – | – | (5,959) | (82,574) | (88,533) |
| **Balance at 31 December 2014 and 1 January 2015** | **227,848** | **4,654,010** | **435,164** | **(395,651)** | **(3,139,374)** | **1,781,997** |
| **Changes in equity for 2015:** | | | | | | |
| Total comprehensive expenses for the year | **–** | **–** | **–** | **59,482** | **(636,890)** | **(577,408)** |
| **Balance at 31 December 2015** | **227,848** | **4,654,010** | **435,164** | **(336,169)** | **(3,776,264)** | **1,204,589** |

## 30 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (b) Dividends

#### *(i) Dividends payable to equity shareholders of the Company attributable to the year:*

Due to inability to comply with the certain covenants from the indentures of the Senior Notes issued by the Company (see note 23), the Board of Directors has proposed no dividend distribution for the year ended 31 December 2015 and the year ended 31 December 2014.

#### *(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year approved and paid during the year:*

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| Final dividend in respect of the previous financial year, declared and paid during the year | **–** | 206,180 |

Pursuant to the Corporate Income Tax Law and the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China" (the "Implementation Rules"), the Company is likely to be required to withhold and pay corporate income tax for its non-resident enterprise shareholders to whom the Company pays the dividends for the year ended 31 December 2008. The Company withheld 10% corporate income tax of HKD21,305,000 when it distributed the dividends for the year ended 31 December 2008 to its non-resident enterprise shareholders.

The Company is still in the process of negotiating with the relevant PRC tax authorities in respect of this matter. If the relevant PRC tax authorities finally determine that the Corporate Income Tax Law and the Implementation Rules are not applicable to the Company, and hence no enterprise income tax should have been withheld, the Company will procure such tax, amounting to HKD21,305,000 (equivalent to RMB17,816,000) as at 31 December 2015, to be refunded to the relevant non-resident enterprise shareholders whose tax had been withheld pursuant to the arrangement above.

## 30 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (c) Share capital

| | 2015 Number of shares | 2015 RMB equivalent RMB'000 | 2014 Number of shares | 2014 RMB equivalent RMB'000 |
|---|---|---|---|---|
| **Authorised:** | | | | |
| Ordinary shares of the Company of USD0.01 each | **10,000,000,000** | **701,472** | 10,000,000,000 | 701,472 |
| **Ordinary shares of the Company, issued and fully paid:** | | | | |
| At 1 January | **3,379,140,240** | **227,848** | 2,815,950,200 | 193,198 |
| Issuance of new shares | **–** | **–** | 563,190,040 | 34,650 |
| At 31 December | **3,379,140,240** | **227,848** | 3,379,140,240 | 227,848 |

Note:

(i) Authorised share capital

The Company was incorporated in the Cayman Islands under the Companies Law (Revised) as an exempted company with limited liability on 26 April 2006 with an authorised share capital of USD10,000,000 divided into 1,000,000,000 shares of USD0.01 each.

Pursuant to the written resolutions of the shareholders of the Company passed on 14 June 2008, the authorised share capital of the Company was increased from USD10,000,000 to USD100,000,000 by the creation of additional 9,000,000,000 shares of USD0.01 each.

On 4 July 2008, the Company listed its shares on the Main Board of the Stock Exchange of Hong Kong Limited. On 25 July 2008, the Global Coordinator fully exercised the over-allotment option on behalf of the International Underwriters. The notes holders of the Company's convertible notes were fully convert their notes on 30 April 2009 and 29 November 2010 respectively.

Pursuant to the written resolutions of the Board of the Company passed on 27 October 2014, the Company allotted and issued a total of 563,190,040 ordinary shares of USD0.01 each to China National Building Material Company Limited ("CNBM", 中國建材股份有限公司). The proceeds were fully received on 3 November 2014. The Company received a statement of claim in respect of this issuance, for details please refer to note 33.

## 30 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (d) Nature and purpose of reserves

#### *(i) Share premium*

The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands.

#### *(ii) Statutory reserves*

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserves were approved by the respective boards of directors.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance after such conversion is not less than 25% of the registered capital.

#### *(iii) Other reserves*

Other reserves include:

(a) the differences of consideration over the net assets of subsidiaries acquired under common control in 2005;

(b) the differences of consideration over the net assets of non-controlling interests acquired by Shandong Shanshui in 2005;

(c) the difference between the nominal value of the share capital of the Company and the nominal value of the share capital and share premium of Shanshui Cement Hong Kong on the Share Swap; and

(d) the difference between the considerations of acquisition or disposal of equity interests from/to non-controlling equity owners and the carrying amount of the proportionate net assets.

#### *(iv) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

#### *(v) Fair value reserve*

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period.

## 30 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (e) Distributability of reserves

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the contributed surplus account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

At 31 December 2015 the Company had RMB541,577,000 of distributable reserves (2014: RMB1,118,985,000). The Company is unable to make any distributions due to the liquidity constraints described in note 30(b).

### (f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all loans and borrowings as well as long-term bonds, as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as total equity plus net debt.

## 30 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (f) Capital management *(continued)*

The gearing ratio is as follows:

| | | The Group | |
|---|---|---|---|
| | Note | **2015 RMB'000** | 2014 RMB'000 |
| Current liabilities: | | | |
| Short-term bank loans | 21 | **5,076,265** | 1,747,878 |
| Current portion of other borrowings | 22 | **2,800,329** | 2,496,242 |
| Current portion of long-term bonds | 23 | **7,724,843** | – |
| | | **15,601,437** | 4,244,120 |
| Non-current liabilities: | | | |
| Long-term bank loans | 21 | **208,200** | 2,775,390 |
| Other borrowings less current portion | 22 | **3,513** | 6,364 |
| Long-term bonds less current portion | 23 | **–** | 9,123,145 |
| | | **211,713** | 11,904,899 |
| Total debt | | **15,813,150** | 16,149,019 |
| Less: Cash and cash equivalents | 20(a) | **(222,907)** | (1,151,353) |
| Net debt | | **15,590,243** | 14,997,666 |
| Total equity | | **4,493,165** | 11,366,326 |
| Total capital | | **20,083,408** | 26,363,992 |
| Gearing ratio | | **77.6%** | 56.9% |

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and bills receivable. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Generally, the Group requires full payment upon delivery of goods for sales of cement, clinker and bubble bricks. Credit sales with general credit period of 30 to 60 days are occasionally allowed to certain selected customers with good credit histories and significant transaction amount. Settlement with bank acceptance notes with maturity within three to six months is also acceptable. For sales of pipes and concrete, the Group allows a credit period ranging from 90 days to 180 days.

In respect of trade and bills receivable for sales of cement, clinker and bubble bricks, individual credit evaluations are only performed when the customers required credit. These evaluations focus on the customer's construction project size, the customer's payment history take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

In respect of trade and bills receivable for sales of pipes and concrete, individual credit evaluations are performed on all customers requiring credit over a certain amount. The evaluation method is similar to the above. Debtors with balances that are more than six months past due are requested to settle all outstanding balances before any further credit is granted.

The Group generally does not require collateral from customers on credit.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 1.4% (2014: 1.9%) and 1.4% (2014: 2.8%) of the total trade and bills receivable were due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Group does not provide any other guarantees which would expose the Group to credit risk.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (b) Liquidity risk

The Group's objective is to ensure continuity of sufficient funding and flexibility by utilising a variety of bank and other borrowings with debt maturities spreading over a range of periods, thereby ensuring that the Group's outstanding borrowing obligation is not exposed to excessive repayment risk in any one year.

Shandong Shanshui and the Company are responsible for the Group's overall cash management and the raising of borrowings in the mainland China or overseas market to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Note 1(b) explains management's plans for managing the liquidity needs of the Group to enable it to continue to meet its obligations as they fall due.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

| | 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Contractual undiscounted cash outflow | | | | | | | | |
| | Within 3 months or on demand RMB'000 | More than 3 months but less than 6 months RMB'000 | More than 6 months but less than 9 months RMB'000 | More than 9 months but less than 1 year RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 | Carrying amount RMB'000 |
| Bank loans (note 21) | 3,838,178 | 614,264 | 49,688 | 684,589 | 42,363 | 196,652 | – | 5,425,734 | 5,284,465 |
| Other borrowings (note 22) | 2,943,048 | – | – | – | 1,018 | 2,874 | 898 | 2,947,838 | 2,803,842 |
| Long-term bonds (note 23) | 8,386,159 | – | – | – | – | – | – | 8,386,159 | 7,724,843 |
| Trade and bills payable (note 24) | 3,047,025 | 245,798 | 125,306 | 105,789 | – | – | – | 3,523,918 | 3,523,918 |
| Other payables and accrued expense (note 25) | 2,167,189 | – | – | – | – | – | – | 2,167,189 | 2,167,189 |
| Obligation under finance leases | 8,052 | – | – | – | – | – | – | 8,052 | 7,639 |
| Long-term payables | – | – | – | – | 1,832 | 3,598 | 13,568 | 18,998 | 20,986 |
| | 20,389,651 | 860,062 | 174,994 | 790,378 | 45,213 | 203,124 | 14,466 | 22,477,888 | 21,532,882 |

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (b) Liquidity risk *(continued)*

| | 2014 Contractual undiscounted cash outflow | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Within 3 months or on demand RMB'000 | More than 3 months but less than 6 months RMB'000 | More than 6 months but less than 9 months RMB'000 | More than 9 months but less than 1 year RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 | Carrying amount RMB'000 |
| Bank loans (note 21) | 587,470 | 267,050 | 791,192 | 297,842 | 1,582,723 | 1,244,578 | 48,411 | 4,819,266 | 4,523,268 |
| Other borrowings (note 22) | 1,119 | – | 1,581,000 | 1,053,000 | 1,089 | 3,087 | 2,817 | 2,642,112 | 2,502,606 |
| Long-term bonds (note 23) | 158,920 | 326,722 | – | 232,522 | 4,965,764 | 6,159,798 | – | 11,843,726 | 9,123,145 |
| Trade and bills payable (note 24) | 2,419,815 | 330,380 | 167,043 | 623,327 | – | – | – | 3,540,565 | 3,540,565 |
| Other payables and accrued expense (note 25) | 1,545,482 | – | – | – | – | – | – | 1,545,482 | 1,539,802 |
| Current tax liabilities (note 28(a)) | 89,063 | – | – | – | – | – | – | 89,063 | 89,063 |
| Obligation under finance leases | – | – | – | 11,937 | 9,252 | 1,200 | – | 22,389 | 20,248 |
| Long-term payables | – | – | – | – | 14,781 | 6,500 | 26,060 | 47,341 | 32,475 |
| | 4,801,869 | 924,152 | 2,539,235 | 2,218,628 | 6,573,609 | 7,415,163 | 77,288 | 24,549,944 | 21,371,172 |

### (c) Interest rate risk

Cash and cash equivalents, pledged bank deposits, loans to third parties, bank loans, other borrowings and long-term bonds are the major types of the Group's financial instruments subject to interest rate risk. The Group does not anticipate significant impact to cash and cash equivalents and the pledged bank deposits because the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk arises primarily from bank loans, other borrowings and long-term bonds. Borrowings issued at variable rates and at fixed rates and long-term bonds issued at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of the Group's borrowings and long-term bonds are disclosed in note 21, 22 and 23 respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (c) Interest rate risk *(continued)*

#### *(i) Interest rate profile*

The following table details the interest rate profile of the Group's interest-bearing borrowings and long-term bonds at the end of the reporting period.

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Effective interest rate %** | **RMB'000** | Effective interest rate % | RMB'000 |
| **Fixed rate borrowings:** | | | | |
| Bank loans | **2.80%~6.67%** | **1,018,478** | 2.80%~6.77% | 806,393 |
| Other borrowings | **6.50%** | **2,799,626** | 6.50% | 2,495,333 |
| Long-term bonds | **5.44%~10.50%** | **7,724,843** | 5.44%~10.50% | 9,123,145 |
| Less: Loans to third parties | **–** | **–** | 15.60%~21.60% | (92,013) |
| | | **11,542,947** | | 12,332,858 |
| **Variable rate borrowings:** | | | | |
| Bank loans | **1.48%~6.67%** | **4,265,987** | 6.00%~7.05% | 3,716,875 |
| Other borrowings | **3.30%~4.60%** | **4,216** | 3.30%~4.60% | 7,273 |
| | | **4,270,203** | | 3,724,148 |
| Total borrowings | | **15,813,150** | | 16,057,006 |
| Net fixed rate borrowings as a percentage of total borrowings | | **73%** | | 77% |

The interest rate of the variable rate borrowing of the Group is based on the base rate announced by the People's Bank of China or applicable market rates.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (c) Interest rate risk *(continued)*

#### *(ii) Sensitivity analysis*

At 31 December 2015, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB24,075,000 (2014: RMB25,775,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2014.

### (d) Currency risk

#### *(i) Forecast transactions*

The Group is exposed to currency risk primarily through cash balances and borrowings that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Hong Kong dollars and United State dollars.

The Group did not hedge its foreign currency exposure other than by retaining its foreign currency denominated earnings and receipts to the extent permitted by the State Administration of Foreign Exchange.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (d) Currency risk *(continued)*

#### *(ii) Recognised assets and liabilities*

In respect of other payables denominated in foreign currencies and the payment for foreign currency borrowings, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Except for the Group's bank loans (see note 21), and senior notes (see note 23), all the Group's borrowings are denominated in Renminbi. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

#### *(iii) Exposure to currency risk*

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the Renminbi. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date.

| | Exposure to foreign currencies (expressed in Renminbi) | | | |
|---|---|---|---|---|
| | **2015** | | 2014 | |
| | **HKD** | **USD** | HKD | USD |
| | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 |
| Cash and cash equivalents | **894** | **13,117** | 3,166 | 74,429 |
| Bank loans | **–** | **(62,826)** | (307,333) | (272,075) |
| Senior notes | **–** | **(3,434,329)** | – | (4,845,126) |
| Net exposure arising from recognised assets and liabilities | **894** | **(3,484,038)** | (304,167) | (5,042,772) |

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (d) Currency risk *(continued)*

#### *(iv) Sensitivity analysis*

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rates** | **Effect on profit after tax and retained profits RMB'000** | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits RMB'000 |
| United States Dollars | **10%** | **(348,403)** | 10% | (497,721) |
| | **(10%)** | **348,403** | (10%) | 497,721 |
| Hong Kong Dollars | **10%** | **89** | 10% | (30,417) |
| | **(10%)** | **(89)** | (10%) | 30,417 |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2014.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (e) Equity price risk

The Group is exposed to equity price changes primarily arising from the listed investment classified as available-for-sale equity securities (see note 14).

The Group's listed investment is listed on the Shanghai Stock Exchange. Listed investment held in the available-for-sale securities has been chosen based on its longer term growth potential and is monitored regularly for performance against expectations.

At 31 December 2015, it is estimated that an increase/decrease of 50% (2014: 50%) in the relevant stock price (for listed investment), with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) as follows:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in the relevant risk variable rates** | **Effect on other components of equity RMB'000** | Increase/ (decrease) in the relevant risk variable rates | Effect on other components of equity RMB'000 |
| Change in the stock price of the listed investment | **50%** | **3,099** | 50% | 3,272 |
| | **(50%)** | **(3,099)** | (50%) | (3,272) |

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the changes in the stock price had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock price, that none of the Group's available-for-sale securities would be considered impaired as a result of the decrease in the relevant stock price, and that all other variables remain constant. The analysis is performed on the same basis for 2014.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (f) Fair value measurement

#### *(i) Financial assets and liabilities measured at fair value*

As a result of the adoption of the amendments to IFRS 13, *Fair value measurement*, the fair value measurement of the Group's financial instruments categorises into a three-level fair value hierarchy according to the extent to which they are based on observable market data. As at 31 December 2015, the Group only has available-for-sale securities which was measured at fair value at the end of the reporting period under Level 1 of the fair value hierarchy defined in IFRS 13, Level 1 is defined as follows:

Level 1 valuations: fair values measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

**2015**

| | Fair value at 31 December 2015 RMB'000 | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Available-for-sale securities: | | | | |
| – Listed | 8,263 | 8,263 | – | – |

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (f) Fair value measurement *(continued)*

#### *(i) Financial assets and liabilities measured at fair value* *(continued)*

**2014**

| | Fair value at 31 December 2014 RMB'000 | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Available-for-sale securities: | | | | |
| – Listed | 8,725 | 8,725 | – | – |

#### *(ii) Fair values of financial instruments carried at other than fair value*

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2015 and 31 December 2014 except for the following senior notes which bears fixed interest rate of 7.50% per annum (see note 23), for which its carrying amounts and fair values are disclosed below:

| | **At 31 December 2015** | | At 31 December 2014 | |
|---|---|---|---|---|
| | **Carrying amount RMB'000** | **Fair value RMB'000** | Carrying amount RMB'000 | Fair value RMB'000 |
| Senior notes | **3,246,800** | **2,661,402** | 2,425,074 | 2,576,099 |

### 32 COMMITMENTS

#### (a) Capital commitments outstanding at 31 December 2015 not provided for in the financial statements were as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Authorised and contracted for | | |
| – the acquisitions of fixed assets | **401,982** | 594,894 |
| Authorised but not contracted for | | |
| – the acquisitions of fixed assets | **249,435** | 517,243 |
| | **651,417** | 1,112,137 |

#### (b) At 31 December 2015, the total future minimum lease payments under non-cancellable operating lease are payable as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Within 1 year | **16,430** | 18,437 |
| After 1 year but within 2 years | **16,430** | 16,798 |
| After 2 years but within 5 years | **48,830** | 50,267 |
| After 5 years | **77,411** | 90,433 |
| | **159,101** | 175,935 |

The Group leases a number of pieces of land and port storage space under non-cancellable operating leases. The leases typically run without any contingent lease terms, nor did the lease agreements contain any terms that may require higher future rental payments, restrictions on dividends, additional liabilities, or other terms.

## 33 CONTINGENT LIABILITIES AND OTHER EVENTS

(a) As disclosed in note 30, the Company issued a total of 563,190,040 ordinary shares of USD0.01 each to CNBM on 27 October 2014. The proceeds of RMB1,237.6 million were fully received from CNBM on 3 November 2014. The Company received a generally endorsed writ of summons (the "Writ") dated 30 October 2014 issued by six individual minority shareholders (the "Plaintiffs", who are the current senior management of Shandong Shanshui since 1 December 2015) of China Shanshui Investment Company Limited ("China Shanshui Investment", a shareholder of the Company) in the high court of Hong Kong Special Administrative Region and a statement of claim which was served on the Company's legal adviser at that time by the Plaintiffs' legal adviser on 23 January 2015, against the Company and CNBM. The Plaintiffs sought an order from the high court for the subscription agreement and the subscription between the Company and CNBM be set aside. If this claim is successful then the Company would need to refund the proceeds to CNBM and the shares issued would be cancelled. The status of the proceedings is in the preliminary stage and the existing directors of the Company are of the view that the ultimate outcome of this claim cannot be reliably estimated at this stage and consider that no provision for this claim is needed accordingly.

(b) Under the Share Option Scheme, the predecessor board granted a total of 207,300,000 new shares to certain directors (who are now the ex-directors) and employees of the Company and its subsidiaries on 27 January 2015 ("the Options"). On 11 February 2015, certain individual minority shareholders of China Shanshui Investment (who are the current senior management of Shandong Shanshui since 1 December 2015) issued an originating summons for leave to be granted by the High Court of Hong Kong to apply for an injunction to restrain the Company from (i) issuing any new shares pursuant to the exercise of the Options; and (ii) holding the Extraordinary General Meeting to approve the grant of options to Mr. Zhang Caikui and Mr. Zhang Bin ("Mr. Zhangs' Options"). As at the date of this report, the Extraordinary General Meeting to approve the Mr. Zhangs' Options has not been held yet. Therefore, as disclosed in note 7, no share-based payments cost in relation to Mr. Zhangs' Options has been recognised as staff cost for the year ended 31 December 2015. The status of the proceedings is in the preliminary stage and the existing directors of the Company are of the view that the ultimate outcome of the Mr. Zhangs' Options cannot be reliably estimated at this stage.

(c) Shandong Shanshui and Pingyin Shanshui have provided guarantees on behalf of Shanshui Heavy Industries for its bank loan with the principal of RMB300 million (see note 35). The bank loan of Shanshui Heavy Industries bears the interest rate quoted by the People's Bank of China and is repayable within five years from 2015.

## 34 MATERIAL RELATED PARTY TRANSACTIONS

### (a) During the years ended 31 December 2015 and 2014, transactions with the following parties are considered as related party transaction:

| Name of party | Relationship |
|---|---|
| Tianrui Group | Shareholder of the Company |
| China Shanshui Investment | Shareholder of the Company |
| Jinan Shanshui Group Co., Ltd. ("Jinan Shanshui Group") | Entity controlled by the key management personnel of the Group |
| Jinan Shanshui Lixin Investment Development Co., Ltd. ("Lixin Investment") | Entity controlled by the key management personnel of the Group |
| Jinan Shanshui Jianxin Investment Development Co., Ltd. ("Jianxin Investment") | Entity controlled by the key management personnel of the Group |
| Dongyue Packaging Co., Ltd. | Entity controlled by the key management personnel of the Group |
| Jinan Cement Product Factory | Entity controlled by the key management personnel of the Group |
| Jinan Cement Factory | Entity controlled by the key management personnel of the Group |
| Jinan Huanghai Cement Co., Ltd. | Entity controlled by the key management personnel of the Group |
| Jinan Dongfanghong Cement Co., Ltd. | Entity controlled by the key management personnel of the Group |
| Jinan Shanshui Group Property Development Co., Ltd. ("Property Development") | Entity controlled by the key management personnel of the Group |
| Jinan Shanshui Commercial City Co., Ltd. | Entity controlled by the key management personnel of the Group |
| Dong'e Shanshui | Associate of the Group |
| Dashui Group | Associate of the Group |

## 34 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (b) Transactions with related parties of the Group

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| ***Recurring transactions*** | | | |
| **Sales:** | | | |
| – Dong'e Shanshui | (i) | – | 4,623 |
| – Dashui Group | (ii) | 4,285 | 33,188 |
| | | 4,285 | 37,811 |
| **Purchase:** | | | |
| – Dong'e Shanshui | (i) | – | 2,030 |
| **Loans to associates and relevant interest income:** | | | |
| – Dong'e Shanshui | (iii) | 3,318 | 4,473 |
| – Jianxin Investment | | 1,917 | – |
| | | 5,235 | 4,473 |
| **Repayment of loans to an associate and related interests by:** | | | |
| – Dong'e Shanshui | (iii) | 23,406 | 4,129 |
| **Loans from related parties and relevant interest expenses:** | | | |
| – Lixin Investment | (iv) | 48,732 | 318 |
| – Jianxin Investment | | 11,000 | – |
| – Tianrui Group | (v) | 64,778 | – |
| | | 124,510 | 318 |
| **Repayment of loans from related parties and related interests:** | | | |
| – Lixin Investment | (iv) | 20,959 | 23,318 |
| **Dividends from an associate:** | | | |
| – Dong'e Shanshui | | – | 20,120 |

## 34 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (b) Transactions with related parties of the Group *(continued)*

Notes:

(i) These represent sales of coal clinker to Dong'e Shanshui and purchases of clinkers from Dong'e Shanshui. The directors of the Company are of the opinion that these transactions were conducted on normal commercial terms and in the ordinary course of business of the Group.

(ii) These represent sales of clinker to Dashui Group. The directors of the Company are of the opinion that these transactions were conducted on normal commercial terms and in the ordinary course of business of the Group.

(iii) These relate to loans and related interests to Dong'e Shanshui, the associate of the Group. The total principal was RMB60,600,000 as at 31 December 2014 and RMB20,000,000 was repaid during the year of 2015. These loans with total principal of RMB40,600,000 as at 31 December 2015 bear interest at one-year PRC bank loan interest rate of 6% (2014: 6%).

(iv) These relate to loans and related interests from Lixin Investment. These loans with total principal of RMB43,248,000 bear interest-free. During the year ended 31 December 2015, the loan repaid to Lixin Investment was RMB20,959,000.

(v) These relate to loans and related interests from Tianrui Group. These loans with total principal of RMB64,778,000 bear interest free.

## 34 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (c) Balances with related parties of the Group

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **Accounts receivable due from:** | | |
| – Shanshui Heavy Industries | **17,980** | – |
| **Advances to suppliers:** | | |
| – Dong'e Shanshui | **9** | 9 |
| – Dashui Group | **18,832** | – |
| | **18,841** | 9 |
| **Advances to customers:** | | |
| – Dong'e Shanshui | **528** | 672 |
| – Dashui Group | **–** | 5,008 |
| | **528** | 5,680 |
| **Other receivables due from:** | | |
| – China Shanshui Investment | **725** | 685 |
| – Property Development | **1,341** | 1,341 |
| – Jianxin Investment | **1,917** | – |
| – Lixin Investment | **12,930** | – |
| – Shanshui Heavy Industries | **5,751** | – |
| | **22,664** | 2,026 |
| **Other financial asset due from:** | | |
| – Dong'e Shanshui | **41,436** | 61,524 |
| **Accounts payable due to:** | | |
| – Shanshui Heavy Industries | **48,048** | – |
| **Other payable due to:** | | |
| – Dong'e Shanshui | **432** | 30 |
| – Lixin Investment | **43,248** | 15,475 |
| – Jinan Shanshui Group | **11,000** | – |
| – Shanshui Heavy Industries | **80,247** | – |
| – Tianrui Group | **64,777** | – |
| | **199,704** | 15,505 |

## 34 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (d) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in note 7, is as follows:

| | Note | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|---|
| Salary, allowances and other benefits | | **14,385** | 3,601 |
| Contributions to defined contribution retirement plans | | **365** | 141 |
| Share-based payment | 29 | **29,064** | – |
| | | **43,814** | 3,742 |

## 35 DISPOSAL OF SHANSHUI HEAVY INDUSTRIES

When the existing directors took over Shandong Shanshui, the existing directors found that Shandong Shanshui had sold 27% and 28% interest in Shanshui Heavy Industries ("the Disposal Transaction") to Shandong Zhusheng Trading Company Limited ("Shandong Zhusheng" 山東竹晟經貿有限公司) and Jinan Tiandi Zhenghan Trading Company Limited ("Tiandi Zhenghan" 濟南天地政翰經貿有限公司) in 2015, respectively, ("the Two Suppliers", which just began business with the Group in 2015). However, the existing directors cannot find the equity transfer agreement of this transaction.

The total consideration due from Shandong Zhusheng and Tiandi Zhenghan is RMB46.17 million and RMB47.88 million respectively. As at 31 December 2015, RMB49.55 million has been settled and the remaining balance of the consideration of RMB44.5 million was unsettled and recorded as other receivables as at 31 December 2015. Within the settled consideration of RMB49.55 million in 2015, the existing directors have found that RMB12.74 million was offset against trade payable balances due to the Two Suppliers and RMB30.28 million was offset against trade payables balance due to other nine suppliers of the Group ("the Nine Suppliers"), among which one supplier just began business with the Group in 2015.

## 35 DISPOSAL OF SHANSHUI HEAVY INDUSTRIES *(continued)*

Since Shanshui Heavy Industries is under the control of the ex-directors of the Company as at 31 December 2015 and the Group's retained interest in Shanshui Heavy Industries is 44.99%, the existing directors consider that the Group does not have control over Shanshui Heavy Industries at the year end. Because the existing directors cannot find the equity transfer agreement of this transaction or obtain the information of the change of the board of directors of Shanshui Heavy Industries, the directors could not judge the exact disposal date for the Disposal Transaction. Based on the company registration information search performed by the management, the equity holder information of Shanshui Heavy Industries was changed on 10 October 2015 and the offsetting agreements between the Two Suppliers and the Nine Suppliers were signed between 12 October and 14 October 2015. Accordingly, the existing directors have treated 10 October 2015 as the disposal date. The carrying amounts of assets and liabilities in Shanshui Heavy Industries as at the disposal date are as follows:

| | **At the disposal date** RMB'000 |
|---|---|
| Cash and cash equivalents | 2,967 |
| Trade and other receivables | 215,335 |
| Inventories | 66,841 |
| Property, plant and equipment | 347,988 |
| Land lease prepayments | 59,530 |
| Trade and other payables | (214,330) |
| Long-term bank loans | (300,000) |
| Long-term payables | (2,000) |
| | 176,331 |
| Less: Carrying amount of non-controlling interests | (626) |
| Less: Carrying amount of net assets in disposed of | (96,374) |
| Carrying amount of the retained interest as an associate | 79,331 |
| Carrying amount of net assets in disposed of | (96,374) |
| Total consideration | 94,050 |
| Loss on the disposal of Shanshui Heavy Industries | (2,324) |

## 35 DISPOSAL OF SHANSHUI HEAVY INDUSTRIES *(continued)*

An analysis of the cash flows of cash and cash equivalents in respect of the Deemed Disposal of Shanshui Heavy Industries is as follows:

| | 2015<br>RMB'000 |
|---|---|
| Cash consideration | – |
| Less: cash and cash equivalents of Shanshui Heavy Industries disposed of | (2,967) |
| Net outflows of cash and cash equivalents in respect of the deemed disposal of Shanshui Heavy Industries | (2,967) |

## 36 NON-ADJUSTING EVENTS AFTER THE END OF THE REPORTING PERIOD

In addition to the events disclosed in note 1(b) and notes 20 to 24, the following non-adjusting events have occurred after the end of the reporting period:

(a) When the existing directors took over Shandong Shanshui on 30 January 2016, the management found about RMB8.87 million in cash located in the premises of Shandong Shanshui, which is equal to the carrying amount of cash on hand in the management accounts of Shandong Shanshui on that date. However, the ex-directors asserted that RMB6.50 million of this cash belonged to themselves and does not belong to Shandong Shanshui. Since there is dispute over the ownership of the money, this RMB6.50 million has been sealed up by government authorities on 30 January 2016. This dispute has no impact on the amount of cash and cash equivalents recorded as of 31 December 2015 as this cash is assumed to have first entered the premises in January 2016.

(b) Before the existing directors took over Shandong Shanshui on 30 January 2016, the ex-directors, on behalf of Shandong Shanshui, issued an escrow agreement to a third party on 29 January 2016 to let the third party take over Xinghao Cement (a subsidiary of Shandong Shanshui), because Xinghao Cement owed about RMB72.6 million to the third party. The third party has taken over the official chop and the reserved signature chops of bank accounts of Xinghao Cement on 23 February 2016. Until now, although the Group still controls the books and records of Xinghao Cement, all the cash-out transactions of Xinghao Cement need to be approved by the third party since 23 February 2016. The Group is still in negotiations with the local government to resolve this matter.

(Expressed in Renminbi unless otherwise indicated)

## 36 NON-ADJUSTING EVENTS AFTER THE END OF THE REPORTING PERIOD *(continued)*

(c) On 22 March 2016, Tianrui Group, a substantial shareholder of the Company which holds 951,462,000 shares of the Company (representing approximately 28.16% of the issued share capital of the Company), informed the Company that it has pledged 791,000,000 shares of the Company (representing approximately 23.41% of the issued share capital of the Company) in favour of China Bohai Bank for a bank loan.

## 37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| *Annual improvements to IFRSs 2012-2014 cycle* | 1 January 2016 |
| Amendments to IAS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture* | 1 January 2016 |
| Amendments to IFRS 11, *Accounting for acquisitions of interests in joint operations* | 1 January 2016 |
| Amendments to IAS 1, *Disclosure initiative* | 1 January 2016 |
| Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortisation* | 1 January 2016 |
| IFRS 15, *Revenue from contracts with customers* | 1 January 2018 |
| IFRS 9, *Financial instruments* | 1 January 2018 |
| IFRS 16, *Leases* | 1 January 2019 |

The Group will adopt the relevant amendments and new standards in the subsequent periods as required. The Group is in the process of making an assessment of what the impact of these amendments and new standards are expected to be in the period of initial application.

## 38 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | 31 December 2015 RMB'000 | 31 December 2014 RMB'000 |
|---|---|---|
| **Non-current assets** | | |
| Investments in a subsidiary | **413,248** | 413,248 |
| Amounts due from subsidiaries | **5,121,984** | 6,316,569 |
| | **5,535,232** | 6,729,817 |
| **Current assets** | | |
| Other receivables | **18,761** | 12,806 |
| Cash and cash equivalents | **8,154** | 271,559 |
| | **26,915** | 284,365 |
| **Current liabilities** | | |
| Short-term bank loans | **–** | 272,075 |
| Current portion of long-term bonds | **3,434,329** | – |
| Amount due to a subsidiary | **668,021** | 27,955 |
| Other payables and accrued expenses | **255,208** | 87,029 |
| | **4,357,558** | 387,059 |
| **Net current liabilities** | **(4,330,643)** | (102,694) |
| **Total assets less current liabilities** | **1,204,589** | 6,627,123 |
| **Non-current liabilities** | | |
| Long-term bonds less current portion | **–** | 4,845,126 |
| | **–** | 4,845,126 |
| **NET ASSETS** | **1,204,589** | 1,781,997 |
| **CAPITAL AND RESERVES** | | |
| Share capital | **227,848** | 227,848 |
| Reserves | **976,741** | 1,554,149 |
| **TOTAL EQUITY** | **1,204,589** | 1,781,997 |

Approved and authorised for issue by the board of directors on 31 March 2016.

**LI Heping**
Director

**LIU Yiu Keung, Stephen**
Director

**CHINA SHANSHUI CEMENT GROUP LIMITED**

**Headquarter:**
Sunnsy Industrial Park, Gushan Town,
Changqing District, Jinan, Shandong,
China

**Hong Kong Office:**
Room 2609, 26/F, Tower 2, Lippo Centre,
89 Queensway, Admiralty,
Hong Kong