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

2016 Annual Report

CONTENTS

(I) Definitions

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

"Company" or "China Shanshui" or "Shanshui Cement"	China Shanshui Cement Group Limited
"Group" or "China Shanshui Group"	the Company and its subsidiaries
"Reporting Period"	the period from 1 January 2016 to 31 December 2016
"Board"	the Board of Directors of the Company
"Director(s)"	the Directors of the Company
"China Shanshui (HK)"	China Shanshui Cement Group (Hong Kong) Company Limited
"Pioneer Cement"	China Pioneer Cement (Hong Kong) Company Limited
"Continental Cement"	Continental Cement Corporation
"American Shanshui"	American Shanshui Development Inc.
"Shandong Shanshui"	Shandong Shanshui Cement Group Company Limited
"ACC"	Asia Cement Corporation
"CNBM"	China National Building Material Company Limited
"CSI"	China Shanshui Investment Company Limited
"Tianrui Group"	Tianrui Group Company Limited
"Shandong Region"	business covered by Eastern Shandong Operating Region, Western Shandong Operating Region and Southern Shandong Operating Region
"Eastern Shandong Operating Region"	business located at the Eastern Shandong Province, including Weifang, Qingdao, Yantai and Weihai, etc
"Western Shandong Operating Region"	business located at the Central and Western Shandong Province, including Zibo, Jinan and Hebei Province and Tianjin, etc

(I) Definitions

"Southern Shandong Operating Region"	business located at the Southern Shandong Province, including Zaozhuang, Jining, Heze and Henan Province, etc
"Northeast China Operating Region"	business located at Liaoning Province, the Eastern Inner Mongolia and Jilin Province, etc
"Shanxi Operating Region"	business located at Shanxi Province and Shaanxi Province, etc
"Xinjiang Operating Region"	business located at Kashi, Xinjiang
"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)
"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 amended and restated memorandum and articles of association of the Company adopted on 16 May 2014
"YOY"	year on year comparison
"Clinker"	a semi-finished product in the cement production process
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"RMB"	Renminbi, the lawful currency of the PRC, which is the currency unit used in this report, unless otherwise specified
"PRC"	The People's Republic of China

(II) Corporate Information

1. BOARD OF DIRECTORS

Executive Directors

Mr. Liu Yiu Keung, Stephen *(Chairman) (Mr. Yen Ching Wai, David as his alternate)*
Mr. Li Heping *(Chief Executive Officer)*
Mr. Hwa Guo Wai, Godwin

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 director to executive director with effect from 2 February 2016. Mr. Cheung Yuk Ming retired by rotation on 17 June 2016 and was not re-appointed as director by the shareholders at the AGM, and he ceased to be a committee member of the Executive Committee and an authorized representative of the Company. Mr. Li Liufa resigned as an executive director, the chairman of the Board, and the chairman of both the Nomination Committee and the Executive Committee of the Company with effect from 31 May 2016. Mr. Liu Yiu Keung, Stephen was appointed as chairman of the Board, the chairman of the Nomination Committee and the chairman of the Executive Committee of the Company on 2 June 2016. Mr. Hwa Guo Wai, Godwin was appointed as executive director of the Company on 1 December 2015, re-designated from executive director to non-executive director with effect from 2 February 2016 and has been re-designated from non-executive director to executive director with effect from 5 July 2016.

Non-Executive Director

Mr. Chong Cha Hwa

Note: Mr. Chong Cha Hwa was appointed as executive director of the Company on 1 December 2015 and has been re-designated from executive director to non-executive director with effect from 2 February 2016, and he ceased to be an authorized representative and a committee member of the Executive Committee of the Company. Mr. Ng Qing Hai was appointed as non-executive director of the Company on 1 December 2015 and resigned as a non-executive director of the Company with effect from 2 February 2016.

Independent Non-Executive Directors

Ms. Ho Man Kay Angela
Mr. Law Pui Cheung
Mr. Wong Chi Keung
Dr. Ching Siu Ming
Mr. Lo Chung Hing

Note: Mr. Wong Chi Keung was appointed as independent non-executive director of the Company on 2 February 2016. Dr. Ching Siu Ming and Mr. Lo Chung Hing were appointed as independent non-executive directors of the Company on 5 July 2016.

(II) Corporate Information

Audit Committee

Mr. Law Pui Cheung *(Chairman)*
Ms. Ho Man Kay Angela
Mr. Wong Chi Keung
Dr. Ching Siu Ming
Mr. Lo Chung Hing

Note: Mr. Cheung Yuk Ming was appointed as the chairman of the Audit Committee of the Company on 1 December 2015 and resigned as the chairman of the Audit Committee of the Company 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 was appointed as the chairman of the Audit Committee on 2 February 2016. Mr. Wong Chi Keung was appointed as a member of the Audit Committee of the Company on 2 February 2016. Dr. Ching Siu Ming and Mr. Lo Chung Hing were appointed as members of the Audit Committee of the Company on 5 July 2016.

Remuneration Committee

Ms. Ho Man Kay Angela *(Chairman)*
Mr. Law Pui Cheung
Mr. Wong Chi Keung
Dr. Ching Siu Ming
Mr. Lo Chung Hing

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 was appointed as a member of the Remuneration Committee of the Company on 2 February 2016. Dr. Ching Siu Ming and Mr. Lo Chung Hing were appointed as members of the Remuneration Committee of the Company on 5 July 2016.

Executive Committee

Mr. Liu Yiu Keung, Stephen *(Chairman)*
Mr. Li Heping
Mr. Hwa Guo Wai, Godwin

Note: Mr. Chong Cha Hwa was appointed as a member of the Executive Committee on 1 December 2015 and resigned as a member of the Executive Committee with effect from 2 February 2016. Mr. Cheung Yuk Ming was appointed as a member of the Executive Committee of the Company on 2 February 2016 and ceased to be a member of the Executive Committee of the Company due to his resignation of director on 17 June 2016. Mr. Li Liufa resigned as the chairman of the Executive Committee of the Company on 31 May 2016. Mr. Liu Yiu Keung, Stephen was appointed as the chairman of the Executive Committee of the Company on 2 June 2016. Mr. Hwa Guo Wai, Godwin was appointed as a member of the Executive Committee of the Company on 5 July 2016.

(II) Corporate Information

Nomination Committee

Mr. Liu Yiu Keung, Stephen *(Chairman)*
Ms. Ho Man Kay Angela
Mr. Law Pui Cheung
Mr. Wong Chi Keung
Dr. Ching Siu Ming
Mr. Lo Chung Hing

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 was appointed as a member of the Nomination Committee of the Company on 2 February 2016. Mr. Li Liufa resigned as the chairman of the Nomination Committee on 31 May 2016. Mr. Liu Yiu Keung, Stephen was appointed as the chairman of the Nomination Committee on 2 June 2016. Dr. Ching Siu Ming and Mr. Lo Chung Hing were appointed as members of the Nomination Committee on 5 July 2016.

Investigation Committee

Dr. Ching Siu Ming *(Chairman)*
Ms. Ho Man Kay Angela
Mr. Law Pui Cheung
Mr. Wong Chi Keung
Mr. Lo Chung Hing

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 was appointed as a member of the Investigation Committee of the Company on 2 February 2016. Dr. Ching Siu Ming was appointed as the chairman of the Investigation Committee on 5 July 2016. Mr. Lo Chung Hing was appointed as a member of the Investigation Committee of the Company on 5 July 2016.

2. BASIC CORPORATE INFORMATION

(1)	Official Chinese name of the Company	:	中國山水水泥集團有限公司
	Official English name of the Company	:	China Shanshui Cement Group Limited
	Abbreviation in English	:	CSC
(2)	Registered Office	:	P.O.Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands
(3)	Principal Place of Business in China	:	Sunnsy Industrial Park, Gushan Town, Changqing District, Jinan, Shandong, PRC
	Principal Place of Business in Hong Kong	:	Room 2609, 26/F, Tower 2, Lippo Centre, 89 Queensway, Admiralty, Hong Kong
(4)	Contact details of the Company		
	Telephone	:	+852-2525 7918
	Fax	:	+852-2525 7998
	E-mail address	:	ir@csc-grp.com
(5)	Website	:	www.shanshuicement.com
(6)	Authorised Representatives	:	Liu Yiu Keung, Stephen and Tsang Wing Tai
(7)	Joint Company Secretaries	:	Tsang Wing Tai and Yu Chun Liang
(8)	Listing Date	:	4 July 2008
(9)	Website for publication of this report	:	www.shanshuicement.com
(10)	Exchange on which the Company's shares are listed	:	The Hong Kong Stock Exchange
(11)	Stock code	:	00691
(12)	Stock Short Name	:	Shanshui Cement
(13)	Hong Kong Share Registrar and Transfer Office	:	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
(14)	Legal Adviser as to PRC law	:	Tiantai Law Firm
	Legal Adviser as to Hong Kong law	:	Wilkinson & Grist
(15)	Auditors	:	KPMG

(III) Financial and Business Data Summary

1. CONSOLIDATED INCOME STATEMENT

(Unit: RMB'000)

	For the 12 months ended 31 December				
	2016	2015	2014	2013	2012
Revenue	**11,284,193**	11,166,212	15,596,440	16,535,204	16,160,981
Gross profit	**2,467,001**	1,228,285	3,346,865	3,829,237	4,111,316
Gross profit margin	**21.9%**	11.0%	21.5%	23.2%	25.4%
Profit/(Loss) from operations	**238,161**	(4,869,076)	1,812,813	2,557,206	3,099,324
Profit/(Loss) margin from operations	**2.1%**	(43.6%)	11.6%	15.5%	19.2%
EBITDA	**1,683,883**	(3,430,464)	3,172,359	3,798,678	4,264,574
EBITDA margin	**14.9%**	(30.7%)	20.3%	23.0%	26.4%
Net (loss)/profit	**(978,861)**	(6,693,655)	308,578	1,074,712	1,603,763
Attributable to:					
Equity shareholders of the Company	**(738,281)**	(6,387,259)	347,650	1,016,707	1,518,529
Minority interests	**(240,580)**	(306,396)	(39,072)	58,005	85,234
Basic (loss)/earnings per share (RMB)	**(0.22)**	(1.89)	0.12	0.36	0.54
Diluted (loss)/earnings per share (RMB)	**(0.22)**	(1.89)	0.12	0.36	0.54

2. CONSOLIDATED BALANCE SHEET

(Unit: RMB'000)

	As at 31 December				
	2016	2015	2014	2013	2012
Non-current assets	**21,600,467**	23,109,951	26,645,735	24,992,311	21,725,658
Current assets	**4,319,689**	3,903,749	7,049,762	7,244,085	6,307,719
Total assets	**25,920,156**	27,013,700	33,695,497	32,236,396	28,033,377
Total liabilities	**22,663,917**	22,520,535	22,329,171	22,269,670	18,636,875
Equity attributable to equity shareholders of the Company	**3,098,688**	4,030,252	10,597,967	9,245,952	8,650,849
Non-controlling interests	**157,551**	462,913	768,359	720,774	745,653
Non-current liabilities	**2,110,733**	772,186	12,484,072	10,222,513	11,115,759
Current liabilities	**20,553,184**	21,748,349	9,845,099	12,047,157	7,521,116
Total equity and liabilities	**25,920,156**	27,013,700	33,695,497	32,236,396	28,033,377
Net gearing ratio	**81.9%**	77.6%	56.9%	60.4%	56.9%

3. CONSOLIDATED CASH FLOW STATEMENT

(Unit: RMB'000)

	For the 12 months ended 31 December				
	2016	2015	2014	2013	2012
Net cash generated from/(used in) operating activities	**1,006,597**	(342,913)	1,375,826	1,924,751	1,930,088
Net cash used in investing activities	**(458,190)**	(1,591,087)	(2,184,284)	(4,395,283)	(4,339,932)
Net cash (used in)/generated from financing activities	**(498,833)**	1,002,770	682,207	2,665,505	485,264
Net increase/(decrease) in cash and cash equivalents	**49,574**	(931,230)	(126,251)	194,973	(1,924,580)

4. KEY BUSINESS DATA

	2016	2015	2014	2013	2012
Sales volume of cement ('000 tonnes)	**43,959**	45,821	53,146	53,422	47,834
Sales volume of clinker ('000 tonnes)	**10,544**	8,421	9,818	9,218	9,024
Sales volume of concrete ('000 m^3)	**2,680**	2,370	3,471	2,864	1,661
Unit selling price of cement (RMB/tonne)	**199.0**	198.8	235.4	249.9	277.2
Unit selling price of clinker (RMB/tonne)	**164.6**	154.3	191.6	195.3	211.0
Unit selling price of concrete (RMB/m^3)	**252.8**	267.6	298.6	296.7	280.0

(IV) Corporate Profile

(1) COMPANY BACKGROUND

China Shanshui Cement Group Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company on 26 April 2006. The Company completed the restructuring on 6 September 2007 and become the ultimate holding company of the Group and being listed on the Main Board of the Stock Exchange (Stock Code: 00691) on 4 July 2008. The Company holds 100% equity interest in China Shanshui (HK) and does not operate any business since the date of registration.

China Shanshui (HK) is a limited company incorporated in Hong Kong and holds 100% equity interest in Pioneer Cement; Pioneer Cement is a limited company incorporated in Hong Kong and holds 100% equity interest in Shandong Shanshui, it is the sole shareholder of Shandong Shanshui.

Shandong Shanshui is a wholly foreign-owned limited company established by Pioneer Cement in 2005 through the acquisition of shares in Jinan, Shandong Province in accordance with the laws and regulations of the People's Republic of China.

Shandong Shanshui is one of the 12 national large-scale cement enterprises with national key support. At present, Shandong Shanshui has 102 subsidiaries spreading across more than ten provinces including Shandong, Liaoning, Shanxi, Inner Mongolia and Xinjiang, it is the largest cement group north of the Yangtze River.

Shandong Shanshui is based in Shandong, it has already established its base for clinker production in Jinan, Zibo, Weifang and Yantai, with supporting cement grinding enterprises spreading across more than ten locations within the province, with its production scale ranking at No. 6 in China within its industry.

All subsidiaries of the Group have acquired the Certification of ISO9001, ISO14001, OHSAS18001 and ISO10012. "Shanshui Dong Yue" is rated as Shandong Famous Brand, and National Certified Quality Credit AAA Gold Medal. It is widely used in national key projects, railways, highways, airports, real estates and other infrastructure construction.

Recent Significant Events for the Group

On 13 October 2015, Zhang Caikui, Li Cheung Hung and Wu Xiaoyun were removed as directors of the Company.

On 14 October 2015, Cai Guobin, Ou Chin-Der and Wu Ling-ling were appointed as directors of the Company.

On 10 November 2015, the Board filed a petition with the Grand Court of the Cayman Islands, where the Company was incorporated, to wind up the Company.

(IV) Corporate Profile

On 23 November 2015, the Grand Court of Cayman Islands ruled that directors of the Company do not have the authority to present a winding-up petition on behalf of the Company and the petition was struck out on 25 November 2015.

On 1 December 2015, Zhang Bin, Lee Kuan-chun, Ou Chin-Der, Wu Ling-ling, Chang Zhangli, Cai Guobin, Zeng Xuemin and Shen Bing were removed as directors of the Company. Li Liufa, Li Heping, Liu Yiu Keung, Stephen, Cheung Yuk Ming, Hwa Guo Wai, Godwin, Chong Cha Hwa, Ng Qing Hai, Ho Man Kay, Angela and Law Pui Cheung were appointed as Directors of the Company. Chong Cha Hwa was appointed as the company secretary of the Company.

On 2 December 2015, certain books, records, documents, stamps, seal and electronic data in the computers of the Hong Kong head office of the Company was found being stolen.

On 3 December 2015, Zhang Caikui, Zhang Bin (the "**Zhangs**") and Chen Xueshi were removed as directors of Shandong Shanshui. Li Heping, Yang Yongzheng, Li Maohuan, Mi Jingtian, Zhao Yongkui, Yu Yuchuan, Zhao Liping, Chen Zhongsheng and Gao Yong were appointed as directors of Shandong Shanshui.

On 16 December 2015, Tsang Wing Tai was appointed as a joint company secretary of the Company.

On 18 December 2015, Chong Cha Hwa tendered his resignation as a company secretary of the Company.

On 31 December 2015, (i) the Company has taken over the control of 100 factories of Shandong Shanshui; (ii) confirmation of redemption of the US$500,000,000 7.5% senior notes due 2020 ("**2020 Notes**") issued by the Company was triggered by the voluntary cash general offer jointly made by ACC and CNBM on 20 July 2015; (iii) Tianrui Group has agreed to grant a Loan Facility to the Company in principal the amount of approximately RMB61 million for the repayment of interest of Ultra Short-term Debenture issued by Shandong Shanshui with a code of "15山水SCP001" due on 11 November 2015. The Loan Facility is unsecured, interest free and has no fixed repayment terms.

On 14 January 2016, the Company offers to purchase for cash any and all of the outstanding Notes for a purchase price equal to US$1,010 for each US$1,000 principal amount of Notes validly tendered by the Holders prior to the Expiration Time (which represents 101% of the aggregate principal amount of the Notes) plus accrued and unpaid interest and Additional Amounts, if any, of such principal amount to, but not including, the Change of Control Payment Date.

On 30 January 2016, with the assistance of the Jinan local police force, the Company has smoothly taken over the headquarters and additional 3 factories of Shandong Shanshui. Except for the seal of Shandong Shanshui, all other chops and licences retained by the former directors of Shandong Shanshui, namely Zhang Caikui, Zhang Bin and Huang Kehua, have been found and returned to each of its subsidiaries respectively.

(IV) Corporate Profile

On 2 February 2016, (1) Cheung Yuk Ming (i) has been re-designated from an independent non-executive Director to an executive Director and appointed as the committee member of the Executive Committee and the authorised representative of the Company; and (ii) resigned as the chairman of the Audit Committee, committee member of the Nomination Committee, Remuneration Committee and Investigation Committee of the Company; (2) Hwa Guo Wai, Godwin has been re-designated from an executive Director to a non-executive Director; (3) Chong Cha Hwa has been re-designated from an executive Director to a non-executive Director and has ceased to be the authorized representative of the Company and committee member of the Executive Committee; (4) Wong Chi Keung has been appointed as an independent non-executive Director, committee member of the Audit Committee, Nomination Committee, Remuneration Committee and Investigation Committee of the Company; (5) Ng Qing Hai has resigned as a non-executive Director; (6) Law Pui Cheung has been appointed as the chairman of the Audit Committee of the Company; and (7) Yu Chun Liang has been appointed as a joint company secretary of the Company.

On 14 March 2016, as of the Expiration Time, US$484,971,000 of the principal amount of the 2020 Notes, representing approximately 97.0% of the total aggregate principal amount of the 2020 Notes outstanding, had been validly tendered and had not been withdrawn.

On 20 April 2016, due to the non-compliance on the part of the Zhangs, the form of amendments to the articles of association of Shandong Shanshui to be properly executed by the Registrar of the High Court on behalf of the Zhangs.

On 26 April 2016, the executive director of the Corporate Finance Division of the SFC issued a letter to the Company in respect of the Put Up or Shut Up Ruling.

On 10 May 2016, each of CNBM and ACC issued a letter to inform the Company of their decision not to proceed with the Possible Offer. The offer period, which commenced from the date of the 3.7 Announcement on 21 July 2015, had closed.

On 24 May 2016, Tianrui Group has agreed to grant a loan facility in the principal amount of approximately USD30.1 million to the Company, which is unsecured, interest free and has no fixed repayment terms, for the repayment of the interest and principal amount of the 2016 Notes outstanding on 25 May 2016.

On 31 May 2016, Li Liufa tendered his resignation as an executive Director, the chairman of the Board, and the chairman of both the Nomination Committee and the Executive Committee of the Company.

(IV) Corporate Profile

On 2 June 2016, (i) Liu Yiu Keung, Stephen has been appointed as the chairman of the Board, the chairman of the Nomination Committee and the chairman of the Executive Committee; and (ii) the Board has approved in principle the proposal for restoration of public float of the Company, involving an open offer on the basis of 4 new shares of the Company for every 1 existing Share in combination with a placing of new/existing Shares (if necessary) to raise about HK$4 billion to settle the outstanding debt of the Group including any outstanding amount of the 2020 Notes.

On 15 June 2016, Shandong Shanshui reported to the Company that about 200 unidentified persons trespassed on the factory and office building of Liaocheng Shanshui under the instruction of the Zhangs.

On 17 June 2016, (i) the Company held an annual general meeting (the "**AGM**"). Cheung Yuk Ming retired by rotation in accordance with the Articles of Association, was not re-appointed as Director by the shareholders at the AGM, he retired as a director with effect from the close of the AGM. Following his retirement, he ceased to be a committee member of the Executive Committee and an authorized representative of the Company; (ii) Tsang Wing Tai has been appointed as an authorized representative of the Company; and (iii) With the management of Shandong Shanshui and Liaocheng Shanshui under the guidance and assistance of the local government and police, the Company has taken back full control of the facilities of Liaocheng Shanshui such as factory and office building. The staff of Liaocheng Shanshui has resumed their working positions and the manufacturing operation activities have returned to normal.

On 24 June 2016, Shandong Shanshui received a civil ruling issued to Shandong Shanshui by Haidian District People's Court of Beijing prohibiting Zhang Bin, Zhang Caikui and Chen Xueshi to use or authorize others to use the official seal of Shandong Shanshui, of which the loss and invalidity have been declared by Shandong Shanshui.

On 30 June 2016, the Company has already paid 5% of the purchase price of the Tendered 2020 Notes (the "**First Notes payment**"), in principal amount of US$24,491,000.

On 5 July 2016, Hwa Guo Wai, Godwin has been re-designated from a non-executive Director to an executive Director and committee member of the Executive Committee of the Company; Ching Siu Ming have been appointed as independent non-executive Director, chairman of the Investigation Committee of the Company, a committee member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company; and Lo Chung Hing has been appointed as independent non-executive Director, a committee member of the Audit Committee, Nomination Committee, Remuneration Committee and Investigation Committee of the Company.

(IV) Corporate Profile

On 15 July 2016, the Company has already paid 5% of the purchase price of the Tendered 2020 Notes (the "**Second Notes payment**"), in principal amount of US$24,491,000.

On 12 September 2016, the Company entered into an Engagement Letter with each of SHKIS and ABCI. Pursuant to the Engagement Letters, SHKIS and ABCI agreed to act as co-placing agents of the Company to, subject to the signing of the Placing Agreement(s), and the terms and conditions in the Placing Agreement(s) place on a best efforts basis no less than 910,000,000 Placing Shares and no more than 950,000,000 Placing Shares at not less than the Placing Price of HK$0.50 per Placing Share to not less than six independent Placees. Based on the minimum Placing Price of HK$0.50, the gross proceeds from the Proposed Placing will range from approximately HK$455 million to HK$475 million.

On 6 October 2016, the Company, SHKIS and ABCI entered into a placing agreement relating to the proposed placing of new shares of the Company.

On 28 October 2016, the Company has already paid 5% of the purchase price of the Tendered 2020 Notes (the "**Third Notes payment**"), in principal amount of US$24,491,000.

On 28 November 2016, the Company, Cinda International Securities Limited (the "**Manager**"), First Capital Securities Limited ("**FCSL**"), SHKIS and ABCI (collectively placing agents, "**Placing Agents**") entered into an amended and restated placing agreement (the "**New Placing Agreement**") to amend and restate the Prior Placing Agreement on the terms and conditions set forth therein, which shall amend, restate, supersede and replace in its entirely the Prior Placing Agreement, and to accept the rights created pursuant thereto in lieu of the rights granted to them under the Prior Placing Agreement, subject to the terms and conditions of the New Placing Agreement.

On 5 December 2016, Shandong Shanshui has reached a settlement with China Merchants Bank Company Limited (Jinan Branch) related to a dispute in bank loans amounted to RMB564 million and the relevant PRC legal proceeding will be terminated in due course.

On 15 December 2016, Shandong Shanshui as the borrower, Tianrui Group, in addition, together with Shandong Shanshui, the Undertaking Parties and China Cinda Asset Management Company Limited (Shandong branch) ("**Cinda Shandong**", as the investor and the lender) entered into a debt investment framework agreement ("**Framework Agreement**") relating to Cinda Shandong or its related parties intending to carry out debt investment in Shandong Shanshui in order to resolve its relevant debt default issues and to replenish its liquidity. To the extent that is in compliance with all the relevant Listing Rules, the Company will cooperate with Cinda Shandong which will acquire the defaulted bonds issued by Shandong Shanshui in the open market in tranches based on consideration(s) negotiated with Shandong Shanshui's creditors. Cinda Shandong or its related parties will grant an entrusted loan (the "**Entrusted Loan**") to Shandong Shanshui through Nanyang Commercial Bank (China) Limited, a wholly-owned subsidiary of China Cinda Asset Management Company Limited, in accordance with the fulfillment of the relevant conditions by Shandong Shanshui. Cinda Shandong or its related parties will invest an aggregate amount of up to RMB8 billion.

On 14 December 2016, the Company entered into the Corporate Guarantee in favour of the Bank as a security for the provision of the Loan Facility of RMB400 million by the Bank to Tianrui Group under the Facility Agreement. The Facility Agreement and the Corporate Guarantee were approved by the Bank on 26 December 2016 and the Company was informed of such approval on 28 December 2016. Immediately after receipt of the approval for the Facility Agreement and the Corporate Guarantee, on 28 December 2016, the Company, as borrower, entered into the Supplementary Loan Agreement with Tianrui Group, as lender, pursuant to which Tianrui Group has granted the Unsecured Loan to the Company for the partial payment of the 2020 Bond.

On 20 December 2016, the Company has appointed an independent professional firm – JLA Asia Limited to investigate into Mi Jingtian's Suspected Misconduct and the Company has suspended all Mi Jingtian's duties, powers, functions and authorities in Shandong Shanshui and all its subsidiaries.

On 12 January 2017, based on the findings of JLA Asia Limited, the Company has passed resolution to authorise its wholly owned subsidiary, Pioneer Cement, resolved to remove Mi Jingtian from all his duties, powers functions and authorities in Shandong Shanshui and all its subsidiaries, including his directorship and the position of deputy general manager in Shandong Shanshui and all his employment relationship with the Company, subsidiaries and its related group companies.

On 25 January 2017, Pioneer Cement has appointed Ms. Su Aizhen as a director of Shandong Shanshui. Ms. Su is subject to approval from China Cinda Asset Management Company Limited to perform her duties as director of Shandong Shanshui.

On 27 January 2017, the Company received a written requisition from certain Shareholders to convene and hold an extraordinary general meeting to consider the matters as stated in the Requisition Letter.

On 17 February 2017, the Adjournment Resolution was duly passed by the Shareholders by way of poll at the extraordinary general meeting, please refer to the announcement dated 17 February 2017 for details.

On 27 February 2017, an independent board committee comprised of independent non-executive Directors of the Company has appointed Karl Thomson Financial Advisory Limited to advise the Shareholders of the Company in the form of an IFA Letter on the Proposed Transactions.

On 8 March 2017, all the proposed resolutions as set out in the notice of the extraordinary general meeting dated 16 February 2017 were taken by poll, please refer to the announcement dated 8 March 2017 for details.

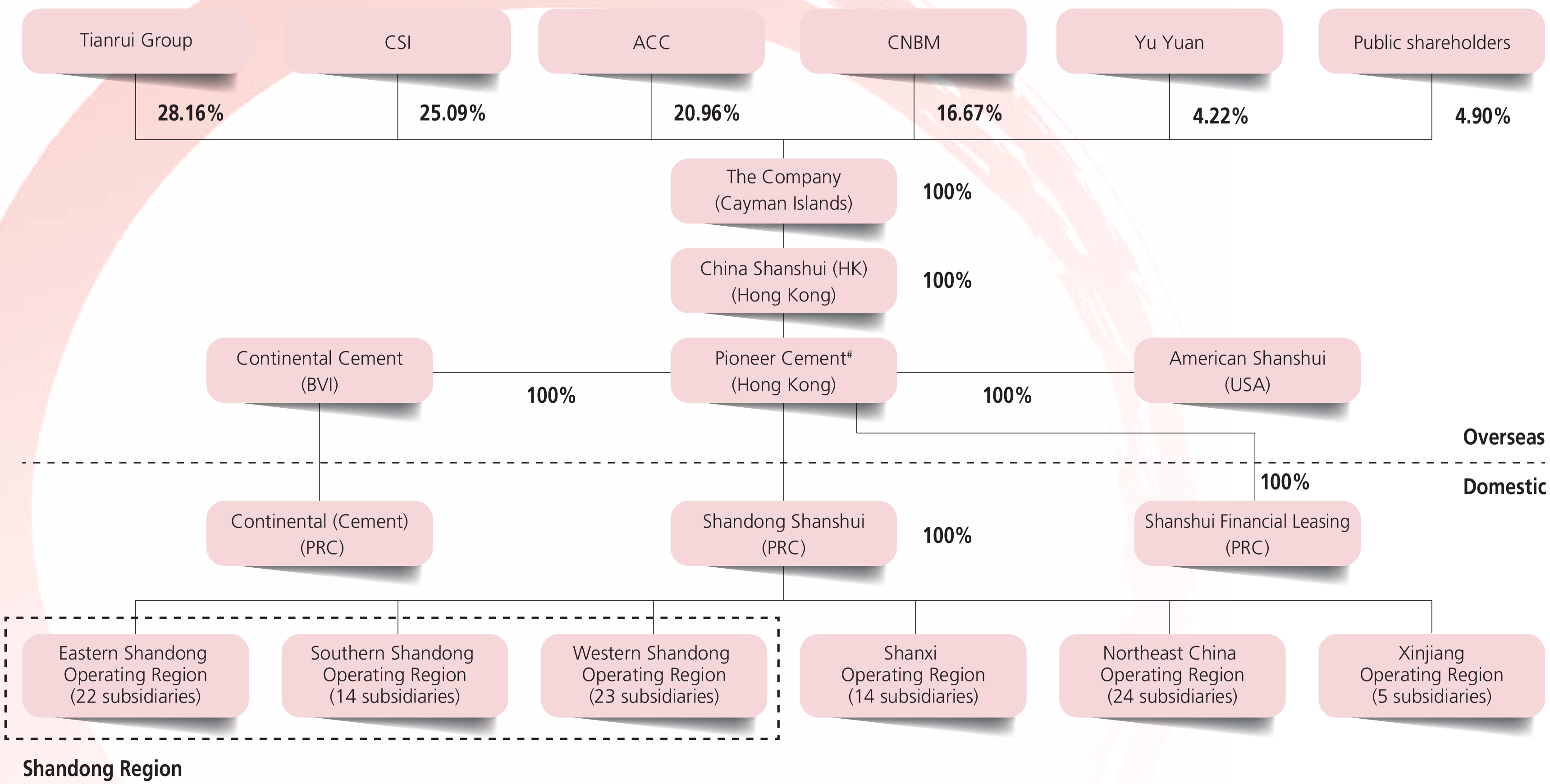
(IV) Corporate Profile

On 10 March 2017, the Company, as borrower, entered into a loan agreement with Tianrui Group, as lender, pursuant to which Tianrui Group has agreed to grant a loan facility in the principal amount of USD18.75 million to the Company, which is unsecured, interest free and has no fixed repayment terms, for the repayment of the interest of the Notes. The Company has already paid the interest of the Notes in full due on 10 March 2017.

On 13 March 2017, Pioneer Cement has resolved and issued the following shareholder resolutions to the board of directors of Shandong Shanshui: (1) To remove Li Maohuan, Yu Yuchuan, Zhao Liping and Chen Zhongsheng from office as director of Shandong Shanshui; (2) To terminate Yu Yuchuan, Zhao Liping and Chen Zhongsheng from all their duties, powers functions and authorities in Shandong Shanshui and all of its subsidiaries, and terminate all of their employment relationship with the Company, its subsidiaries and related companies; (3) To remove Liu Xianliang from office as supervisor of Shandong Shanshui; (4) To terminate Liu Xianliang from all his duties, powers functions and authorities in Shandong Shanshui and all of its subsidiaries, and terminate all his employment relationship with the Company, its subsidiaries and related companies; (5) To appoint Liu Yiu Keung, Stephen, Yen Ching Wai, David, Chong Cha Hwa and Liu Dequan as directors of Shandong Shanshui; and (6) To appoint Yen Ching Wai, David as General Manager (External Affairs) of Shandong Shanshui.

On 13 March 2017, the Company issued a letter to the Previous Manager and the Previous Placing Agents to terminate the Amended and Restated Placing Agreement with immediate effect pursuant to the Amended and Restated Placing Agreement; and In order to restore the public float of the Company, on 13 March 2017, the Company, the Manager and the Placing Agents entered into the New Placing Agreement for the Placing with major terms identical to the Previous Placing. The Company shall offer not less than 910,000,000 new Shares and not more than 950,000,000 new Shares for subscription and the Placing Agents agree to, use their best efforts, as agents of the Company to procure, either by themselves or through their sub-placing agents, the Placees to subscribe the Placing Shares at a Placing Price of not less than HK$0.50 per Placing Share on the terms and conditions of the New Placing Agreement. Based on the minimum Placing Price of HK$0.50, the gross proceeds from the proposed Placing will range from approximately HK$455 million to HK$475 million, please refer to the announcement dated 13 March 2017.

(2) SHAREHOLDING STRUCTURE OF THE GROUP



\# Pioneer Cement directly held the shareholdings of the follow subsidiaries, including Anqiu Shanshui (25.16%), Wehai Shanshui (75.00%), Qingdao Chuangxin (75.03%), Linqu Shanshui (45.07%), Lingqu Aggregate (99.00%) in Eastern Shandong Operating Region; Zaozhuang Chuangxin (69.96%) in Southern Shandong Operating Region; Pingyin Shanshui (25.00%) in Western Shandong Operating Region; and Dandong Shanshui (25.25%) and Shenyang Shanshui (18.10%) in Northeast China Operating Region.

(IV) Corporate Profile

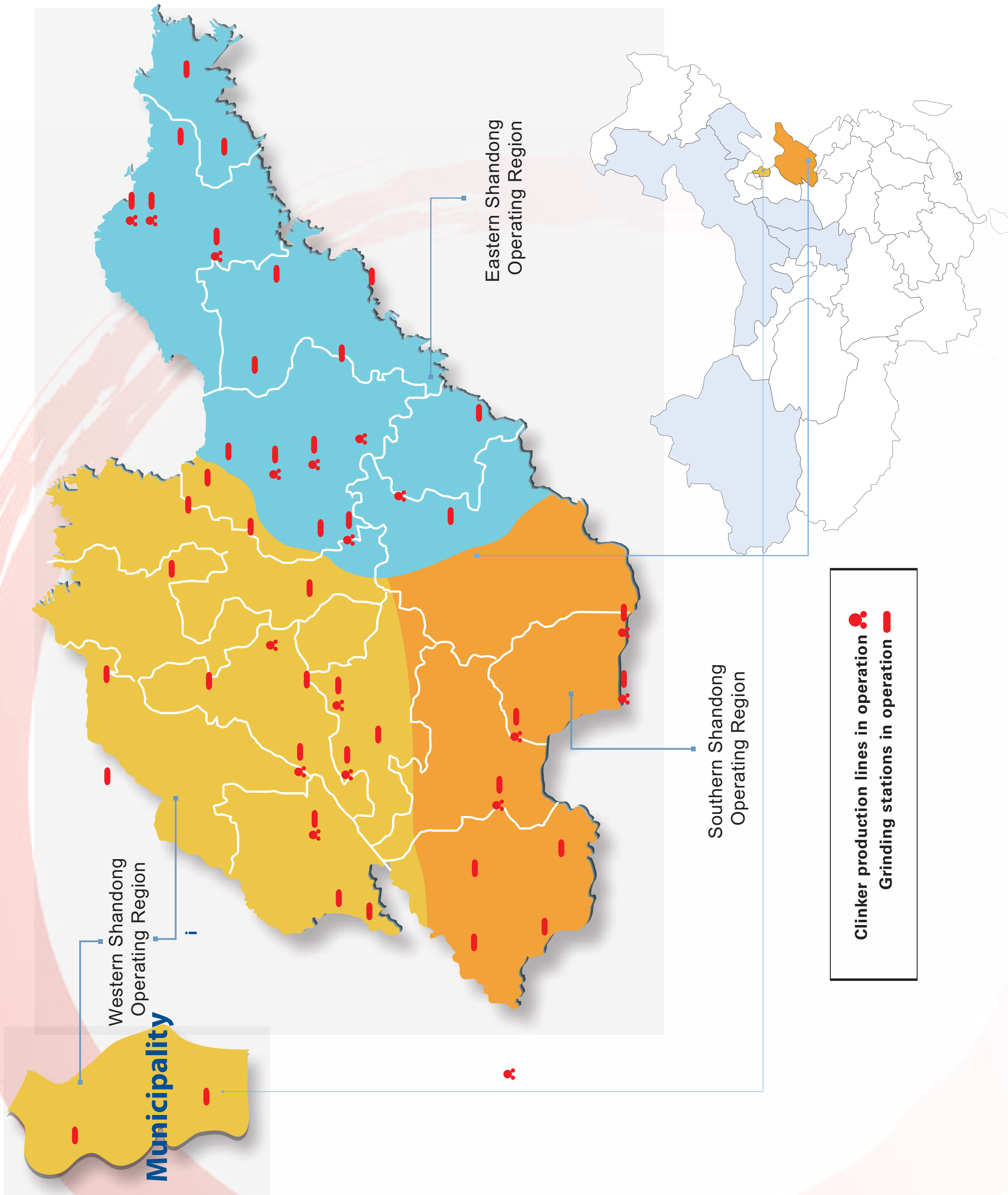
(3) DISTRIBUTION OF PRODUCTION FACILITIES AND CAPACITY

The Group's production facilities are principally located in Shandong Province, Liaoning Province, the Eastern Inner Mongolia, Shanxi Province, 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 2016, the total capacity of cement and clinker of the Group is listed below:

	Cement Capacity (million tonnes)	Clinker Capacity (million tonnes)
Shandong Region	54.35	24.93
Eastern Shandong Operating Region	23.41	10.75
Western Shandong Operating Region	21.74	7.94
Southern Shandong Operating Region	9.20	6.24
Shanxi Operating Region	15.90	8.64
Northeast China Operating Region	27.51	15.84
Xinjiang Operating Region	4.00	1.60
Total	101.76	51.01

Locations of major production facilities in Shandong Region as of 31 December 2016:



(IV) Corporate Profile

Eastern Shandong Operating Region

Company Name	Principal Business
Anqiu Shanshui Cement Co., Ltd. ("Anqiu Shanshui")	Production and sales of cement and clinker
Changle Shanshui Cement Co., Ltd. ("Changle Shanshui")	Production and sales of cement, clinker and concrete
Continental (Shandong) Cement Corporation ("Continental Cement")	Production and sales of clinker
Linqu Shanshui Building Material Aggregate Co., Ltd. ("Linqu Aggregate")	Production and sales of concrete aggregate
Linqu Shanshui Cement Co., Ltd. ("Linqu Shanshui")	Production and sales of cement and clinker
Qingdao Huading Building Material Co., Ltd. ("Huading Building Material")	Production and sales of concrete
Qingdao Huading New Building Material Co., Ltd. ("Huading New Building Material")	Production and sales of concrete
Qingdao Ji'an Concrete Co., Ltd. ("Qingdao Ji'an")	Production and sales of concrete
Qingdao Shanshui Chuangxin Cement Co., Ltd. ("Qingdao Chuangxin")	Production and sales of cement
Qingdao Shanshui Hengtai Cement Co., Ltd. ("Qingdao Hengtai")	Production and sales of cement and related products
Qingdao Shanshui Jianxin Cement Co., Ltd. ("Qingdao Jianxin")	Production and sales of cement
Qixia City Xinghao Cement Co., Ltd. ("Xinghao Cement")*	Production and sales of cement and clinker
Rushan Shanshui Cement Co., Ltd. ("Rushan Shanshui")*	Production and sales of cement and related products
Weifang Binhai Shanshui Cement Co., Ltd. ("Weifang Shanshui")	Production and sales of cement
Weifang City Leixin Concrete Co., Ltd. ("Weifang Leixin")	Production and sales of concrete
Weifang Ningshi Building Material Co., Ltd. ("Weifang Ningshi")	Production and sales of cement
Weifang Shanshui Cement Co., Ltd. ("Weifang Shanshui")	Production and sales of cement, limestone and concrete
Weifang Wanda Building materials Co., Ltd. ("Weifang Wanda")	Production and sales of concrete
Weihai Shanshui Cement Co., Ltd. ("Weihai Shanshui")	Production and sales of cement and concrete
Yantai Shanshui Cement Co., Ltd. ("Yantai Shanshui")	Production and sales of cement
Yishui Chuangxin Shanshui Cement Co., Ltd. ("Yishui Chuangxin")	Production and sales of cement
Yishui Shanshui Cement Co., Ltd. ("Yishui Shanshui")	Production and sales of clinker and limestone

* Xinghao Cement and Rushan Shanshui were taken over by third parties in February and April of 2016 respectively.

(IV) Corporate Profile

Southern Shandong Operating Region

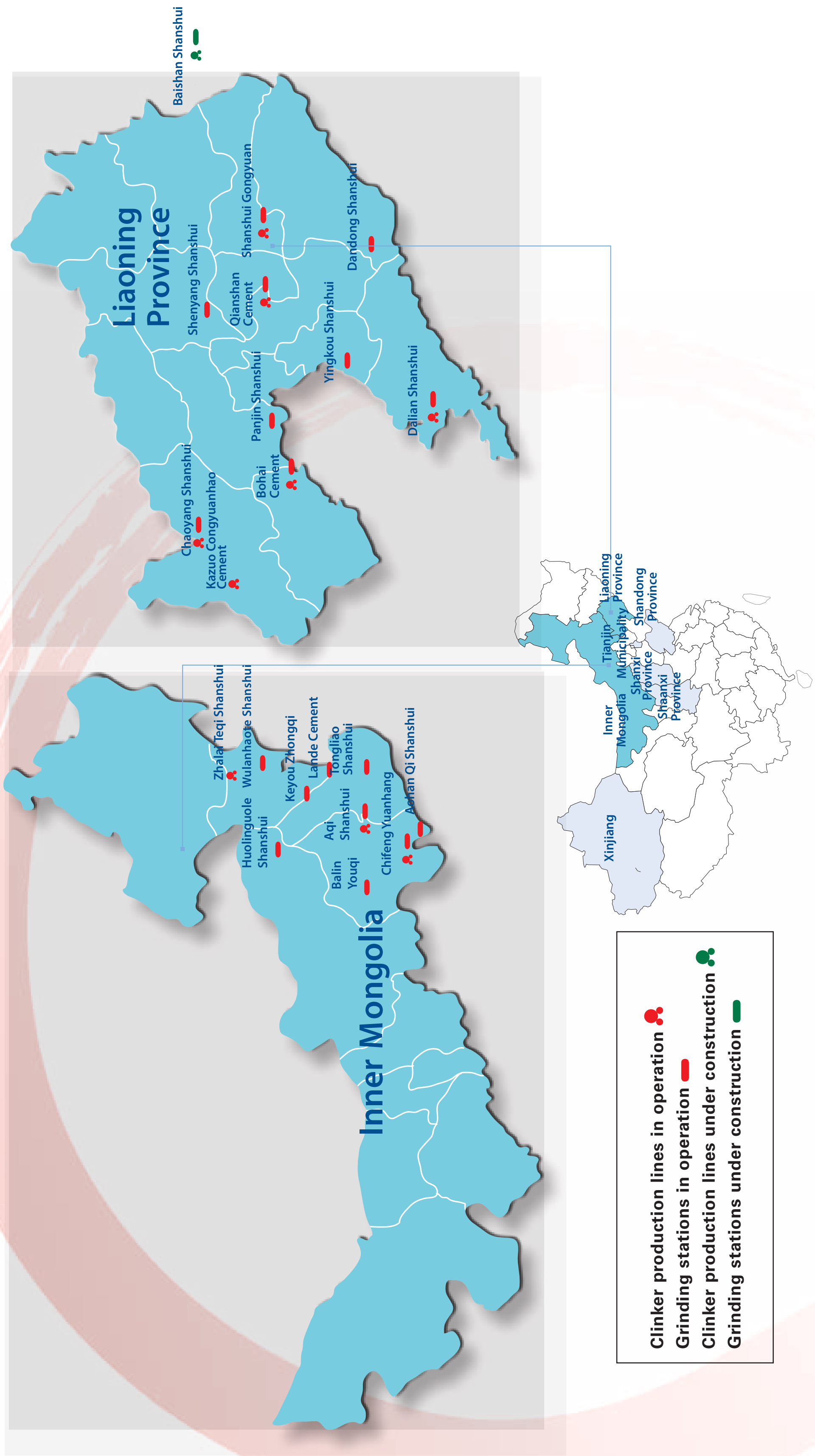
Company Name	Principal Business
Bengbu Shanshui Cement Co., Ltd. ("Bengbu Cement")	Establishment of cement production line
Bozhou Shanshui Cement Co., Ltd. ("Bozhou Cement")	Establishment of cement production line
Caoxian Chuangxin Concrete Co., Ltd. ("Caoxian Chuangxin")	Production and sales of concrete
Caoxian Shanshui Cement Co., Ltd. ("Caoxian Shanshui")	Production and sales of cement
Dongming Shanshui Cement Co., Ltd. ("Dongming Shanshui")	Production and sales of cement
Heze Fuyu Concrete Co., Ltd. ("Heze Fuyu")	Production and sales of concrete
Huixian City Shanshui Cement Co., Ltd. ("Huixian Shanshui")	Establishment of clinker production line
Jiaxiang Shanshui Aggregate Co., Ltd. ("Jiaxiang Aggregate")	Production and sales of concrete aggregate
Jining Shanshui Cement Co., Ltd. ("Jining Shanshui")	Production and sales of cement, clinker, concrete, limestone and related products
Juye Shanshui Cement Co., Ltd. ("Juye Shanshui")	Production and sales of cement
Shanxian Shanshui Cement Co., Ltd. ("Shanxian Shanshui")	Production and sales of cement
Weishan Shanshui Cement Co., Ltd. ("Weishan Shanshui")	Production and sales of cement and clinker
Zaozhuang Chuangxin Shanshui Cement Co., Ltd. ("Zaozhuang Chuangxin")	Production and sales of cement and clinker
Zaozhuang Shanshui Cement Co., Ltd. ("Zaozhuang Shanshui")	Production and sales of cement and clinker

(IV) Corporate Profile

Western Shandong Operating Region

Company Name	Principal Business
Binzhou Shanshui Cement Co., Ltd. ("Binzhou Shanshui")	Production and sales of cement
Dezhou Tianqi Concrete Co., Ltd. ("Dezhou Tianqi")	Production and sales of concrete
Dezhou Zhucheng Concrete Co., Ltd. ("Dezhou Zhucheng")	Production and sales of concrete
Dongying Shanshui Cement Co., Ltd. ("Dongying Shanshui")	Production and sales of cement
Feicheng City Mashan Cement Co., Ltd. ("Mashan Cement")	Production and sales of cement
FeiCheng Shanshui Concrete Co., Ltd. ("Feicheng Concrete")	Production and sales of concrete
Guangrao Shanshui Cement Co., Ltd. ("Guangrao Shanshui")	Production and sales of cement
Gucheng Shanshui Cement Co., Ltd. ("Gucheng Shanshui")	Production and sales of cement
Jinan Shanshui Wuliugang Co., Ltd. ("Wuliugang")	Logistic service and sales of coal
Jinan Shi-ji Chuang-xin Cement Co., Ltd. ("Shi-ji Chuang-xin")	Production and sales of cement and related products
Kenli Shanshui Cement Co., Ltd. ("Kenli Shanshui")	Production and sales of cement
Laoling Shanshui Cement Co., Ltd. ("Laoling Shanshui")	Production and sales of cement and related products
Liaocheng Meijing Zhongyuan Cement Co., Ltd. ("Liaocheng Meijing")	Production and sales of cement and clinker
Liaocheng Shanshui Cement Co., Ltd. ("Liaocheng Shanshui")	Production and sales of cement and concrete
Pingyin Shanshui Cement Co., Ltd. ("Pingyin Shanshui")	Production and sales of cement and clinker
Shandong Cement Factory Co., Ltd. ("Shandong Cement Factory")	Production and sales of cement and concrete; production of limestone
Shandong Shanshui Building Materials Co., Ltd. ("Shandong Building Materials")	Production and sales of building materials and related products
Shenxian Shanshui Cement Co., Ltd. ("Shenxian Shanshui")	Production and sales of cement and cement related products
Tianjin City Tianhui Cement Co., Ltd. ("Tianjin Tianhui")	Production and sales of cement and related products
Tianjin Shanshui Cement Co., Ltd. ("Tianjin Shanshui")	Production and sales of cement
Zhoukou Shanshui Pipeline Co., Ltd. ("Zhoukou Shanshui")	Production and sales of cement and cement related products
Zibo Shanshui Cement Co., Ltd. ("Zibo Shanshui")	Production and sales of cement, clinker and limestone
Zibo Shuangfeng Shanshui Cement Co., Ltd. ("Zibo Shuangfeng")	Production and sales of cement

Locations of major production facilities in Northeast China Operating Region as of 31 December 2016:

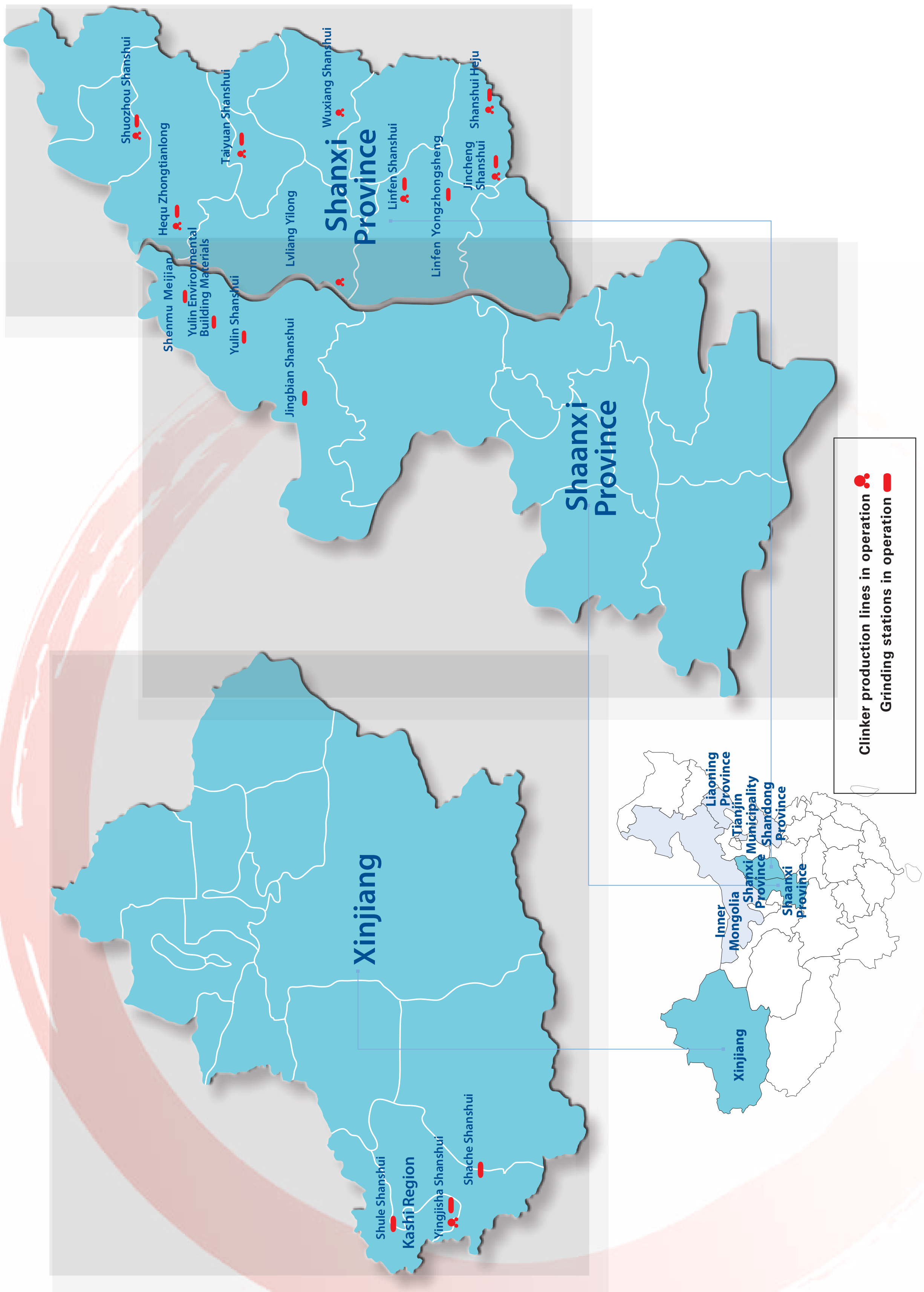


(IV) Corporate Profile

Northeast China Operating Region:

Company Name	Principal Business
Alu Kerqin Qi Shanshui Cement Co., Ltd. ("Aqi Shanshui")	Production and sales of cement and clinker
Aohan Qi Shanshui Cement Co., Ltd. ("Aohan Shanshui")	Production and sales of cement and related products
Baishan Shanshui Cement Co., Ltd. ("Baishan Shanshui")	Production and sales of cement and related products
Balinyou Qi Shanshui Cement Co., Ltd. ("Balinyou Shanshui")	Production and sales of cement
Benxi Shanshui Mining Co., Ltd. ("Benxi Mining")	Mining and sales of limestone
Benxi Shanshui Shiye Co., Ltd. ("Benxi Shiye")	Installation and maintenance of equipment and spare parts of cement machines
Bohai Cement (Huludao) Co., Ltd. ("Bohai Cement")	Production and sales of cement, clinker and related products
Bohai Cement (Jinzhou) Co., Ltd. ("Jinzhou Cement")	Production and sales of cement, concrete and related products
Chaoyang Shanshui Dongxin Cement Co., Ltd. ("Chaoyang Dongxin")	Production and sales of cement
Chifeng Shanshui Yuanhan Cement Company Limited ("Chifeng Yuanhan")	Production and sales of cement and related products
Dalian Shanshui Cement Co., Ltd. ("Dalian Shanshui")	Production and sales of cement, clinker and related products
Dandong Shanshui Gongyuan Cement Co., Ltd. ("Dandong Shanshui")	Production and sales of cement
Huludao Bohai Railway Co., Ltd. ("Bohai Railway")	Development and maintenance of special railway-lines
Huolin Guole Shanshui Cement Co., Ltd. ("Huolin Shanshui")	Production and sales of cement
Kazuo Congyuanhao Cement Co., Ltd. ("Kazuo Congyuanhao Cement")	Production and sales of cement and clinker
Keyouzhong Qi Shanshui Cement Co., Ltd. ("Keyouzhong Shanshui")	Production and sales of cement
Liaoning Shanshui Gongyuan Cement Co., Ltd. ("Liaoning Shanshui")	Production and sales of cement and related products
Liaoyang Qianshan Cement Co., Ltd. ("Liaoyang Qianshan")	Production and sales of cement and clinker
Panjin Shanshui Cement Co., Ltd. ("Panjin Shanshui")	Production and sales of cement
Shenyang Shanshui Gongyuan Cement Co., Ltd. ("Shenyang Shanshui")	Production and sales of cement
Tongliao Shanshui Gongyuan Cement Co., Ltd. ("Tongliao Gongyuan")	Production and sales of cement
Wulanhaote Shanshui Cement Co., Ltd. ("Wulanhaote")	Production and sales of cement
Yingkou Shanshui Cement Co., Ltd. ("Yingkou Shanshui")	Production and sales of cement
Zhalaite Qi Shanshui Cement Co., Ltd. ("Zhalaite Qi Shanshui")	Production and sales of cement

Locations of major production facilities in Shanxi and Xinjiang Operating Regions as of 31 December 2016:



(IV) Corporate Profile

Shanxi Operating Region

Company Name	Principal Business
Hequ Zhongtianlong Cement Co., Ltd. ("Hequ Zhongtianlong")	Production and sales of cement and clinker
Jincheng Shanshui Cement Co., Ltd. ("Jincheng Shanshui")	Production and sales of cement and clinker
Jincheng Shanshui Heju Cement Co., Ltd. ("Shanshui Heju")	Production and sales of cement and clinker
Jingbian Xian Shanshui Cement Co., Ltd. ("Jingbian Shanshui")	Production and sales of cement
Linfen Shanshui Cement Co., Ltd. ("Linfen Shanshui")	Production and sales of cement and clinker
Lvliang Yilong Cement Co., Ltd. ("Lvliang Yilong")	Production and sales of cement and clinker
Shanxi Shanshui Cement Co., Ltd. ("Shanxi Shanshui")	Sales of cement and cement related products
Shanxi Yongzhongsheng Environmental Building Material Co., Ltd. ("Yongzhongsheng")	Production and sales of cement
Shenmu Xian Meijian Cement Co., Ltd. ("Shenmu Meijian")	Production and sales of cement
Shuozhou Shanshui New Era Cement Co., Ltd. ("Shuozhou New Era")	Production and sales of cement and related products
Taiyuan Shanshui Cement Co., Ltd. ("Taiyuan Shanshui")	Production and sales of cement
Wuxiang Shanshui Cement Co., Ltd. ("Wuxiang Shanshui")	Production and sales of cement and clinker
Yulin Shanshui Cement Co., Ltd. ("Yulin Shanshui")	Production and sales of cement and related products
Yulin Shanshui Environmental Building Materials Co., Ltd. ("Yulin Building Materials")	Production and sales of cement and related products

Xinjiang Operating Region

Company Name	Principal Business
Kashi Shanshui Cement Co., Ltd. ("Kashi Shanshui")	Production and sales of cement
Kezhou Shanshui Materials Trading Co., Ltd. ("Kezhou Shanshui")	Logistic service and sales of cement and materials
Shache Shanshui Cement Co., Ltd. ("Shache Shanshui")	Production and sales of cement and concrete
Shule Shanshui Cement Co., Ltd. ("Shule Shanshui")	Production and sales of cement and concrete
Yingjisha Shanshui Cement Co., Ltd. ("Yingjisha Shanshui")	Production and sales of cement, concrete and clinker

(V) Management Discussion and Analysis

1. OPERATING ENVIRONMENT OF THE CEMENT INDUSTRY

In 2016, China's GDP is RMB74,412.7 billion, representing a YOY increase of 6.7%. The investment on national real estate development is RMB10,258.1 billion, representing a YOY increase of 7.5%. The total social fixed asset investment (excluding peasant households) is RMB59.6501 trillion, representing a YOY increase of 8.8%, the growth starts to slow down, which breaks "10%" for its debut. The national large-scale industrial added-value increased by 6.0% than the actual value of last year, due to the steady growth of industrial production, the enterprise efficiency is improved significantly. (Data source: National Bureau of Statistics)

In 2016, the cement industry launched the supply-side structural reform with "Steady Growth, Structural Adjustment and Efficiency Increase" as the theme, the industry adopted a series of measures, including peak-alteration production, development of industry self-discipline, strengthening regional coordination and market integration; hence, most of the regional market supply-demand relationships achieved the periodic improvements, cement price continued to rebound and the trend is still relatively strong in the later period to cause the industry benefits receiving a substantial increase in the whole year.

According to the statistics of National Bureau of Statistics, the national cement output is 2.4 billion tonnes, representing a YOY increase of 2.5%. In 2016, the cement industry in China realized the revenue of RMB876.4 billion, representing a YOY increase of 1.2%, realized profit of RMB51.8 billion, representing a YOY increase of 55%. However, the cement industry in China went through the inversion of lower at first and higher in the end of 2016, the industry lasted the downturn of 2015 at the beginning of the year, and up to August the industry profit firstly achieved the positive growth compared with the same period in 2015. From the perspective of regions, the northern region has smoothly returned to profitability, meanwhile, the profit of the southern region also keeps the various degrees of increase. The industry merger and reorganization, and market integration are speeding up, then the industrial concentration is further improved. The clinker export trade increases with the acceleration of overseas cement project investment, and the overseas market scale of large enterprises continuously extends.

It should be noted that despite the fact that the cement industry achieved significant YOY increase of the profit in 2016, it is mainly due to depressed margin and a sharp turnaround in prices of northern region in 2015. From the perspective of industry profit margins, it is still at a relatively low level in 2016. It is worth noting that the newly-increased capacity trend still continues, coupled with industry structural adjustment and the contradiction of overcapacity are still outstanding, and the clinker capacity utilization rate is only amounted to 68.1%. (Data source: Digital Cement Network)

(V) Management Discussion and Analysis

2. OPERATIONS OVERVIEW

In 2016, the Group is committed to refining fundamental internal management to enhance the quality of existing production and operation and to sustain the Company's profitability. As at 31 December 2016, the Group had a total production capacity of 101.76 million tonnes of cement, 5,101 million tonnes of clinker and 19.30 million cubic meters of concrete. During the Reporting Period, the Group's sales volume of cement was 43.959 million tonnes, representing a YOY decrease of 4.1%; sales volume of clinker was 10.544 million tonnes, representing a YOY increase of 25.2%; sales volume of concrete was 2.680 million cubic meters, representing a YOY increase of 13.1%; sales revenue was RMB11,284 million, representing a YOY increase of 1.1%; and the loss for the period was RMB978 million.

During the Reporting Period, the Group's total production capacity has following changes:

	Added/(deducted) cement capacity (10,000 tonnes)	**Added/(deducted) clinker capacity (10,000 tonnes)**
Shi-ji Chuang-xin	(37)	–
Changle Shanshui	(46)	(64)
Weifang Shanshui	(112)	–
Qingdao Hengtai	(30)	–
Xinghao Cement*	(156)	(128)
Rushan Shanshui*	(100)	–
Liaoning Shanshui	(119)	–
Baishan Shanshui	100	128
Taiyuan Shanshui	–	(64)
Total production capacity deducted	(500)	(128)

* The production capacity of about 2.56 million tonnes of cement and 1.28 million tonnes of clinker of Xinghao Cement and Rushan Shanshui was not included in the Reporting Period because Xinghao Cement and Rushan Shanshui were taken over by third parties in February and April of 2016 respectively.

(i) Business review

(a) Sales revenue analysis and the respective YOY changes

(Unit: RMB million)

	2016		2015		
Product	**Sales revenue**	**Sales proportion**	Sales revenue	Sales proportion	Change in sales revenue
Cement	**8,746**	**77.5%**	9,111	81.6%	-4.0%
Clinker	**1,735**	**15.4%**	1,299	11.6%	33.6%
Concrete	**677**	**6.0%**	634	5.7%	6.8%
Others	**126**	**1.1%**	122	1.1%	3.3%
Total	**11,284**	**100%**	11,166	100%	1.1%

During the Reporting Period, the Company's sales revenue increased by 1.1% to RMB11,284 million. Cement revenue amounted to RMB8,746 million, representing a YOY decrease of 4.0%. Clinker revenue amounted to RMB1,735 million, representing a YOY increase of 33.6%. Revenue from concrete amounted to RMB677 million, representing a YOY increase of 6.8%. The revenue of the Company has slightly improved.

(b) *Sales volume, unit selling prices and their respective YOY changes*

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

Product	2016 Sales volume ('000 tonnes)	2015 Sales volume ('000 tonnes)	Sales volume change	2016 Unit selling price (RMB/ tonne)	2015 Unit selling price (RMB/ tonne)	Change in selling price
Cement	**43,959**	45,821	-4.1%	**199.0**	198.8	0.1%
Clinker	**10,544**	8,421	25.2%	**164.6**	154.3	6.7%
	('000 m^3)	('000 m^3)		**(RMB/m^3)**	(RMB/m^3)	
Concrete	**2,680**	2,370	13.1%	**252.8**	267.6	-5.5%

During the Reporting Period, the sales volume of cement of the Company amounted to 43.959 million tonnes, representing a YOY decline of 4.1%, while the sales volume of commercial clinker increased to 10.544 million tonnes, representing a YOY increase of 25.2%. The unit selling price of cement increased by 0.1% to RMB199.0 per tonne, while the unit selling price of clinker increased by 6.7% to RMB164.6 per tonne. The sales volume of concrete increased to 2,680 thousand cubic meters, representing a YOY increase of 13.1%. The unit selling price of concrete decreased by 5.5% to RMB252.8/m^3.

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

Operating regions	**Average unit selling price in 2016 (RMB/tonne)**	Average unit selling price in 2015 (RMB/tonne)	Change in selling price
Shandong Region	**194.6**	192.5	1.1%
Eastern Shandong Operating Region	**198.2**	193.1	2.6%
Western Shandong Operating Region	**191.3**	192.2	-0.5%
Southern Shandong Operating Region	**192.2**	191.9	0.2%
Northeast China Operating Region	**208.0**	214.6	-3.1%
Shanxi Operating Region	**161.4**	161.3	0.1%
Xinjiang Operating Region	**271.3**	267.5	1.5%

During the Reporting Period, the average unit selling price of cement in Shandong Region was RMB194.6 per tonne, representing a YOY increase of 1.1%; the average unit selling price of cement in Eastern Shandong Operating Region was RMB198.2 per tonne, representing a YOY increase of 2.6%; the average unit selling price of cement in Western Shandong Operating Region was RMB191.3 per tonne, representing a YOY decrease of 0.5%; the average unit selling price of cement in Southern Shandong Operating Region was RMB192.2 per tonne, representing a YOY increase of 0.2%; the average unit selling price of cement in Northeast China Operating Region was RMB208.0 per tonne, representing a YOY decrease of 3.1%; the average unit selling price of cement in Shanxi Operating Region was RMB161.4 per tonne, representing a YOY increase of 0.1%; the average unit selling price of cement in Xinjiang Operating Region was RMB271.3 per tonne, representing a YOY increase of 1.5%.

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

Product	2016 Sales volume ('000 tonnes)	2016 Sales proportion	2015 Sales volume ('000 tonnes)	2015 Sales proportion	Change in sales volume
High grade cement	**28,336**	**64.5%**	29,433	64.2%	-3.7%
Low grade cement	**15,623**	**35.5%**	16,388	35.8%	-4.7%

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 28.336 million tonnes, representing a YOY decrease of 3.7%, and sales volume of low grade cement was 15.623 million tonnes, representing a YOY decrease of 4.7%.

(c) ***Analysis of sales revenue by operating regions and their respective YOY changes***

(Unit: RMB'000)

Operating region	2016 Sales revenue	2016 Sales proportion	2015 Sales revenue	2015 Sales proportion	Change in sales revenue
Shandong Region	**6,922,365**	**61.3%**	7,103,105	63.6%	-2.5%
Eastern Shandong Operating Region	**2,904,502**	**25.7%**	3,075,982	27.5%	-5.6%
Western Shandong Operating Region	**2,639,377**	**23.4%**	2,787,419	25.0%	-5.3%
Southern Shandong Operating Region	**1,378,486**	**12.2%**	1,239,704	11.1%	11.2%
Northeast China Operating Region	**3,108,620**	**27.6%**	3,108,476	27.8%	0.0%
Shanxi Operating Region	**825,094**	**7.3%**	598,521	5.4%	37.9%
Xinjiang Operating Region	**428,114**	**3.8%**	356,110	3.2%	20.2%
	11,284,193	**100%**	11,166,212	100%	1.1%

During the Reporting Period, the sales revenue in Shandong Operating Region was RMB6,922 million, accounting for 61.3% of the Group's total sales revenue and representing a YOY decrease of 2.5%; the sales revenue in Eastern Shandong Operating Region was RMB2,905 million, accounting for 25.7% of the Group's total sales revenue and representing a YOY decrease of 5.6%; the sales revenue in Western Shandong Operating Region was RMB2,639 million, accounting for 23.4% of the Group's total sales revenue and representing a YOY decrease of 5.3%; the sales revenue in Southern Shandong Operating Region was RMB1,378 million, accounting for 12.2% of the Group's total sales revenue and representing a YOY increase of 11.2%; the sales revenue in Northeast China Operating Region was RMB3,109 million, accounting for 27.6% of the Group's total sales revenue and representing a YOY increase of 0.005%; the sales revenue in Shanxi Operating Region was RMB825 million, accounting for 7.3% of the Group's total sales revenue and representing a YOY increase of 37.9%; the sales revenue in Xinjiang Operating Region was RMB428 million, accounting for 3.8% of the Group's total sales revenue and representing a YOY increase of 20.2%.

(V) Management Discussion and Analysis

(ii) Profit analysis

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

(Unit: RMB'000)

	2016	2015	Change
Revenue	**11,284,193**	11,166,212	1.1%
Gross profit	**2,476,001**	1,228,285	101.6%
EBITDA	**1,683,883**	(3,430,464)	-149.1%
Profit/(Loss) from operations	**238,161**	(4,869,076)	-104.9%
Loss before taxation	**(829,295)**	(6,495,603)	-87.2%
Net loss for the year	**(978,861)**	(6,693,655)	-85.4%
Loss attributable to equity holders of the Company	**(738,281)**	(6,387,259)	-88.4%

During the Reporting Period, the Group recorded sales revenue of RMB11,284 million, representing a YOY increase of 1.1%; profit from operations was RMB238 million; loss for the year was RMB979 million, represent a YOY decrease of 85.4%; loss attributable to equity shareholders of the Company was RMB738 million. The decrease in loss was mainly due to the increase in sales volume and selling price and the gross profit margin for the year has increased from 11% to 21.9%.

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

(Unit: RMB'000)

	2016		2015		Change of proportion to revenue
Cost of sales	**Amount**	**Proportion to revenue**	Amount	Proportion to revenue	
Raw materials	**2,675,355**	**23.7%**	3,185,792	28.5%	-4.8 P.Pt.
Coal	**2,185,061**	**19.4%**	2,130,174	19.1%	0.3 P.Pt.
Power	**1,390,936**	**12.3%**	1,618,000	14.5%	-2.2 P.Pt.
Depreciation and amortisation	**1,037,650**	**9.2%**	1,072,460	9.6%	-0.4 P.Pt.
Others	**1,520,190**	**13.5%**	1,931,501	17.3%	-3.8 P.Pt.
Total cost of sales	**8,809,192**	**78.1%**	9,937,927	89.0%	-10.9 P.Pt.

During the Reporting Period, the proportion of the Group's total cost of sales to revenue was 78.1%, representing a YOY decrease of 10.9 percentage points. Of which, the proportion of raw materials costs, power costs, depreciation and amortisation to revenue decreased by 4.8%, 2.2% and 0.4% respectively. The proportion of coal costs to revenue was 19.4%, representing a YOY increase of 0.3%.

3. FINANCIAL REVIEW

(a) Expenses during the year

(Unit: RMB'000)

	2016		2015		Proportion to sales revenue change
	Amount	**Proportion to sales revenue**	Amount	Proportion to sales revenue	
Sales and marketing expenses	**486,954**	**4.32%**	514,469	4.61%	-0.29 P.Pt.
Administrative expenses	**1,592,646**	**14.11%**	2,316,895	20.75%	-6.64 P.Pt.
Finance costs	**1,030,649**	**9.13%**	1,597,179	14.30%	-5.17 P.Pt.
Total	**3,110,249**	**27.56%**	4,428,543	39.66%	-12.10 P.Pt.

During the Reporting Period, the proportion of sales and marketing expenses to sales revenue has a YOY decrease of 0.29%; the proportion of administrative expenses to sales revenue has a YOY decrease of 6.64%; net interest expenses has a decrease of 5.17% compared with that of 2015.

(V) Management Discussion and Analysis

(b) Changes in balance sheet items

(Unit: RMB'000)

	31 December 2016	31 December 2015	Change
Non-current assets	**21,600,467**	23,109,951	-6.5%
Current assets	**4,319,689**	3,903,749	10.7%
Total assets	**25,920,156**	27,013,700	-4.0%
Current liabilities	**20,553,184**	21,748,349	-5.5%
Non-current liabilities	**2,110,733**	772,186	173.3%
Total liabilities	**22,663,917**	22,520,535	0.6%
Minority interest	**157,551**	462,913	-66.0%
Equity attributable to equity shareholders of the Company	**3,098,688**	4,030,252	-23.1%
Total liabilities and equity	**25,920,156**	27,013,700	-4.0%
Net gearing ratio	**81.9%**	77.6%	4.3 P.Pt.

As at 31 December 2016, the Group's total assets were RMB25,920 million, total liabilities were RMB22,664 million and its net assets were RMB3,256 million. The net gearing ratio (net liabilities/(net liabilities + equity of the Company)) was 81.9%, representing an increase of 4.3 percentage points as compared with the end of the previous year. The Group's total current assets were RMB4,320 million, its total current liabilities were RMB20,553 million, and its net current liabilities were RMB16,233 million. Since 31 December 2016, the Company completed the restructuring of loans matured with new loans or extending the repayment terms of loans by about RMB290 million.

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

(Unit: RMB'000)

Term of borrowings	31 December 2016	31 December 2015
Short-term borrowings (including long-term borrowings with maturity within one year)	**13,449,822**	15,601,437
Long-term borrowings	**1,593,746**	211,713
Total	**15,043,568**	15,813,150

As at 31 December 2016, the Company's total borrowings were RMB15,044 million, a decrease of RMB770 million as compared with the end of 2015. Of this, short-term borrowings (including long-term borrowings with maturity within 1 year) amounted to RMB13,450 million and accounted for 89.4% of the Group's total borrowings.

(d) Capital expenditures

During the Reporting Period, capital expenditures invested were approximately RMB467 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 2016 were:

(Unit: RMB'000)

	31 December 2016	31 December 2015
Authorised and contracted for – plant and equipment	**272,630**	401,982
Authorised but not contracted for – plant and equipment	**65,166**	249,435
Total	**337,796**	651,417

As at 31 December 2016, the capital commitments authorised and contracted for by the Group amounted to RMB273 million, which represents a decrease of RMB129 million or 32.2% as compared with the end of 2015. Capital commitments authorised but not contracted for amounted to RMB65 million.

(e) Net cash flow analysis

(Unit: RMB'000)

	2016	2015
Net cash generated from/(used in) operating activities	**1,006,597**	(342,913)
Net cash used in investing activities	**(458,190)**	(1,591,087)
Net cash (used in)/generated from financing activities	**(498,833)**	1,002,770
Net changes in cash and cash equivalents	**49,574**	(931,230)
Balance of cash and cash equivalents at 1 January	**222,907**	1,151,353
Effect of foreign exchange rate changes	**4,019**	2,784
Balance of cash and cash equivalents at 31 December	**276,500**	222,907

During the Reporting Period, the Group's net cash generated in operating activities was RMB1,007 million, representing a YOY increase of RMB1,350 million. The net cash used in investing activities was RMB458 million, representing a YOY decrease of RMB1,133 million. Net cash used in financing activities increase by RMB1,502 million to RMB499 million.

4. FINANCIAL REPORTING AND CORPORATE ACCOUNTING POLICY

The Board, supported by the Head of Finance and the finance department, is responsible for the preparation of the financial statements of the Company and the Group. In the preparation of financial statements, the Company has adopted the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the IASB since its listing date.

5. 2017 OUTLOOK

(a) Operating environment outlook *(Source: Cement Market Analysis for 2016 and Forecasts for 2017, 24 January 2017, Digital Cement)*

Macro environment: Rapid infrastructure investment growth and a slowdown in real estate investment

2017 is a critical year for the implementation of the 13th "Five-Year Plan" as well as for deepening the supply-side structural reform. The global economy will still be under considerable downward pressure. China's YOY GDP growth rate is expected to be about 6.5%. Rapid infrastructure investment growth and the overall growth rate are projected to be around 20%, while a faster speed may be achieved in western regions. China government may further tighten credit and market regulation in the real estate sector. Therefore, property sales are unlikely to improve significantly in 2017. On the flip side, weakening real estate investment means that infrastructure investment will be raised to ensure stable economic growth.

On the demand side: Demand will remain roughly the same as in 2016; profit uptrend will continue

Tightening real estate regulation will adversely affect the demand for cement products, however it is expected to be offset by strong growth in infrastructure investment, so the overall cement demand will remain roughly the same as or slightly lower than that in 2016. Accordingly to "Amendment No. 2 to the National Standards of Generic Portland Cement (GB175-2007)" approved and announced by the National Standardization Administration, abolishment of Composite Portland Cement 32.5 was implemented with effect on 1 December 2015, however, the implementation results did not achieve the objective of the elimination of low-grade capacities.

Demand for cement will differ significantly from region to region. Benefiting from the "Beijing-Tianjin-Hebei" synergistic development strategy, the northern regions still have scope for further stimulating demand; and as the priority for economic development, western regions (including the southwest and northwest) will see a certain level of increases in demand, driven by strong infrastructure investment.

(V) Management Discussion and Analysis

Industry associations will further strengthen coordination across regional markets. Major producers will be more aware of the importance of win-win collaboration, and vicious competition and dumping will be less common. Self-discipline and production reduction as a price-boosting strategy will still be the main methods of redressing supply-demand balance caused by overcapacity. It is estimated that cement prices will go up steadily in 2017, and the overall profitability will continue to pick up by over YOY 30%.

On the supply side: Consolidation on the overcapacity is still the focus of the work

The National Development and Reform Commission has identified overcapacity reduction as the "priority of priorities". As one of the industries worst hit by overcapacity, the cement industry has a long way to go before the overcapacity issue can be completely solved.

"Guidelines for promoting steady growth, structural adjustment and efficiency enhancement in building materials industry by the State Council"(GBF [2016] No. 34) issued on 5 May 2016, peak-alternation production has been established as an official policy for reducing cement overcapacity. It is expected that local governments and industry associations will exercise tighter supervisions and managements in peak-alternation production, with a reinforced measures and an extended coverage of scope. Tiered electricity pricing will help force out obsolete production facilities, which will in turn aid the rebound in profitability among cement industry.

The Group is ranked as the 6th cement and clinker manufacturer according to the capacities of cement and clinker in China. As the Chinese government carries out more strict measures of overcapacity reduction will help to strengthen our market position and to increase enterprise's benefit.

(b) Business outlook of the Company

2016 is a year for the Group to restore its foundation, set up the new operating management organization structure, rationalize internal production operation relationship, create a healthy market environment, restore the reputation and dissolve the debt crisis to build a good foundation for the stable sustainable development of the Group.

In light of the Group's diverse geographic coverage in China coupled with the strongly regionalized business nature of the cement sector to adopt a more flexible management structure, the Group is expected to continue to implement the objectives and policies set out in 2016 and will continue to promote the "one district, one policy" in 2017 – adapting the operational strategy to be region specific while maintaining constant supervision by the headquarter based on specific key performance indicators.

Specific measures included:

(I) Enhance overall profitability of the Group by regional collaboration and coordination

Cement is a regional product as its sales are subject to transportation and regional cement price, an effective and regionally focused marketing strategy which gives stability to the regional retail sales price and hence enhances profitability. In addition, a reduction of the usage and procurement costs of raw materials will also be benefited from regional collaboration and coordination. The Group, leveraging its strength as a leading cement and clinker manufacturer in various operating regions in China, is committed to regional collaboration and coordination and to achieve an orderly and healthy competitive environment in regions.

In 2017, the Group will adhere to promote regional market coordination in operating regions that are suffering from overcapacity according to the regional market demand for cooperative control of regional production, in achieving the regional balance of supply and demand, price stability and benefits.

(V) Management Discussion and Analysis

In the implementations of regional coordination, the Group also encountered many challenges and risks, including:

(i) More than a thousand cement and clinker production enterprises located in the six operating regions of the Group, making continuous negotiations, communication and cooperation is crucial for the strict compliance of industry coordination. At present, the achievement of industry coordination is very fragile, there is a common conflict of interests among the participating enterprises and the government and industry associations are required to participate in coordination and guidance.

(ii) Regional coordination is more likely to cooperate with the regional long-term planning of the government, the key to increasing the enterprise's efficiency is to stabilize and improve the sales price. The Group has a synergistic advantage of coordination in a large number of regional markets, but in the collaborative process, the decline in production volume may also increase the overcapacity of the Group which may lead to an increased risk of being eliminated by the market.

(iii) In operating regions with overcapacity, the continued efforts of explorations and demonstration of technological innovations and upgrade improvements related in the areas of energy saving and emission reduction, cost reduction and efficiency enhancement, increase quantity and improve quality, would help to reduce overall operation cost of production and management and to enhance advantages in regional operations，coordination negotiation and technological innovations in those regions.

(iv) Deployment of resources to develop the upstream and downstream products associated with the Group's core cement clinker business. For example, limestone aggregate products associated with clinker, fire resistant, abrasion resistant material products; cement related mineral powder, stone powder, grinding aids and commercial mixes, cement products and other products.

The Group as one of the top ten cement clinker manufacturers in China, through continuous restructuring and integration in the core business of cement clinker production and actively cooperate with the industry supply side reforms, the Group is devoted to set a good example for the industry and the workers in regional coordination and efficiency enhancement.

(II) Strengthening of operations and management teams

Starting from 30 January 2016, the Company has taken over the headquarters and factories of Shandong Shanshui, however, the daily operations of the 6 operating regions of the Group is still adversely affected by a combination of incidents deliberately instigated by Zhang Caikui and Zhang Bin (the "**Zhang's**") and the former management, such actions include the stealing of the official seals of Shandong Shanshui, lost of company books and records, illegally changing Shandong Shanshui's articles of association, unauthorized divestment of the Company's assets, misappropriation of funds all resulting in a chaotic and mismatched operational cashflow. The official seal of Shandong Shanshui being stolen by the Zhang's and his associates has caused a negative impact on Shandong Shanshui's daily operation, contractual and financial transactions. Significant time and resources are needed to tackle these issues associated with the stolen official seal, such as clarifying the false and misleading announcements issued by the Zhang's and banks refused to update bank mandates, etc.

(V) Management Discussion and Analysis

In order to cope with an enormous volume of daily operation works and business objectives, starting from 2017, the Group plans launch a full range of recruitment campaign in the headquarter of Shandong Shanshui and all 6 operating regions, cover from middle to high-level staff, so as to modernize and strengthen the professional daily operating teams. The Group will enhance training and modernizing the sales and procurement team and will begin to take action to recover accounts receivable from bad debts.

In light of the misappropriation of funds and reckless utilization of loans acquired (including ultra-short term debentures, medium term notes, and senior notes) without reasonable repayment plans executed by the Zhang's and the former management have caused the Group a short-term cashflow mismatch which has severely hindered the operation and regional coordination of the Group. The Group will also look to modernize and further enhance professionalism in the financial management team, to cooperate with the sales team and purchasing team in cash allocation planning within operating regions, to take measures to reduce the default of matured loans and to restore the Group's reputation in the capital markets.

(III) Regional cross-referencing scheme in cost management

In the year of 2015 and 2016, the control of the cost of bulk materials purchased, selling and administration expenses of the Group are still far from satisfactory and is a focus for deployment of resources for sorting out in 2017.

In 2016, the Group has organized three large-scale supervision activities (supervision of enterprises by operating regions, cross-examination between operating regions and supervision by expert panels within the Group to key subsidiaries with specific difficulties), extensive management problems and deficiencies were found through on-site supervision in subsidiaries. In 2017, the Group will continue to implement cross-regional cross-referencing inspections in cost management organized by the headquarters. Expert panels from different divisions within the Group will be set up to provide measuring benchmarks for production cost, management cost and specification of manufacturing procedures for each of key subsidiaries in those strategic significant regions to assist them in enhancing their competitive edges in the region.

Looking ahead to 2017, the Group will continue the effort to strengthen the foundation of the Group through a three prone approach of (1) addressing the Group cash flow mismatch situation and strengthens the Group financial position; (2) modernizing the management of the Group through recruitment and professional training; and (3) mitigating the impact of overcapacity to better utilize the Group's asset.

With the support of shareholders, investors and employees, the Group has every potential to achieve profitability targets in 2017.

1. 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	Liaoning Shanshui Gongyuan Cement Co., Ltd. the cement raw-material producing system project for technology transformation	Transferred to PPE	66,611
2	Linfen Shanshui Cement Co., Ltd. 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	Transferred to PPE	38,413

(2) Capital increase in subsidiaries during the Reporting period

During the Reporting Period, Bohai Cement has a capital increase of RMB26 million, the registered capital after capital increase is RMB100 million.

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

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

2. MAJOR SUBSIDIARIES WITH CONTROLLING INTERESTS

As at 31 December 2016, the Company had controlling interests in 110 subsidiaries. For details, please refer to Note 16 to the Financial Statements of this report.

During the Reporting Period, the top 5 most profitable subsidiaries were as follows:

Name of company	Revenue (RMB'000)	Profit from operations (RMB'000)	Net profit (RMB'000)
Pingyin Shanshui	515,317	100,546	88,219
Zibo Shanshui	436,445	99,845	78,344
Anqiu Shanshui	445,064	77,007	61,247
Linqu Shanshui	485,812	75,343	50,269
Yingjisha Shanshui	262,880	48,937	45,134

3. DIVIDEND FOR 2016

The Company incurred a loss of RMB979 million. The Board of Directors does not recommend dividend payment for the year ended 31 December 2016.

4. TAXATION

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

5. MAJOR CUSTOMERS AND SUPPLIERS

For 2016, 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.

None of the Directors, supervisors nor their respective associates (as defined in the Listing Rules) nor, to the knowledge of the Board, shareholders holding 5% or more of the issued shares of the Company has interests in any of the five largest customers or five largest suppliers of the Group for the year ended 31 December 2016.

The major raw materials and energy used by the Company are mainly denominated in RMB.

6. 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.

7. TOTAL ASSETS

As on 31 December 2016, the total assets of the Group were RMB25,920 million, representing a decrease of RMB1,094 million compared to the previous year due to operating losses and impairments of plant, goodwill and other assets.

8. RESERVES

Changes in reserves of the Group for the year ended 31 December 2016 are set out in Note 30 to the Financial Statements.

9. DEPOSITS, LOANS AND CAPITALIZED INTEREST

Details of the Company's loans for the year ended 31 December 2016 are set out in Notes 21, 22 and 23 of the Financial Statements. Deposits of the Company for the year ended 31 December 2016 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 RMB1.80 million, the details of which are set out in Note 5 to the Financial Statements.

10. BUSINESS REVIEW, OUTLOOK AND MAJOR RISK FACTORS

For details on the business review, outlook for 2017 and the major risk factors of the Group, please refer to the two sections headed "(IV). Corporate Profile" and "(V). Management Discussion and Analysis" in this annual report.

11. ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company is preparing an environment, social and governance report (the "**ESG Report**") in accordance with the Environmental, Social and Governance Reporting Guide published by the Stock Exchange and is expected to be published on or before 30 June 2017.

(VII) 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 2016, 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 Reporting Period.

The Company had not issued new share during the Reporting Period.

As of 31 December 2016, the Company had a total issued capital of 3,379,140,240 Shares.

2. SUSPENSION OF TRADING

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, 22 May 2015, 14 January 2016, 19 February 2016, 23 March 2016, 26 April 2016 and 3 June 2016.

(VII) Share Capital and Shareholdings of Substantial Shareholders and the Directors

3. SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS AND DIRECTORS

(1) Shareholdings of substantial shareholders

As at 31 December 2016, 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 Group Company Limited[2]	951,462,000(L)	Interest of corporations controlled by substantial shareholder	28.16%
China Shanshui Investment Company Limited	847,908,316(L)	Beneficial owner	25.09%
Asia Cement Corporation[3]	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[4]	563,190,040(L)	Interest of corporations controlled by substantial shareholder	16.67%

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 Group Company Limited on 24 March 2016 (the date of the relevant event set out in the form was 22 March 2016). These Shares were held via Tianrui (International) Holding Company Limited.

(3) 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.

(4) As stated in the form of disclosure of shareholder's interest submitted by China National Building Material Company Limited on 1 December 2016 (the date of the relevant event set out in the form was 30 November 2016), these Shares were held via China Building Material Holdings Company Limited.

Save as disclosed above, and so far as the Directors are aware, as of 31 December 2016, no person, other than Directors or the chief executives 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 Group 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.

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

As of 31 December 2016, 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 for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

4. PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the Reporting Period.

5. SHARE OPTION SCHEME

The Company adopted the Share Option Scheme pursuant to a Shareholders' resolution passed on 14 June 2008 (the "**Adoption Date**"). Save for the Share Option Scheme, the Company has no other share option scheme currently in force.

At the Adoption Date, the Existing Scheme Mandate Limit was granted to allow the Company to grant options entitling holders to subscribe for Shares not exceeding 10% of the then issued Shares as at the date of the approval of the Share Option Scheme, which amounted to 260,336,000 options to subscribe for 260,336,000 Shares. During the period from the Adoption Date to the Latest Practicable Date, no refreshment of the Existing Scheme Mandate Limit has been approved by the Shareholders.

(VII) Share Capital and Shareholdings of Substantial Shareholders and the Directors

Since the adoption of the Share Option Scheme, Options to subscribe for 7,400,000 Shares were granted on 25 May 2011 (the closing price of the Shares as at the date of grant was HK$7.83 per Share) and Options to subscribe for 207,300,000 Shares (including the Options to subscribe for 20,000,000 Shares and 23,600,000 Shares conditionally granted to Zhang Bin and Zhang Caikui (Zhang Caikui was deemed to be a substantial Shareholder due to his interest in CSI and Zhang Bin is his associate), respectively, subject to the approval of the Shareholders which has not yet been obtained) were granted on 27 January 2015 (the closing price of the Shares as at the date of grant was HK$3.68 per Share).

By virtue of the High Court Miscellaneous Proceedings No. 593 of 2015 ("**HCMP 593 of 2015**"), CSI has commenced an Injunction Application to apply to set aside the grant of the 207,300,000 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.

Since no extraordinary general meeting of the Company was held for the approval of the grant of 43,600,000 Options in aggregate conditionally granted to Zhang Bin and Zhang Caikui, such Options have not become unconditional and may not be exercised.

Out of the Options to subscribe for 7,400,000 Shares granted on 25 May 2011, 100,000 Shares were lapsed in accordance with the terms of the Share Option Scheme and therefore will not be counted for the purpose of the Existing Scheme Mandate Limit pursuant to Note 1 to Rule 17.03(3) of the Listing Rules.

Save for the above, none of the Options granted on 25 May 2011 and 27 January 2015 have been exercised or cancelled or lapsed.

Accordingly, taking into account all the Options granted and conditionally granted, the outstanding Existing Scheme Mandate Limit as of the Latest Practicable Date is 45,736,000 Shares, representing approximately 17.57% of the Existing Scheme Mandate Limit.

(VII) Share Capital and Shareholdings of Substantial Shareholders and the Directors

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	–	–	–	–	Options for subscription of 5,000,000 Shares
	27 January 2015	Options for subscription of 20,000,000 shares	Six months after the date of grant	HK$3.68	–	–	–	–	Options for subscription of 20,000,000 Shares
Zhang Caikui, *Executive Director removed*	27 January 2015	Options for subscription of 23,600,000 shares	Six months after the date of grant	HK$3.68	–	–	–	–	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	–	–	–	–	Options for subscription of 200,000 Shares
	27 January 2015	Options for subscription of 9,000,000 shares	Six months after the date of grant	HK$3.68	–	–	–	–	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	–	–	–	–	Options for subscription of 100,000 Shares
Employees	25 May 2011	Options for subscription of 2,000,000 shares	Nil	HK$7.90	–	–	–	–	Options for subscription of 2,000,000 Shares
	27 January 2015	Options for subscription of 154,700,000 shares	Nil	HK$3.68	–	–	–	–	Options for subscription of 154,700,000 Shares
	Total number of options granted and accepted	Options for subscription of 214,600,000 shares			–	–	–	–	Options for subscription of 214,600,000 Shares

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 the Company and the Shares for the benefit of the Shareholders, and to retain and attract talents and working partners whose contributions are or may be beneficial to the growth and development of the Group.

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

The Shares that will be issued upon full exercise of the options currently granted under the Share Option Scheme are 214,700,000 Shares, representing approximately 6.35% of the share capital in issue (3,379,140,240 Shares) as of 31 December 2016.

Unless approved by the 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 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 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 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.

(VIII) Basic Information on Directors, Senior Management and Employees

1. BASIC INFORMATION ON DIRECTORS

Name	Position	Gender	Age	Term of office (subject to renewal)
Liu Yiu Keung, Stephen (廖耀強)	Chairman and Executive Director	M	57	–
Li Heping (李和平)	Chief Executive Officer and Executive Director	M	60	–
Hwa Guo Wai, Godwin (華國威)	Executive Director	M	55	2 February 2016 –2 February 2017; 3 February 2017 –31 December 2019
Chong Cha Hwa (張家華)	Non-Executive Director	M	50	2 February 2016 –2 February 2017; 3 February 2017 –31 December 2019
Law Pui Cheung (羅沛昌)	Independent Non-Executive Director	M	61	2 February 2016 –2 February 2017; 3 February 2017 –31 December 2019
Ho Man Kay Angela (何文琪)	Independent Non-Executive Director	F	54	2 February 2016 –2 February 2017; 3 February 2017 –31 December 2019
Wong Chi Keung (黃之強)	Independent Non-Executive Director	M	62	2 February 2016 –2 February 2017; 3 February 2017 –31 December 2019
Ching Siu Ming (程少明)	Independent Non-Executive Director	M	57	5 July 2016 –2 February 2017; 3 February 2017 –31 December 2019
Lo Chung Hing (盧重興)	Independent Non-Executive Director	M	65	5 July 2016 –2 February 2017; 3 February 2017 –31 December 2019

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

2. BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

(a) Executive Directors

Mr. Liu Yiu Keung, Stephen (廖耀強), aged 57, is the Chairman of the Board, the chairman of both the Executive Committee and the Nomination Committee and an executive Director of the Company. Mr. Liu 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 is a director of CSI, one of the substantial shareholders of the Company. Mr. Liu has been appointed as directors of various subsidiaries in the Group, including China Shanshui (HK), Pioneer Cement, Continental Cement and American Shanshui since 1 December 2015. Mr. Liu has been appointed as a director of Shandong Shanshui, a subsidiary of the Group on 13 March 2017.

Mr. Li Heping (李和平), aged 60, is the Chief Executive Officer, an executive Director and a member of the Executive Committee of the Company. Mr. Li 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 and a Ph.D. degree from Huazhong University of Science and Technology. He holds qualifications of "Senior Engineer" and "Senior Accountant". Mr. Li 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 China Tianrui Group Cement Company Limited and directors and senior management of Tianrui Group Company Limited. Mr. Li has been appointed as directors of various subsidiaries in the Group, including China Shanshui (HK), Pioneer Cement, Shandong Shanshui, Continental Cement and American Shanshui since 1 December 2015. Mr. Li is the non-executive director of China Tianrui Group Cement Company Limited, a listed company on the Main Board of the Stock Exchange. Mr. Li is also the Chairman, Legal Representative of Shandong Shanshui.

Mr. Hwa Guo Wai, Godwin (華國威), aged 55, is an executive Director and a member of the Executive Committee of the Company. Mr. Hwa holds a Master Degree in Business Administration from McGill University, Montreal, Canada and Master Degree in 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. Mr. Hwa devotes a fair amount of his time involving in various non-profit organizations in Hong Kong and currently, he is the chairman of the board of an independent international school. Mr. Hwa is a director of CSI, one of the substantial shareholders of the Company. Mr. Hwa has been appointed as directors of various subsidiaries in the Group, including China Shanshui (HK), Pioneer Cement, Continental Cement and American Shanshui since 1 December 2015.

(VIII) Basic Information on Directors, Senior Management and Employees

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 has been working with Ernst & Young for over 20 years. Mr. Yen was admitted as a member of the American Institute of Certified Public Accountants in 2003, as a member of the HKICPA in 2003 and as a fellow member of the HKICPA in 2011. Mr. Yen has been appointed as a director and General Manager (External Affairs) of Shandong Shanshui, a subsidiary of the Group on 13 March 2017.

(b) Non-executive Director

Mr. Chong Cha Hwa (張家華), aged 50, is a non-executive Director of the Company. Mr. Chong 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. During 10 May 2012 and 27 October 2014, Mr. Chong was an independent non-executive director of Boshiwa International Holding Limited and during 26 February 2014 to 30 October 2014, Mr. Chong was an executive director of Ding He Mining Holdings Limited. All of these companies are listed on the Main Board of the Stock Exchange. Mr. Chong is a director of CSI, one of the substantial shareholders of the Company. Mr. Chong has been appointed as directors of various subsidiaries in the Group, including China Shanshui (HK), Pioneer Cement, Continental Cement and American Shanshui since 1 December 2015. Mr. Chong has been appointed as a director of Shandong Shanshui, a subsidiary of the Group on 13 March 2017.

(c) Independent non-executive Directors

Mr. Law Pui Cheung (羅沛昌), aged 61, is an independent non-executive Director, the chairman of the Audit Committee, a member of each of the Nomination Committee, the Remuneration Committee and the Investigation Committee of the Company. Mr. Law 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 Ernst & Young, Hong Kong) specializing in listed companies and financial services audit and restructuring services. During 1991 to 2016, Mr. Law was 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. Currently, Mr Law is a director of Yong Zheng CPA Limited. Mr. Law was an independent non-executive director of Birmingham International Holdings Limited, a company listed on the Main Board of the Stock Exchange from 9 March 2015 to 15 October 2016. Mr. Law has been appointed as an independent non-executive director of Kwong Man Kee Group Limited, a company listed on the Growth Enterprise Market of Stock Exchange and the chairman of its audit committee since September 2016. Mr. Law is currently a member of the Disciplinary Panel of the HKICPA.

Ms. Ho Man Kay Angela (何文琪), age 54, is an independent non-executive Director, the chairman of the Remuneration Committee, a member of each of the Audit Committee, the Nomination Committee and the Investigation Committee of the Company. Ms. Ho 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 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, a company listed on the Main Board of Stock Exchange, 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 62, is an independent non-executive Director and a member of each of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Investigation Committee of the Company. Mr. Wong 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 has over 38 years of experience in finance, accounting and management. Mr. Wong is a Responsible Officer for asset management and advising on SFO for CASDAQ International Capital Market (HK) Company Limited under the Securities. Mr. Wong was 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) and an independent non-executive director of PacRay International Holdings Limited, companies listed on the Main Board of 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, China Ting Group Holdings Limited, ENM Holdings Limited, Fortunet e-Commerce Group Limited, Golden Eagle Retail Group Limited, Heng Xin China Holdings Limited, Nickel Resources International Holdings Company 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.

(VIII) Basic Information on Directors, Senior Management and Employees

Dr. Ching Siu Ming (程少明), aged 57, is an independent non-executive Director and the chairman of the Investigation Committee, a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Dr. Ching is a teaching fellow of the Hong Kong Polytechnic University. Dr. Ching is a fellow member of the Hong Kong Institute of Certified Public Accountants. Dr. Ching holds a Doctorate degree in Business Administration from The Hong Kong Polytechnic University, Master of Business Administration, Master of Social Work and Bachelor of Industrial Engineering from the University of Hong Kong. Dr. Ching has gained more than 20 years of experience in the accounting and finance area before he joined The Hong Kong Polytechnic University in 2008. Dr. Ching was a chief financial officer or group financial controller of three companies listed on the Stock Exchange before.

Mr. Lo Chung Hing (Silver Bauhinia Star), aged 65, is an independent non-executive Director and a member of each of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Investigation Committee of the Company. Mr. Lo is currently an independent non-executive director of PICC Property and Casualty Company Limited, a company listed on the Main Board of the Stock Exchange. Mr. Lo is the chairman of the Hospital Governing Committee of Hong Kong Kowloon Hospital and Hong Kong Eye Hospital. Mr. Lo was a member of the 9th National People's Congress of China. Mr. Lo was previously an independent non-executive director and the vice chairman of the Airport Authority of Hong Kong, an independent non-executive director of Mass Transit Railway Corporation Limited (Now known as "**MTR Corporation Limited**"), a member of the Hospital Authority of Hong Kong, an independent non-executive director of the Urban Renewal Authority of Hong Kong. Mr. Lo was also a deputy general manager of the Hong Kong Branch of Bank of China (now known as "**Bank of China (Hong Kong) Limited**", a major operating subsidiary of and wholly owned by BOC Hong Kong (Holdings) Limited) and his last position in Bank of China (Hong Kong) Limited was the chief adviser of the Operation Committee. During his employment in these two banks, he was a rotating alternate chairman of the Hong Kong Association of Banks. Mr. Lo holds an MBA degree from The University of Hong Kong and has extensive experience in public management and financial industry.

(d) Senior management

Mr. Yang Yongzheng (楊勇正), aged 48, has been appointed as a director and General Manager (Chief Executive) of Shandong Shanshui since December 2015. He is primarily responsible for managing the overall business of Shandong Shanshui. 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". In 2013, Mr. Yang was awarded the title of senior economist. Mr. Yang has extensive experience in the cement industry. He joined the Tianrui Group in 2004 and held positions as the deputy general manager of Shangqiu Tianrui Cement Company Limited and Dalian Tianrui Cement Company Limited; the general manager of Yingkou Tianrui Cement Company Limited and the chairman and general manager of Liaoyang Tianrui Cement Company Limited.

(VIII) Basic Information on Directors, Senior Management and Employees

Ms. Su Aizhen (蘇愛珍), aged 55, has been appointed as a director of Shandong Shanshui on 25 January 2017. Ms. Su has worked in the Shandong Branch of China Construction Bank since 1987 and has successively served as a principal staff member, assistant economist and economist. Since joining China Cinda Asset Management Company Limited (Shandong Branch) ("**Cinda Shandong**") in 1999, she has successively served as senior deputy manager and senior manager. Since 2015, Ms. Su has been the assistant to the general manager of Cinda Shandong. Ms. Su is subject to approval from China Cinda Asset Management Company Limited to perform her duties as director of Shandong Shanshui.

Mr. Zhao Yongkui (趙永魁), aged 52, has been appointed a director and Deputy General Manager (Finance) of Shandong Shanshui since December 2015. He is primarily responsible for overseeing the accounting and finance functions of the Group. Mr. Zhao graduated from the Shanghai Institute of Building Materials in July 1984 and qualified as a Senior Accountant in 2003. Mr. Zhao has over 30 years of experience in accounting and has extensive experience in managing the finance of cement corporations. 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 as Assistant to the General Manager and the Head of the finance department of the Group. Mr. Zhao was appointed Deputy General Manager of the Group during November 2005 to 2013.

Mr. Gao Yong (高勇), aged 43, has been appointed as a director of Shandong Shanshui since December 2015. He is primarily responsible for production and operation management. Mr. Gao graduated from the Shandong Building Material Industrial School in July 1994 and has 23 years of experience in the cement industry. Mr. Gao joined Shandong Cement Plant in August 1994 and has appointed as deputy manager of workshop and deputy manager of the factory. Mr. Gao has been 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 since March 2004. Mr. Gao was appointed as the Deputy Manager of CNBM Construction Co., Ltd in March 2013. Mr. Gao was appointed as the Deputy Manager of Shandong Shanshui in December 2015.

Mr. Liu Dequan (劉德權), aged 42, has been appointed as a director of Shandong Shanshui on 13 March 2017. Mr. Liu graduated from Shandong Economics University with a Bachelor's degree in international business administration in July 1999. 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 and 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.

(e) Joint company secretaries

Mr. Tsang Wing Tai (曾永泰), aged 36, is one of the Joint Company Secretaries of the Company. Mr. Tsang obtained a bachelor's degree in science (majoring in biochemistry) with honours and a master of philosophy degree in medical sciences at the Chinese University of Hong Kong. Mr. Tsang has over 11 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, 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 and as a member of Hong Kong Securities Investment Institute in Hong Kong Securities and Investment Institute in 2016.

Mr. Yu Chun Liang (喻春良), aged 47, is one of the Joint Company Secretaries of the Company. 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. Mr. Yu holds the qualifications of "Ideological and political work of senior professional title" and "National Second Level Corporate Human Resources Manager". Mr. Yu has been appointed as one of the joint company secretaries of China Tianrui Group Cement Company Limited since 9 December 2011. Mr. Yu has served as the secretary of the disciplinary committee of Pingdingshan Xingfeng Group Cement Co., Ltd. After he joined Tianrui Cement, he was served as deputy head of the general office, deputy head of the human resources department, head of the administrative office and head of the board office.

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

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

Pursuant to Article 16.18 of the Articles of Association, Mr. Cheung Yuk Ming, Mr. Chong Cha Hwa and Mr. Law Pui Cheung retired as Directors by rotation at 2015 Annual General Meeting ("**AGM**") held on 17 June 2016.

(VIII) Basic Information on Directors, Senior Management and Employees

Pursuant to Article 16.2 of the Articles of Association, Mr. Wong Chi Keung who has been appointed by the Board on 2 February 2016 shall hold office only until 2015 AGM of the Company and shall then be subject to re-election at that meeting.

Mr. Chong Cha Hwa, Mr. Law Pui Cheung and Mr. Wong Chi Keung were re-appointed as Directors by the shareholders at the AGM. Mr. Cheung Yuk Ming who retired by rotation in accordance with the Articles of Association was not re-appointed as Director by the shareholders at the AGM, he retired as a Director with effect from the close of the 2015 AGM. Following the retirement of Mr. Cheung Yuk Ming, he ceased to be a committee member of the Executive Committee and an authorized representative of the Company. Mr. Tsang Wing Tai was appointed as an authorized representative of the Company.

At the Board meeting held on 5 July 2016, Mr. Hwa Guo Wai, Godwin was re-designated from a non-executive Director to an executive Director, Dr. Ching Siu Ming and Mr. Lo Chung Hing were appointed as independent non-executive Directors. Pursuant to Article 16.2 of the Articles of Association, Dr. Ching Siu Ming and Mr. Lo Chung Hing shall hold office only until the next general meeting of the Company and shall then be subject to re-election at that meeting.

On 20 December 2016, the Company has decided to suspend former Deputy General Manager, Mr. Mi Jingtian's duties, powers, functions and authorities in Shandong Shanshui and all its subsidiaries.

On 12 January 2017, Pioneer Cement, being a wholly-owned subsidiary of the Company and the sole shareholder of Shandong Shanshui, resolved to remove Mr. Mi Jingtian from all his duties, powers functions and authorities in Shandong Shanshui and all its subsidiaries, including his directorship and the position of deputy general manager in Shandong Shanshui and all his employment relationship with the Company, subsidiaries and its related group companies.

On 13 March 2017, Pioneer Cement has resolved and issued the following shareholder resolutions to the board of directors of Shandong Shanshui:

(1) To remove Mr. Li Maohuan, Mr. Yu Yuchuan, Mr. Zhao Liping and Mr. Chen Zhongsheng from office as director of Shandong Shanshui.

(2) To terminate Mr. Yu Yuchuan, Mr. Zhao Liping and Mr. Chen Zhongsheng from all their duties, powers functions and authorities in Shandong Shanshui and all of its subsidiaries, and terminate all of their employment relationship with the Company, its subsidiaries and related companies.

(3) To remove Mr. Liu Xianliang from office as supervisor of Shandong Shanshui.

(VIII) Basic Information on Directors, Senior Management and Employees

(4) To terminate Mr. Liu Xianliang from all his duties, powers functions and authorities in Shandong Shanshui and all of its subsidiaries, and terminate all his employment relationship with the Company, its subsidiaries and related companies.

(5) To appoint Mr. Liu Yiu Keung, Stephen, Mr. Yen Ching Wai, David, Mr. Chong Cha Hwa and Mr. Liu Dequan as directors of Shandong Shanshui.

(6) To appoint Mr. Yen Ching Wai, David as General Manager (External Affairs) of Shandong Shanshui.

As of 13 March 2017, the board of directors and members of the management team of Shandong Shanshui are as set out as follows:

Chairman and Authorised Representative of Shandong Shanshui
Li Heping

General Managers of Shandong Shanshui
Yang Yongzheng (Chief Executive)
Yen Ching Wai, David (External Affairs)

Deputy General Manager of Shandong Shanshui
Zhao Yongkui (Finance)

Directors of Shandong Shanshui
Li Heping
Yang Yongzheng
Su Aizhen (subject to approval by China Cinda Asset Management Co., Ltd. to perform her duties)
Liu Yiu Keung, Stephen
Yen Ching Wai, David
Zhao Yongkui
Chong Cha Hwa
Gao Yong
Liu Dequan

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

The Company has entered service contracts with each of Mr. Hwa Guo Wai, Godwin, Mr. Chong Cha Hwa, Ms. Ho Man Kay Angela, Mr. Law Pui Cheung, Mr. Wong Chi Keung from 2 February 2016 to 2 February 2017 and 3 February 2017 to 31 December 2019, and Dr. Ching Siu Ming and Mr. Lo Chung Hing from 5 July 2016 to 2 February 2017 and 3 February 2017 to 31 December 2019. 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 Articles of Association.

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 2016, the Group had 19,618 employees (252 in Shandong Shanshui Headquarters; 4,580 in Eastern Shandong Operating Region; 5,114 in Western Shandong Operating Region; 1,625 in Southern Shandong Operating Region; 5,778 in Northeast China Operating Region; 1,773 in Shanxi Operating Region; 496 in Xinjiang Operating Region), including 10,446 in production, 1,562 in sales, 3,638 in technical areas, 708 in finance, 1,353 in the administrative and management areas, and 1,911 in other areas. 9,826 of the employees had secondary and higher education, of which 5,017 received a tertiary or above education. The aggregate remuneration of the employees of the Group for the year amounted to RMB1,224.57 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 Reporting Period amounted to RMB146.71 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 plans to provide housing benefits to the employees. For the Reporting Period, the total contributions made by the Group to the housing provident fund amounted to approximately RMB77.58 million.

(IX) Report on Corporate Governance

1. CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining good corporate governance standards.

The Company has applied the principles as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules.

During the Reporting Period, the Board was not aware of any information which would indicate that the Company did not comply with the code provisions of the CG Code unless otherwise indicated.

2. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a set of Code of Conduct for Securities Transactions by Directors ("**Code of Conduct**"), the terms of which are not less exacting than the Model Code. Having made specific inquiries to all Directors, all Directors confirmed that they have complied with the Code of Conduct throughout 2016.

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).

The composition of the Board is as follows:

Name	Position
Liu Yiu Keung, Stephen	Chairman and Executive Director
Li Heping	Chief Executive Officer and Executive Director
Hwa Guo Wai, Godwin	Executive Director
Chong Cha Hwa	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
Ching Siu Ming	Independent Non-Executive Director
Lo Chung Hing	Independent Non-Executive Director

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

(IX) Report on Corporate Governance

The Board assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. It should act in the best interest of the Company and its shareholders at all times. The Board sets strategies for the Company and monitors the performance and activities of the senior management.

The Board is also committed to perform the following tasks as set out in the Code D.3.1:

(1) to develop and review the Company's policies and practices on corporate governance;

(2) to review and monitor the training and continuous professional development of directors and senior management;

(3) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(4) to develop, review and monitor the code of conduct and compliance manual of employees and directors; and

(5) to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

The Board currently comprises 3 executive Directors, 1 non-executive Director and 5 independent non-executive Directors. The brief biographical details of the Directors are set out in the section headed "1. Basic Information on Directors" of "(VIII) Basic Information on Directors, Senior Management and Employees" of this report. The executive Directors of the Company are responsible for the day to day operations of the Company whereas the non-executive Director and independent non-executive Directors of the Company are responsible for ensuring a high standard of financial and management reporting to the Board and Shareholders as well as to provide a balanced composition in the Board so that there is a strong independent element on the Board.

(IX) Report on Corporate Governance

During the Reporting Period, the Board held 23 meetings, and passed 6 resolutions by way of written resolutions which exceeded the minimum number of board meetings required under Code Provision A.1.1., the attendance records of individual Directors are as follows:

Name of Directors	Attendance/Number of meetings during the term of office
Executive Directors	
Li Liufa *(appointed on 1 December 2015 as former Chairman)* *(resigned on 31 May 2016)*	1/11
Liu Yiu Keung, Stephen *(appointed on 1 December 2015)* *(appointed on 2 June 2016 as current Chairman)*	20/23
Li Heping *(appointed on 1 December 2015 as Chief Executive Officer)*	3/23
Hwa Guo Wai, Godwin *(appointed on 1 December 2015)* *(re-designated to non-executive Director on 2 February 2016)* *(re-designated to executive Director on 5 July 2016)*	9/12
Chong Cha Hwa *(appointed on 1 December 2015)* *(re-designated to non-executive Director on 2 February 2016)*	2/2
Cheung Yuk Ming *(re-designated to executive Director on 2 February 2016)* *(retired on 17 June 2016)*	5/10
Non-executive Directors:	
Ng Qing Hai *(appointed on 1 December 2015)* *(resigned on 2 February 2016)*	0/3
Chong Cha Hwa *(re-designated to non-executive Director on 2 February 2016)*	18/21
Hwa Guo Wai, Godwin *(re-designated to non-executive Director on 2 February 2016)* *(re-designated to executive Director on 5 July 2016)*	10/11

(IX) Report on Corporate Governance

Name of Directors	Attendance/Number of meetings during the term of office
Independent Non-executive Directors:	
Ho Man Kay, Angela *(appointed on 1 December 2015)*	10/23
Law Pui Cheung *(appointed on 1 December 2015)*	11/23
Wong Chi Keung *(appointed on 1 December 2015)*	10/20
Ching Siu Ming *(appointed on 5 July 2016)*	5/10
Lo Chung Hing *(appointed on 5 July 2016)*	5/10
Cheung Yuk Ming *(re-designated to executive Director on 2 February 2016)* *(retired on 17 June 2016)*	0/2

Directors who are considered having conflict of interest or material interests in the proposed transactions or issues to be discussed, would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution.

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

All Directors of the Company have access to the Joint Company Secretaries who attended all the scheduled Board meetings and are responsible for ensuring that the Board procedures are being complied with, and advising the Board on compliance matters.

Each of the independent non-executive Directors of the Company has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board considers that all the independent non-executive Directors of the Company are independent in accordance with the Listing Rules.

Code Provision A.4.1 specifies that non-executive Directors should be appointed for a specific term, subject to re-election.

The independent non-executive Directors of the Company were appointed under specific terms and were subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Articles of Association.

4. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Company is Mr. Liu Yiu Keung, Stephen. 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 is 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. REMUNERATION COMMITTEE

Pursuant to the Listing Rules, the Board has established the Remuneration Committee (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 are Ms. Ho Man Kay Angela, Mr. Law Pui Cheung, Mr. Wong Chi Keung, Dr. Ching Siu Ming and Mr. Lo Chung Hing, of whom Ms. Ho Man Kay Angela acts as the chairman.

Ms. Ho Man Kay Angela was appointed as the chairman of the Remuneration Committee on 1 December 2015. Mr. Law Pui Cheung and Mr. Cheung Yuk Ming were appointed as members of the Remuneration Committee on 1 December 2015. Mr. Cheung Yuk Ming was no longer a member of the Remuneration Committee since 2 February 2016. Mr. Wong Chi Keung was appointed as a member of the Remuneration Committee on 2 February 2016. Dr. Ching Siu Ming and Mr. Lo Chung Hing were appointed as a member of the Remuneration Committee on 5 July 2016.

A total of 5 meetings have been held for the Reporting Period. The individual attendance of members is as follows:

Name of Members	**Attendance/Number of meetings during the term of office**
Ho Man Kay, Angela *(appointed on 1 December 2015)*	4/5
Law Pui Cheung *(appointed on 1 December 2015)*	5/5
Wong Chi Keung *(appointed on 1 December 2015)*	4/4
Ching Siu Ming *(appointed on 5 July 2016)*	1/2
Lo Chung Hing *(appointed on 5 July 2016)*	1/2
Cheung Yuk Ming *(re-designated to executive Director on 2 February 2016)* *(retired on 17 June 2016)*	1/1

6. AUDIT COMMITTEE

The Board of the Company has established the Audit Committee (the "**Audit Committee**") pursuant to the Listing Rules 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.

Members of the Audit Committee are Mr. Law Pui Cheung, Ms. Ho Man Kay Angela, Mr. Wong Chi Keung, Dr. Ching Siu Ming and Mr. Lo Chung Hing, of whom Mr. Law Pui Cheung acts as the chairman.

Mr. Law Pui Cheung was appointed as a member of the Audit Committee on 1 December 2015 and was appointed as the chairman of the Audit Committee on 2 February 2016. Ms. Ho Man Kay Angela and Mr. Cheung Yuk Ming were appointed as members of the Audit Committee on 1 December 2015. Mr. Cheung Yuk Ming was no longer a member of the Audit Committee since 2 February 2016. Mr. Wong Chi Keung was appointed as a member of the Audit Committee on 2 February 2016. Dr. Ching Siu Ming and Mr. Lo Chung Hing were appointed as a member of the Audit Committee on 5 July 2016.

The Audit Committee is established with specific written terms of reference. The terms of reference of the Audit Committee have included the duties which are set out in the Code Provision C.3.3 of the Code, with appropriate modifications when necessary.

On 30 December 2016, the terms of reference of Audit Committee has been revised.

A total of 4 meetings have been held for the Reporting Period. The individual attendance of members is as follows:

Name of Members	**Attendance/Number of meetings during the term of office**
Ho Man Kay, Angela *(appointed on 1 December 2015)*	2/4
Law Pui Cheung *(appointed on 1 December 2015)*	4/4
Wong Chi Keung *(appointed on 1 December 2015)*	3/4
Ching Siu Ming *(appointed on 5 July 2016)*	3/3
Lo Chung Hing *(appointed on 5 July 2016)*	2/3
Cheung Yuk Ming *(re-designated to executive Director on 2 February 2016)* *(retired on 17 June 2016)*	0/0

The Audit Committee reviewed the interim and full year consolidated financial statements, including the Group's adopted accounting principles and practices, internal controls, and financial reporting matters in conjunction with the external auditors. The Audit Committee endorsed the accounting treatment adopted by the Company and had the best of its ability assured itself that the disclosure of the financial information in this report complies with the applicable accounting standards and Appendix 16 of the Listing Rules.

The Audit Committee has recommended to the Board that KPMG, Certified Public Accountants, be nominated for re-appointment as external auditors of the Company at the forthcoming annual general meeting of the Company.

The results of the Group for the Reporting Period were reviewed by the Audit Committee at the meeting held on 27 March 2017. At such meeting, the Audit Committee considered and approved the audited financial statements of the Company for the Reporting Period prepared in accordance with IFRS and the internal audit report.

7. EXECUTIVE COMMITTEE

The Company established an executive committee under the Board (the "**Executive Committee**") to manage the overall business and to assist the Board in performing its duties. The Executive Committee is a standing committee of the Board and accountable to it.

Members of the Executive Committee are Mr. Liu Yiu Keung, Stephen, Mr. Li Heping and Mr. Hwa Guo Wai, Godwin, among them Mr. Liu Yiu Keung, Stephen acts as the chairman.

Mr. Li Liufa was appointed as the chairman of the Executive Committee on 1 December 2015. Mr. Li Heping and Mr. Liu Yiu Keung, Stephen and Mr. Chong Cha Hwa were appointed as members of the Executive Committee on 1 December 2015. Mr. Chong Cha Hwa was no longer a member of the Executive Committee since from 2 February 2016. Mr. Cheung Yuk Ming was appointed as a member of the Executive Committee on 2 February 2016 and was no longer a member of the Executive Committee since 17 June 2016. Mr. Li Liufa was no longer the chairman of the Executive Committee since 31 May 2016. Mr. Liu Yiu Keung, Stephen was appointed as the chairman of the Executive Committee on 2 June 2016. Mr. Hwa Guo Wai, Godwin was appointed as a member of the Executive Committee on 5 July 2016.

8. NOMINATION COMMITTEE

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 of the Board and accountable to the Board.

Members of the Nomination Committee are Mr. Liu Yiu Keung, Stephen, Ms. Ho Man Kay Angela, Mr. Law Pui Cheung, Mr. Wong Chi Keung, Dr. Ching Siu Ming and Mr. Lo Chung Hing, among them Mr. Liu Yiu Keung, Stephen acts as the chairman.

Mr. Li Liufa was 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 were appointed as members of the Nomination Committee on 1 December 2015. Mr. Cheung Yuk Ming was no longer a member of the Nomination Committee since 2 February 2016, Mr. Wong Chi Keung was appointed as a member of the Nomination Committee on 2 February 2016. Mr. Li Liufa is no longer the chairman of the Nomination Committee since 31 May 2016. Mr. Liu Yiu Keung was appointed as the chairman of the Nomination Committee on 2 June 2016. Dr. Ching Siu Ming and Mr. Lo Chung Hing were appointed as a member of the Nomination Committee on 5 July 2016.

A total of 2 meetings have been held for the Reporting Period. The individual attendance of members is as follows:

Name of Members	**Attendance/ Number of meetings during the term of office**
Li Liufa	
(appointed on 1 December 2015)	0/1
(resigned on 31 May 2016)	
Liu Yiu Keung, Stephen	
(appointed on 1 December 2016)	2/2
Ho Man Kay, Angela	2/2
(appointed on 1 December 2015)	
Law Pui Cheung	2/2
(appointed on 1 December 2015)	
Wong Chi Keung	1/1
(appointed on 1 December 2015)	
Ching Siu Ming	0/0
(appointed on 5 July 2016)	
Lo Chung Hing	0/0
(appointed on 5 July 2016)	
Cheung Yuk Ming	1/1
(re-designated to executive Director on 2 February 2016)	
(retired on 17 June 2016)	

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.

9. INVESTIGATION COMMITTEE

To reinforce the Company's corporate governance structure, the Board established the Investigation Committee (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.

Members of the Investigation Committee are independent non-executive Directors, namely, Ms. Ho Man Kay Angela, Mr. Law Pui Cheung, Mr. Wong Chi Keung, Dr. Ching Siu Ming and Mr. Lo Chung Hing, among them Dr. Ching Siu Ming acts as the chairman.

Ms. Ho Man Kay Angela, Mr. Cheung Yuk Ming and Mr. Law Pui Cheung were appointed as members of the Investigation Committee on 1 December 2015. Mr. Cheung Yuk Ming was no longer a member of the Investigation Committee since 2 February 2016. Mr. Wong Chi Keung was appointed as a member of the Investigation Committee on 2 February 2016. Mr. Lo Chung Hing was appointed as a member of the Investigation Committee on 5 July 2016. Dr. Ching Siu Ming was appointed as the chairman of the Investigation Committee on 5 July 2016.

A total of 2 meetings have been held for the Reporting Period. The individual attendance of members is as follows:

Name of Members	**Attendance/Number of meetings during the term of office**
Ho Man Kay, Angela *(appointed on 1 December 2015)*	2/2
Law Pui Cheung *(appointed on 1 December 2015)*	1/2
Wong Chi Keung *(appointed on 1 December 2015)*	2/2
Ching Siu Ming *(appointed on 5 July 2016)*	2/2
Lo Chung Hing *(appointed on 5 July 2016)*	2/2
Cheung Yuk Ming *(re-designated to executive Director on 2 February 2016)* *(retired on 17 June 2016)*	0/0

10. DIRECTOR TRAINING

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

All Directors have been given the "Guidelines on Directors' Duties". The Joint Company Secretaries will continuously update and refresh Directors on the latest laws, rules and regulations regarding their duties and responsibilities. All Directors are required to disclose to the Company their offices held in public companies or organizations and other significant commitments.

The Company has arranged appropriate insurance cover on Directors' and senior managements' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Directors' training is an ongoing process, in order to ensure that their contribution to the Board remains informed and relevant. The Company encourages all Directors to participate in appropriate training programs. During the Reporting Period, all members of the Board have provided their records of training they received to the Joint Company Secretaries for records. Their trainings included attending seminars and discussion forums and reading briefings and up-to-date materials.

11. DUTIES OF JOINT COMPANY SECRETARIES

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

The principal duties of the Joint Company Secretaries 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 with 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 resolution and to provide Directors with relevant information and figures.

12. DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for overseeing the preparation of the financial statements of the Group for the Reporting Period.

The Directors ensure timely publication of the Group financial statements and aim to present a clear, balanced and understandable assessment of the Group's performance and position through all its publications and communications to the public and is aware of the requirements under the applicable rules and regulations about timely disclosure of inside information.

The report from the auditor of the Company regarding their responsibilities and opinion on the financial statements of the Group for the Reporting Period is set out in the "Independent Auditor's Report" to this annual report.

The Directors find there exist multiple uncertainties relating to going concern as stated in the Independent Auditor's Report. Certain events or conditions may have adverse effects on the Company's ability to continue effectively as a going concern.

As a result of the lack of knowledge towards proper corporate governance of the Group, during the Reporting Period, some of the senior staff deliberately violate and resist the implementation of internal control procedures of the Group, which may lead to material misstatement related in fraud or error. The Board will have to make announcements and disclose the findings and any potential financial impacts to the Group as and when appropriate.

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 2016. The remuneration payable to KPMG by the Company for the year ended 31 December 2016, including reimbursement of travelling and accommodation expenses incurred for on-site auditing, amounted to RMB8.587 million. During the Reporting Period, the Company has not engaged KPMG for any non-audit services.

14. SHAREHOLDERS 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.

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.

Procedures for Shareholders to put forward proposals at Shareholders' meetings

1. To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written notice of his/her proposal ("**Proposal**") with his/her detailed contact information at the Company's principal place of business in Hong Kong at Room 2609, 26/F, Tower 2, Lippo Centre, 89 Queensway, Admiralty, Hong Kong.

2. The request will be verified with the Company's Hong Kong Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited, and upon their confirmation that the request is proper and in order, the Board will be asked to include the Proposal in the agenda for the general meeting.

3. The notice period to be given to all the Shareholders for consideration of the Proposal raised by the Shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

   (a) At least 14 clear days' and 10 clear business days' notice in writing if the Proposal constitutes an ordinary resolution in an extraordinary general meeting of the Company;

   (b) At least 21 clear days' and 10 clear business days' notice in writing if the Proposal constitutes a special resolution of the Company in an extraordinary general meeting of the Company or an ordinary resolution of the Company in an annual general meeting 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 Secretaries by email and telephone number indicated in the sector "2. Basic Corporate Information" of "(II) Corporate Information" of this Report.

The AGM of the Company for 2015 was held on 17 June 2016. Six ordinary resolutions (including the adoption of the audited consolidated financial statements for 2015, 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 17 June 2016.

During the Reporting Period, 1 AGM was held. All the incumbent Directors, including Mr. Liu Yiu Keung, Stephen, Mr. Li Heping, Mr. Cheung Yuk Ming, Mr. Hwa Guo Wai, Godwin, Mr. Chong Cha Hwa, Ms. Ho Man Kay Angela, Mr. Law Pui Cheung and Mr. Wong Chi Keung and representatives from auditor attended the meeting.

During the Reporting Period, the Company has not made any changes to its Articles of Association. An up to date version of the Articles of Association is also available on the Company's website and the Stock Exchange's website.

15. INTERNAL CONTROL SYSTEM ON OPERATIONS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the Reporting Period, pursuant to the requirements of the Company Laws, the Articles of Association, the requirements of the Stock Exchange and relevant laws and regulations, with an aim to establish a comprehensive corporate governance structure and speed up the transformation of internal management, the Group has continuously endeavoured to amend and improve various systems, thereby it has established a comparatively sound internal control system. During the Reporting Period, the audit department of the Group proceeded with supervision and examination on the implementation of the internal control system, and ensured the effective implementation of the internal control system and the continued improvement of the risk management standard and operation quality through regular or irregular special auditing on the operating activities of the Group. Details are 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 is carried out by themselves after approval. The overhaul of large equipment is 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 a 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 an 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.

The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2016.

The Board, as supported by the Audit Committee as well as the management report, reviewed the risk management and internal control systems annually, including the financial, operational and compliance controls, for the Reporting Period. The Board views that the internal control and execution, especially in its PRC subsidiaries, need to be improved, as such will be engaging an independent internal audit professional to assist the Company and the Group in implementing various internal control policies and the education and training of Company staff covering various aspects.

From now on, the Group will continually improve the establishment and implementation of the internal control system by reference to the guidelines of the listed companies issued by the Stock Exchange.

(X) Major Events

(I) MATERIAL LITIGATION IN HONG KONG

(i) Litigation claim against the former board

HCA 2880 of 2015

On 4 December 2015, a Writ of Summons (the "**Writ**") (HCA 2880 of 2015) was issued by the Company (the "**Action**") against the former Directors namely the Zhangs and Li Cheung Hung. On 17 December 2015, China Shanshui (HK) and Pioneer Cement were added as plaintiffs and an additional of 5 former directors, namely Chang Zhangli, Wu Ling-Ling (also known as Doris Wu), Lee Kuan-Chun (also known as Champion Lee), Zeng Xuemin and Shen Bing were added as defendants in the Writ.

According to the Writ, the Company's claims in the Writ against the former Directors are for (inter alia) (1) various injunctive reliefs, including restraining them from acting on the unlawfully altered articles of association of Shandong Shanshui, an order for identifying the current whereabouts of or return the books, records, accounts or computer data or other documents etc. of the Group (the "**Group's Records**"), and (2) damages and/or equitable compensation as a result of the misconduct of the former Directors.

On 24 December 2015, the Company obtained the interlocutory injunction orders (the "**December Injunction Orders**") against Zhang Caikui, Zhang Bin, Li Cheung Hung, Chang Zhangli and Wu Ling-Ling compelling them to (inter alia) disclose and deliver the Group's Records to the Company. The December Injunction Orders were continued and remain in effect. On 8 January 2016, the December Injunction Orders (as varied) continued and the Company obtained further interlocutory injunction orders (the "**January Injunction Orders**") against the Zhangs to (inter alia) restrain them from acting upon or exercising any power or entitlement pursuant to the unlawfully altered articles of association of Shandong Shanshui and execute amendments to the said unlawfully altered articles of association of Shandong Shanshui to invalidate or reverse the unlawful amendments. The January Injunction Orders currently remain in effect.

On 7 April 2016, CNBM and ACC were joined as the defendants to the Action premised on the conspiracy claim.

The parties have filed all the pleadings in the Action and the pleadings stage has now closed. The Action is now at the discovery stage. All parties have filed and exchanged their List of Documents and are now at the stage of inspection of documents. Parties will also file and exchange their witness statements by 5 May 2017. The next Case Management Summons hearing will take place on 11 September 2017.

The Company also on 4 November 2016 obtained a worldwide injunction against the Zhangs (the "**Mareva Injunction**") and issued a summons on 7 November 2016 (the "**Plaintiffs' Summons**"). On 18 November 2016, the Mareva Injunction (as varied) continued and directions were given by the Court to file affidavit evidence for the disposal of the Plaintiffs' Summons. The Mareva Injunction order currently remains in force. The substantive hearing is fixed before the Honourable Justice G. Lam on 7 June 2017.

The substantive hearing of the Company's application for leave to cross-examine Li Cheung Hung was heard on 1 September 2016 with judgment handed down on 13 October 2016 in favour of the Plaintiffs. Li Cheung Hung appealed against the Judgement which was dismissed on 15 November 2016. Leave was granted by the Court to cross-examine Li Cheung Hung. The hearing took place on 2 March 2017 and was adjourned part heard to a date to be fixed.

The Company also on 19 January 2017 obtained an order to seek disclosure of certain documents against the SEHK and the SFC.

HCMP 1574 of 2016

Following the non-compliance of the December Injunction Orders and the January Injunction Orders on the part of the Zhangs, the Company has commenced committal proceedings against them (HCMP 1574 of 2016) upon granting of leave by the Court. The substantive hearing is fixed for 28 September 2017 (with 2 days reserved). The Plaintiffs have also successfully had certain affidavit evidence filed by Zhang Caikui and Zhang Bin struck out and this is subject to an appeal to be heard on 24 March 2017.

(ii) Other litigation

HCMP 593 of 2015

CSI issued an action (HCMP 593 of 2015) against (inter alia) the Company in 2015 seeking an order to set aside the share options issued by the Company (details of which please refer to the public announcement dated 27 January 2015 of the Company). The matter is presently held in abeyance following the Company's undertaking to the High Court of Hong Kong that it (whether by itself, its directors, servants, agents or otherwise howsoever) will not take any step to implement the share options offered as described in its public announcement dated 27 January 2015 until a certain period of time or further Order of the High Court of Hong Kong.

HCA 1048 of 2015

The Company issued a writ of summons on 12 May 2015 (HCA 1048 of 2015) (and the validity of which has been extended for 12 months until 11 May 2017) against the former Board of directors of the Company for breach of the directors' service agreements, an account for the relevant misappropriated funds and/or damages to be assessed and declaratory relief. The writ was issued by the Board led by the Zhangs and the current Board is looking into the claims.

HCA 2194 of 2014

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**") of CSI 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. According to the order of the high court of Hong Kong Special Administrative Region issued on 12 August 2015, this claim has been discontinued.

(II) MATERIAL LITIGATION IN PRC

(i) Backgrounds and progress of litigations against the former directors of Shandong Shanshui and Jinan Municipal Bureau of Commerce

1. Tampering with articles of association of Shandong Shanshui

It can be confirmed from the judgment of the Court of First Instance of the High Court of Hong Kong Action No. 2880 of 2015 that, on 14 October 2015, Zhang Caikui and Zhang Bin falsified the articles of association Amendments of Shandong Shanshui through the unauthorized use of the name and official seal of Pioneer Cement. Through the tampering of the articles of association of Shandong Shanshui, Zhang Caikui and Zhang Bin were able to change the terms of investment of the shareholders, board members, and the appointment and removal of the directors of Shandong Shanshui. After the changes from the "articles of association amendments of Shandong Shanshui", the number of board members was reduced from 5 to 3, consisting of Zhang Caikui, Zhang Bin, and Chen Xueshi.

On 27 October 2015, the Jinan Municipal Bureau of Commerce announced the "Approval Regarding Changes to Terms of Investment of Shareholders and Other Matters of Shandong Shanshui Cement Group Company Limited" (Ji Shang Wu Shen Pi Zi (2015) No. 112), agreeing to the changes to the terms of investment of shareholders, board members, as well as agreeing to the articles of association amendments of Shandong Shanshui on 14 October 2015.

On 28 October 2015, Shandong Shanshui completed the record registration of the changes mentioned above at the Jinan Administration for Industry and Commerce.

On 8 January 2016, 13 January 2016 and 15 January of 2016, the Court of First Instance of the High Court of Hong Kong made a judgment and issued an injunction, requiring Zhang Caikui and Zhang Bin to return all articles, records and other information, in electronic or non-electronic formats, that they have obtained during their tenure as the Chairman of the Company, China Shanshui (HK) and Pioneer Cement, or when holding other positions of senior management; restricting Zhang Caikui, Zhang Bin, or any employee agent to assist either or both of them to implement the articles of association amendments of Shandong Shanshui illicitly tampered with on 14 October 2015; restricting Zhang Caikui, Zhang Bin, or any employee agent to assist either or both of them in misappropriating any assets of Shandong Shanshui or its affiliated companies; as well as requesting that Zhang Caikui and Zhang Bin correct (restore) the illicitly amended articles of association of Shandong Shanshui.

On 20 April 2016, the Registrar of the High Court of Hong Kong signed the Shandong Shanshui articles of association amendment on behalf of Zhang Caikui and Zhang Bin (restoring it to before 14 October 2015).

2. *Illegal Detention of Official Seal of Shandong Shanshui*

On 30 January 2016, after the directors and legal representative of Shandong Shanshui appointed by Pioneer Cement has taken over the headquarters of Shandong Shanshui office, it was confirmed that the official seal of Shandong Shanshui was missing after performing inventory and bookkeeping.

On 2 February 2016, Shandong Shanshui filed a report with the Jinan Changqing District Police Bureau, Gushan Police Station regarding the missing official seal, Shandong Shanshui also published a Statement of Missing Official Seal in China Economic Times and Hong Kong Cultural News.

On 4 February 2016, Jinan Changqing District Police Bureau, Gushan Police Station issued a "Notice of Termination of Investigation" to Shandong Shanshui, by saying that the reported matter does not belong to the jurisdiction of the Police Bureau, and refused to accept the case in accordance with the law.

On 16 February 2016, the former directors of Shandong Shanshui issued an Announcement on the "Notice of the Establishment of Temporary Office" stamped with the official seal of Shandong Shanshui on Shanshui's WeChat public account, claiming that the lawful office of Shandong Shanshui was under attack, and that temporary office space has been established.

(X) Major Events

On 27 June 2016, the Company received a "Reply to China Shanshui Cement Group Limited" from the Jinan Police Bureau, the letter claiming that Zhang Bin and the former board of directors of Shandong Shanshui composed of Zhang Caikui, Zhang Bin and Chen Xueshi has issued a statement, stating that the official seal of Shandong Shanshui has not been missing, damaged, forfeited, or voided, while Zhang Bin also provided a photo of him holding the official seal of Shandong Shanshui in his hand.

At this point, the Company's PRC legal advisers have confirmed that the Shandong Shanshui official seal has been illegally detained by its former Chairman, Zhang Bin.

3. *Progress of litigations against the former directors of Shandong Shanshui and Jinan Municipal Bureau of Commerce*

On 16 May 2016, the Company's PRC legal advisers initiated proceedings at the Beijing Haidian District People's Court on behalf of Shandong Shanshui, with the defendants being Zhang Caikui, Zhang Bin, Chen Xueshi, and Pioneer Cement as the third party, the case being the dispute of the company license return, Case No. (2016) Jing 0108 Min Chu No. 16825. On the same day, the Company's PRC legal advisers submitted an "Application for Preservation of Conduct" to the Beijing Haidian District People's Court on behalf of Shandong Shanshui, applying to prohibit Zhang Caikui, Zhang Bin and Chen Xueshi from using or authorizing the use of the official seal of Shandong Shanshui.

On 20 June 2016, Beijing Haidian District People's Court issued the (2016) Jing 0108 Min Chu No. 16825 Civil Ruling, prohibiting Zhang Caikui, Zhang Bin and Chen Xueshi from using or authorizing the use of the official seal of Shandong Shanshui that Shandong Shanshui has made a statement on China Economic Times and Hong Kong Wen Wei Po as missing and forfeited.

On 28 June 2016, the Company's PRC legal advisers accompanied the Judge of the Beijing Haidian District People's Court to deliver the "Civil Ruling" (2016) Jing 0108 Min Chu No. 16825 to Zhang Caikui and Zhang Bin at Shandong Shanshui Heavy Industry Co., Ltd., on 4 July 2016 Beijing Haidian District People's Court mailed the "Civil Ruling" (2016) Jing Min Chu No. 16825 to Chen Xueshi.

On 11 July 2016, the Company's PRC legal advisers received the "Statement for Reconsideration" submitted by Chen Xueshi that was sent by the Beijing Haidian District People's Court.

On 18 July 2016, Beijing Haidian District People's Court issued the "Decision for Reconsideration" (2016) Jing 0108 No. 16825, dismissing the Statement for Reconsideration from Chen Xueshi. Due to the fact that after the case has been filed, Beijing Haidian District People's Court has yet to successfully deliver the litigation documents to Zhang Caikui and Zhang Bin, on 9 October 2016, Beijing Haidian District People's Court published the notice in "People's Court Daily", and according to the provisions of the "Civil Procedure Law of the People's Republic of China", the notice is treated as served on 8 December 2016, and the term for answer for Zhang Caikui and Zhang Bin has expired on 23 December 2016.

The representatives of Zhang Caikui and Zhang Bin went to the Beijing Haidian District People's Court during the notice period to obtain the litigation documents. Zhang Bin submitted a jurisdiction objection, claiming that his regular residence is in Jinan, Shandong Province, and as this case revolved around Shandong Shanshui, that it should eventually be transferred to the Jinan Municipal People's Court of Changqing District.

On 10 December 2016, Beijing Haidian District People's Court organized a meeting with the representatives of all parties excluding Pioneer Cement, and made inquiries to all parties regarding the jurisdiction objection submitted by Zhang Bin.

On 28 December 2016, the Company's PRC legal advisers received the (2016) Jing Min Chu No. 16825 Civil Ruling issued by Beijing Haidian District People's Court, whereby Beijing Haidian District People's Court has ruled to transfer the case to Jinan City Intermediate People's Court.

The Company's PRC legal advisers have already to file an appeal against the jurisdiction objection with the Beijing First Intermediate People's Court, requesting the revocation of the (2016) Jing 0108 Min Chu No. 16825 Civil Ruling issued by Beijing Haidian District People's Court, and to place this case under the jurisdiction of the Beijing Haidian District People's Court.

On 7 March 2017, the Beijing First Intermediate People's Court held a hearing on the jurisdiction objection submitted by the Company's PRC legal advisers.

On 27 March 2017, the Company's PRC legal advisers received received (2017) Jing 01 Min Xia Zhong No. 138 Civil Ruling issued by Beijing First Intermediate People's Court, whereby Beijing First Intermediate People's Court, as a final ruling, rescind (2016) Jing Min Chu No. 16825 Civil Ruling issued by Beijing Haidian District People's Court and has ruled to place this case under the jurisdiction of Beijing Haidian District People's Court.

Since then, the litigations against former directors of Shandong Shanshui for illegal detention of official seal of Shandong Shanshui will be heard by Beijing Haidian District People's Court.

4. *Progress of litigations with Jinan Municipal Bureau of Commerce*

On 25 January 2016, we filed an administrative lawsuit on behalf of Pioneer Cement with the Jinan City District People's Court, the defendant being the Jinan Municipal Bureau of Commerce, Case No. (2016) Lu 0102 Xing Chu No. 45. On 1 April 2016, Jinan City Lixia District People's Court heard this case, the trial proceedings have been completed.

On 6 June 2016, Jinan City Lixia District People's Court issued "Notice of Third Party Participation in Proceedings" (2016) Lu Xing Chu No. 45 to Shandong Shanshui, notifying Shandong Shanshui that due to Jinan City Lixia District People's Court have discovered that there exists a legal interest between Shandong Shanshui and the handling of this case, therefore it has requested that Shandong Shanshui participate in the proceedings in the case as a third party.

On 27 July 2016, Jinan Lixia District People's Court heard this case once more, and on that day, the lawyer appointed by Zhang Bin, representing himself as the legal representative of Shandong Shanshui, and the lawyer appointed by Li Heping, the legal representative of Shandong Shanshui at the time, both appeared in court at the same time. The representatives of Li Heping and Zhang Bin made representations to the Court regarding to "Who is the legal representative of Shandong Shanshui" respectively. The legal representatives of Shandong Shanshui appointed by Li Heping submitted "Shareholders resolutions of Shandong Shanshui", "Hong Kong High Court Orders and Injunction Orders", "The Corrective Amendment to the articles of association of Shangdong Shanshui signed on behalf of the Registrar of Hong Kong High Court, pursuant to an Injunction Order granted by the Court", "Declaration of loss of official seal of Shandong Shanshui", "Acknowledgement of acceptance" for case of illegal detention of official seal of Shandong Shanshui and "Civil Ruling" for prohibition of the use of the official seal of Shandong Shanshui, "Supreme People's final Decree (2016) No. 393-398" recognized Li Heping as the legal representative of Shandong Shanshui and evidences such as the "Court Summons" sent by Jinan City Lixia District People's Court to the registered and actual business address of Shandong Shanshui. Jinan City Lixia District People's Court has not proceed to confirm the actual lawyer representative of Shandong Shanshui, and trial could not be continued.

On 10 September 2016, Jinan City Lixia District People's Court issued "Administrative Ruling" (2016) Lu 0102 Xing Chu No. 45, ordering the suspension of the proceedings of this case.

Since the reasoning for the Jinan City Lixia District People's Court suspending the proceedings being that it must wait for the trial results of the Beijing Haidian District People's Court (2016) Jing 0108 Min Chu No. 16825 to confirm the legal representative of Shandong Shanshui, therefore the timeline for resuming the trial of this case depends on the progress of the trial of the Beijing Haidian District People's Court (2016) Jing 0108 Min Chu 16825.

On 12 January 2017, Pioneer Cement and Shandong Shanshui received a "Court Summon" of the case. On 14 February 2017, Jinan City Lixia District People's Court held a third trial to restore the hearing of the case, the trial court said the record of legal representative of the Company registered in the Registrar of Companies shall prevail, Jinan City Lixia District People's Court has granted the representative of Zhang Bin to participate in litigation. The court proceedings have been completed. After the successful takeover of Shandong Shanshui so far, in the court case involving Shandong Shanshui, counts including the Supreme People's court, the Shandong Provincial Higher People's court, the Supreme People's Court of Shanghai, Shanghai first intermediate people's court, the Shanghai second intermediate people's court, Shanghai City People's Court of Pudong New Area, Shenzhen City Intermediate People's court and Jinan City Changqing District recognized Li Heping as the legal representative of the Shandong Shanshui, court case like this recognized Zhang Bin as legal representative of the Shandong Shanshui is extremely rare.

On 24 March 2017, the Company's PRC legal advisors received the "Civil Ruling" (2016) Lu 0102 Xing Chu No. 45, dismissing the request for action. The Company's PRC legal advisor will appeal to the Jinan City Intermediate People's Court.

5. *Progress of litigation with former directors of Shandong Shanshui related to damages to Shareholders' interests*

On 19 January 2016,the Company's PRC legal advisors filed a lawsuit on behalf of Pioneer Cement with the Shandong Provincial Higher People's Court, the defendants being Zhang Caikui, Zhang Bin, Chen Xueshi, with Shandong Shanshui being the third party, the case being the liability dispute of damages to shareholders' interests, Case No. (2016) Lu Min Chu No. 15.

On 4 March 2016, Zhang Bin submitted an "Application for Jurisdiction Objection" to the Shandong Provincial Higher People's Court, requesting that this case be transferred to a People's Court in Beijing with jurisdiction over the trial. The Shandong Provincial Higher People's Court was unable to issue a decision on the jurisdiction objection within the period stipulated in "Certain Provisions from the Supreme People's Court regarding the strict implementation of the "Civil Procedure Law of the People's Republic of China" during Economic Trials".

On 10 March 2016, the Company's PRC legal advisors first submitted the "Application for Litigation Preservation" to the Shandong Provincial Higher People's Court on behalf of Pioneer Cement, to apply for freezing RMB100 million bank deposits of Zhang Caikui, Zhang Bin and Chen Xueshi or a seizure of their equivalent property, as well as requesting a seizure of the equity and assets under the name of Shandong Shanshui.

(X) Major Events

On 15 March 2016, Shandong Provincial Higher People's Court issued the "Civil Ruling" (2016) Lu Min Chu No. 15, for freezing RMB100 million bank deposits of Zhang Caikui, Zhang Bin and Chen Xueshi or a seizure of their equivalent property.

On 3 August 2016, the Company's PRC legal advisors submitted a reply to the jurisdiction objection with the Shandong Provincial Higher People's Court, recognizing the jurisdiction objection from Zhang Bin and agreeing to transfer the case to the Beijing Intermediate People's Court for trial.

On 24 August 2016, the Shandong Provincial Higher People's Court issued the "Civil Ruling" (2016) Lu Min Chu No. 15, dismissing Zhang Bin's jurisdiction objection submitted regarding this case.

On 27 September 2016, Shandong Provincial Higher People's Court published a notice in "People's Court Daily" to deliver the Civil Ruling (2016) Lu Min Chu No. 15 to Zhang Caikui. According to the provisions of the "Civil Procedure Law of the People's Republic of China", it was treated as served on 28 November 2016. During the term for answer, Zhang Bin has not filed an appeal against the jurisdiction objection.

On 10 March 2017, the Company's PRC legal advisers received "Notification of Court Summon" of the case, the trial will be held on 5 June 2017.

(ii) Other litigations in PRC

As of the date of this report, there are 76 cases in which Shandong Shanshui has received the notice of the People's Court but has yet to close the case; using a litigation status of plaintiff, defendant or third party as standard, unsettled litigations of Shandong Shanshui can be divided into three categories.

1. Unsettled litigations with Shandong Shanshui as defendants

There are 71 unsettled litigations with Shandong Shanshui as defendants, with the subject matter of the litigations approximately RMB3.69 billion. Categorizing by cases, there are 15 categories of unsettled litigations, with one case of settlement dispute, 13 cases of sales and purchase contract dispute, 1 case of housing contract dispute, 12 cases of construction contract dispute, 1 case of contract dispute, 26 cases of corporate bond transactions dispute, 2 cases of corporate bond repurchase contract dispute, 1 case of bill dispute, 4 cases of equity transfer dispute, 1 case of corporate loan dispute, 1 case of labor dispute, 1 case of margin trading dispute, 1 case of bidding contract dispute, 1 case of loan guarantee dispute, 5 cases of securities dispute. There is a total of 45 cases in the first instance, a total of 21 cases in the second instance, and 5 cases in the enforcement phase.

2. Unsettled litigations with Shandong Shanshui as plaintiff

There are 3 unsettled litigations with Shandong Shanshui as plaintiff. Categorizing by cases, there are 2 categories of unsettled litigations, with one case of company license dispute, 2 cases of disputes relating to the company, with all in the first instance.

3. Unsettled litigations with Shandong Shanshui as third Party

There are 2 unsettled litigations with Shandong Shanshui as third party, with 1 case of damages to shareholders' interests dispute, 1 case of administrative handling dispute, both in the first instance.

(III) POSSIBLE OFFER AND CLOSE OF OFFER PERIOD

1. The Board has received the Letter from ACC and CNBM on 20 July 2015 in which ACC and CNBM have informed the Board that they are interested in, and are currently considering the feasibility of, jointly making a voluntary cash general offer to acquire all the Shares (other than those already owned or agreed to be acquired by the Offerors and parties acting in concert (as defined in the Takeovers Code) with any of the Offerors) at an offer price to be determined by the Offerors. Reference is made to the announcements that the Offerors made on 21 July 2015, 12 August 2015, 11 September 2015, 9 October 2015, 9 November 2015, 11 December 2015, 11 January 2016, 11 February 2016, 11 March 2016, 11 April 2016, 28 April 2016 and 10 May 2016; the announcements that the Company made on 11 September 2015, 9 October 2015, 9 November 2015, 11 December 2015, 12 January 2016, 15 February 2016, 16 March 2016 and 20 April 2016; and the announcement of the Company dated 27 April 2016 relating to the Put Up or Shut Up Ruling issued by the Executive ("**Ruling Announcement**").

2. Pursuant to the Put Up or Shut Up Ruling issued by the Executive on 26 April 2016, CNBM and ACC must by 5 p.m. on 26 May 2016 either: (i) announce a firm intention to make an offer for the Company under Rule 3.5 of the Takeovers Code which may be in the form of a pre-conditional Rule 3.5 announcement, or (ii) announce the decision that they do not intend to make an offer for the Company; or (iii) inform the Company that they do not intend to make an offer for the Company.

3. On 10 May 2016, each of CNBM and ACC issued a letter to inform the Company of their decision not to proceed with the Possible Offer ("**Decision Letters**"). The Offerors also made an announcement in this regard on the even date. The offer period, which commenced from the date of the 3.7 Announcement on 21 July 2015, had closed on 10 May 2016.

4. The offer period, which commenced from the date of the 3.7 Announcement on 21 July 2015, had closed on 10 May 2016.

(IV) PUBLIC FLOAT

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 been taking active steps in consulting financial advisers to discuss all options available to the Company to restore the public float of the Company as required by Rule 8.08 of the Listing Rules with a view to resolving the public float issue.

The Board has approved in principle on 2 June 2016 the proposal for restoration of public float of the Company (the "**Proposal**"), involving an open offer on the basis of 4 new shares of the Company (the "**Shares**") for every 1 existing Share in combination with a placing of new/ existing Shares (if necessary) to raise about HK$4 billion to settle the outstanding debt of the Group including any outstanding amount of the 2020 Notes.

The Board has negotiated with the relevant parties and relevant underwriters through its financial adviser, including writing to CNBM and ACC but they refused to provide any financial support to the Company, in order to restore the public float of the Company, on 12 September 2016, the Company entered into an Engagement Letter with each of SHKIS and ABCI. Pursuant to the Engagement Letters, SHKIS and ABCI agreed to act as co-placing agents of the Company to, subject to the signing of the Prior Placing Agreement and the terms and conditions in the Prior Placing Agreement, place on a best efforts basis not less than 910,000,000 Placing Shares and not more than 950,000,000 Placing Shares at not less than the Placing Price of HK$0.50 per Share to not less than six independent Placees. (the "**Placing**")

On 6 October 2016, the Company entered into the Prior Placing Agreement with SHKIS and ABCI in respect of the Placing.

On 18 November 2016, the Company entered into an engagement letter with each of the Manager and FCSL, pursuant to which the Manager and FCSL agreed to act as placing agents of the Company in addition of SHKIS and ABCI for the Placing.

On 28 November 2016, the Company, the Manager, FCSL, SHKIS and ABCI entered into the Placing Agreement to amend and restate the Prior Placing Agreement on the terms and conditions set forth therein, which shall amend, restate, supersede and replace in its entirely the Prior Placing Agreement, and to accept the rights created pursuant thereto in lieu of the rights granted to them under the Prior Placing Agreement, subject to the terms and conditions of the Placing Agreement.

Subsequent to the publication of the Placing Circular on 30 December 2016, the Company received on 27 January 2017 a written requisition from certain Shareholders to convene and hold an extraordinary general meeting to consider the matters as stated in the Requisition Letter.

On 8 February 2017, and the Company announced a notice of extraordinary general meeting and circular to shareholders of the Company on 16 February 2017 to convene an extraordinary general meeting to be held on 8 March 2017 (the "**Requisition EGM**").

At the onset of the EGM on 17 February 2017, the Chairman announced that he has also received verbal request from two substantial shareholders of the Company, namely Tianrui Group and CSI to adjourn the EGM until further notice. In order to facilitate the Shareholders to consider and approve, if appropriate, the Requisitions at the Requisition EGM, a resolution (the "**Adjournment Resolution**") was proposed by the chairman of the EGM to adjourn the EGM and all the ordinary resolutions (i.e. resolution no. 1 and resolution no. 2) (the "**Ordinary Resolutions**") as set out in the notice of the EGM (the "**EGM Notice**") regarding the Placing and the Refreshment of Scheme Mandate Limit until further notice. The Board announces that at the EGM held on 17 February 2017, the Adjournment Resolution was duly passed by the Shareholders by way of poll.

On 27 February 2017, an independent board committee comprised of independent non-executive directors of the Company has appointed Karl Thomson Financial Advisory Limited to advise the shareholders of the Company in the form of an IFA Letter on the Proposed Transactions in Placing.

In view of (i) the Previous Placing Long Stop Date will expire on 28 March 2017; and (ii) the time constraint for fulfilment of the requirements (including the appointment of an independent financial adviser to opine on the Proposed Transactions) as proposed by the Requisitionists and approved by the Shareholders at the Requisition EGM for the Proposed Transactions by the Previous Placing Long Stop Date, the Company anticipates that the Previous Placing will not be able to complete on or before the Previous Placing Long Stop Date and an agreement for extension of the Previous Placing Long Stop Date may not be reached between all the parties to the Amended and Restated Placing Agreement. In addition, as expressed by the various public minority Shareholders during the Company's extraordinary general meeting dated 17 February 2017 about their frustration on the prolonged suspension of the Company's shares and their urging for the Company to restore public float and resume trading of the Company's shares on the Stock Exchange as soon as possible. Coupled with the resumption of trading being a significant consideration for many financial institutions in the Company's discussion with them to provide financing facilities to the Company, the Board is of the view that the restoration of the public float and the resumption of the trading of the Company's shares on the Stock Exchange as an imperative criteria for the Company to improve its financial situation.

(X) Major Events

On 13 March 2017, the Company issued a letter to the Previous Manager and the Previous Placing Agents to terminate the Amended and Restated Placing Agreement with immediate effect pursuant to the Amended and Restated Placing Agreement. All rights, obligations and liabilities of the parties under the Amended and Restated Placing Agreement have ceased and terminated immediately after the termination of the Amended and Restated Placing Agreement and no party shall have any claim against the other in relation thereto save for antecedent breaches of the provisions of the Amended and Restated Placing Agreement.

In order to restore the public float of the Company, on 13 March 2017, the Company, the Manager and the Placing Agents (the Manager, FCSL, SHKIS) entered into the New Placing Agreement for the Placing with major terms identical to the Previous Placing. The Company shall offer not less than 910,000,000 new Shares and not more than 950,000,000 new Shares for subscription and the Placing Agents agree to, use their best efforts, as agents of the Company to procure, either by themselves or through their sub-placing agents, the Placees to subscribe the Placing Shares at a Placing Price of not less than HK$0.50 per Placing Share on the terms and conditions of the New Placing Agreement. Based on the minimum Placing Price of HK$0.50, the gross proceeds from the proposed Placing will range from approximately HK$455 million to HK$475 million.

The circular containing, among other things, (i) further details of the Placing and the Specific Mandate; (ii) a letter from an independent financial adviser opining on the Placing and the Refreshment of Scheme Mandate; and (iii) the notice of EGM, is expected to be despatched to the Shareholders on or before 30 April 2017.

For details of the abovementioned matters, please refer to the announcements which the Company made on 16 April 2015, 22 May 2015, 14 January 2016, 19 February 2016, 23 March 2016 and 26 April 2016 ("**Public Float Announcements**"), the announcement made on 3 June 2016 ("**Announcement regarding proposal for restoration of public float**"), the announcements made on 12 September 2016, 6 October 2016, 18 November 2016, 28 November 2016, 27 February 2017 and 13 March 2017 ("**Entering into of placing agreement relating to placing of new shares under specific mandate**") and the circulars made on 30 December 2016 and 16 February 2017.

(V) CONTINUING CONNECTED TRANSACTIONS

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

As of 31 December 2016, the Group borrowed RMB1.184 billion on an interest-free basis from Tianrui Group which was mainly used to settle certain debts, including:

1. Interest from 7.50% Senior Notes due 2020 amounted to US$37.501 million.

2. Principal amount of and interest from any and all outstanding 8.50% Senior Notes due 2016 amounted to US$31.345 million.

3. Purchase price of US$73.473 million paid in cash for purchasing 7.50% Senior Notes due 2020 issued overseas, representing 15% of the total amount of Notes (US$484.971 million).

4. Interest from ultra short term debenture amounted to RMB87.521 million.

As of 31 December 2016, outstanding borrowings of the Company from Tianrui Group was RMB486 million.

(XI) Independent Auditor's Report

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

DISCLAIMER OF OPINION

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 101 to 224, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the *Basis for disclaimer of opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

BASIS FOR DISCLAIMER OF OPINION

(a) 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 RMB979 million during the year ended 31 December 2016. As of the same date, the Group's current liabilities exceeded its current assets by RMB16,233 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 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.

(b) Scope limitation on the board's representations

As disclosed in Note 1(b) to the consolidated financial statements, on 1 December 2015 the Company removed all the then directors of the Company (the eight "ex-directors") and appointed nine new directors (the "New Board" or "the existing directors of the Company"). From then on the New Board began to take over the management of the Company and its subsidiaries from the ex-directors.

The Company made further announcements on 12 January 2017 and 13 March 2017 which stated that a further five individuals have been removed from being directors of Shandong Shanshui Cement Group Co., Ltd. ("Shandong Shanshui", a major subsidiary of the Company in Jinan City) and from all their duties in Shandong Shanshui and Shandong Shanshui's subsidiaries. These five individuals were all members of the senior management of Shandong Shanshui.

Due to the dispute between the Company and the five ex-directors of Shandong Shanshui, the board of the Company could not ensure whether the accounting books and records of Shandong Shanshui and its subsidiaries have been properly maintained for the whole of financial year 2016. In addition, as the New Board was not appointed until 1 December 2015, the board of the Company could not ensure whether the accounting books and records of the whole Group had been properly maintained for the year ended 31 December 2015. Accordingly, we have been unable to obtain written representations from the board of the Company that the accounting records were properly maintained throughout the two years ended 31 December 2015 and 2016.

The lack of written representations as mentioned above from the board of the Company has called into question the reliability of the financial and other information and documents provided by management and undermined our ability to rely on the Group's system of internal control to safeguard the genuineness of accounting records and documentation. Given these circumstances, there were no practicable audit procedures that we could perform to satisfy ourselves that the information and documents presented to us for the purpose of our audit are complete and accurate in all material respects, nor to quantify the extent of adjustments that might be necessary in respect of the Group's financial statements for the year ended 31 December 2016, including the comparative figures for the prior year and opening balances. In our auditor's report on the Group's consolidated financial statements for the year ended 31 December 2015 we disclaimed an opinion due to this same limitation in the scope of our audit.

(c) Scope limitation on unauthorised expenses for Shandong Shanshui

As disclosed in Notes 4, 5, 8 and 34(d) to the consolidated financial statements, Shandong Shanshui accrued an amount of RMB131 million as the bonus for year 2016 to the senior management of Shandong Shanshui and its subsidiaries. The management of Shandong Shanshui asserted that the amount was subsequently fully paid out during January 2017 but they did not provide any evidence for the payment. The directors of the Company advised that the so-called bonus and the payment was not approved by the directors of the Company, but the directors of the Company are still of the opinion that RMB131 million should be recorded as an expense for year 2016 since it was allegedly disbursed in relation to operations in 2016.

Neither the management of Shandong Shanshui nor the board of the Company have provided us with any evidence of the payment in January 2017. We have therefore been unable to obtain sufficient audit evidence as to support the existence and payment of the expense. Consequently, we were unable to satisfy ourselves that the expense accrued in the consolidated financial statements for the year ended 31 December 2016 was fairly stated and that the personnel expenses, and the information relating to individuals with highest emoluments and the emoluments for key management personnel have been accurately presented/disclosed.

(d) Scope limitation on the impairment assessment of the Group's goodwill and fixed assets

As disclosed in Notes 11 and 13 to the consolidated financial statements, in the preparation of the Group's consolidated financial statements for year 2016, the directors carried out a full scope assessment of the recoverable amount for each of the groups of cash generating units ("CGUs") to which goodwill and fixed assets have been allocated. The impairment assessments on the recoverable amount for each CGUs performed by the Group were based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rate and the projected sales volume, selling prices and direct costs for each of related cash generating units used in the cash flow forecasts. However, the board of the Company could not provide sufficient audit evidence to verify the reasonableness of the above assumptions used in the cash flow forecasts.

In the absence of sufficient audit evidence to verify the reasonableness of the above assumptions used in the cash flow forecasts, we were unable to obtain sufficient audit evidence to satisfy ourselves as to the reasonableness of the impairment loss recognised for goodwill and fixed assets and there were no other practical alternative audit procedures that we could perform to determine whether the carrying amount of goodwill and fixed assets is fairly stated as at 31 December 2016.

In our auditor's report on the Group's consolidated financial statements for the year ended 31 December 2015 we disclaimed an opinion due to, amongst other matters, our inability to obtain sufficient appropriate audit evidence as to the reasonableness of the impairment loss recognised for goodwill and fixed assets for the year ended 31 December 2015. In the absence of supporting sufficient documents of the validity of the financial budget of 2017 for each CGUs as at the date of this report, we were unable to complete our audit of the opening balances in respect of impairment of goodwill and fixed assets.

Had we been able to complete our audit of the opening balances, matters might have come to our attention indicating that adjustments might be necessary to the consolidated financial statements, as any adjustments to the carrying amounts of goodwill and fixed assets as at 31 December 2015 might have affected the loss for the year ended 31 December 2016. In addition, the corresponding amounts for the consolidated statement of profit or loss for the year ended 31 December 2015 may not be comparable to the current year.

(e) Scope limitation on the impairment assessment of the Group's investments in associates

As disclosed in Note 15 to the consolidated financial statements, an impairment assessment was carried out by management of the Group on the investments in Qilu Property Co., Ltd. ("Qilu Property") and Shandong Shanshui Heavy Industries Co., Ltd. ("Shanshui Heavy Industries").

Qilu Property was acquired by Shandong Shanshui during July to September 2015. Due to the directors being unable to find the equity transfer agreement for this transaction and obtain the financial information or any books and records of Qilu Property for year 2015, the Group has fully impaired the carrying amount of the investment in Qilu Property of RMB147 million as at 31 December 2015.

The Group sold 55% interest in Shanshui Heavy Industries in 2015 to two suppliers of the Group. After the disposal transaction, Shandong Shanshui's remaining interest in Shanshui Heavy Industries was 44.99% and it was recorded as an investment in an associate as at 31 December 2015. Since the directors were unable to access any books or records of the associate, the Group fully impaired the investment in Shanshui Heavy Industries of RMB79 million as at 31 December 2015.

The directors of the Company have advised us that they continued to be unable to access any books and records of Qilu Property and Shanshui Heavy Industries for the year ended 31 December 2016.

In the absence of any available information or books and records of these associates being provided by the Group's management, we were unable to obtain satisfactory audit evidence to satisfy ourselves as to the existence and accuracy of investments in associates recognised or disclosed for the year ended 31 December 2016 and the corresponding amounts for the consolidated statement of profit or loss for the year ended 31 December 2015 may not be comparable to the current year.

In addition, due to the lack of the equity transfer agreements and related information, the directors of the Group could not confirm whether these equity transactions in 2015 were related parties transactions or not. Accordingly, the corresponding amounts of related parties' transactions recognised or disclosed for the year ended 31 December 2015 may not be accurately presented. In our auditor's report on the Group's consolidated financial statements for the year ended 31 December 2015 we disclaimed an opinion due to, amongst other matters, our inability to obtain sufficient appropriate audit evidence in this regard.

(f) Scope limitation on the impairment assessment of investments in Jinan Changqing Shanshui Micro Finance Co., Ltd. ("Shanshui Micro Finance"), Xinghao Cement Co.; Ltd. ("Xinghao Cement") and Rushan Shanshui Cement Co., Ltd. ("Rushan Shanshui")

Shanshui Micro Finance, Xinghao Cement and Rushan Shanshui were subsidiaries of the Group as at 31 December 2015. As disclosed in Notes 1(b) and 14 to the consolidated financial statements, as a result of the continuing difficulties and events described in Note 1(b) the board of the Company has been unable to access any accounting books and records of these three companies nor has it had the ability to direct the relevant activities which significantly affect these companies' returns. Accordingly, the Group reclassified the investments in each of these three companies as available-for-sale investments and made a full impairment provision of RMB165 million as at 31 December 2016.

In the absence of any available information or books and records of these three companies being provided by the Group's management, we were unable to obtain satisfactory audit evidence to satisfy ourselves as to the existence and accuracy of the available-for-sale investments and that the impairment for available-for-sale investments recognised or disclosed for the year ended 31 December 2016 has been accurately presented.

(g) Scope limitation on the shortfall of cash and cash equivalents as at 31 December 2015

In our auditor's report on the Group's consolidated financial statements for the year ended 31 December 2015 we disclaimed an opinion due to, amongst other matters, our inability to obtain sufficient appropriate audit evidence as to the transactions which led to the shortfall of cash on hand of Shandong Shanshui of RMB2.67 million as at 31 December 2015, which was identified when the directors of the Company took over Shandong Shanshui from the ex-directors in January 2016 as disclosed in Note 4 to the financial statements. During our 2016 audit, the directors of the Company have represented to us that they continue to be unable to find or obtain any supporting documents of cash transactions or books and records in relation to this shortfall of cash.

In the absence of sufficient supporting documents of cash transactions or books and records in relation to the shortfall of cash on hand in 2015, we were unable to complete our audit of the comparative information in respect of the completeness of cash transactions in 2015. Had we been able to complete our audit of the comparative information, matters might have come to our attention indicating that the corresponding amounts for the consolidated statement of profit or loss and the consolidated statement of cash flows for the year ended 31 December 2015 may not be comparable to the current year.

(h) Scope limitation on inability to obtain sufficient appropriate audit evidence concerning certain expenses

In our auditor's report on the Group's consolidated financial statements for the year ended 31 December 2015 we disclaimed an opinion due to, amongst other matters, our inability to obtain sufficient appropriate audit evidence as to the personnel expenses and other net expenses of RMB18.7 million and RMB14.3 million respectively (as disclosed in Notes 4, 7 and 8 to the consolidated financial statements, respectively), which were not substantiated with relevant supporting documentation. The directors advised that the payment of these expenses was approved by the ex-directors of the Company.

In the absence of sufficient audit evidence to support the existence of these expenses, we were unable to complete our audit of the comparative information in respect of the existence of these expenses in 2015. Had we been able to complete our audit of the comparative information, matters might have come to our attention indicating that adjustments might be necessary to the consolidated financial statements, as any adjustments to these expenses for the year ended 31 December 2015 would affect the loss for the year ended 31 December 2016. In addition, the corresponding amounts for the consolidated statement of profit or loss for the year ended 31 December 2015 may not be comparable to the current year.

Had we been able to satisfy ourselves in respect of the matters mentioned in the items (a) to (h) 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 2016 and its net loss for the year ended 31 December 2016 and/or the comparative information, 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.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and to issue an auditor's report. 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. However, because of the matters described in the *Basis for disclaimer of opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), together with any other ethical requirements that are relevant to our audit of the consolidated financial statements in Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code.

The engagement partner on the audit resulting in this independent auditor's report is Yeung Ka Chun.

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

30 March 2017

(XII) Financial Statements
Consolidated Statement of Profit or Loss

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Turnover	3	**11,284,193**	11,166,212
Cost of sales		**(8,808,192)**	(9,937,927)
Gross profit		**2,476,001**	1,228,285
Other revenue	4	**182,300**	146,323
Other net expenses	4	**(340,540)**	(3,412,320)
Selling and marketing expenses		**(486,954)**	(514,469)
Administrative expenses		**(1,592,646)**	(2,316,895)
Profit/(loss) from operations		**238,161**	(4,869,076)
Finance costs	5(a)	**(1,030,649)**	(1,597,179)
Share of profits less losses of associates		**(36,807)**	(29,348)
Loss before taxation	5	**(829,295)**	(6,495,603)
Income tax	6(a)	**(149,566)**	(198,052)
Loss for the year		**(978,861)**	(6,693,655)
Attributable to:			
Equity shareholders of the Company		**(738,281)**	(6,387,259)
Non-controlling interests		**(240,580)**	(306,396)
Loss for the year		**(978,861)**	(6,693,655)
Loss per share	10		
Basic (RMB)		**(0.22)**	(1.89)
Diluted (RMB)		**(0.22)**	(1.89)

The notes on pages 107 to 224 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).

(XII) Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Loss for the year		**(978,861)**	(6,693,655)
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)	**18,400**	(7,150)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**(214,974)**	(239,458)
Available-for-sale securities: net movement in the fair value reserve		**(645)**	(347)
Other comprehensive expenses for the year		**(197,219)**	(246,955)
Total comprehensive expenses for the year		**(1,176,080)**	(6,940,610)
Attributable to:			
Equity shareholders of the Company		**(935,500)**	(6,634,214)
Non-controlling interests		**(240,580)**	(306,396)
Total comprehensive expenses for the year		**(1,176,080)**	(6,940,610)

The notes on pages 107 to 224 form part of these financial statements.

(XII) Financial Statements
Consolidated Statement of Financial Position

At 31 December 2016
(Expressed in Renminbi)

	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Non-current assets			
Fixed assets	11		
– Property, plant and equipment		**17,716,429**	18,925,772
– Land lease prepayments		**2,293,955**	2,350,193
		20,010,384	21,275,965
Intangible assets	12	**512,565**	554,683
Goodwill	13	**14,223**	14,223
Other financial assets	14	**474,065**	621,329
Investments in associates	15	**256,559**	293,353
Deferred tax assets	28(b)	**134,329**	112,390
Other long-term assets		**198,342**	238,008
		21,600,467	23,109,951
Current assets			
Inventories	17	**1,452,355**	1,217,259
Trade and bills receivable	18	**1,533,881**	1,540,908
Other receivables and prepayments	19	**968,950**	881,373
Restricted bank deposits	20	**88,003**	41,302
Cash and cash equivalents	20	**276,500**	222,907
		4,319,689	3,903,749
Current liabilities			
Short-term bank loans	21	**3,485,050**	5,076,265
Current portion of other borrowings	22	**2,770,909**	2,800,329
Current portion of long-term bonds	23	**7,193,863**	7,724,843
Trade and bills payable	24	**3,726,792**	3,523,918
Other payables and accrued expenses	25	**3,298,938**	2,647,261
Current portion of obligation under finance lease		**–**	7,639
Current taxation	28(a)	**77,632**	(31,906)
		20,553,184	21,748,349
Net current liabilities		**(16,233,495)**	(17,844,600)
Total assets less current liabilities		**5,366,972**	5,265,351

The notes on pages 107 to 224 form part of these financial statements.

(XII) Financial Statements
Consolidated Statement of Financial Position

At 31 December 2016
(Expressed in Renminbi)

	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Non-current liabilities			
Long-term bank loans	21	**1,589,200**	208,200
Other borrowings less current portion	22	**4,546**	3,513
Defined benefit obligations	26(c)	**156,773**	174,660
Deferred income	27	**273,298**	295,599
Long-term payables		**20,444**	20,986
Deferred tax liabilities	28(b)	**66,472**	69,228
		2,110,733	772,186
NET ASSETS		**3,256,239**	4,493,165
CAPITAL AND RESERVES			
Share capital	30(c)	**227,848**	227,848
Share premium		**4,654,010**	4,654,010
Share capital and Share premium		**4,881,858**	4,881,858
Other reserves		**(1,783,170)**	(851,606)
Total equity attributable to equity shareholders of the Company		**3,098,688**	4,030,252
Non-controlling interests		**157,551**	462,913
TOTAL EQUITY		**3,256,239**	4,493,165

Approved and authorised for issue by the board of directors on 30 March 2017.

LIU Yiu Keung, Stephen
Director

LI Heping
Director

The notes on pages 107 to 224 form part of these financial statements.

(XII) Financial Statements
Consolidated Statement of Changes in Equity

For the year ended 31 December 2016
(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 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 and 1 January 2016	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
Changes in equity for 2016:										
Loss for the year	–	–	–	–	–	–	(738,281)	(738,281)	(240,580)	(978,861)
Other comprehensive expenses	–	–	–	–	(214,974)	(645)	18,400	(197,219)	–	(197,219)
Total comprehensive expenses for the year	–	–	–	–	(214,974)	(645)	(719,881)	(935,500)	(240,580)	(1,176,080)
Distribution to non-controlling interests	–	–	–	–	–	–	–	–	(9,620)	(9,620)
De-recognition of subsidiaries (note 1(b))	–	–	(1,824)	–	–	–	–	(1,824)	(55,162)	(56,986)
Transfer between reserves	–	–	41,998	–	–	–	(41,998)	–	–	–
Acquisition of non-controlling interests	–	–	–	5,760	–	–	–	5,760	–	5,760
Balance at 31 December 2016	227,848	4,654,010	1,193,568	268,921	(349,201)	4,802	(2,901,260)	3,098,688	157,551	3,256,239

The notes on pages 107 to 224 form part of these financial statements.

(XII) Financial Statements
Consolidated Statement of Cash Flows

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from operations	20(b)	**1,846,354**	1,203,823
Interest paid		**(775,803)**	(1,367,569)
Income tax paid		**(63,954)**	(179,167)
Net cash generated from/(used in) operating activities		**1,006,597**	(342,913)
Investing activities			
Payment for purchase of fixed assets		**(332,616)**	(1,594,803)
Payment for purchase of intangible assets		**(134,751)**	(78,161)
Repayment from loans to associates		**5,000**	20,087
Acquisition of non-controlling interests		**–**	(988)
Acquisition of subsidiaries, net of cash acquired		**(11,126)**	–
Proceeds from sale of fixed assets		**17,851**	201,393
Investment in an associate		**(11,864)**	(174,451)
Interest received		**6,597**	38,456
Dividend received		**–**	347
Disposal of a subsidiary		**–**	(2,967)
De-recognition of subsidiaries		**(13,281)**	–
Proceeds from loans due from a third party		**16,000**	–
Net cash used in investing activities		**(458,190)**	(1,591,087)
Financing activities			
Capital element of finance lease rentals paid		**(7,639)**	(9,397)
Proceeds from new loans and borrowings		**1,017,600**	6,774,101
Proceeds from issues of long-term bonds		**–**	3,246,800
Proceeds from capital injection in subsidiaries by non-controlling interests		**–**	10,000
Proceeds from bills discounted		**72,129**	1,461,635
Loans from shareholders		**1,119,702**	64,778
Loans from related parties		**10,204**	59,732
Repayment of loans and borrowings		**(1,270,784)**	(5,828,356)
Repayment of long-term bonds		**(747,046)**	(4,718,489)
Repayment loans from shareholders		**(676,054)**	–
Repayment loans from related parties		**(6,244)**	(20,959)
Repayment of interest of bills receivable discounted		**(1,081)**	(27,977)
Interest element of finance lease rentals paid		**–**	(1,339)
Dividends paid to non-controlling interests		**(9,620)**	(7,759)
Net cash (used in)/generated from financing activities		**(498,833)**	1,002,770
Net increase/(decrease) in cash and cash equivalents		**49,574**	(931,230)
Cash and cash equivalents at 1 January	20(a)	**222,907**	1,151,353
Effect of foreign exchange rate changes		**4,019**	2,784
Cash and cash equivalents at 31 December	20(a)	**276,500**	222,907

The notes on pages 107 to 224 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interests 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. 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. As at this report date, the New Board took over the management of the Company and its subsidiaries, 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 have not yet been able to obtain Shandong Shanshui Cement Group Co., Ltd.'s official chop ("Shandong Shanshui", a major subsidiary of the Company in Jinan City);

- The Company made announcements on 12 January 2017 and 13 March 2017 which stated that Mr. Mi Jingtian, Mr. Li Maohuan, Mr. Yu Yuchuan, Mr. Zhao Liping and Mr. Chen Zhongsheng ("the five ex-directors") have been removed from being directors of Shandong Shanshui and from all their duties in Shandong Shanshui and its subsidiaries. The five ex-directors were all members of the senior management of Shandong Shanshui;

- A former subsidiary, namely Jinan Changqing Shanshui Micro Finance Co., Ltd. ("Shanshui Micro Finance"), is under the management of the Mr. Zhangs. During the year of 2016, the New Board can neither access any accounting books and records of Shanshui Micro Finance nor find the current place of business for Shanshui Micro Finance. Accordingly, the directors of the Company are of the opinion that the Group does not have the ability to direct the relevant activities which significantly affect Shanshui Micro Finance's returns;

- Before the 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 Co., Ltd. ("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 in February 2016 and dismissed all of the key management of Xinghao Cement previously appointed by Shandong Shanshui in May 2016, which included the general manager and CFO of Xinghao Cement. Since then, the New Board can neither access any accounting books and records of Xinghao Cement nor have the ability to direct the relevant activities which significantly affect Xinghao Cement's returns; and

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)*

- Shandong Shanshui acquired 67% interests in Rushan Shanshui Cement Co., Ltd. ("Rushan Shanshui") in January 2012. Pursuant to the articles of association of Rushan Shanshui, if Rushan Shanshui continuously make a loss for three years, Shandong Shanshui should acquire the remaining 33% interests in Rushan Shanshui from the minority shareholders. Rushan Shanshui made loss for three years from year 2013 to year 2015. The minority shareholders of Rushan Shanshui has took over the management of Rushan Shanshui in April 2016 and appealed Shandong Shanshui to the court for asking Shandong Shanshui to acquire the remaining 33% interests in Rushan Shanshui. The trial of first instance judged that Shandong Shanshui should acquire the remaining 33% interests in Rushan Shanshui by RMB33 million. According to the judgement, the Group accrued a provision of RMB33 million as at 31 December 2016 which is included in other payable. The Group appealed to the trial of second instance which is still in the progress. Since the minority shareholders took over the management of Rushan Shanshui, the New Board can neither access any accounting books and records of Rushan Shanshui nor have the ability to direct the relevant activities which significantly affect Rushan Shanshui's returns.

Since the directors of the Company did not have the ability to direct the relevant activities which significantly affect the above three former subsidiaries' returns and could not obtain any accounting books and records from them, the directors are of the opinion that the Group lost control of the above three entities. Accordingly, the Group recorded these investments as available-for-sale securities (see Note 14) and has made full impairment provision for the carrying amount of these investments as at 31 December 2016.

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

During the year ended 31 December 2016, the Group had incurred a loss of approximately RMB979 million. As at the same date, the Group's current liabilities exceeded its current assets by RMB16,233 million. Its total interest-bearing borrowings liabilities amounted to RMB15,044 million, out of which RMB13,450 million is due within 12 months. The cash and cash equivalents of the Group amounted to RMB277 million as at 31 December 2016.

As disclosed in notes 22 to 23, the Group breached the default clauses of the lending agreements of other borrowings totaling RMB2,770 million and long-term bonds totaling RMB7,194 million which are included in the Group's interest-bearing borrowings as at 31 December 2016. 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 other borrowings and long-term bonds of approximately RMB4,110 million, and certain suppliers and third parties also have demanded that the Group repay the overdue payables of approximately RMB268 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.

In view of such circumstances, the 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) During 2016, 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. As a result, the Group successfully extended all of the overdue bank loans as at 31 December 2015 to year 2017 or 2018. The directors are of the opinion that the Group can also successfully extend all the bank loans as at 31 December 2016 at their relevant maturity dates in 2017.

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)

(ii) On 15 December 2016, Shandong Shanshui (as the borrower), Tianrui Group Co., Ltd. ("Tianrui Group", 天瑞集團股份有限公司, together with Shandong Shanshui as the undertaking parties") and China Cinda Asset Management Company Limited (Shandong branch) ("Cinda Shandong", as the investor and the lender) entered into a debt investment framework agreement relating to Cinda Shandong or its related parties intending to carry out debt investment in Shandong Shanshui in order to resolve its relevant debt default issues and to replenish its liquidity. Based on the Framework agreement, Cinda Shandong or its related parties will invest an aggregate amount of up to RMB8 billion to Shandong Shanshui once the following conditions are met:

- Cinda Shandong and Shandong Shanshui have set up a borrowing vehicle with limited liability in the PRC which Cinda Shandong and Shandong Shanshui will inject RMB8 billion and RMB0.5 billion respectively to the vehicle;

- The resolution of the debt default issues have been unanimously approved by Shandong government, the banks with breached borrowings and Cinda Shandong;

- Cinda Shandong has appointed a director of Shandong Shanshui and Shandong Shanshui's articles of association have been amended to state in writing that the following activities of Shandong Shanshui would require unanimously approval by all board members:

  > investment made by Shandong Shanshui over RMB30 million;

  > financing made by Shandong Shanshui over RMB30 million;

  > assets disposal made by Shandong Shanshui over RMB10 million; and

  > all pledge of assets and guarantees made by Shandong Shanshui.

- Shandong Shanshui have provided the pledge for certain assets or investment in subsidiaries for each borrowing from Cinda Shandong, the principal amount of which should not exceed 50% of the value of the pledge assets or investment in subsidiaries.

As at the date of this report, none of the above conditions is fulfilled. The management are of the opinion that they will use their best endeavours to get borrowings from Cinda Shandong to solve its debt default issues in the PRC.

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) As at the date of this report, the balance of loans from the largest shareholder of the Company, Tianrui Group, was RMB590 million. 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 RMB590 million for at least twelve months from the end of the reporting period without first considering the Company's ability to repay.

(iv) 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.

(v) 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 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 directors are of the opinion that it is appropriate to prepare the financial statements for the year ended 31 December 2016 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 investments (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.

(c) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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).

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Associates *(continued)*

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).

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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).

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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)).

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Employee benefits

(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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Revenue recognition *(continued)*

(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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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;

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Related parties *(continued)*

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

(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 and 31 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Impairments

– ***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.

– ***Goodwill***

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 1(m). The recoverable amounts of cash-generating units have been determined based on the higher of the cash-generating units' fair value less costs to sell and its value in use. These calculations require the use of estimates which are disclosed in note 13.

– ***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.

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(i) Impairments *(continued)*

– *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.

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.

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(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:

	2016	2015
	RMB'000	RMB'000
Sales of cement	**8,745,749**	9,110,516
Sales of clinker	**1,735,381**	1,299,026
Sales of concrete	**677,406**	634,294
Sales of other products and rendering of services	**125,657**	122,376
	11,284,193	11,166,212

(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 2016 and 2015 is set out below.

	2016					2015				
	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	6,922,365	3,108,620	825,094	428,114	11,284,193	7,103,105	3,108,476	598,521	356,110	11,166,212
Inter-segment revenue	6,028	–	–	–	6,028	84,315	–	–	–	84,315
Reportable segment revenue	6,928,393	3,108,620	825,094	428,114	11,290,221	7,187,420	3,108,476	598,521	356,110	11,250,527
Reportable segment profit/(loss) (adjusted profit/(loss) before taxation)	689,322	(71,968)	(149,837)	82,956	550,473	(1,402,490)	(1,728,247)	(1,204,001)	30,344	(4,304,394)
Interest income	1,828	2,077	43	39	3,987	22,588	1,350	500	11	24,449
Interest expense	83,195	30,815	394	12,132	126,536	75,726	29,889	437	15,944	121,996
Depreciation and amortisation for the year	638,740	549,074	244,775	46,744	1,479,333	698,086	495,427	227,232	41,949	1,462,694
Impairment of plant and machinery	18,161	–	(2,503)	–	15,658	79,894	74,335	519,287	–	673,516
Impairment of goodwill	–	–	–	–	–	927,953	1,029,242	374,439	–	2,331,634
Reportable segment assets	11,139,381	8,064,643	5,065,669	912,495	25,182,188	11,605,586	8,648,553	5,094,725	972,256	26,321,120
Additions to fixed assets and intangible assets during the year	234,453	209,099	105,009	11,008	559,569	581,791	395,813	443,657	87,077	1,508,338
Reportable segment liabilities	3,453,208	1,956,815	803,376	345,546	6,558,945	3,540,585	1,922,386	661,403	368,284	6,492,658

3 TURNOVER AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

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

	2016 RMB'000	2015 RMB'000
Revenue		
Reportable segment revenue	**11,290,221**	11,250,527
Elimination of inter-segment revenue	**(6,028)**	(84,315)
Consolidated turnover	**11,284,193**	11,166,212
Profit/(loss)		
Reportable segment profit/(loss)	**550,473**	(4,304,394)
Elimination of inter-segment profits	**6,546**	1,483
Reportable segment profit/(loss) derived from group's external customers	**557,019**	(4,302,911)
Share of profits less losses of associates	**(36,807)**	(29,348)
Unallocated finance costs	**(904,113)**	(1,475,183)
Unallocated head office and corporate expenses	**(445,394)**	(688,161)
Consolidated loss before taxation	**(829,295)**	(6,495,603)

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 2016 RMB'000	At 31 December 2015 RMB'000
Assets		
Reportable segment assets	**25,182,188**	26,321,120
Elimination of inter-segment profits	**(43,823)**	(50,369)
Elimination of inter-segment receivables	**(108,146)**	(100,298)
	25,030,219	26,170,453
Deferred tax assets	**134,329**	112,390
Investments in associates	**256,559**	293,353
Unallocated head office and corporate assets	**499,049**	437,504
Consolidated total assets	**25,920,156**	27,013,700
Liabilities		
Reportable segment liabilities	**6,558,945**	6,492,658
Elimination of inter-segment payables	**(108,146)**	(100,298)
	6,450,799	6,392,360
Deferred tax liabilities	**66,472**	69,228
Unallocated bank loans and other borrowings	**6,885,750**	7,077,172
Unallocated long-term bonds	**7,193,863**	7,724,843
Unallocated head office liabilities	**2,067,033**	1,256,932
Consolidated total liabilities	**22,663,917**	22,520,535

4 OTHER REVENUE AND OTHER NET EXPENSES

	Note	2016 RMB'000	2015 RMB'000
Other revenue			
Interest income		**6,597**	38,456
Government grants		**143,288**	81,046
Amortisation of deferred income	27	**16,900**	16,231
Dividend income from listed securities		**–**	347
Others		**15,515**	10,243
		182,300	146,323
Other net expenses			
Net foreign exchange losses		**(21,095)**	(17,632)
Net gain from disposal of fixed assets		**42,947**	76,042
Impairment losses on fixed assets	11	**(15,658)**	(673,516)
Impairment losses on intangible assets	12	**(21,812)**	–
Impairment losses on goodwill	13	**–**	(2,331,634)
Impairment losses on other financial assets	14	**(164,951)**	(11,193)
Impairment losses on investments in associates	15	**–**	(407,710)
Penalties		**(2,535)**	(19,288)
Donations		**(7,838)**	(5,781)
Cash shortfall losses	(i)	**–**	(2,666)
Expenses without supporting documents	(ii)	**–**	(14,300)
Expenses without appropriate authorisation	(iii)	**(130,613)**	–
Others		**(18,985)**	(4,642)
		(340,540)	(3,412,320)

4 OTHER REVENUE AND OTHER NET EXPENSES *(continued)*

Notes:

(i) The 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 directors and the management after they took over, the 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 recognised the shortfall losses as other net expenses for the year ended 31 December 2015.

(ii) The directors of the Company found that Shandong Shanshui has paid RMB14.3 million to certain legal firms and advertising agents before the directors took over in January 2016. The payment of these expenses was approved by the ex-directors of the Company. The 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 for the year ended 31 December 2015.

(iii) Shandong Shanshui accrued an amount of RMB131 million as the bonus for year 2016 to the senior management of Shandong Shanshui and its subsidiaries. The management of Shandong Shanshui have further asserted that the amount was subsequently fully paid out during January 2017. This so-called bonus and the payment were not approved by the directors of the Company. Furthermore, the directors of the Company have not been able to obtain the supporting documentation for the payment. However, as the amount was allegedly disbursed in relation to operations in 2016, the directors of the Company are of the opinion that RMB131 million should be recorded as an expense for year 2016 and therefore the amount has been accrued in the 2016 consolidated financial statements.

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Note	**2016 RMB'000**	2015 RMB'000
Interest on bank loans, other borrowings and long-term bonds		**1,001,315**	1,371,014
Less: capitalised interest expenses	(i)	**(1,799)**	(28,478)
Net interest expenses		**999,516**	1,342,536
Unwinding of discount	(ii)	**7,026**	10,332
Finance charges on obligations under finance lease		**456**	1,339
Bank charges		**23,651**	242,972
		1,030,649	1,597,179

5 PROFIT BEFORE TAXATION *(continued)*

(a) Finance costs *(continued)*

Notes:

(i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 5.84% (2015: 6.50%) per annum for the year ended 31 December 2016.

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

	Note	**2016** **RMB'000**	2015 RMB'000
Defined benefit obligations	26(c)	**5,050**	6,230
Long-term payables		**1,976**	4,102
		7,026	10,332

(b) Personnel expenses

	Note	**2016** **RMB'000**	2015 RMB'000
Salaries, wages and other benefits		**1,224,573**	1,239,706
Contributions to defined contribution retirement plans		**146,707**	152,171
Expense recognised in respect of defined benefit obligations	26(c)	**9,140**	7,310
		1,380,420	1,399,187

As disclosed in Note 4, Shandong Shanshui accrued an amount of RMB131 million as the bonus for year 2016 to the senior management of Shandong Shanshui and its subsidiaries. This amount has been accrued in other net expenses. However, as this so-called bonus was not approved by the directors of the Company, the personnel expenses disclosed above do not include this expense of RMB131 million.

5 PROFIT BEFORE TAXATION *(continued)*

(c) Other items

	Note	2016 RMB'000	2015 RMB'000
Amortisation			
– land lease prepayments		**58,279**	60,887
– intangible assets		**86,342**	66,809
		144,621	127,696
Depreciation		**1,337,908**	1,340,264
Impairment losses			
– fixed assets	11	**15,658**	673,516
– Intangible assets		**21,812**	–
– trade and other receivables		**80,670**	153,887
– inventories	17(b)	**4,562**	60,915
– loans to third parties		**–**	151,387
– goodwill	13	**–**	2,331,634
– other financial assets	14	**262,045**	200,443
– investment in associates	15	**–**	407,710
		384,747	3,979,492
Loss on the disposal of a subsidiary		**–**	2,324
Operating lease charges		**27,641**	26,083
Auditors' remuneration			
– audit and assurance services		**8,587**	7,650
– other services		**–**	880
		8,587	8,530
Cost of inventories	17(b)	**8,808,192**	9,937,927

Note:

Cost of inventories includes RMB1,659,276,000 (2015: RMB1,800,629,000) relating to personnel expenses, depreciation and amortisation expenses and provision of inventories for the year ended 31 December 2016, 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:

	2016 RMB'000	2015 RMB'000
Current tax		
Provision for PRC income tax	**172,835**	56,699
Under-provision in respect of prior years	**657**	1,500
Deferred tax		
Origination and reversal of temporary differences	**(23,926)**	139,853
	149,566	198,052

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

	Note	2016 RMB'000	2015 RMB'000
Loss before taxation		**(829,295)**	(6,495,603)
Notional tax on profit before taxation, calculated at the PRC statutory income tax rate of 25%	(i)	**(207,324)**	(1,623,901)
Tax rate differential in foreign jurisdictions	(ii)	**71,167**	213,957
Effect of tax holiday	(iii)	**(11,260)**	(4,230)
Effect of non-deductible expenses	(iv)	**19,266**	15,517
Effect of unused tax losses not recognised		**249,881**	507,092
Effect of deductible temporary differences not recognised		**64,297**	1,035,245
Effect of tax credit	(v)	**(4,731)**	(2,782)
Tax effect of unrecognised prior year's tax losses utilised during the year		**(41,589)**	(1,415)
Under-provision in respect of prior years		**657**	1,500
Effect of share of profits less losses of associates		**9,202**	7,337
Tax effect of write-down of deferred tax assets recognised in previous years		**–**	49,732
Actual income tax expense		**149,566**	198,052
Effective tax rate		**(18.0%)**	(3.0%)

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% (2015: 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 2016 (2015: 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) 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

Directors' emoluments 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:

For the year ended 31 December 2016

	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							
Li Liufa (resigned on 31 May 2016) (Note(i))	–	–	–	–	–	–	–
Liu Yiu Keung (appointed on 2 June 2016) (Note(i) and (ii))	–	–	–	–	–	–	–
Executive directors							
Li Heping	–	–	4,282	–	4,282	–	4,282
Cheung Yuk Ming (retired on 17 June 2016) (Note(iii))	1,893	–	–	–	1,893	–	1,893
Hwa Guo Wai (Note(iv))	1,011	–	137	–	1,148	–	1,148
Non-executive directors							
Chong Cha Hwa (Note(v))	1,096	–	69	–	1,165	–	1,165
Ng Qing Hai (resigned on 2 February 2016) (Note(vi))	46	–	–	–	46	–	46
Independent non-executive directors							
Ho Man Kay	557	–	–	–	557	–	557
Law Pui Cheung	557	–	–	–	557	–	557
Wong Chi Keung (appointed on 2 February 2016) Note(vii))	514	–	–	–	514	–	514
Ching Siu Ming (appointed on 5 July 2016) (Note(viii))	269	–	–	–	269	–	269
Lo Chung Hing (appointed on 5 July 2016) (Note(viii))	269	–	–	–	269	–	269
Total	6,212	–	4,488	–	10,700	–	10,700

7 DIRECTORS' REMUNERATION *(continued)*

Notes:

(i) Mr. Li Liufa tendered his resignation as an executive director and the chairman of the Board with effect from 31 May 2016. Mr. Liu Yiu Keung has been appointed as the chairman of the Board with effect from 2 June 2016.

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

(iii) Mr. Cheung Yuk Ming has been re-designated from an independent non-executive director to an executive director on 2 February 2016 and has retired on 17 June 2016.

(iv) Mr. Hwa Guo Wai has been re-designated from an executive director to a non-executive director on 2 February 2016, and has been re-designated from a non-executive director to an executive director on 5 July 2016.

(v) Mr. Chong Cha Hwa has been re-designated from an executive director to a non-executive director on 2 February 2016.

(vi) Mr. Ng Qing Hai has resigned as a non-executive director on 2 February 2016.

(vii) Mr. Wong Chi Keung has been appointed as an independent non-executive director on 2 February 2016.

(viii) Dr Ching Siu Ming and Mr Lo Chung Hing have been appointed as independent non-executive directors on 5 July 2016.

7 DIRECTORS' REMUNERATION *(continued)*

For the year ended 31 December 2015

	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 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)	–	–	–	–	–	–	–
Hwa Guo Wai (appointed on 1 December 2015) (note (iv))	–	–	–	–	–	–	–
Chong Cha Hwa (appointed on 1 December 2015) (note (iv))	–	–	–	–	–	–	–
Non-executive directors							
Ng Qing Hai (appointed on 1 December 2015 and resigned on 2 February 2016) (note (iv))	–	42	–	–	42	–	42
Independent non-executive directors							
Cheung Yuk Ming (appointed on 1 December 2015) (note (iv))	–	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

7 DIRECTORS' REMUNERATION *(continued)*

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) 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 have 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 investigation of validity of these payments by the directors are in progress.

(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) 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.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four directors whose emoluments are disclosed in Note 7 for the year ended 31 December 2016 (2015: One).

The aggregate of the remuneration in respect of the other one (2015: Four) individual is as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and other benefits (Note)	**1,028**	4,485
Bonuses	**–**	56
Contributions to defined contribution retirement plans	**–**	175
Share-based payment (Note 29)	**–**	15,554
	1,028	20,270

Notes:

(i) As disclosed in Note 4, Shandong Shanshui accrued an amount of RMB131 million as the bonus for year 2016 to the senior management of Shandong Shanshui and its subsidiaries. This amount has been accrued in other net expenses. However, as the so-called bonus was not approved by the directors of the Company the information disclosed above of individuals with the highest emoluments for the year ended 31 December 2016 does not include this expense of RMB131 million.

(ii) 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 for the year ended 31 December 2015 and recognised as salaries, allowances and other benefits. This amount was included in the amounts disclosed above.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

The emoluments of the one (2015: Four) individual with the highest remuneration is within the following bands:

	2016 Number of individuals	2015 Number of individuals
HKD1,000,001 to HKD2,000,000	**1**	–
HKD2,000,001 to HKD5,000,000	**–**	–
HKD5,000,001 to HKD6,000,000	**–**	2
HKD6,000,001 to HKD7,000,000	**–**	1
HKD7,000,001 to HKD8,000,000	**–**	1
	1	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 2016 and 2015.

	2016			2015		
	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	**(860)**	**(215)**	**(645)**	(462)	(115)	(347)

10 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic earnings per share for the year ended 31 December 2016 is based on the loss attributable to ordinary equity shareholders of the Company of RMB738,281,000 (2015: RMB6,387,259,000) and the weighted average number of ordinary shares of 3,379,140,240 (2015: 3,379,140,240) shares in issue during the year.

10 LOSS PER SHARE *(continued)*

(b) Diluted loss 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 Company's shares have been suspended for trading since 16 April 2015. The average share prices of the Company the period from 1 January 2015 and 15 April 2015 were HKD4.49.

The 2011 Options have not been included in the calculation of diluted earnings per share because they are assumed to have been anti-dilutive for the year ended 31 December 2015 and 2016, on the assumption that in the period from 16 April 2015 to 31 December 2016 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 and 2016 is assumed to be less than the exercise price of the options.

The directors of the Company are also of the opinion that the 2015 Options were anti-dilutive for the year ended 31 December 2015 and 2016. This assumption has been made as the 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 2016, in the absence of market price information from 16 April 2015 to 31 December 2016 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 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	13,000,034	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
At 1 January 2016	12,294,027	13,591,187	454,793	1,023,952	27,363,959	2,725,084	30,089,043
Additions	34,284	113,762	13,772	275,802	437,620	49,023	486,643
Transfers	475,646	490,480	20,974	(987,100)	–	–	–
Disposals	(14,331)	(20,390)	(25,642)	(9,856)	(70,219)	(23,498)	(93,717)
De-recognition of subsidiaries	(68,304)	(222,506)	(1,412)	(40,441)	(332,663)	(27,860)	(360,523)
Reclassification	48,069	(43,206)	(4,863)	–	–	–	–
At 31 December 2016	12,769,391	13,909,327	457,622	262,357	27,398,697	2,722,749	30,121,446
Accumulated depreciation amortisation and impairment:							
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)
At 1 January 2016	(1,971,119)	(6,243,450)	(190,604)	(33,014)	(8,438,187)	(374,891)	(8,813,078)
Charge for the year	(293,810)	(999,945)	(44,153)	–	(1,337,908)	(58,279)	(1,396,187)
Impairment loss for the year	(7,457)	(1,782)	(240)	(6,179)	(15,658)	–	(15,658)
Written back on disposals	2,033	13,034	18,370	9,856	43,293	2,397	45,690
Written back on de-recognition of subsidiaries	6,510	58,933	749	–	66,192	1,979	68,171
Reclassification	(1,660)	1,482	178	–	–	–	–
At 31 December 2016	(2,265,503)	(7,171,728)	(215,700)	(29,337)	(9,682,268)	(428,794)	(10,111,062)
Net book value:							
At 31 December 2016	10,503,888	6,737,599	241,922	233,020	17,716,429	2,293,955	20,010,384
At 31 December 2015	10,322,908	7,347,737	264,189	990,938	18,925,772	2,350,193	21,275,965

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 mainly represents technical improvement project of cement and clinker production line.

(c) As at 31 December 2016, application for the registration of land lease prepayments with cost of approximately RMB158,142,000 (2015: RMB113,335,000) was still in progress.

(d) As 31 December 2016, the ownership certificates for certain plants and buildings with a carrying amount of RMB459,423,000 have not been obtained (2015: RMB431,422,000).

(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 2016 was RMB1,395,789,000 (2015: RMB1,678,413,000).

(f) Certain land lease prepayments with an aggregate carrying amount of RMB4,478,000 (2015: RMB4,579,000) for the year ended 31 December 2016, 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 RMB38 million and fixed assets carried at RMB123 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, long-term bonds and certain sales or purchases contracts. Further details of this litigation are set out in Notes 22 to 24. 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 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 directors have determined that the operating results indicate that some of the cash generating units may be impaired. The 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 2016. The key assumptions for the value in use calculations are those regarding the discount rates, growth rate and the projected sales volume, selling prices and direct costs for each of related cash generating units used in the cash flow forecasts. The directors of the Company included estimated growth rates for the 5 years from 2017 to 2021 in the 2017 financial budgets for each generating unit. No further growth is assumed beyond 2021 and the discount rate used in the value in use calculations is 9%. Based on the financial budgets of 2017 provided by the directors of the Company, 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 directors of the Company has provided fixed assets impairment of RMB15,658,000 for the year ended 31 December 2016 (2015: RMB673,516,000).

(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 Nil (2015: RMB31,494,000).

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 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
At 1 January 2016	**833,377**	**48,181**	**92,522**	**75,461**	**1,049,541**
Additions	**72,097**	**–**	**–**	**2,147**	**74,244**
De-recognition of subsidiaries	**(7,956)**	**–**	**–**	**(324)**	**(8,280)**
At 31 December 2016	**897,518**	**48,181**	**92,522**	**77,284**	**1,115,505**
Accumulated amortisation and impairment:					
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)
At 1 January 2016	**(358,381)**	**(48,181)**	**(55,893)**	**(32,403)**	**(494,858)**
Amortisation for the year	**(72,854)**	**–**	**(7,138)**	**(6,350)**	**(86,342)**
Impairment loss for the year	**–**	**–**	**–**	**(21,812)**	**(21,812)**
De-recognition of subsidiaries	**–**	**–**	**–**	**72**	**72**
At 31 December 2016	**(431,235)**	**(48,181)**	**(63,031)**	**(60,493)**	**(602,940)**
Net book value:					
At 31 December 2016	**466,283**	**–**	**29,491**	**16,791**	**512,565**
At 31 December 2015	474,996	–	36,629	43,058	554,683

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, Shanxi, Xinjiang and Inner Mongolia regions/provinces.

(b) As at 31 December 2016, the ownership certificates for certain limestone mining rights with a carrying amount of RMB38,547,000 have not been obtained (2015: RMB92,893,000).

(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 Gongyuan Cement Co., Ltd. ("Liaoning Shanshui", a subsidiary of the Group) 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 2016 is RMB22,230,000.

13 GOODWILL

	2016 **RMB'000**	2015 RMB'000
Cost		
At 1 January	**2,345,857**	2,345,857
Additions	**–**	–
	2,345,857	2,345,857
Impairment losses		
At 1 January	**(2,331,634)**	–
Impairment loss	**–**	(2,331,634)
	(2,331,634)	(2,331,634)
Net book value		
At 31 December	**14,223**	14,223

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 recoverable amounts of the cash-generating unit are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rate and the projected sales volume, selling prices and direct costs for each of related cash generating units used in the cash flow forecasts.

The directors of the Company included estimated growth rates for the 5 years from 2017 to 2021 in the 2017 financial budgets for each cash generating unit. No further growth is assumed beyond 2021 and the discount rate used in the value in use calculations is 9%. Based on the financial budgets of 2017 provided by the directors of the Company, the impairment for goodwill as at 31 December 2016 should be RMB2,332 million.

14 OTHER FINANCIAL ASSETS

	Note	**2016 RMB'000**	2015 RMB'000
Available-for-sale securities, at fair value	(a)	**7,403**	8,263
Unquoted equity investments in non-listed companies	(b)	**43,067**	43,067
Loans to an associate	(c)	**36,382**	41,437
Loans due from a third party	(d)	**36,111**	154,211
Amount due from third parties		**351,102**	374,351
		474,065	621,329

14 OTHER FINANCIAL ASSETS *(continued)*

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.

As disclosed in Note 1(b), since the directors did not have the ability to direct the relevant activities which significantly affect the three former subsidiaries' returns, which were Shanshui Micro Finance, Xinghao Cement and Rushan Shanshui, the directors are of the opinion that the Group lost control of the above three entities from 1 January 2016. Accordingly, the Group has de-recognised them as subsidiaries and recorded these investments as available-for-sale investments and has fully impaired the carrying amount of these investments of RMB165 million as at 31 December 2016, 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% (2015: 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 2016. Since the minority shareholder was in financial difficulties, the Group assessed that only a portion of the loan balance was expected to be recovered. Accordingly, the Group has provided impairment loss of RMB97 million for the year ended 31 December 2016, which were included in administrative expense.

15 INVESTMENTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Cost	**664,269**	701,063
Less: impairment losses	**(407,710)**	(407,710)
Share of net assets	**256,559**	293,353

As at 31 December 2016, 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	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%

15 INVESTMENTS IN ASSOCIATES *(continued)*

Note:

(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 for a total consideration of RMB172 million. At this time 7% of the carrying amount of the net assets of Dashui Group was about RMB63 million. The acquisition was completed on 17 July 2015 and after the acquisition, the Group's interest in Dashui Group changed from 15.04% to 22.04%.

As at 31 December 2015, the 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.

(c) On 23 July 2015, Shandong Shanshui acquired 30% interest in Qilu Property with total consideration of RMB147 million. Since the directors were unable to access to any books and records of the associate, the Group fully impaired the carrying amount of the investment in Qilu Property of RMB147 million as at 31 December 2015. During the year ended 31 December 2016, the directors continued to be unable to access any books and records of the associate.

(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%.

Since the directors were unable to access to any books and records of the associate, the Group fully impaired the carrying amount of the investment of RMB79 million as at 31 December 2015. During the year ended 31 December 2016, the directors continued to be unable to access any books and records of the associate either.

15 INVESTMENTS IN ASSOCIATES *(continued)*

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:

	2016 **RMB'000**	2015 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**256,559**	293,353
Aggregate amounts of the Group's share of those associates'		
Loss from continuing operation	**(36,807)**	(29,348)
Total comprehensive expenses	**(36,807)**	(29,348)

(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 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 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	USD39,565,500	100.00	–	100.00	Production and sales of clinker
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

(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						
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. 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. 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. 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. 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
Zaozhuang Chuangxin Shanshui Cement Co., Ltd. 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

(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						
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. 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
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

(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)*						
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
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

(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)*						
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
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
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
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

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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)*						
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	Shangdong, 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
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

(Expressed in Renminbi unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

			Proportion of ownership interest			
Name of Company	**Place and date of incorporation/ establishment**	**Issued and fully paid share capital/ registered capital**	**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)*						
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
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

(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)*						
Weifang City Leixin Concrete Co., Ltd. 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
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

(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 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	RMB100,000,000	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
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

(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)*						
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. 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
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

(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						
Taiyuan Shanshui Cement Co., Ltd. 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
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

(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)*						
Jingbian Xian Shanshui Cement Co., Ltd. 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. 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. 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
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:

Investments in subsidiaries with carrying amount of RMB4,713 million (2015: 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 22 to 24. Shandong Shanshui is prohibited from selling or transferring these investments until the litigation is resolved.

The 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:

	2016	2015
	RMB'000	RMB'000
Raw materials	**371,050**	330,533
Semi-finished goods	**398,325**	230,405
Finished goods	**306,100**	301,613
Spare parts	**376,880**	354,708
	1,452,355	1,217,259

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

	2016	2015
	RMB'000	RMB'000
Carrying amount of inventories sold	**8,803,630**	9,877,012
Write-down of inventories	**4,562**	60,915
	8,808,192	9,937,927

18 TRADE AND BILLS RECEIVABLE

	Note	**2016 RMB'000**	2015 RMB'000
Bills receivable		**215,425**	190,846
Trade debtors		**1,520,943**	1,564,012
Less: allowance for doubtful debts	(b)	**(202,487)**	(213,950)
		1,533,881	1,540,908

(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:

	2016 RMB'000	2015 RMB'000
Within 3 months	**711,488**	771,484
3 to 6 months	**202,181**	246,074
6 to 12 months	**200,536**	202,727
Over 12 months	**419,676**	320,623
	1,533,881	1,540,908

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:

	2016 RMB'000	2015 RMB'000
At 1 January	**213,950**	60,843
Impairment loss recognised	**41,922**	165,303
Uncollectible amounts written off	**(834)**	(780)
Reversal of doubtful debt	**(52,551)**	(11,416)
	202,487	213,950

At 31 December 2016, the Group's trade and bills receivable of RMB333,169,000 (2015: RMB362,139,000) 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:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**889,023**	1,026,998
Overdue within one year	**375,628**	365,721
Overdue over one year	**138,548**	–
	1,403,199	1,392,719

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	2016 RMB'000	2015 RMB'000
Prepayments for raw materials		**62,851**	14,152
Prepayments for long-lived assets		**206,669**	267,460
VAT recoverable		**238,442**	230,086
Amount due from related parties	34(c)	**29,299**	41,505
Amount due from third parties		**358,671**	252,569
Disputed cash with ex-directors (Note)		**6,500**	–
Others		**66,518**	75,601
		968,950	881,373

Note:

When the 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. Since this RMB6.50 million cash is still sealed up by government authorities as at this report date, the Group reclassed this RMB6.5 million cash as other receivables as at 31 December 2016.

20 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2016 RMB'000	2015 RMB'000
Cash at bank and in hand	**364,503**	264,209
Less: Restricted bank deposits	**(88,003)**	(41,302)
Cash and cash equivalents	**276,500**	222,907

Notes:

Restricted bank deposits include RMB33,143,000 as at 31 December 2016 (2015: RMB33,324,000) of cash deposits pledged to banks for the performance guarantee in relation to certain sales or purchases contracts, and RMB54,860,000 (2015: RMB7,978,000) 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 other borrowings, long-term bonds and certain sales or purchases contracts. Further details of this litigation are set out in Notes 22 to 24.

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.

20 CASH AND CASH EQUIVALENTS *(continued)*

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2016 RMB'000	2015 RMB'000
Loss before taxation		**(829,295)**	(6,495,603)
Adjustments for:			
Depreciation	5(c)	**1,337,908**	1,340,264
Amortisation of land lease prepayments	5(c)	**58,279**	60,887
Amortisation of intangible assets	5(c)	**86,342**	66,809
Impairment losses on fixed assets	4	**15,658**	673,516
Impairment losses on intangible assets	4	**21,812**	–
Impairment losses on goodwill	4	**–**	2,331,634
Impairment losses on other non-current assets		**262,045**	608,153
Finance costs	5(a)	**1,030,649**	1,597,179
Share of profits less losses of associates		**36,807**	29,348
Interest income	4	**(6,597)**	(38,456)
Equity-settled share based payment expense		**–**	73,423
Dividend income	4	**–**	(347)
Gain on sales of fixed assets	4	**(42,947)**	(76,042)
Foreign exchange loss/(gain)		**8,040**	(940)
		1,978,701	169,825
Changes in working capital:			
(Increase)/decrease in inventories		**(257,922)**	838,326
Increase in trade and bills receivable		**(86,509)**	(911,924)
(Increase)/decrease in restricted bank deposits		**(46,701)**	93,360
(Increase)/decrease in other receivables and prepayments		**(332,912)**	477,835
Decrease/(increase) in other long-term assets		**62,376**	(238,008)
Decrease/(increase) in other financial assets		**28,255**	(167,529)
Increase in trade and bills payable		**212,717**	518,736
Increase in other payables and accrued expenses		**260,759**	434,783
Decrease in defined benefit obligations		**(17,887)**	(5,378)
Decrease in deferred income		**(16,901)**	(5,587)
Increase/(decrease) in long-term payable		**62,378**	(616)
Cash generated from operations		**1,846,354**	1,203,823

21 BANK LOANS

At 31 December 2016, the bank loans were secured as follows:

	2016 RMB'000	2015 RMB'000
Bank loans – Secured (*)	**4,420,250**	3,210,428
Bank loans – Unsecured	**654,000**	2,074,037
	5,074,250	5,284,465

* Bank loans were either pledged by certain land lease prepayments with an aggregate carrying amount of RMB4,478,000 (see Note 11) or guaranteed by companies within the Group.

At 31 December 2016, the bank loans were repayable as follows:

	2016 RMB'000	2015 RMB'000
Within one year on demand	**3,485,050**	5,076,265
After one year but within two years	**1,476,800**	30,600
After two years but within five years	**112,400**	177,600
	1,589,200	208,200
	5,074,250	5,284,465

22 OTHER BORROWINGS

The analysis of the carrying amount of other borrowings is as follows:

	Note	2016 RMB'000	2015 RMB'000
Loan from government – Unsecured	(i)	**5,455**	4,216
Short-term financing bills	(ii)	**2,770,000**	2,799,626
		2,775,455	2,803,842

At 31 December 2016, other borrowings were repayable as follows:

	2016 RMB'000	2015 RMB'000
Within one year on demand	**2,770,909**	2,800,329
After one year but within two years	**909**	703
After two years but within five years	**2,728**	2,107
After five years	**909**	703
	4,546	3,513
	2,775,455	2,803,842

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 2016, 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	1,970,000	14/04/2015	22/11/2015	5.3%	settled at the maturity date
Shandong Shanshui	800,000	14/05/2015	12/02/2016	4.5%	settled at the maturity date

Up the date of this report, all of the short-term financing bills issued by Shandong Shanshui are overdue.

(iii) Several banks and financial institutions have commenced legal proceedings against the Group to demand immediate repayment of the overdue principal of short-term financing bills of RMB1,980 million and medium-term notes of RMB2,130 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 other borrowings is as follows:

– Certain litigations with RMB480 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. For the overdue principal of RMB480 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 RMB1,500 million are still in progress. For the overdue principal, the Group is still negotiating with the PRC banks and financial institutions for an extension or a restructuring plan.

Details of the status of this litigation so far as it relates to medium-term note are set out in Note 23.

The default has not yet resulted in any litigation in respect of the remaining overdue principal of other borrowings of RMB790 million. The management has been actively negotiating with these PRC banks for a renewal or an extension or a restructuring plan.

Certain assets of the Group have been frozen by the PRC Courts in respect of the litigations relating to other borrowings, long-term bonds and certain sales or purchases contracts. As at the date of this report, RMB55 million of cash and cash equivalents (see Note 20), RMB4,713 million of investments in subsidiaries (see Note 16), RMB38 million of land use rights (see Note 11) and RMB123 million of fixed assets (see Note 11) have been frozen by the PRC Courts.

23 LONG-TERM BONDS

	2016 RMB'000	2015 RMB'000
Medium-term notes and other note	**4,230,000**	4,290,514
Less: Current portion of medium-term notes and other note	**(4,230,000)**	(4,290,514)
Senior notes	**2,963,863**	3,434,329
Less: Current portion of senior notes	**(2,963,863)**	(3,434,329)
Long-term bonds, less current portion	**–**	–

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	RMB990,000	27/02/2014	27/02/2017	6.10%	annually
Shandong Shanshui	RMB1,140,000	09/05/2014	12/05/2017	6.20%	annually
(b) Senior notes issued in the Stock Exchange of Hong Kong Limited (Note (ii))					
The Company	USD427,253	11/03/2015	10/03/2020	7.50%	semi-annually
(c) Other note (Note (i))					
Shandong Shanshui	RMB300,000	31/03/2014	31/03/2017	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 22, several financial institutions have commenced legal proceedings against the Group to demand immediate repayment of the overdue principal of medium-term notes of approximately RMB2,130 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:

– Certain litigations with overdue principal of RMB970 million have 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. For the overdue principal of RMB970 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 RMB1,160 million are still in progress. The Group is still negotiating with the PRC banks and financial institutions for an extension or a restructuring plan. During the year ended 31 December 2016, the Group has repaid the related interest and penalty interest for the overdue principal in accordance with the related interest payment terms.

– Certain assets of the Group have been frozen by the PRC Court in respect of the litigations of these the medium-term notes (see Note 22).

The default has not yet resulted in any litigation in respect of the remaining overdue principal of the medium-term notes of RMB1,800 million and other note of RMB300 million. During the year ended 31 December 2016, the Group has repaid the related interest and penalty interest for the overdue principal in accordance with the related interest payment terms. For the overdue principal, the Group is still negotiating with the PRC banks and financial institutions for an extension or a restructuring plan.

(ii) 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.

On 14 January 2016, the Company made an announcement to propose an offer to re-purchase the principal amount of USD500,000,000 of the 2020 Note. As at the expiration date of the proposal on 14 March 2016, USD484,971,000 of the principal amount of the 2020 Note have validly accepted the proposal. The Company has re-purchased USD72,747,000 of the principal of the 2020 Note during 2016.

24 TRADE AND BILLS PAYABLE

	2016 RMB'000	2015 RMB'000
Trade payables	**3,726,792**	3,523,918

As at 31 December 2016 and 2015, 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.

As at 31 December 2016, certain suppliers and third parties have filed 57 lawsuits against Shandong Shanshui and its subsidiaries to demand that the Group immediately settle trade payables with carrying amount of RMB268 million as at 31 December 2016 plus interest for late payment, if any. As at the date of this report, the status is as follows:

- The Group have been successful in their application to postpone 12 of the pending lawsuits. These postponed lawsuits related to trade payables with carrying amount of RMB39 million as at 31 December 2016;

- Shanshui Heavy Industries, a previous subsidiary of the Group and currently under the control of ex-directors, has sued the Group to settle trade payables and other payables with carrying amount of RMB98 million and RMB83 million respectively as at 31 December 2016 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 2016 are about RMB153 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 of second instance for this lawsuit yet.

- The remaining lawsuits relating to trade payables with carrying amount of RMB131 million as at 31 December 2016 are still in the duration of hearings.

The 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 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	2016 RMB'000	2015 RMB'000
Customer deposits and receipts in advance		**525,794**	479,543
Accrued payroll and welfare		**298,016**	119,962
Taxes payable other than income tax		**136,215**	152,068
Staff compensation and termination provisions	26(b)	**186,874**	192,205
Amounts due to related parties	34(c)	**615,390**	200,232
Payable to third parties of acquired subsidiaries		**109,594**	194,529
Acquisition consideration payable (note)		**296,270**	315,656
Current portion of long-term payables		**16,094**	57,042
Accrued expenses and other payables		**1,114,691**	936,024
		3,298,938	2,647,261

Note: The previous shareholder of Xinhao Cement has sued the Group to settle the unpaid acquisition consideration payable of RMB102 million plus interest for late payment. Up to date of this report, the litigation is still in progress.

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	**2016 RMB'000**	2015 RMB'000
Staff compensation and termination provision	25	**186,874**	192,205

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:

	2016 RMB'000	2015 RMB'000
Present value of the defined benefit obligations	**156,773**	174,660

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:

	2016 RMB'000	2015 RMB'000
At 1 January	**174,660**	173,808
Remeasurements	**(18,400)**	7,150
Payments	**(8,627)**	(13,608)
Current service cost	**4,090**	1,080
Interest expense	**5,050**	6,230
At 31 December	**156,773**	174,660

(ii) Expenses recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2016 RMB'000	2015 RMB'000
Interest expense	**5,050**	6,230
Current service cost	**4,090**	1,080
Total amounts recognised in profit or loss	**9,140**	7,310
Actuarial (gain)/losses recognised in other comprehensive income	**(18,400)**	7,150
Total defined benefit costs	**(9,260)**	14,460

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:

	2016	2015
	RMB'000	RMB'000
Finance expenses	**5,050**	6,230
Administrative expenses	**4,090**	1,080
	9,140	7,310

(iv) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:

	2016	2015
	RMB'000	RMB'000
Discount rate	**3.00%**	3.00%
Annual growth rate of cost of living	**3.00% – 10.00%**	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 2016 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	(149,230)	165,670

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

	2016 RMB'000	2015 RMB'000
At 1 January	**295,599**	301,186
Additions	**–**	10,644
Recognised in consolidated statement of profit or loss	**(16,900)**	(16,231)
De-recognition of subsidiaries	**(5,401)**	–
At 31 December	**273,298**	295,599

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

	2016 RMB'000	2015 RMB'000
Provision for PRC income tax for the year	**172,835**	56,699
Under-provision in respect of prior years	**657**	1,500
Provisional income tax paid	**(95,860)**	(90,104)
	77,632	(31,906)

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 2016 are as follows:

	At 1 January 2016 RMB'000	De-recognition of subsidiaries RMB'000	Recognised in profit or loss RMB'000	Recognised in other comprehensive income RMB'000	At 31 December 2016 RMB'000
Deferred tax assets					
Intra-group unrealised profits	45,332	–	2,644	–	47,976
Depreciation of property, plant and equipment	4,474	–	(1,224)	–	3,250
Tax loss (*)	7,601	–	(908)	–	6,693
Impairment losses for property, plant and equipment	4,736	–	2,143	–	6,879
Deferred income	37,087	–	(1,309)	–	35,778
Accrued bonus	–	–	22,226	–	22,226
Long-term payables	8,737	–	(477)	–	8,260
Accrued expenses	2,593	–	–	–	2,593
Impairment of trade receivable	6,446	–	(2,716)	–	3,730
	117,006	–	20,379	–	137,385
Deferred tax liabilities					
Change of fair value of available-for-sale securities	(1,815)	–	–	215	(1,600)
Fixed assets	(69,999)	540	2,318	–	(67,141)
Intangible assets	(2,030)	14	1,229	–	(787)
	(73,844)	554	3,547	215	(69,528)
Total	43,162	554	23,926	215	67,857

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 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

* 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

	2016	2015
	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**134,329**	112,390
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(66,472)**	(69,228)
	67,857	43,162

(c) Deferred tax assets not recognised

As at 31 December 2016, the Group did not recognise deferred tax assets in respect of unused tax losses and deductible temporary differences of certain PRC subsidiaries of RMB3,393,944,000 and RMB257,188,000 respectively (2015: RMB2,626,915,000 and RMB4,140,980,000 respectively), 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 2016, temporary differences relating to the undistributed profits of the Company's PRC subsidiaries amounted to RMB2,457,939,000 (2015: RMB3,001,176,000). Deferred tax liabilities of RMB245,793,900 (2015: RMB300,117,600) 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.

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 directors consider that the options granted to Mr. Zhang Caikui and Mr. Zhang Bin are not legally valid.

No options were exercised during the year ended 31 December 2016.

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 at 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
Changes in equity for 2016:						
Total comprehensive expenses for the year	**–**	**–**	**–**	**48,018**	**(383,018)**	**(335,000)**
Balance at 31 December 2016	**227,848**	**4,654,010**	**435,164**	**(288,151)**	**(4,159,282)**	**869,589**

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 2016 and the year ended 31 December 2015.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year approved and paid during the year:

	2016 RMB'000	2015 RMB'000
Final dividend in respect of the previous financial year, declared and paid during the year	**–**	–

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 RMB19,057,000) as at 31 December 2016, 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

	2016 & 2015 Number of shares	RMB equivalent RMB'000
Authorised:		
Ordinary shares of the Company of USD0.01 each	10,000,000,000	701,472
Ordinary shares of the Company, issued and fully paid:		
At 1 January and 31 December	3,379,140,240	227,848

Note:

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.

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 2016 the Company had RMB206,577,000 of distributable reserves (2015: RMB541,577,000). 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	**2016** **RMB'000**	2015 RMB'000
Current liabilities:			
Short-term bank loans	21	**3,485,050**	5,076,265
Current portion of other borrowings	22	**2,770,909**	2,800,329
Current portion of long-term bonds	23	**7,193,863**	7,724,843
		13,449,822	15,601,437
Non-current liabilities:			
Long-term bank loans	21	**1,589,200**	208,200
Other borrowings less current portion	22	**4,546**	3,513
		1,593,746	211,713
Total debt		**15,043,568**	15,813,150
Less: Cash and cash equivalents	20(a)	**(276,500)**	(222,907)
Net debt		**14,767,068**	15,590,243
Total equity		**3,256,239**	4,493,165
Total capital		**18,023,307**	20,083,408
Gearing ratio		**81.9%**	77.6%

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, 0% (2015: 1.4%) and 1.1% (2015: 1.4%) 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:

	2016								
	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)	325,819	1,157,963	1,274,519	934,817	1,930,743	1,509,551	–	7,133,412	5,074,250
Other borrowings (Note 22)	2,980,501	–	–	–	1,059	2,997	940	2,985,497	2,775,455
Long-term bonds (Note 23)	7,703,103	–	–	–	–	–	–	7,703,103	7,193,863
Trade and bills payable (Note 24)	1,817,270	408,444	350,831	–	636,994	513,253	–	3,726,792	3,726,792
Other payables and accrued expense (Note 25)	2,773,144	–	–	–	–	–	–	2,773,144	2,773,144
Long-term payables	–	–	–	–	1,833	5,775	12,836	20,444	20,444
	15,599,837	1,566,407	1,625,350	934,817	2,570,629	2,031,576	13,776	24,342,392	21,563,948

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk *(continued)*

	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

(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.

	2016 Effective interest rate %	**2016** RMB'000	2015 Effective interest rate %	2015 RMB'000
Fixed rate borrowings:				
Bank loans	**4.75%~13.07%**	**2,148,500**	2.80%~6.67%	1,018,478
Other borrowings	**6.50%**	**2,770,000**	6.50%	2,799,626
Long-term bonds	**6.1%~7.56%**	**7,193,863**	5.44%~10.50%	7,724,843
Less: Loans to third parties		**–**	–	–
		12,112,363		11,542,947
Variable rate borrowings:				
Bank loans	**4.57%~6.77%**	**2,925,750**	1.48%~6.67%	4,265,987
Other borrowings	**3.30%**	**5,455**	3.30%~4.60%	4,216
		2,931,205		4,270,203
Total borrowings		**15,043,568**		15,813,150
Net fixed rate borrowings as a percentage of total borrowings		**81%**		73%

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 2016, 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 RMB21,984,000 (2015: RMB24,075,000). 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 2015.

(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)			
	2016		2015	
	HKD	**USD**	HKD	USD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and cash equivalents	**56,634**	**95,229**	894	13,117
Bank loans	**–**	**–**	–	(62,826)
Senior notes	**–**	**(2,963,863)**	–	(3,434,329)
Net exposure arising from recognised assets and liabilities	**56,634**	**(2,868,634)**	894	(3,484,038)

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.

	2016		2015	
	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%**	**(286,863)**	10%	(348,403)
	(10%)	**286,863**	(10%)	348,403
Hong Kong Dollars	**10%**	**5,663**	10%	89
	(10%)	**(5,663)**	(10%)	(89)

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 2015.

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 2016, it is estimated that an increase/decrease of 50% (2015: 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:

	2016		2015	
	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%**	**2,776**	50%	3,099
	(50%)	**(2,776)**	(50%)	(3,099)

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 2015.

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 2016, 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.

2016

	Fair value at 31 December 2016 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**
Assets				
Available-for-sale securities:				
– Listed	**7,403**	**7,403**	**–**	**–**

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)*

(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 2016 and 31 December 2015 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 2016		At 31 December 2015	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Senior notes	**2,963,863**	**2,352,418**	3,246,800	2,661,402

32 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016 RMB'000	2015 RMB'000
Authorised and contracted for		
– the acquisitions of fixed assets	**272,630**	401,982
Authorised but not contracted for		
– the acquisitions of fixed assets	**65,166**	249,435
	337,796	651,417

32 COMMITMENTS *(continued)*

(b) At 31 December 2016, the total future minimum lease payments under non-cancellable operating lease are payable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	**16,293**	16,430
After 1 year but within 2 years	**16,293**	16,430
After 2 years but within 5 years	**48,878**	48,830
After 5 years	**44,927**	77,411
	126,391	159,101

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) Guarantees issued

On 14 December 2016, the Company entered into a guarantee in favor of Bank of China Pingdingshan Branch as a security for the provision of the loan facility of RMB400 million to Tianrui Group. As at the reporting date, the directors do not consider it probable that a claim will be made against the Group under the guarantee.

(b) Litigation contingencies

(i) 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. According to the order of the high court of Hong Kong Special Administrative Region issued on 12 August 2015, this claim has been discontinued.

33 CONTINGENT LIABILITIES AND OTHER EVENTS *(continued)*

(b) Litigation contingencies *(continued)*

(ii) 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, "Plaintiff") 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. The status of the proceedings is in the preliminary stage and the directors of the Company are of the view that the ultimate outcome of the Mr. Zhangs' Options cannot be reliably estimated at this stage. Since 6 January 2016, upon the undertaking of the Company that it will not take any step to implement the Options, this claim was discontinued unless which was restored by the Plaintiff.

(iii) Shandong Shanshui and Pingyin Shanshui have provided guarantees on behalf of Shanshui Heavy Industries for its bank loan with the principal of RMB300 million. 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.

Certain land use right and properties of Shanshui Heavy Industries have been seized by the court. The directors of the Company considered that the fair value of seized assets was more than 300 million. According to the legal advice from the Company, no provision for this claim is needed accordingly.

34 MATERIAL RELATED PARTY TRANSACTIONS

(a) During the years ended 31 December 2016 and 2015, 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
Shanshui Heavy Industries	Associate of the Group

34 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties of the Group

	Note	2016 RMB'000	2015 RMB'000
Recurring transactions			
Sales:			
Dong'e Shanshui	(i)	**7,115**	–
Dashui Group	(ii)	**–**	4,285
		7,115	4,285
Purchase:			
Dong'e Shanshui	(i)	**684**	–
Dashui Group		**1,052**	–
Shanshui Heavy Industries		**22,773**	–
		24,509	–
Loans to an associate and relevant interest income:			
Dong'e Shanshui	(iii)	**2,166**	3,318
Jianxin Investment		**–**	1,917
		2,166	5,235
Repayment of loans to associates and related interests by:			
Dong'e Shanshui	(iii)	**7,220**	23,406
Loans from related parties and relevant interest expenses:			
Lixin Investment	(iv)	**1,733**	48,732
Jinan Shanshui Group		**51**	11,000
Tianrui Group	(v)	**1,119,702**	64,778
Jinan Cement Product Factory		**8,420**	–
		1,129,906	124,510
Repayment of loans from related parties and related interests:			
Lixin Investment	(iv)	**–**	20,959
Jinan Shanshui Group		**44**	–
Tianrui Group		**676,054**	–
Jinan Cement Product Factory		**6,200**	–
		682,298	20,959

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 clinker 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 RMB40,600,000 as at 31 December 2015 and RMB5,000,000 was repaid during the year of 2016. These loans with total principal of RMB35,600,000 as at 31 December 2016 bear interest at one-year PRC bank loan interest rate of 6% (2015: 6%).

(iv) These relate to loans and related interests from Lixin Investment which are all interest free. As at 31 December 2016, the unpaid principal to Lixin Investment is RMB32,052,000.

(v) These relate to loans and related interests from Tianrui Group. These loans with total principal of RMB486,147,000 bear interest free.

34 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties of the Group

	2016 RMB'000	2015 RMB'000
Accounts receivable due from:		
– Dong'e Shanshui	195	–
– Shanshui Heavy Industries	17,936	17,980
	18,131	17,980
Advances to suppliers:		
– Dong'e Shanshui	9	9
– Shanshui Heavy Industries	19,464	18,832
	19,473	18,841
Other receivables due from:		
– China Shanshui Investment	772	725
– Property Development	–	1,341
– Jianxin Investment	1,917	1,917
– Lixin Investment	–	12,930
– Shanshui Heavy Industries	4,077	5,751
– Jinan Shanshui Group	60	–
– Dashui Group	3,000	–
	9,826	22,664
Other financial asset due from:		
– Dong'e Shanshui	36,382	41,436
Accounts payable due to:		
– Shanshui Heavy Industries	97,772	48,048
Other payable due to:		
– Dong'e Shanshui	356	432
– Lixin Investment	32,051	43,248
– Jinan Shanshui Group	11,007	11,000
– Shanshui Heavy Industries	83,604	80,247
– Tianrui Group	486,147	64,777
– Jinan Cement Product Factory	2,220	–
	615,385	199,704
Advances to customers:		
– Dong'e Shanshui	5	528

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	**2016** **RMB'000**	2015 RMB'000
Salary, allowances and other benefits		**17,557**	14,385
Contributions to defined contribution retirement plans		**366**	365
Share-based payment	29	**–**	29,064
		17,923	43,814

The breakdown of emoluments for key management personnel are as follows:

	Note	**2016** **RMB'000**	2015 RMB'000
Directors and supervisors	7	**10,700**	12,761
Senior management		**7,223**	31,053
		17,923	43,814

(Expressed in Renminbi unless otherwise indicated)

34 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(d) Key management personnel remuneration *(continued)*

The emoluments of senior management were within the following bands:

	2016 Number of individuals	2015 Number of individuals
HKD1 to HKD500,000	**21**	–
HKD500,001 to HKD1,000,000	**4**	–
HKD1,000,001 to HKD2,000,000	**1**	–
HKD2,000,001 to HKD3,000,000	**–**	1
HKD3,000,001 to HKD4,000,000	**–**	3
HKD5,000,001 to HKD6,000,000	**–**	2
HKD6,000,001 to HKD7,000,000	**–**	1
HKD7,000,001 to HKD8,000,000	**–**	1
	26	8

As disclosed in note 4, Shandong Shanshui accrued an amount of RMB131 million as the bonus for year 2016 to the senior management of Shandong Shanshui and its subsidiaries. This amount has been accrued in other net expenses. However, as this so-called bonus was not approved by the directors of the Company, the emoluments for key management personnel for the year ended 31 December 2016 disclosed above do not include this expense of RMB131 million.

(Expressed in Renminbi unless otherwise indicated)

35 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 has occurred after the end of the reporting period:

The Company made an announcement on 28 February 2017 in relation to the default of the two medium-term notes issued by Shandong Shanshui in the PRC inter-bank market which the principal amount of RMB990 million and RMB1,140 million respectively (see Note 23). As at the date of this report, the two medium-term notes are both expired, however, Shandong Shanshui does not have adequate funds to settle them. Since the Group had breached the default clauses of the lending agreements of these two medium-term notes as at 31 December 2015 and 2016, the Group has already reclassified these two medium-term notes as current liabilities as at 31 December 2015 and 2016. The Group is still negotiating with the holders of these medium-term notes for an extension or a restructuring plan.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2016

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 2016 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
Amendments to IAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 9, *Financial instruments*	1 January 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	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.

37 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2016 RMB'000	31 December 2015 RMB'000
Non-current assets		
Fixed assets	**24**	–
Investments in a subsidiary	**413,248**	413,248
Amounts due from subsidiaries	**5,270,309**	5,121,984
	5,683,581	5,535,232
Current assets		
Other receivables	**197**	18,761
Cash and cash equivalents	**90,801**	8,154
	90,998	26,915
Current liabilities		
Current portion of long-term bonds	**2,963,863**	3,434,329
Amount due to a subsidiary	**1,320,025**	668,021
Other payables and accrued expenses	**621,102**	255,208
	4,904,990	4,357,558
Net current liabilities	**(4,813,992)**	(4,330,643)
Total assets less current liabilities	**869,589**	1,204,589
NET ASSETS	**869,589**	1,204,589
CAPITAL AND RESERVES		
Share capital	**227,848**	227,848
Reserves	**641,741**	976,741
TOTAL EQUITY	**869,589**	1,204,589

Approved and authorised for issue by the board of directors on 30 March 2017.

LIU Yiu KEUNG, Stephen
Director

LI Heping
Director

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