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

2017 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 2017 to 31 December 2017
"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
"Southern Shandong Operating Region"	business located at the Southern Shandong Province, including Zaozhuang, Jining, Heze and Henan Province, etc

(I) Definitions

"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. CHANG Zhangli *(Chairman)*
Ms. WU Ling-ling

Note: Mr. LI Liufa was appointed as an executive Director, the chairman of the Board, the chairman of the Nomination Committee and the chairman of the Executive Committee on 1 December 2015. Mr. LI Heping, Mr. LIU Yiu Keung, Stephen and Mr. CHONG Cha Hwa were appointed as executive Directors and members of the Executive Committee on 1 December 2015, and Mr. LIU Yiu Keung, Stephen was nominated as a member of the Nomination Committee. Mr. CHEUNG Yuk Ming was appointed as an independent non-executive Director of the Company on 1 December 2015 and was 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 annual general meeting, and he ceased to be a 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 an executive Director of the Company on 1 December 2015, re-designated from an executive Director to a non-executive Director with effect from 2 February 2016 and re-designated from a non-executive Director to an executive Director with effect from 5 July 2016. Mr. LI Zhiqiang was appointed as an executive Director and the vice chairman of the Board of the Company on 3 November 2017. On 19 March 2018, Mr. LIU Yiu Keung, Stephen resigned as the chairman of the Board, an executive Director and the authorized representative, the chairman of the Executive Committee and the chairman of the Nomination Committee of the Board of the Company. Mr. YEN Ching Wai, David ceased to act as an alternate director of Mr. LIU Yiu Keung, Stephen. Mr. LI Zhiqiang resigned as the vice chairman of the Board, an executive Director, and a member of the Executive Committee of the Company. Mr. LI Heping resigned as an executive Director of the Company. On 19 March 2018, Mr. LI Liufa was appointed as the chairman of the Board and an executive Director, chairman of the Nomination Committee and chairman of the Executive Committee of the Board of the Company. Mr. ZHU Linhai was appointed as an executive Director, a member of the Executive Committee of the Board of the Company. Mr. HWA Guo Wai, Godwin was appointed as an authorized representative of the Company. On 23 May 2018, Mr. LI Liufa was removed as the chairman of the Board, an executive Director and the chairman of the Executive Committee. Mr. ZHU Linhai and Mr. HWA Guo Wai, Godwin were removed as executive Directors and members of the Executive Committee; and HWA Guo Wai, Godwin was removed as the authorized representative of the Company. On 23 May 2018, Mr. CHANG Zhangli was appointed as an executive Director and chairman of the Board, and Mr. WU Ling-ling was appointed as an executive Director of the Company.

Non-Executive Director

Note: Mr. CHONG Cha Hwa was appointed as an executive Director of the Company on 1 December 2015 and had 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 member of the Executive Committee of the Company and resigned as a non-executive Director of the Company with effect from 8 May 2017. Mr. NG Qing Hai was appointed as a 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

Mr. CHANG Ming-cheng
Mr. LI Jianwei
Mr. HSU You-yuan

Note: Ms. HO Man Kay Angela, Mr. LAW Pui Cheung, Stephen and Mr. CHEUNG Yuk Ming were appointed as independent non-executive Directors of the Company on 1 December 2015, Mr. CHEUNG Yuk Ming had been re-designated from independent non-executive Director to executive Director with effect from 2 February 2016, and Mr. WONG Chi Keung was appointed as an 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. On 23 May 2018, Ms. HO Man Kay Angela, Mr. LAW Pui Cheung, Stephen, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed as independent non-executive Directors, and Mr. CHANG Ming-cheng, Mr. LIN Shei-yuan and Mr. LI Jianwei were appointed as independent non-executive Directors of the Company. On 20 July 2018, Mr. LIN Shei-yuan resigned as an independent non-executive Director of the Company; and on 4 September 2018, Mr. HSU You-yuan was appointed as an independent non-executive Director of the Company.

Audit Committee

Mr. CHANG Ming-cheng *(Chairman)*
Mr. LI Jianwei
Mr. HSU You-yuan

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; Ms. HO Man Kay Angela and Mr. LAW Pui Cheung were appointed as members 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. On 23 May 2018, Mr. LAW Pui Cheung was removed as the chairman of the Audit Committee of the Company, Ms. HO Man Kay Angela, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed as members of the Audit Committee of the Company; Mr. CHANG Ming-cheng was appointed as the chairman of the Audit Committee of the Company; Mr. LIN Shei-yuan and Mr. LI Jianwei were appointed as members of the Audit Committee of the Company; on 20 July 2018, Mr. LIN Shei-yuan resigned as a member of the Audit Committee of the Company; and on 4 September 2018, Mr. HSU You-yuan was appointed as a member of the Audit Committee of the Company.

Remuneration Committee

Mr. LI Jianwei *(Chairman)*
Mr. CHANG Ming-cheng
Mr. HSU You-yuan

Note: Mr. CHEUNG Yuk Ming was appointed as a member of the Remuneration Committee of the Company on 1 December 2015 and had resigned as a member of the Remuneration Committee of the Company with effect from 2 February 2016. Mr. LAW Pui Cheung was appointed as a member of the Remuneration Committee of the Company on 1 December 2015; Ms. HO Man Kay Angela was appointed as the chairman of the Remuneration Committee of the Company on 1 December 2015; 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. On 23 May 2018, Ms. HO Man Kay Angela was removed as the chairman of the Remuneration Committee of the Company, Mr. LAW Pui Cheung, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed as members of the Remuneration Committee of the Company; Mr. LI Jianwei was appointed as the chairman of the Remuneration Committee of the Company; Mr. CHANG Ming-cheng and Mr. LIN Shei-yuan were appointed as members of the Remuneration Committee of the Company; on 20 July 2018, Mr. LIN Shei-yuan resigned as a member of the Remuneration Committee of the Company; and on 4 September 2018, Mr. HSU You-yuan was appointed as a member of the Remuneration Committee of the Company.

Executive Committee

Mr. CHANG Zhangli *(Chairman)*
Ms. WU Ling-ling

Note: Mr. LI Liufa was appointed as the chairman of the Executive Committee on 1 December 2015, Mr. CHONG Cha Hwa, Mr. LIU Yiu Keung, Stephen and Mr. LI Heping were appointed as members of the Executive Committee on 1 December 2015 and Mr. CHONG Cha Hwa 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. Mr. LI Zhiqiang was appointed as a member of the Executive Committee of the Company on 3 November 2017; on 19 Mach 2018, Mr. LIU Yiu Keung, Stephen resigned as the chairman of the Executive Committee of the Company, Mr. LI Zhiqiang and Mr. LI Heping resigned as members of the Executive Committee, Mr. LI Liufa was appointed as the chairman of the Executive Committee of the Board; Mr. ZHU Linhai was appointed as a member of the Executive Committee of the Board; on 23 May 2018, Mr. LI Liufa was removed as the chairman of the Executive Committee of the Company, Mr. ZHU Linhai and Mr. HWA Guo Wai, Godwin were removed as members of the Executive Committee of the Company; Mr. CHANG Zhangli was appointed as the chairman of the Executive Committee of the Company; Ms. WU Ling-ling, Mr. CHANG Ming-cheng, Mr. LIN Shei-yuan and Mr. LI Jianwei were appointed as members of the Executive Committee of the Company; on 20 July 2018, Mr. LIN Shei-yuan resigned as a member of the Executive Committee; and on 4 September 2018, Mr. CHANG Ming-cheng and Mr. LI Jianwei were removed as members of the Executive Committee of the Board.

(II) Corporate Information (Continued)

Nomination Committee

Mr. CHANG Zhangli *(Chairman)*
Ms. WU Ling-ling
Mr. CHANG Ming-cheng
Mr. LI Jianwei
Mr. HSU You-yuan

Note: Mr. CHEUNG Yuk Ming, Mr. LIU Yiu Keung, Stephen, Ms. HO Man Kay Angela and Mr. LAW Pui Cheung were appointed as members of the Nomination Committee of the Company on 1 December 2015, Mr. LI Liufa was appointed as the chairman of the Nomination Committee of the Company on 1 December 2015; Mr. CHEUNG Yuk Ming had 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 of the Company 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; on 19 March 2018, Mr. LIU Yiu Keung, Stephen resigned as the chairman of the Nomination Committee of the Board, Mr. LI Liufa was appointed as the chairman of the Nomination Committee of the Board; on 23 May 2018, Mr. LI Liufa was removed as the chairman of the Nomination Committee of the Company; Ms. HO Man Kay Angela, Mr. LAW Pui Cheung, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed as members of the Nomination Committee of the Company; Mr. LIN Shei-yuan was appointed as the chairman of the Nomination Committee of the Company, Mr. CHANG Zhangli, Ms. WU Ling-ling, Mr. CHANG Ming-cheng and Mr. LI Jianwei were appointed as members of the Nomination Committee of the Company; on 20 July 2018, Mr. LIN Shei-yuan resigned as the chairman of the Nomination Committee of the Board; on 4 September 2018, Mr. CHANG Zhangli was appointed as the chairman of the Nomination Committee of the Board; on 6 October 2018, Mr. HSU You-yuan was appointed as a member of the Nomination Committee of the Company.

Investigation Committee

Note: Mr. CHEUNG Yuk Ming, Ms. HO Man Kay Angela and Mr. LAW Pui Cheung were appointed as members of the Investigation Committee of the Company on 1 December 2015 and Mr. CHEUNG Yuk Ming 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; on 23 May 2018, Dr. CHING Siu Ming was removed as the chairman of the Investigation Committee, Ms. HO Man Kay Angela, Mr. LAW Pui Cheung, Mr. WONG Chi Keung and Mr. LO Chung Hing were removed as members of the Investigation Committee.

On 23 May 2018, the Board dissolved the Investigation Committee.

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	:	54/F, Hopewell Centre, 183 Queen's Road East, Hong Kong
(4)	Website	:	www.sdsunnsygroup.com
(5)	Authorised Representatives	:	CHANG Zhangli and WU Ling-ling
(6)	Company Secretary	:	LO Yee Har Susan
(7)	Listing Date	:	4 July 2008
(8)	Exchange on which the Company's shares are listed	:	The Stock Exchange
(9)	Stock code	:	00691
(10)	Stock Short Name	:	Shanshui Cement
(11)	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
(12)	Legal Adviser as to Hong Kong law	:	Freshfields Bruckhaus Deringer
(13)	Auditor	:	Moore Stephens CPA Limited

(III) Financial and Business Data Summary

1. CONSOLIDATED INCOME STATEMENT

(Unit: RMB'000)

	For the 12 months ended 31 December				
	2017	2016	2015	2014	2013
Revenue	**14,765,328**	11,284,193	11,166,212	15,596,440	16,535,204
Gross profit	**4,404,087**	2,476,001	1,228,285	3,346,865	3,829,237
Gross profit margin	**29.8%**	21.9%	11.0%	21.5%	23.2%
Profit/(Loss) from operations	**1,980,514**	238,161	(4,869,076)	1,812,813	2,557,206
Profit/(Loss) margin from operations	**13.4%**	2.1%	(43.6%)	11.6%	15.5%
EBITDA	**3,447,725**	1,683,883	(3,430,464)	3,172,359	3,798,678
EBITDA margin	**23.4%**	14.9%	(30.7%)	20.3%	23.0%
Net profit/(loss)	**546,470**	(978,861)	(6,693,655)	308,578	1,074,712
Attributable to:					
Equity shareholders of the Company	**600,817**	(738,281)	(6,387,259)	347,650	1,016,707
Minority interests	**(54,347)**	(240,580)	(306,396)	(39,072)	58,005
Basic earnings/(loss) per share *(RMB)*	**0.18**	(0.22)	(1.89)	0.12	0.36
Diluted earnings/(loss) per share *(RMB)*	**0.18**	(0.22)	(1.89)	0.12	0.36

2. CONSOLIDATED BALANCE SHEET

(Unit: RMB'000)

	As at 31 December				
	2017	2016	2015	2014	2013
Non-current assets	**20,753,158**	21,652,679	23,109,951	26,645,735	24,992,311
Current assets	**4,336,801**	4,267,477	3,903,749	7,049,762	7,244,085
Total assets	**25,089,959**	25,920,156	27,013,700	33,695,497	32,236,396
Total liabilities	**21,072,428**	22,663,917	22,520,535	22,329,171	22,269,670
Equity attributable to equity shareholders of the Company	**3,915,327**	3,098,688	4,030,252	10,597,967	9,245,952
Non-controlling interests	**102,204**	157,551	462,913	768,359	720,774
Non-current liabilities	**1,327,726**	521,533	772,186	12,484,072	10,222,513
Current liabilities	**19,744,702**	22,142,384	21,748,349	9,845,099	12,047,157
Total equity and liabilities	**25,089,959**	25,920,156	27,013,700	33,695,497	32,236,396
Net gearing ratio	**76.4%**	81.9%	77.6%	56.9%	60.4%

(III) Financial and Business Data Summary (Continued)

3. CONSOLIDATED CASH FLOW STATEMENT

(Unit: RMB'000)

	For the 12 months ended 31 December				
	2017	2016	2015	2014	2013
Net cash generated from/(used in) operating activities	**1,975,202**	978,342	(342,913)	1,375,826	1,924,751
Net cash used in investing activities	**(646,184)**	(418,809)	(1,591,087)	(2,184,284)	(4,395,283)
Net cash (used in)/generated from financing activities	**(1,294,090)**	(509,959)	1,002,770	682,207	2,665,505
Net increase/(decrease) in cash and cash equivalents	**34,928**	49,574	(931,230)	(126,251)	194,973

4. KEY BUSINESS DATA

	2017	2016	2015	2014	2013
Sales volume of cement *('000 tonnes)*	**41,131**	43,959	45,821	53,146	53,422
Sales volume of clinker *('000 tonnes)*	**9,232**	10,544	8,421	9,818	9,218
Sales volume of concrete *('000 m^3)*	**3,420**	2,680	2,370	3,471	2,864
Unit selling price of cement *(RMB/tonne)*	**276.3**	199.0	198.8	235.4	249.9
Unit selling price of clinker *(RMB/tonne)*	**239.8**	164.6	154.3	191.6	195.3
Unit selling price of concrete *(RMB/m^3)*	**349.8**	252.8	267.6	298.6	296.7

(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.

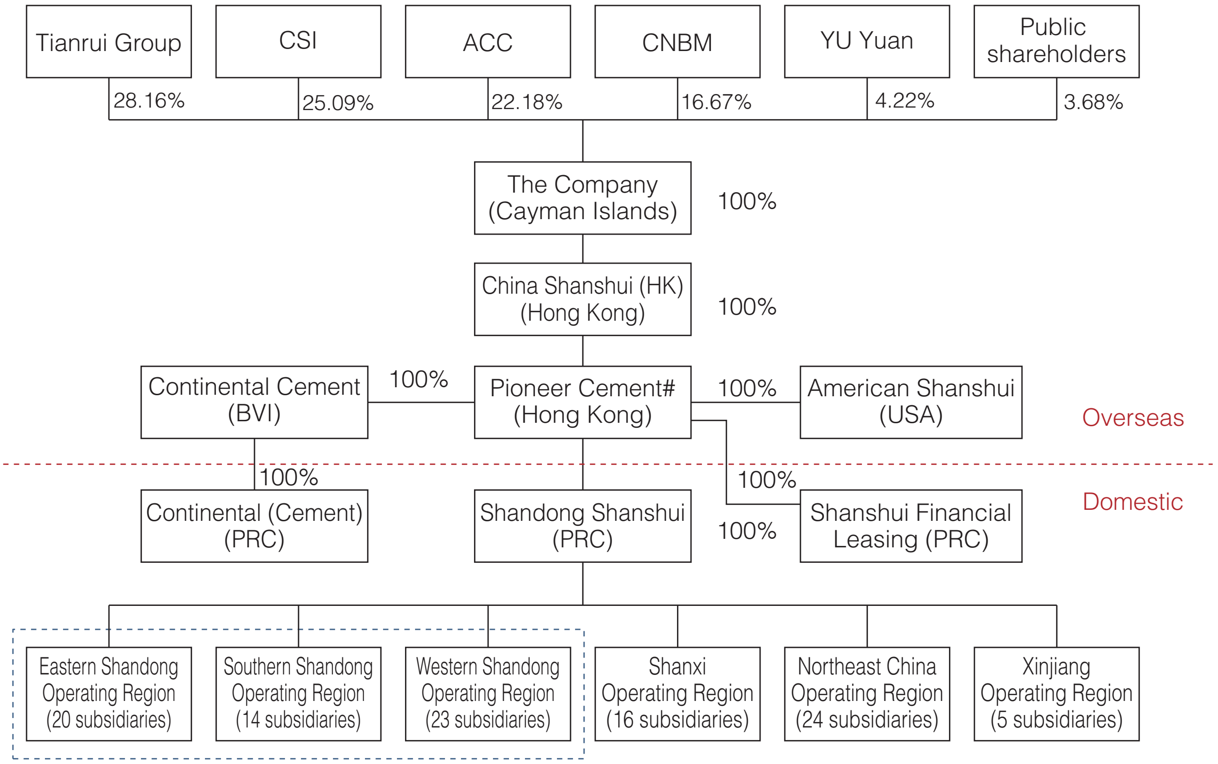
Shandong Shanshui is a wholly foreign-owned limited company established by Pioneer Cement in 2005 through the acquisition of shares in Jinan, Shandong Province in accordance with the laws and regulations of the PRC.

Shandong Shanshui is one of the 12 national large-scale cement enterprises with national key support. At present, Shandong Shanshui has 105 subsidiaries spreading across more than ten provinces including Shandong, Liaoning, Shanxi, Inner Mongolia and Xinjiang.

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 in the PRC 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.

(2) SHAREHOLDING STRUCTURE OF THE GROUP



\# Pioneer Cement directly held the shareholdings of the following 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 (Continued)

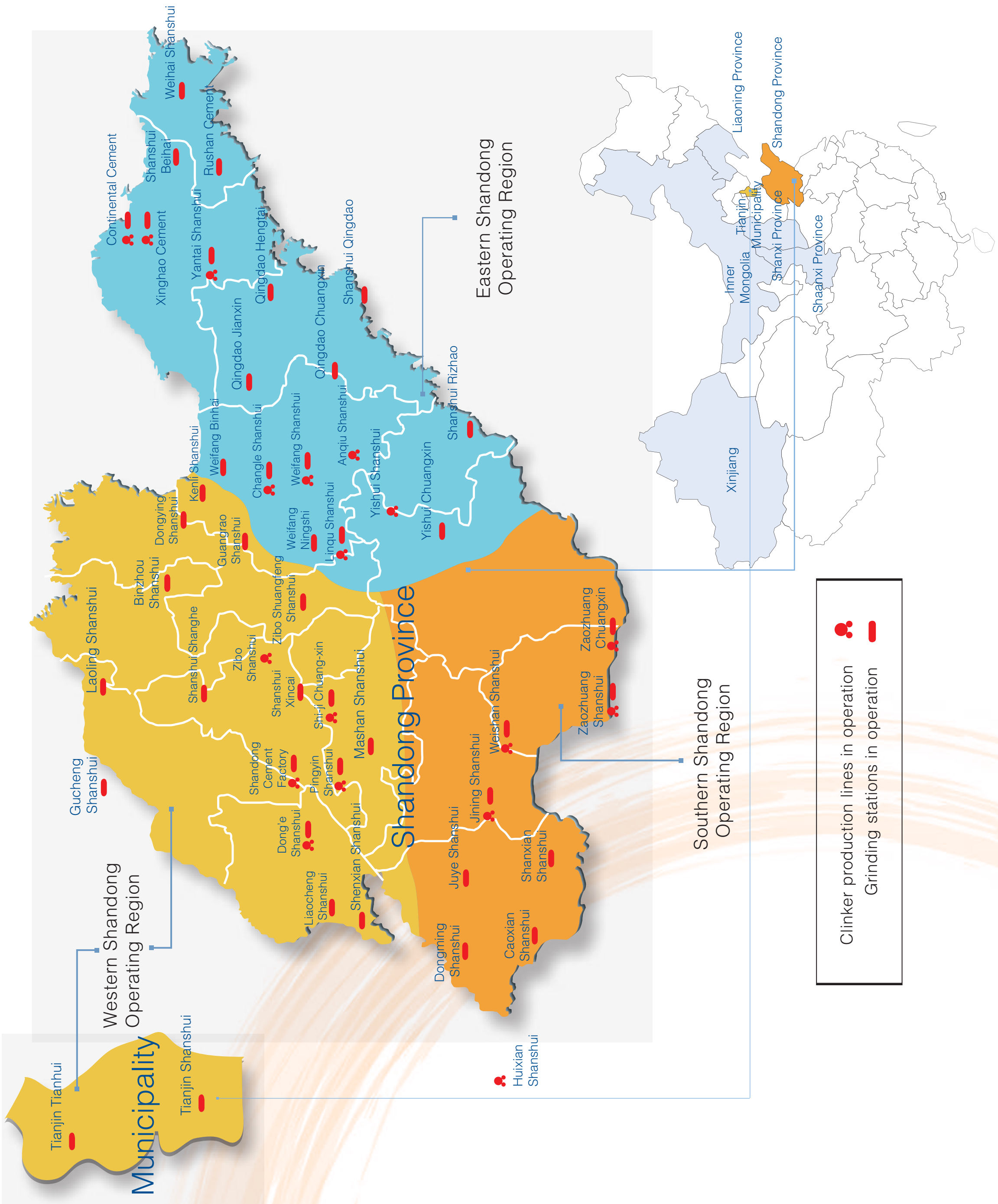
(3) DISTRIBUTION OF PRODUCTION FACILITIES AND CAPACITY

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 2017, the total capacity of cement and clinker of the Group is listed below:

	Cement Capacity *(million tonnes)*	**Clinker Capacity** *(million tonnes)*
Shandong Region	53.76	25.73
Eastern Shandong Operating Region	23.41	10.75
Western Shandong Operating Region	21.15	8.74
Southern Shandong Operating Region	9.20	6.24
Shanxi Operating Region	15.60	8.64
Northeast China Operating Region	27.02	15.10
Xinjiang Operating Region	4.00	1.60
Total	100.38	51.07

Locations of major production facilities in Shandong Region as of 31 December 2017:



(IV) Corporate Profile (Continued)

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
Weifang Binhai Shanshui Cement Co., Ltd. ("Weifang Binhai")	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

Southern Shandong Operating Region

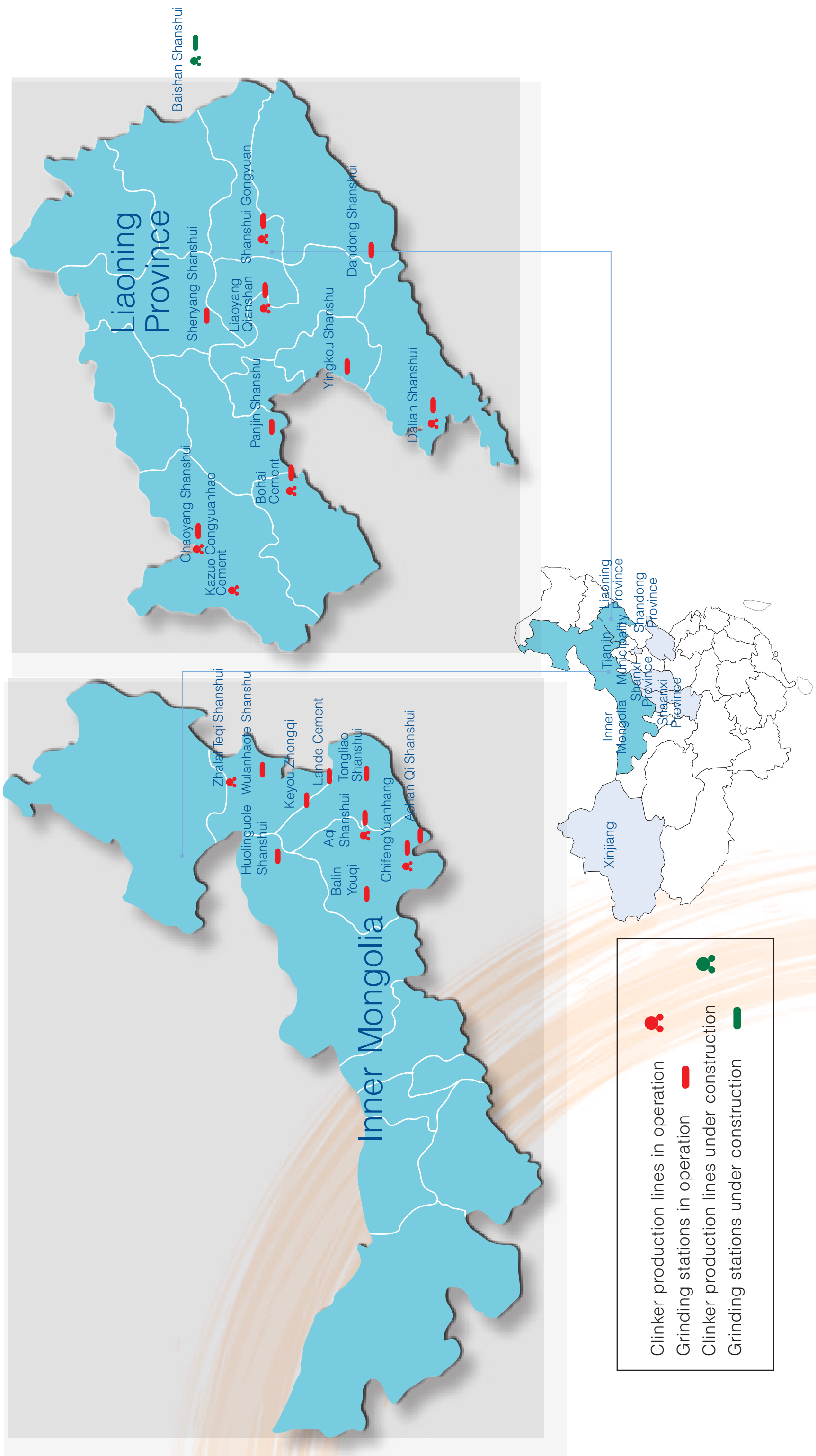
Company Name	Principal Business
Bengbu Shanshui Cement Co., Ltd. ("Bengbu Cement")	Establishment of cement production line
Bozhou Shanshui Cement Co., Ltd. ("Bozhou Cement")	Establishment of cement production line
Caoxian Chuangxin Concrete Co., Ltd. ("Caoxian Chuangxin")	Production and sales of concrete
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 (Continued)

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, concrete and 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 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 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 2017:

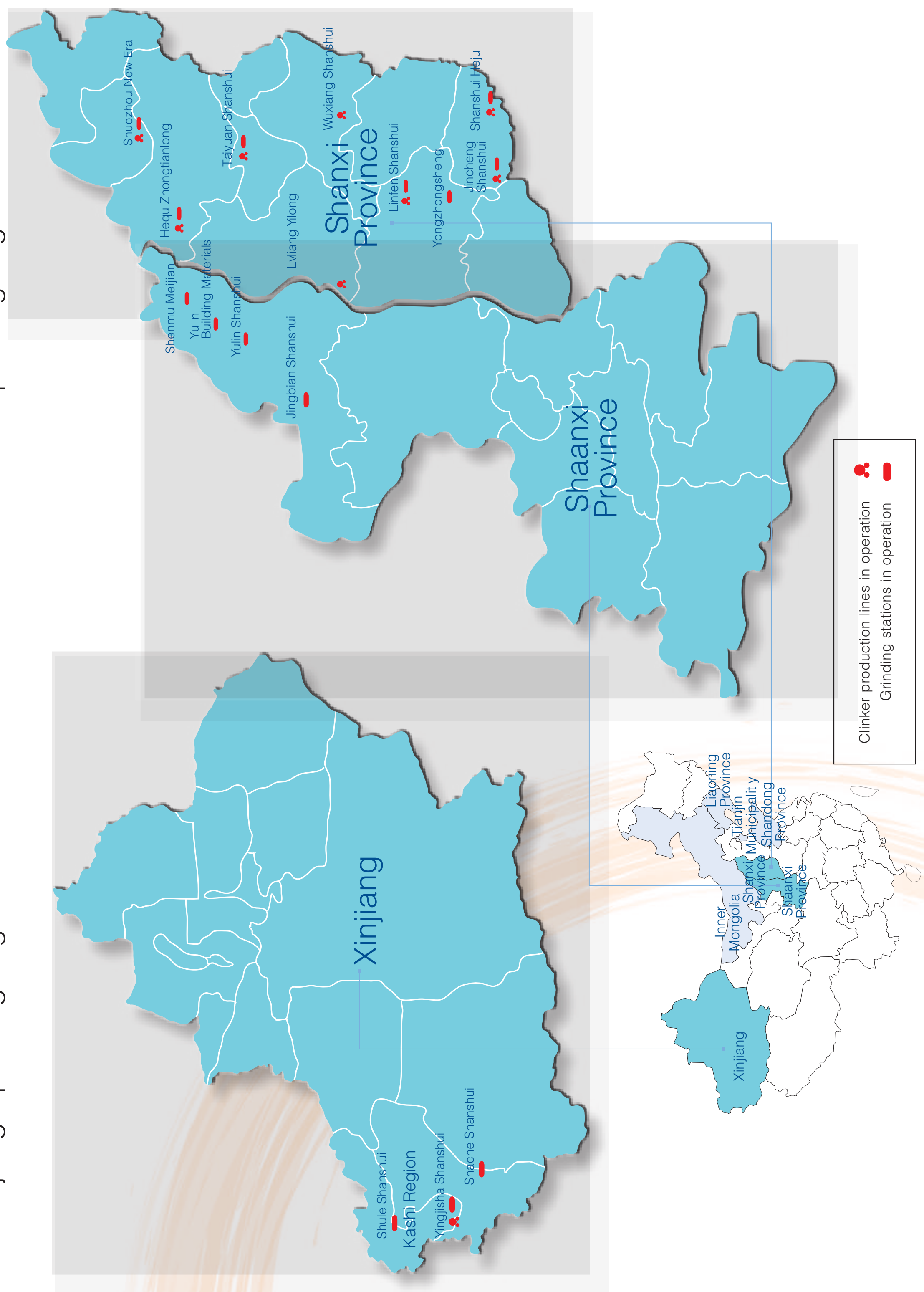


(IV) Corporate Profile (Continued)

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, wash and repair of steam locomotive
Huolin Guole Shanshui Cement Co., Ltd. (“Huolinguole 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 Qi”)	Production and sales of cement
Liaoning Shanshui Gongyuan Cement Co., Ltd. (“Liaoning Gongyuan”)	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 2017:



(IV) Corporate Profile (Continued)

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")	Production and sales of cement and 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
Yangqu Zhongyu Building Materials Co., Ltd. ("Zhongyu Building Materials")	Production and sales of concrete aggregate
Taiyuan Guangsha Cement Co., Ltd. ("Taiyuan Guangsha")	Production and sales of concrete aggregate

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 ores
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, clinker and concrete

(V) Management Discussion and Analysis

1. OPERATING ENVIRONMENT OF THE CEMENT INDUSTRY

In 2017, China's GDP was RMB82,712.2 billion, representing a YOY increase of 6.9%. The investment on national real estate development was RMB10,979.9 billion, representing a YOY increase of 7.0%. The total social fixed asset investment (excluding peasant households) was RMB63,168.4 billion, representing a YOY increase of 7.2%, and the growth rate fell by 0.9 percentage point from last year. The national large-scale industrial added-value increased by 6.6% than the actual value of last year and the growth rate increased by 0.6 percentage point over last year. The growth of industrial production accelerated and the profit of enterprises increased rapidly. (Data source: National Bureau of Statistics)

The year 2017 was an important year for implementation of the "13th Five-year Plan" and also a year for deepening the supply-side structural reform. As the fixed asset investment and consumption growth continued to decline in 2017, the national cement output decreased slightly. However, the contribution from the supply side was significant. As affected by factors including air pollution control, environmental protection, mine management, coal and off-peak transportation, the costs were increased in many regions. Accordingly, the industry did not witness sluggish performance in the traditional slack season and recorded much better performance in the peak season. The industry's overall inventory was low and the cement price continued to pick up, giving rise to the second highest profit in history. Especially in November, due to the tight supply and strong demand in Southern China, enterprises' inventories were generally low and the cement prices in Southern China rose sharply, driving the recovery of the entire cement industry.

According to the statistics of National Bureau of Statistics, the national cement output was 2.34 billion tonnes in 2017, representing a YOY decrease of 3.1%; the overall economic performance of the cement industry increased significantly over the last year and realized total revenue of RMB914.9 billion, representing a YOY increase of 17.89%, and total profit of RMB87.7 billion, representing a YOY increase of 94.41%. The total profit ranked only second to the highest point recorded in 2011. (Data source: Digital Cement Network)

2. OPERATIONS OVERVIEW

In 2017, the Group was 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 2017, the Group had a total production capacity of 100.38 million tonnes of cement, 51.07 million tonnes of clinker and 19.30 million cubic meters of concrete. During the Reporting Period, the Group's sales volume of cement was 41.131 million tonnes, representing a YOY decrease of 6.43%; sales volume of clinker was 9.232 million tonnes, representing a YOY decrease of 12.44%; sales volume of concrete was 3,420,000 cubic meters, representing a YOY increase of 27.61%; sales revenue was RMB14,765 million, representing a YOY increase of 30.85%; and the profit for the period was RMB546 million.

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

	Increase/(decrease) in cement capacity *(10,000 tonnes)*	**Increase/(decrease) in clinker capacity** *(10,000 tonnes)*
Donge Dongchang	(55)	80
Shandong Cement Factory	(4)	–
Zhalaite Qi Shanshui	1	–
Chifeng Yuanhang	(50)	–
Liaoning Gongyuan	–	(42)
Liaoyang Qianshan	–	(32)
Shenmu Meijian	(30)	–
Total production capacity changes	(138)	6

2. OPERATIONS OVERVIEW (CONTINUED)

(I) Business review

(a) Sales revenue analysis and the respective YOY changes

(Unit: RMB million)

Product	**2017** Sales revenue	**2017** Sales proportion	2016 Sales revenue	2016 Sales proportion	Change in sales revenue
Cement	**11,166**	**75.62%**	8,746	77.5%	27.67%
Clinker	**2,175**	**14.73%**	1,735	15.4%	25.36%
Concrete	**1,175**	**7.96%**	677	6.0%	73.56%
Others	**249**	**1.69%**	126	1.1%	97.62%
Total	**14,765**	**100%**	11,284	100%	30.85%

During the Reporting Period, the Group's revenue increased by 30.85% to RMB14,765 million. Revenue from cement amounted to RMB11,166 million, representing a YOY increase of 27.67%. Revenue from clinker amounted to RMB2,175 million, representing a YOY increase of 25.36%. Revenue from concrete amounted to RMB1,175 million, representing a YOY increase of 73.56%. The revenue of the Group has substantially improved due to the increase of sales price.

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

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

Product	**2017** Sales volume *('000 tonnes)*	2016 Sales volume *('000 tonnes)*	Sales volume change	**2017** Unit selling price *(RMB/ tonne)*	2016 Unit selling price *(RMB/ tonne)*	Sales volume change
Cement	**41,131**	43,959	-6.43%	**276.3**	199.0	38.84%
Clinker	**9,232**	10,544	-12.44%	**239.8**	164.6	45.69%
	('000 m³)	*('000 m³)*		***(RMB/m³)***	*(RMB/m³)*	
Concrete	**3,420**	2,680	27.61%	**349.8**	252.8	38.37%

2. OPERATIONS OVERVIEW (CONTINUED)

(I) Business review (Continued)

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

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

During the Reporting Period, the sales volume of cement of the Group amounted to 41,131,000 tonnes, representing a YOY decline of 6.43%, while the sales volume of commercial clinker decreased to 9,232,000 tonnes, representing a YOY decrease of 12.44%. The unit selling price of cement increased by 38.84% to RMB276.3 per tonne, while the unit selling price of clinker increased by 45.69% to RMB239.8 per tonne. The sales volume of concrete increased to 3,420,000 cubic meters, representing a YOY increase of 27.61%. The unit selling price of concrete increased by 38.37% to RMB349.8/m^3.

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

Operating regions	**Average unit selling price in 2017 *(RMB/tonne)***	Average unit selling price in 2016 *(RMB/tonne)*	Change in selling price
Shandong Region	**288.9**	194.6	48.46%
Eastern Shandong Operating Region	**290.3**	198.2	46.47%
Western Shandong Operating Region	**294.0**	191.3	53.69%
Southern Shandong Operating Region	**276.2**	192.2	43.70%
Northeast China Operating Region	**256.7**	208.0	23.41%
Shanxi Operating Region	**227.0**	161.4	40.64%
Xinjiang Operating Region	**309.5**	271.3	14.08%

2. OPERATIONS OVERVIEW (CONTINUED)

(I) Business review (Continued)

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

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

During the Reporting Period, the average unit selling price of cement in Shandong Region was RMB288.9 per tonne, representing a YOY increase of 48.46%; the average unit selling price of cement in Eastern Shandong Operating Region was RMB290.3 per tonne, representing a YOY increase of 46.47%; the average unit selling price of cement in Western Shandong Operating Region was RMB294.0 per tonne, representing a YOY increase of 53.69%; the average unit selling price of cement in Southern Shandong Operating Region was RMB276.2 per tonne, representing a YOY increase of 43.7%; the average unit selling price of cement in Northeast China Operating Region was RMB256.7 per tonne, representing a YOY increase of 23.41%; the average unit selling price of cement in Shanxi Operating Region was RMB227.0 per tonne, representing a YOY increase of 40.64%; the average unit selling price of cement in Xinjiang Operating Region was RMB309.5 per tonne, representing a YOY increase of 14.08%.

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

Product	**2017** Sales volume (*'000 tonnes*)	**2017** Sales proportion	2016 Sales volume (*'000 tonnes*)	2016 Sales proportion	Change in sales volume
High grade cement	**29,920**	**72.7%**	28,336	64.5%	5.59%
Low grade cement	**11,211**	**27.3%**	15,623	35.5%	-28.24%

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

During the Reporting Period, sales volume of high grade cement was 29,920,000 tonnes, representing a YOY increase of 5.59%, and sales volume of low grade cement was 11,211,000 tonnes, representing a YOY decrease of 28.24%.

2. OPERATIONS OVERVIEW (CONTINUED)

(I) Business review (Continued)

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

(Unit: RMB'000)

Operating region	2017 Sales revenue	2017 Sales proportion	2016 Sales revenue	2016 Sales proportion	Change in sales revenue
Shandong Region	**9,826,735**	**66.5%**	6,922,365	61.3%	42.0%
Eastern Shandong Operating Region	**4,044,915**	**27.4%**	2,904,502	25.7%	39.3%
Western Shandong Operating Region	**3,813,285**	**25.8%**	2,639,377	23.4%	44.5%
Southern Shandong Operating Region	**1,968,535**	**13.3%**	1,378,486	12.2%	42.8%
Northeast China Operating Region	**3,128,440**	**21.2%**	3,108,620	27.6%	0.6%
Shanxi Operating Region	**1,328,002**	**9.0%**	825,094	7.3%	61.0%
Xinjiang Operating Region	**482,151**	**3.3%**	428,114	3.8%	12.6%
Total	**14,765,328**	**100%**	11,284,193	100%	30.8%

During the Reporting Period, the sales revenue in Shandong Region was RMB9,827 million, accounting for 66.5% of the Group's total sales revenue and representing a YOY increase of 42.0%; the sales revenue in Eastern Shandong Operating Region was RMB4,045 million, accounting for 27.4% of the Group's total sales revenue and representing a YOY increase of 39.3%; the sales revenue in Western Shandong Operating Region was RMB3,813 million, accounting for 25.8% of the Group's total sales revenue and representing a YOY increase of 44.5%; the sales revenue in Southern Shandong Operating Region was RMB1,969 million, accounting for 13.3% of the Group's total sales revenue and representing a YOY increase of 42.8%; the sales revenue in Northeast China Operating Region was RMB3,128 million, accounting for 21.2% of the Group's total sales revenue and representing a YOY increase of 0.6%; the sales revenue in Shanxi Operating Region was RMB1,328 million, accounting for 9.0% of the Group's total sales revenue and representing a YOY increase of 61.0%; the sales revenue in Xinjiang Operating Region was RMB482 million, accounting for 3.3% of the Group's total sales revenue and representing a YOY increase of 12.6%.

2. OPERATIONS OVERVIEW (CONTINUED)

(II) Profit analysis

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

(Unit: RMB'000)

	2017	2016	Change
Revenue	**14,765,328**	11,284,193	30.85%
Gross profit	**4,404,087**	2,476,001	77.87%
EBITDA	**3,447,725**	1,683,883	104.75%
Profit from operations	**1,980,514**	238,161	731.59%
Profit/(loss) before taxation	**967,340**	(829,295)	216.65%
Net profit/(loss) for the year	**546,470**	(978,861)	155.83%
Profit/(loss) attributable to equity holders of the Company	**600,817**	(738,281)	181.38%

During the Reporting Period, the Group recorded sales revenue of RMB14,765 million, representing a YOY increase of 30.85%; profit from operations was RMB1,981 million; net profit for the year was RMB546 million, represent a YOY increase of 155.83%; profit attributable to equity shareholders of the Company was RMB601 million. The increase in profit was mainly due to the pickup of selling price and the increase of gross profit margin for the period from 21.9% to 29.8%.

2. OPERATIONS OVERVIEW (CONTINUED)

(II) Profit analysis (Continued)

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

(Unit: RMB'000)

Cost of sales	**2017** Amount	**2017** Proportion to revenue	2016 Amount	2016 Proportion to revenue	Change of proportion to revenue
Raw materials	**3,420,862**	**23.2%**	2,675,355	23.7%	-0.5 P.Pt.
Coal	**2,862,089**	**19.4%**	2,185,061	19.4%	– P.Pt.
Power	**1,119,881**	**7.6%**	1,390,936	12.3%	-4.7 P.Pt.
Depreciation and amortisation	**1,004,085**	**6.8%**	1,037,650	9.2%	-2.4 P.Pt.
Others	**1,954,324**	**13.2%**	1,520,190	13.5%	-0.3 P.Pt.
Total cost of sales	**10,361,241**	**70.2%**	8,809,192	78.1%	-7.9 P.Pt.

During the Reporting Period, the proportion of the Group's total cost of sales to revenue was 70.2%, representing a YOY decrease of 7.9 percentage points. Of which, the proportion of raw materials costs, power costs, depreciation and amortisation, and others decreased by 0.5 percentage points, 4.7 percentage points, 2.4 percentage points and 0.3 percentage point, respectively.

3. FINANCIAL REVIEW

(a) Expenses during the period

(Unit: RMB'000)

	2017		2016		Proportion
	Amount	**Proportion to sales revenue**	Amount	Proportion to sales revenue	to sales revenue change
Selling and marketing expenses	**580,786**	**3.93%**	486,954	4.32%	-0.39 P.Pt.
Administrative expenses	**2,071,191**	**14.03%**	1,414,882	12.54%	1.49 P.Pt.
Finance costs	**1,021,372**	**6.92%**	1,030,649	9.13%	-2.21 P.Pt.
Total	**3,673,349**	**24.88%**	2,932,485	25.99%	-1.11 P.Pt.

During the Reporting Period, the proportion of selling and marketing expenses to sales revenue has a YOY decrease of 0.39 percentage points; the proportion of administrative expenses to sales revenue has a YOY increase of 1.49 percentage points; the proportion of finance costs to sales revenue has a decrease of 2.21 percentage points compared with that of 2016.

3. FINANCIAL REVIEW (CONTINUED)

(b) Changes in balance sheet items

(Unit: RMB'000)

	31 December 2017	31 December 2016	Change
Non-current assets	**20,753,158**	21,652,679	-4.2%
Current assets	**4,336,801**	4,267,477	1.6%
Total assets	**25,089,959**	25,920,156	-3.2%
Current liabilities	**19,744,702**	22,142,384	-10.8%
Non-current liabilities	**1,327,726**	521,533	154.6%
Total liabilities	**21,072,428**	22,663,917	-7.0%
Non-controlling interest	**102,204**	157,551	-35.1%
Equity attributable to equity shareholders of the Company	**3,915,327**	3,098,688	26.4%
Total liabilities and equity	**25,089,959**	25,920,156	3.2%
Net gearing ratio	**76.4%**	81.9%	-5.5 P.Pt.

As at 31 December 2017, the Group's total assets were RMB25,090 million, total liabilities were RMB21,072 million and its net assets were RMB4,018 million. The net gearing ratio (net liabilities/(net liabilities + equity of the Company)) was 76.4%, representing a decrease of 5.5 percentage points as compared with the end of the previous year. The Group's total current assets were RMB4,337 million, its total current liabilities were RMB19,745 million, and its net current liabilities were RMB15,408 million. Since 31 December 2017, the Group has negotiated and reached reconciliation with creditors in tandem. For details, please refer to Notes 2(b) and 23-25 to the Financial Statements.

3. FINANCIAL REVIEW (CONTINUED)

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

(Unit: RMB'000)

Term of borrowings	31 December 2017	31 December 2016
Short-term borrowings (including long-term borrowings with maturity within one year)	**12,504,756**	15,039,022
Long-term borrowings	**800,888**	4,546
Total	**13,305,644**	15,043,568

All borrowings of the Group were denominated in Renminbi and USD. As at 31 December 2017, the Group's total borrowings were RMB13,306 million (including USD427 million of borrowings (approximately RMB2.792 billion) and RMB10.514 billion of borrowings), representing a decrease of RMB1,738 million as compared with the end of 2016. In particular, short-term borrowings amounted to RMB12,500 million and accounted for 94.0% of the Group's total borrowings.

(d) Capital expenditures

During the Reporting Period, capital expenditures were approximately RMB663 million, which were mainly used as investment in the 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 2017 were:

(Unit: RMB'000)

	31 December 2017	31 December 2016
Authorised and contracted for —plant and equipment	**270,497**	272,630
Authorised but not contracted for —plant and equipment	**67,186**	65,166
Total	**337,683**	337,796

As at 31 December 2017, the capital commitments authorised and contracted for by the Group amounted to RMB270 million, which represents a decrease of RMB2 million or 0.8% as compared with the end of 2016. Capital commitments authorised but not contracted for amounted to RMB70 million.

3. FINANCIAL REVIEW (CONTINUED)

(e) Net cash flow analysis

(Unit: RMB'000)

	2017	2016
Net cash flow generated from operating activities	**1,975,202**	978,342
Net cash flow used in investing activities	**(646,184)**	(418,809)
Net cash flow used in financing activities	**(1,294,090)**	(509,959)
Net changes in cash and cash equivalents	**34,928**	49,574
Balance of cash and cash equivalents at 1 January	**276,500**	222,907
Effect of foreign exchange rate changes	**(3,433)**	4,019
Balance of cash and cash equivalents at 31 December	**307,995**	276,500

Cash and cash equivalent of the Group is mainly denominated in Renminbi. During the Reporting Period, the Group's net cash flow generated in operating activities was RMB1,980 million, representing a YOY increase of RMB1 billion. The net negative cash flow used in investing activities was RMB650 million, representing a YOY increase of RMB230 million. The net negative cash flow used in financing activities increased by RMB780 million to RMB1,290 million.

(f) Material acquisition and disposal

During the Reporting Period, the Group has no material acquisition or disposal.

(g) Pledge of assets

Details in relation to pledge of assets of the Group as at 31 December 2017 are set out in Note 23 to the Financial Statements.

(h) Contingent liabilities

Details in relation to contingent liabilities of the Group as at 31 December 2017 are set out in Note 35 to the Financial Statements.

3. FINANCIAL REVIEW (CONTINUED)

(i) Management of foreign exchange exposure

During the Reporting Period, most of the sales amounts and purchase amounts of the Group were denominated in RMB.

RMB is not a freely convertible currency. Future exchange rate of RMB may change substantially as compared to current or historical exchange rates as a result of the controls imposed by the PRC government. The exchange rate may also be subject to domestic and international economic developments and political changes as well as the supply and demand of RMB. The appreciation or depreciation of RMB against foreign currencies may have an impact on the Group's operating results.

The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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), whose collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the IASB since its listing date.

5. 2018 OUTLOOK

(a) Operating environment outlook

Macro environment: slowdown in infrastructure investment and generally stable momentum in real estate investment

The year 2018 marks the first year for the full implementation of the tenant of the 19th National Congress of the Communist Party of China and the 40th anniversary of Reform and Opening-up. It's also a crucial year for alleviating poverty, building a moderately prosperous society and implementing the "13th Five-Year" plan. The Central Economic Work Conference put forward that China will adhere to the general keynote of making progress while maintaining stability, and the new development concept. The economy will continue its steady and favorable development momentum, with expected GDP growth of 6.7%.

Infrastructure: Investment in infrastructure plays an important part in supporting the stable growth of the economy and will continue to grow at high level. Since the Central Economic Work Conference has pinpointed targeted poverty alleviation as the second most important uphill battle to conquer, greater effort is expected to be exerted on the infrastructure construction in the Midwest and poverty-stricken areas in the forthcoming three years.

Real estate: in the real estate sector, the regulating policy has been transformed from short-term demand-side regulations to the supply-side structural reform. The simultaneous implementation of "hire-purchase" housing system is established in the supply side while administrative policy is complemented with the credit policy in the demand side, which enables the houses to retrieve the living attribute. In view of the foregoing, investment in real estate is expected to increase at a steady rate on the whole.

In terms of demand: the general trend remains at a plateau and the demand remains relatively stable.

National demand landscape: from the demand perspective, investments in real estate and infrastructure continue to be the major factors that affect the demands for cement.

From the perspective of real estate investment, following the targeted implementation of regulating policy, investment in shantytowns will continue to stabilize, and the real estate investment is expected to maintain a generally stable momentum. From the perspective of infrastructure investment, the Central Economic Work Conference has pinpointed targeted poverty alleviation as the second most important uphill battle to conquer, infrastructure construction is expected to be driven up rapidly in the Midwest and poverty-stricken areas in the forthcoming three years, and the infrastructure investment in 2018 is expected to carry on the high standard in 2017. Given the foregoing, cement demands in China in 2018 will manifest a generally and relatively stable momentum.

5. 2018 OUTLOOK (CONTINUED)

(a) Operating environment outlook (Continued)

In terms of demand: the general trend remains at a plateau and the demand remains relatively stable. (Continued)

Regional demand landscape: demands for cement will continue the polarized trend. In general, demands in Northeast China proceed with the downturn momentum and almost hit the bottom; demands in North China are very likely to recover and the strategy of synergetic development in Beijing-Tianjin-Heibei region and the construction of Xiongan New District will also boost the demands for cement; considering the resource-weighted economic structure in Shanxi and Inner Mongolia, demands therein might hardly pick up in a short run; demands in the Northwest regions demonstrate a differentiated structure. In particular, investment is intensifying in Xinjiang, projects are being rolled out at a higher pace in Gansu, while demands are declining in Shaanxi and Qinghai; East China and the central and southern regions take up a substantial proportion of gross cement demands and roughly represent the development of the entire industry. As such, demands are not expected to fluctuate violently; demands in the southwestern regions are expected to increase in a mild manner on the whole. To be specific, with the leapfrog development in Tibet, demands will carry forward the rapid growth momentum therein, and demands in Yunnan and Guizhou will show an upward trend while maintaining stability.

In terms of supply: strict control is imposed on new capacity projects and resolving overcapacity still takes precedence

Capacity of clinker: in spite of the strict control over new capacity projects in the aspect of clinker, newly ignited clinker capacity will continue to be commissioned. Nonetheless, the total new capacity will keep declining sharply and is expected to be approximately 10 million tonnes per annum. Following the more stringent policies and measures in respect of environmental protection, safety, quality, etc., uncompetitive capacities with outdated technical equipment are expected to be phased out at a higher rate. Notably, resurgence of incompetent capacity shall be carefully averted in the course of capacity replacement.

In 2018, decapacity remains an important part of the supply-side structural reform in the cement industry. As instructed by the tenet of the Central Economic Work Conference, the cement industry shall transform from growth at high speed to growth with high quality, eliminate ineffective supply vigorously and proceed mainly from the disposal of "zombie enterprises" to resolve surplus capacity. In 2017, China Cement Association set up the decapacity leading group and published the "2018–2020 Decapacity Action Plan in Cement Industry", which has made specific arrangements for the promotion and implementation of decapacity and put forward policy recommendations. Meanwhile, innovative pilot work on decapacity was carried forward and Zibo Lianhe Cement and Enterprise Management Company Limited (淄博聯和水泥企業管理有限公司) and Liaoning Yunding Cement Group Corporation Limited (遼寧雲鼎水泥集團股份有限公司) were elected as pilot enterprises. In 2018, decapacity in the cement industry will continued to be accelerated, promoted and implemented. However, as substantial progress is probably to be made in a lengthy process due to lack of policy and capital support capacity reduction will be a long-lasting and arduous task.

5. 2018 OUTLOOK (CONTINUED)

(a) Operating environment outlook (Continued)

In terms of supply: strict control is imposed on new capacity projects and resolving overcapacity still takes precedence (Continued)

The Group is the sixth largest cement and clinker manufacturer in China in terms of capacity. The PRC government's implementation of stricter decapacity measures will facilitate us in cementing our market position and enhancing the enterprise's economic performance.

Price trend and industry performance: according to a principal of the Ministry of Environmental Protection, the working plan for the blue sky protection campaign will be initiated in an all-rounded way in 2018 and the air pollution control will be carried out in key regions and fields and supervision in relation thereto will be intensified. Off-peak production has been institutionalized and become a long-acting mechanism. As multiple provinces have had plans on off-peak production of cement for the coming three years in place, production restrictions for the purpose of environmental protection and off-peak production are expected to have continuous impact on the cement supply. In addition, in view of the increasingly intensive efforts thereon, the industry is expected to operate with medium or low inventory and will continue to encounter imbalanced supply and demand. In the meantime, with the gradual improvement of industrial self-discipline, business conglomerates have developed strong control capacity in the market. The historically high price standard at the beginning of 2018 has also effectively bolstered up the price and economic performance for the entire year of 2018. As such, the average cement price in 2018 is expected to rise up to another height compared to that in 2017 and the economic performance of the industry is expected to set a new historical record.

(b) Business outlook 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 deepen its integrated management in 2018.

The Group's operating guidelines in 2018 are summarized as "three focuses, two establishment and one continuity (三抓二建一持續)", the details of which are as follows:

(I) Level up the integrated management

After two years of streamlining of internal management and expansion of external markets, the Group has been under normal operation and management, and is well positioned to level up its integrated management, namely to improve its various work to a new level. For this purpose, the Group will focus on three key aspects: first, in terms of production technology, it will devoted more efforts in the upgrade and renovation of the existing production lines; second, in terms of cost control, it will continue to deepen the management of "six cost modules"; third, it will enhance performance evaluation, adopting data-based appraisal and performance-based rewards and punishments.

5. 2018 OUTLOOK (CONTINUED)

(b) Business outlook of the Group (Continued)

(II) Promote high-quality market development

The Group unswervingly and consistently adheres to self-disciplined restriction on production together with the conglomerates in the region and the surrounding provinces, and raises and stabilizes the price by controlling clinker production. In order to persistently stabilize the price in regional market in the long run, since last year, the Group has pioneered in establishing a long-term marketing mechanism in the region where it operates according to the guidelines on normalization of market competition and cooperation, and favourable results have been achieved. The Group has been fully affirmed by the local government, industry associations and peers in the cement industry.

In order to stabilize and promote cement sales volume and price in the long term, we must adhere to the marketing philosophy of "to stabilize price leveraging on regional marketing platform and expand sales volume relying on Shanshui brand", which requires us to promote marketing management and Shanshui brand building to a new level.

(III) Maintain steady development of the Group

As the Group's production and operation have returned to the normal track, the Group has restored its "profitability" and thus has basically solved its debt crisis and gained the financial strength for further development. For the long-term sustainable and healthy development of the Group in the future, the Group has decided to carry out necessary extension and development centering on the industry chain of cement (as the Group's principal business) since 2018.

Focus of investment and development: Firstly, the Group will perform a thorough inspection on the existing limestone mines in an all-round way, improve the stripping, mining and road construction of the mines, and formulate scientific and rational mining and transportation plans; secondly, aggregate production lines will be built for mines qualified for production; thirdly, investigation and demonstration will be conducted for cement-related projects including hazardous waste disposal for cement kilns, cement products, cement additives, ultra-fine grinding, and the construction of such projects may be commenced where conditions allow. The fund required for relevant investment will be provided by the cash flow generated from operation activities.

Looking ahead to 2018, we believe that the Group will achieve more solid profitability with the support of shareholders, investors and employees.

(VI) Report of the Directors

The Directors hereby present the annual audited financial statements of the Group for the year ended 31 December 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	2.7-million-tonne cement grinding capacity displacement project of Jinan Shi-ji Chuang-xin Cement Co., Ltd.	Under construction	26,078

(2) Capital increase in subsidiaries during the Reporting Period

During the Reporting Period, there was no material capital increase in the Company's subsidiaries.

(3) Disposal or de-registration 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

The Company is an investment holding company. As at 31 December 2017, the Company had controlling interests in 110 subsidiaries. For details, please refer to "(IV) Corporate Profile" of this report. There were no significant changes in the nature of the Group's principal businesses in 2017.

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	632,768	165,463	125,040
Zibo Shanshui	610,975	142,154	101,576
Linqu Shanshui	641,671	112,319	85,420
Anqiu Shanshui	523,574	102,131	77,887
Zaozhuang Chuangxin	439,368	92,741	73,084

3. DIVIDEND FOR 2017

The Board does not recommend any dividend payment for the year ended 31 December 2017.

4. TAX REDUCTION AND EXEMPTION

The Company is not aware of any tax reduction and exemption granted to shareholders due to their holdings of the securities of the Company.

5. MAJOR CUSTOMERS AND SUPPLIERS

For 2017, 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 close 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 2017.

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

6. TOTAL ASSETS

As at 31 December 2017, the total assets of the Group were RMB25,090 million, representing a decrease of RMB830 million compared to the previous year due to continuous amortization of or provision for depreciation of major fixed assets.

7. DISTRIBUTABLE 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 2017, the Company does not have any of distributable reserves (2016: RMB206,577,000).

8. LOANS AND BORROWINGS

Details of the Group's loans and borrowings for the year ended 31 December 2017 are set out in Notes 23, 24 and 25 of the Financial Statements.

9. BUSINESS REVIEW, OUTLOOK AND MAJOR RISK FACTORS

For details on the business review, outlook for 2018 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 report, such discussions form part of this report.

10. DIRECTORS

The Directors during the Reporting Period and as at the date of this report are listed below:

(1) During the Reporting Period, the members of the Board of the Company are set out below:

Name	Position	Gender	Age	Term of office
LIU Yiu Keung, Stephen (廖耀強)	Chairman and Executive Director	M	58	1 December 2015 – 19 March 2018
LI Zhiqiang (李志強)	Vice chairman and Executive Director	M	55	3 November 2017 – 19 March 2018
CHONG Cha Hwa (張家華)	Non-Executive Director	M	52	2 February 2016 – 8 May 2017
LI Heping (李和平)	Chief Executive Officer and Executive Director	M	61	1 December 2015 – 19 March 2018
HWA Guo Wai, Godwin (華國威)	Executive Director	M	56	5 July 2016 –23 May 2018
HO Man Kay Angela (何文琪)	Independent Non-Executive Director	F	55	1 December 2015 – 23 May 2018
LAW Pui Cheung (羅沛昌)	Independent Non-Executive Director	M	62	1 December 2015 – 23 May 2018
WONG Chi Keung (黃之強)	Independent Non-Executive Director	M	63	2 February 2016 – 23 May 2018
CHING Siu Ming (程少明)	Independent Non-Executive Director	M	58	5 July 2016 – 23 May 2018
LO Chung Hing (盧重興)	Independent Non-Executive Director	M	66	5 July 2016 – 23 May 2018

Note: YEN Ching Wai, David acted as an alternate Director to LIU Yiu Keung, Stephen

10. DIRECTORS (CONTINUED)

(2) After the Reporting Period to the date of this Report, the members of the Board of the Company are set out below:

Name	Position	Gender	Age	Term of office
LIU Yiu Keung, Stephen (廖耀強)	Chairman and Executive Director	M	58	1 December 2015 – 19 March 2018
LI Zhiqiang (李志強)	Vice chairman and Executive Director	M	55	3 November 2017 – 19 March 2018
LI Heping (李和平)	Chief Executive Officer and Executive Director	M	61	1 December 2015 – 19 March 2018
HWA Guo Wai, Godwin (華國威)	Executive Director	M	56	5 July 2016 – 23 May 2018
HO Man Kay Angela (何文琪)	Independent Non-Executive Director	F	55	1 December 2015 – 23 May 2018
LAW Pui Cheung (羅沛昌)	Independent Non-Executive Director	M	62	1 December 2015 – 23 May 2018
WONG Chi Keung (黃之強)	Independent Non-Executive Director	M	63	2 February 2016 – 23 May 2018
CHING Siu Ming (程少明)	Independent Non-Executive Director	M	58	5 July 2016 – 23 May 2018
LO Chung Hing (盧重興)	Independent Non-Executive Director	M	66	5 July 2016 – 23 May 2018
LI Liufa (李留法)	Chairman and Executive Director	M	60	19 March 2018 – 23 May 2018
ZHU Linhai (朱林海)	Executive Director	M	46	19 March 2018 – 23 May 2018
LIN Shei-yuan (林學淵)	Independent Non-Executive Director	M	55	23 May 2018 – 20 July 2018
CHANG Zhangli (常張利)	Chairman and Executive Director	M	48	23 May 2018 – Now
WU Ling-ling (吳玲綾)	Executive Director	F	52	23 May 2018 – Now
CHANG Ming-cheng (張銘政)	Independent Non-Executive Director	M	63	23 May 2018 – Now
LI Jianwei (李建偉)	Independent Non-Executive Director	M	44	23 May 2018 – Now
HSU You-yuan (許祐淵)	Independent Non-Executive Director	M	63	4 September 2018 – Now

Note: YEN Ching Wai, David acted as an alternate Director to LIU Yiu Keung, Stephen

11. PERMITTED INDEMNITY

During the Reporting Period, a directors' liability insurance is in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

12. AUDITOR

On 17 July 2018, KPMG resigned as the auditor of the Company. On 10 August 2018, the Company appointed Moore Stephens CPA Limited as the auditors of the Company for the year ended 31 December 2017 until the conclusion of the next annual general meeting of the Company. Such appointment has been approved at the annual general meeting held on 31 August 2018.

13. DONATIONS

For the year ended 31 December 2017, the Group made no charitable and other donations.

14. MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company.

15. SUBSTANTIAL RELATIONSHIP WITH EMPLOYEES

The Company was not aware of any substantial relationship with its employees, which had material impact on the Company nor is essential to the Company's success.

16. DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES OF THE COMPANY AND OTHER CORPORATION

Other than the share option as disclosed under the heading of "Share Option Scheme", at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

17. EQUITY-LINKED AGREEMENT

No share options were granted during the Reporting Period.

18. CHANGE IN INFORMATION ON DIRECTORS

Pursuant to the disclosure requirement of Rule 13.51B(1) of the Listing Rules, the change in information on Directors is set out below:

Mr. CHANG Zhangli, the Chairman and executive Director of the Company has been re-designated to act as a non-executive director of CNBM since 13 June 2018 and ceased to act as a secretary to the board of directors of and the joint company secretary of CNBM since 13 June 2018.

19. ISSUE OF SHARES AND DEBENTURES

The Company did not issue any new shares and debentures during the Reporting Period.

20. MAJOR EVENTS

Please refer to the section headed "(X). Major Events" in this report.

21. 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 31 December 2018.

By Order of the Board
China Shanshui Cement Group Limited
CHANG Zhangli
Chairman

6 October 2018

(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 2017, the Company's 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 2017, the Company has 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 been discussing on 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 with 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, 15 January 2016, 19 February 2016, 23 March 2016, 26 April 2016, 3 June 2016, 8 August 2017, 27 October 2017, 29 December 2017, 17 May 2018, 29 May 2018, 1 August 2018 and 20 September 2018.

3. SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS AND DIRECTORS

(1) Shareholdings of substantial shareholders

As of 31 December 2017, the interests or short positions of persons, other than the Directors and Chief Executive 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 would be required to be recorded in the register maintained under section 336 of the SFO, were as follows:

Name of shareholder	Number of Ordinary Shares interested[(1)]	Nature of interests	Percentage of Shares in issue
LI Liufa[(2a)]	951,462,000 (L)	Interests of corporations controlled by substantial shareholder	28.16%

3. SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS AND DIRECTORS (CONTINUED)

(1) Shareholdings of substantial shareholders (Continued)

Name of shareholder	Number of Ordinary Shares interested[1]	Nature of interests	Percentage of Shares in issue
LI Fengluan[2a]	951,462,000 (L)	Interests of corporations controlled by substantial shareholder	28.16%
Tianrui Group Company Limited[2a]	951,462,000 (L)	Interests of corporations controlled by substantial shareholder	28.16%
Tianrui (International) Holding Company Limited[2a]	951,462,000 (L)	Beneficial owner	28.16%
China Bohai Bank Co., Ltd. Dalian Branch[2b]	791,000,000 (L)	Security interest in shares	23.41%
China Shanshui Investment Company Limited[3]	847,908,316 (L)	Beneficial owner	25.09%
Asia Cement Corporation[4]	428,393,000 (L)	Interests of corporations controlled by substantial shareholder	12.68%
	320,932,647 (L)	Beneficial owner	9.50%
	142,643,000 (L)	Interests of any parties to an agreement to acquire interests in the Company required to be disclosed under s.317(1)(a) and s.318 of the SFO	4.22%

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

3. SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS AND DIRECTORS (CONTINUED)

(1) Shareholdings of substantial shareholders (Continued)

Name of shareholder	Number of Ordinary Shares interested[1]	Nature of interests	Percentage of Shares in issue
YU Yuan Investment Corporation Limited	142,643,000 (L) 749,325,647 (L)[5]	Beneficial owner Interests of any parties to an agreement to acquire interests in the Company required to be disclosed under s,317(1)(a) and s.318 of the SFO	4.22% 22.18%
China National Building Material Group Corporation[6]	563,190,040 (L)	Interests of corporations controlled by substantial shareholder	16.67%
China National Building Material Company Limited[6]	563,190,040 (L)	Interests of corporations controlled by substantial shareholder	16.67%
China National Building Material Holdings Co., Limited[6]	563,190,040 (L)	Beneficial owner	16.67%

Notes:

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

(2a) LI Liufa and LI Fengluan (spouse of LI Liufa) owned 70% and 30% respectively of Tianrui Group Company Limited, which owned 100% of Tianrui (International) Holding Company Limited.

(2b) On 22 March 2016, Tianrui Group Company Limited, the Company's substantial shareholder, notified the Company that it has pledged 791,000,000 shares of the Company in favor of China Bohai Bank for a bank loan.

(3) According to the Form 2 filed on 18 Nov 2014, ZHANG Caikui is the person in accordance with whose directions China Shanshui Investment Company Limited or its directors are accustomed to act.

(4) The interest in 320,932,647 shares of the Company was held by several direct or indirect subsidiaries of Asia Cement Corporation. The interest in 142,643,000 shares of the Company was held by YU Yuan Investment Corporation Limited, which is the party to the agreement under Section 317.

(5) Asia Cement Corporation is the party to the agreement under Section 317.

3. SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS AND DIRECTORS (CONTINUED)

(1) Shareholdings of substantial shareholders (Continued)

Notes: (Continued)

(6) China National Building Material Company Limited was a controlled corporation of China National Building Material Group Corporation (now known as China National Building Material Group Co., Ltd.中國建材集團有限公司), which owned 100% of China National Building Material Holdings Co., Limited

(7) The number of issued shares of the Company as at 31 December 2017 is 3,379,140,240.

Save as disclosed above, and so far as the Directors are aware, as of 31 December 2017, no person, other than Directors or the Chief Executive of the Company, had an interest or short position in the Shares or underlying shares of the Company which would need to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register maintained pursuant to Section 336 of the SFO.

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

As of 31 December 2017, 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 Divisions 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 OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

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

5. SHARE OPTION

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.

Since the adoption of the Share Option Scheme, Options to subscribe for 7,400,000 Shares were granted on 25 May 2011 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.

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.

5. SHARE OPTION (CONTINUED)

Details of the options are set out as follows:

Type of grantee	Date of grant	Granted	Vesting period	Exercise price	Exercised 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	Option for subscription of 5,000,000 Shares	Nil	HK$7.90	–	–	–	–	Option for subscription of 5,000,000 Shares
	27 January 2015	Option for subscription of 20,000,000 Shares	Six months after the date of grant	HK$3.68	–	–	–	–	Option for subscription of 20,000,000 Shares
ZHANG Caikui, *Executive Director removed*	27 January 2015	Option for subscription of 23,600,000 Shares	Six months after the date of grant	HK$3.68	–	–	–	–	Option for subscription of 23,600,000 Shares
LI Cheung Hung, *Executive Director removed*	25 May 2011	Option for subscription of 200,000 Shares	Nil	HK$7.90	–	–	–	–	Option for subscription of 200,000 Shares
	27 January 2015	Option for subscription of 9,000,000 Shares	Six months after the date of grant	HK$3.68	–	–	–	–	Option for subscription of 9,000,000 Shares
XIAO YU, *Non-Executive Director resigned*	25 May 2011	Option for subscription of 100,000 Shares	Nil	HK$7.90	–	–	–	–	Option for subscription of 100,000 Shares
Employees	25 May 2011	Option for subscription of 2,000,000 Shares	Nil	HK$7.90	–	–	–	–	Option for subscription of 2,000,000 Shares
	27 January 2015	Option for subscription of 154,700,000 Shares	Nil	HK$3.68	–	–	–	–	Option for subscription of 154,700,000 Shares
	Total number of options granted and accepted	Option for subscription of 214,600,000 Shares			–	–	–	–	Option for subscription of 214,600,000 Shares

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

5. SHARE OPTION (CONTINUED)

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 214,600,000 Shares, representing approximately 6.35% of the share capital in issue (3,379,140,240 Shares) as of 31 December 2017.

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. PARTICULARS AS OF 31 DECEMBER 2017

(1) The members of the Board of the Company are set out below:

Name	Position	Gender	Age	Term of office (term of contract)
LIU Yiu Keung, Stephen (廖耀強)	Chairman and Executive Director	M	58	–
LI Zhiqiang (李志強)	Vice chairman and Executive Director	M	55	3 November 2017 – 19 March 2018
CHONG Cha Hwa (張家華)	Non-Executive Director	M	52	2 February 2016 – 8 May 2017
LI Heping (李和平)	Chief Executive Officer and Executive Director	M	61	–
HWA Guo Wai, Godwin (華國威)	Executive Director	M	56	3 February 2017 – 23 May 2018
HO Man Kay Angela (何文琪)	Independent Non-Executive Director	F	55	3 February 2017 – 23 May 2018
LAW Pui Cheung (羅沛昌)	Independent Non-Executive Director	M	62	3 February 2017 – 23 May 2018
WONG Chi Keung (黃之強)	Independent Non-Executive Director	M	63	3 February 2017 – 23 May 2018
CHING Siu Ming (程少明)	Independent Non-Executive Director	M	58	3 February 2017 – 23 May 2018
LO Chung Hing (盧重興)	Independent Non-Executive Director	M	66	3 February 2017 – 23 May 2018

Note: YEN Ching Wai, David acted as 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 58, was as an executive Director of the Company from 1 December 2015 to 19 March 2018 and the Chairman of the Board and a Director of the Company from 2 June 2016 to 19 March 2018. 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 from 1 December 2015 to 19 March 2018. Mr. LIU has been appointed as a director of Shandong Shanshui, a subsidiary of the Group from 13 March 2017 to 19 March 2018.

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

1. PARTICULARS AS OF 31 DECEMBER 2017 (CONTINUED)

(2) Biography of Directors and senior management (Continued)

(a) Executive Directors (Continued)

Mr. LI Zhiqiang (李志強), aged 55, was as an executive Director and vice chairman of the Company from 3 November 2017 to 19 March 2018. He was appointed as an independent non-executive director of China First Capital Group Limited (stock code: 1269), a company listed on the Main Board of Stock Exchange, on 19 October 2011. He has been the legal advisor of the General Office of the Central Military Commission of the PRC and an executive editor-in-charge of China Military Law Magazine (《中國軍法》) since 1994, a responsible person (chairman) of China Insurance Regulatory Commission letters and visits reporting centre since July 2003 and an executive director and the president of Shougang Holdings Limited (首鋼控股有限公司) since December 2004. In 2006, he was a director of Sino Life Insurance Co., Ltd. (中國生命人壽保險股份有限公司) and vice chairman in 2008, and chairman of China International Cultural Media Co., Ltd. (中國國際文化交流傳媒有限公司) since 2006. He was also appointed as the chairman and secretary to the Communist Party Committee of Shougang Yili Steel Co., Ltd. (首鋼伊犁鋼鐵有限公司) in 2010 and a director of Tonghua Steel Holdings Co. Ltd. (通化鋼鐵集團股份有限公司). Mr. LI was elected as China's Top Ten Wealthy and Intelligent Figures (中華十大財智人物) in 2010. He was honored with China's Top Ten Economic Figures of the Year (中國十大年度經濟人物大獎), Excellent Worker of Beijing Municipal (北京市勞動模範) and Beijing Municipal Best Entrepreneur (北京市優秀企業家) in 2012. Mr. LI was honored by the United Nations Educational, Scientific and Cultural Organization, Ministry of Education and Ministry of Culture of the PRC with the Confucius Business Prize and was the honorary chairman of China Confucius Business Club (中國孔子儒商俱樂部) in 2015. Mr. LI was an executive director of Seamless Green China (Holdings) Ltd. (stock code: 8150) (無縫綠色中國集團）有限公司) from 22 June 2016 to 31 May 2017. Mr. LI graduated from University of Science and Technology of China with a master of management and Euromed Marseille Ecole de Management with a doctor of management and is currently the academician of the World Academy of Productivity (世界生產力科學院).

1. PARTICULARS AS OF 31 DECEMBER 2017 (CONTINUED)

(2) Biography of Directors and senior management (Continued)

(a) Executive Directors (Continued)

Mr. LI Heping (李和平), aged 61, was as an executive Director of the Company from 1 December 2015 to 19 March 2018 and the Chief Executive Officer of the Company from 16 December 2015 to 19 March 2018. 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 from 1 December 2015 to 19 March 2018. 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 56, was an executive Director of the Company from 1 December 2015 to 1 February 2016, a non-executive Director of the Company from 2 February 2016 to 4 July 2016 and an executive Director of the Company from 5 July 2016 to 23 May 2018. 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 from 1 December 2015 to 23 May 2018.

Mr. YEN Ching Wai, David (閻正為), aged 47, was an alternate Director to Mr. LIU Yiu Keung, Stephen from 16 December 2015 to 19 March 2018. 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 had been appointed as a director and General Manager (External Affairs) of Shandong Shanshui, a subsidiary of the Group from 13 March 2017 to 5 January 2018.

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

1. PARTICULARS AS OF 31 DECEMBER 2017 (CONTINUED)

(2) Biography of Directors and senior management (Continued)

(b) Independent non-executive Directors

Ms. HO Man Kay Angela (何文琪), age 55, was an independent non-executive Director of the Company from 1 December 2015 to 23 May 2018. 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. LAW Pui Cheung (羅沛昌), aged 62, was an independent non-executive Director of the Company from 1 December 2015 to 23 May 2018. 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.

1. PARTICULARS AS OF 31 DECEMBER 2017 (CONTINUED)

(2) Biography of Directors and senior management (Continued)

(b) Independent non-executive Directors (Continued)

Mr. WONG Chi Keung (黃之強), aged 63, was an independent non-executive Director the Company from 2 February 2016 to 23 May 2018. 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.

Dr. CHING Siu Ming (程少明), aged 58, was an independent non-executive Director of the Company from 5 July 2016 to 23 May 2018. 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.

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

1. PARTICULARS AS OF 31 DECEMBER 2017 (CONTINUED)

(2) Biography of Directors and senior management (Continued)

(b) Independent non-executive Directors (Continued)

Mr. LO Chung Hing (Silver Bauhinia Star), aged 66, was an independent non-executive Director of the Company from 5 July 2016 to 23 May 2018. 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.

(c) Senior management

Mr. YANG Yongzheng (楊勇正), aged 49, was a director and General Manager (Chief Executive) of Shandong Shanshui from December 2015 to 5 January 2018. 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. He was appointed as the general manager of Tianrui Cement from January 2012 to December 2015.

1. PARTICULARS AS OF 31 DECEMBER 2017 (CONTINUED)

(2) Biography of Directors and senior management (Continued)

(c) Senior management (Continued)

Mr. ZHAO Yongkui (趙永魁), aged 53, was a director and Deputy General Manager (Finance) of Shandong Shanshui from December 2015 to 5 January 2018. 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 and Chief Financial Officer of the Group during November 2005 to 2013.

Mr. GAO Yong (高勇), aged 44, was a director of Shandong Shanshui from December 2015 to 5 January 2018. 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 had been 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, Zaozhuang Shanshui Cement Co., Ltd and Zaozhuang Chuangxin 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 43, was a director of Shandong Shanshui from March 2017 to 5 January 2018. 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 Director, Deputy Manager of Department of Finance and Manager of Department of Internal Audit since June 2001. 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.

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

1. PARTICULARS AS OF 31 DECEMBER 2017 (CONTINUED)

(2) Biography of Directors and senior management (Continued)

(d) Joint company secretaries

Mr. TSANG Wing Tai (曾永泰), aged 37, was one of the Joint Company Secretaries of the Company from 16 December 2015 to 23 April 2018, and served as the company secretary of the Company from 24 April 2018 to 6 September 2018. 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 and Investment Institute in 2016.

Mr. YU Chun Liang (喻春良), aged 48, was one of the Joint Company Secretaries of the Company from 2 February 2016 to 23 April 2018. 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 has 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.

2. AS OF THE DATE OF PUBLICATION OF THIS REPORT

(1) The members of the Board of the Company are set out below:

Name	Position	Gender	Age	Term of office (Term of contract)
CHANG Zhangli (常張利)	Chairman and Executive Director	M	48	23 May 2018 – 22 May 2021
WU Ling-ling (吳玲綾)	Executive Director	F	52	23 May 2018 – 22 May 2021
CHANG Ming-cheng (張銘政)	Independent Non-Executive Director	M	63	23 May 2018 – 22 May 2021
LI Jianwei (李建偉)	Independent Non-Executive Director	M	44	23 May 2018 – 22 May 2021
HSU You-yuan (許祐淵)	Independent Non-Executive Director	M	63	4 September 2018 – 3 September 2021

(2) Biography of Directors and senior management

(a) Executive Directors

Mr. CHANG Zhangli, aged 48, is the Chairman of the Board, the chairman of both the Executive Committee and the Nomination Committee of the Company. Mr. CHANG is currently the vice president of China National Building Material Group Co., Ltd., and an non-executive director of CNBM, whose shares are listed on the Main Board of the Stock Exchange (stock code: 3323). Mr. CHANG Zhangli has approximately 30 years of experience in handling listing-related matters for listed companies, with participation in all major matters of CNBM relating to the global offering of the shares, listing of shares on the Stock Exchange, additional issue of shares as well as merger through absorption. Mr. CHANG Zhangli has served as directors and other key positions in many important subsidiaries of CNBM since 2005. Mr. CHANG Zhangli is an engineer who received a bachelor's degree in engineering from Wuhan Polytechnic University (now Wuhan University of Technology) in July 1994 and received an MBA degree from Tsinghua University in July 2005. Currently, Mr. CHANG Zhangli concurrently serves as the vice president of China Cement Association, the vice president of the Listed Companies Association of Beijing, the vice president of China Association for Public Companies and the vice president of China Building Materials Enterprise Management Association. Mr. CHANG Zhangli was awarded the first prize of National Corporate Management Modernization and Innovation Achievements (國家級企業管理現代化創新成果).

2. AS OF THE DATE OF PUBLICATION OF THIS REPORT (CONTINUED)

(2) Biography of Directors and senior management (Continued)

(a) Executive Directors (Continued)

Ms. WU Ling-ling, aged 52, is an executive Director and a member of the Executive Committee and the Nomination Committee of the Board of the Company. Ms. WU is a financial executive with more than 30 years of experience in working with international public accounting, manufacturing, telecommunications and internet service provider firms. Since July 2007, Ms. WU Ling-ling has served as the chief financial officer and executive vice president of Asia Cement Corporation, a limited liability company incorporated in Taiwan with its shares listed on the Taiwan Stock Exchange Corporation (stock code:1102), and its affiliate, Far Eastern Group of Taiwan. Ms. WU Ling-ling serves as a director and supervisor for more than 30 companies including being a supervisor and former member of the board of directors of Oriental Union Chemical Corporation, a company listed on the Taiwan Stock Exchange Corporation, a supervisor of Chia Hui Power Corporation, a subsidiary of Asia Cement and a joint venture with J Power. Ms. WU Ling-ling was an executive Director of the Company from 14 October 2015 to 1 December 2015. Ms. WU Ling-ling serves as an executive director of f Asia Cement (China) Holdings Corporation (whose shares are listed on the Main Board of the Stock Exchange (stock code:743)) since 1 April 2016. From July 2004, Ms. WU Ling-ling served as the vice president of Internal Audit Department and Corporate Controller of Far EasTone Telecommunications Co., Ltd., also a listed affiliate of FEG. She had served in diverse positions since joining the firm in June 2001. Ms. WU Ling-ling has financial expertise in mergers and acquisitions, working capital management, process control, and regulatory accounting and reporting. She specializes in supporting corporate strategy including streamlining, controllership, and growth initiatives. She has been successful in leading both corporate turnarounds and rapid growth expansion through two initial public equity offerings and multiple acquisitions. Ms. WU Ling-ling is a Certified Public Accountant registered in the United States and the Republic of China. She received a master of business administration degree having majored in accounting from the California State University, Los Angeles and a master of business administration degree from National Chengchi University in Taipei.

2. AS OF THE DATE OF PUBLICATION OF THIS REPORT (CONTINUED)

(2) Biography of Directors and senior management (Continued)

(b) Independent non-executive Directors

Mr. CHANG Ming-cheng, aged 63, is an independent non-executive Director, the chairman of the Audit Committee, a member of both the Remuneration Committee and the Nomination Committee of the Company. Mr. CHANG received a bachelor degree in mechanical engineering from Taiwan University in 1976 and a master degree in business administration from the University of Michigan in 1978. He passed the U.S. Uniform Certified Public Accountant Examination in May 1978. After working in the United States for one year, he returned to Taiwan in 1979 and joined Deloitte & Touche Taiwan, and became an audit partner in 1990. Between September 1994 and August 1996, he was seconded to Shanghai and involved in the B share listing of Huangshan Tourism and Gujinggong Liquor. As an experienced auditor, he had a high level of participation in merger and acquisition activities in the PRC and Taiwan. Since June 2007, he assumed the role of reputation and risk leader at Deloitte & Touche Taiwan and was responsible for its overall quality of services and risk management till his retirement in October 2014. Mr. CHANG Ming-cheng has been the chairman of the Auditing Standards Committee of Taiwan since April 2011 and his term will expire in March 2020. He also serves as independent director for three Taiwanese public companies, namely Medigen Vaccine Biologics Corporation (高端疫苗生物製劑股份有限公司), Alexander Marine Co., Ltd. (東哥企業股份有限公司) and United AlloyTech Company Ltd. (精確實業股份有限公司).

Mr. LI Jianwei, aged 44, is an independent non-executive Director, the chairman of the Remuneration Committee, a member of both the Nomination Committee and the Audit Committee of the Company. Mr. LI is a Juris Doctor, a professor of Commercial Law at China University of Political Science and Law and a supervisor of doctoral students. He also serves as the director of Department of Law and Commerce of Business School, deputy chairman of Academic Committee of Business School, as well as the deputy director of the Institute of Commercial Law. His main research areas include, among others, civil and commercial law, corporate law, securities law, corporate governance etc. He is a well-known young and middle-aged company law expert in China who has made outstanding achievements in the research of a broad range of commercial laws including company law, securities law, insurance law, investment fund law and trust law etc. He worked as a post-doctoral researcher at the Business School of the Renmin University of China from 2002 to 2004, a senior visiting scholar at the Law School of University of The New South Wales, Australia from 2008 to 2009 and a visiting professor at the Law School of The Aoyama Gakuin University in Japan from 2013 to 2015. His past positions also include the executive director and secretary general of the Commercial Law Research Society of China Law Society, executive director of China Association of Business Law, member of the 1st and 2nd Hong Kong and Macau Law Committee of Zhuhai Hengqin New Area, member of Expert Advisory Committee of courts such as Guangzhou Intermediate People's Court, instructor of judges in courts such as Bao'an District People's Court of Shenzhen,

2. AS OF THE DATE OF PUBLICATION OF THIS REPORT (CONTINUED)

(2) Biography of Directors and senior management (Continued)

(b) Independent non-executive Directors (Continued)

and arbitrator of arbitration committees in Beijing, Fuzhou, Changsha and Zhuhai etc. He has been in charge of more than 10 national and provincial level projects under the National Social Science Fund of China, Humanities and Social Science Fund of the Ministry of Education, rule of law theory projects of the Ministry of Justice and social science projects under Beijing Social Science Fund. He has been in charge of the Youth Research Innovation Team Project of Commercial Law in China University of Political Science and Law for 6 years from 2012 to 2018. He has published more than 100 academic papers in publications such as China Legal Science, Chinese Journal of Law and Xinhua Digest, and published more than 10 books and translated works including "A Study of Independent Directors", "Corporate Mechanism, Corporate Management and Corporate Governance" and "Company Law". He has won many awards for research excellence such as the second prize in Dong Biwu Youth Law Achievement Award and the third prize in the 4th China Law Outstanding Achievement Award. As a legal expert, he has successively participated in expert argumentation of a number of legislative and judicial interpretation documents, including, among others, General Principles of Civil Law, Civil Code – Contracts, Company Law, Electronic Commerce Law and Company Law Interpretation (3) (4). He has won the Outstanding Teacher Award of 2011 and Excellent Teacher Award of 2007, 2009, 2010, 2016 of the China University of Political Science and Law. He has been awarded as one of the Ten Teachers Most Welcomed by Undergraduates in 2006, 2008 and 2010. In 2015, he obtained the qualification of independent director from the Shanghai Stock Exchange and is currently the independent director of Hanwang Technology Co., Ltd. (漢王科技股份有限公司), whose shares have been listed on the Shenzhen Stock Exchange (Stock Code: 002362) since April 2018, and Linksus Digiwork Marketing Communication Co., Ltd. (靈思雲途營銷顧問股份有限公司) whose shares have been listed on the National Equities Exchange and Quotations (Stock Code: 838290) since May 2017, and serves as the chairman of the board of Beijing Fangyuan Zhonghe Culture Communication Co., Ltd. (北京方圓眾合教育科技有限公司).

2. AS OF THE DATE OF PUBLICATION OF THIS REPORT (CONTINUED)

(2) Biography of Directors and senior management (Continued)

(b) Independent non-executive Directors (Continued)

Mr. HSU You-yuan, aged 63, is an independent non-executive Director and a member of the Remuneration Committee, the Audit Committee and the Nomination Committee of the Company. Mr. HSU has been the chairman and president of DCH Solargiga GmbH since February 2018 and a non-executive director of Solargiga Energy Holdings Limited (Stock Code: 757) ("Solargiga") since June 2016. He was the CEO of Solargiga from February 2007 to September 2015 and an executive director of Solargiga from February 2007 to June 2016. Mr. HSU was the managing director of Wafer Works Corp. ("WWX") from February 1998 to June 2003 and later became the vice-chairman of the board of WWX in June 2003. WWX is a manufacturer of silicon wafer for the semiconductor industry and is listed on the Gre Tai Securities Market in Taiwan with stock code 6182 since May 2002. He was the managing director of Silicon Technology Investment (Cayman) Corp. and was appointed as the chief executive officer of Solar Technology Investment (Cayman) Corp., responsible for overseeing, amongst others, WWX's investment in the solar energy industry. In March 2006, he was appointed as a director and he was subsequently appointed as the chairman of the board of Jinzhou Youhua Silicon Materials Co., Ltd. in September 2006. Mr. HSU's previous work credentials also include acting as deputy general manager of Mosel Vitelic Inc., a company listed on the Taiwan Stock Exchange with stock code 2342 and as a member of the board of directors and executive vice-president of Mosel Vitelic (Hong Kong) Limited, a subsidiary of Mosel Vitelic Inc. Mr. HSU had also made contributions to non-commercial sectors in the past. He served as a researcher, a deputy director, and the director of business department of the Executive Yuan Development Fund of Taiwan (Executive Yuan Development Fund is now known as National Development Fund, Executive Yuan). He was also a lecturer of Statistics and Managerial Mathematics for the business administration department at the Chinese Culture University and published the Supply and Demand Models of Cement in Taiwan in the Taiwan Economy (Issue 59 of 1981) of the Economic Planning and Mobilization Council Taiwan Provincial Government. Mr. HSU obtained his bachelor's degree in Statistics from National Cheng Kung University in 1978 and his master's degree in International Business Administration from Chinese Culture University in 1980.

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

2. AS OF THE DATE OF PUBLICATION OF THIS REPORT (CONTINUED)

(2) Biography of Directors and senior management (Continued)

(c) Senior management

Mr. WANG Mingbo, aged 55, was appointed as a director and vice president of Shandong Shanshui in July 2018, mainly responsible for managing the daily affairs of Shandong Shanshui. Mr. WANG graduated from Jinan Textile Industry School (濟南紡織工業學校) and successively studied industrial enterprise management and economic management at Shandong University of Technology (山東工業大學) and Shandong Provincial School of the Communist Party of China (山東省委黨校) as a part-time student. He is a member of the Communist Party of China. Mr. WANG has 29 years of experience in governments and over 30 years of experience in economy management. Mr. WANG served the Technology Development Company of Jinan Economic Committee from August 1987 to October 1990, responsible for the management of enterprises. From October 1990 to April 2010, he successively served as a deputy-senior staff, a senior staff of the production department, a senior staff of the production department, a deputy director and director of the safety and environment protection department, the head of the office of the petroleum zone and the director of the industrial restructuring and adjustment division con the head of the supervision office of key technological projects of Jinan Economic Committee. He was the director of the planning and technological transformation department of Jinan Economic and Information Technology Committee from April 2010 to June 2012; the deputy head of Jinan Economic and Information Technology Committee from June 2012 to July 2018. Mr. WANG has been the chairman and a deputy general manager of Jinan Industrial Development and Investment Group Company Limited (濟南產業發展投資集團有限公司) since July 2018.

(d) Company secretary

Ms. LO Yee Har Susan, aged 60, was appointed as the company secretary of the Company in 6 September 2018. Ms. LO is an executive director of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Her practice focuses on corporate and fiduciary services, in the areas of corporate governance and administration, regulatory compliance, and the setting up of family trusts and employee share incentive plans and their ongoing administration. Ms. LO has over 30 years of experience in the corporate secretarial field. She is a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies.

The Company's primary contact person with Ms. LO is Ms. WU Ling-ling, an executive director.

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

On 12 January 2017, Pioneer Cement, being a wholly-owned subsidiary of the Company and the sole shareholder of Shandong Shanshui, resolved to appoint Ms. SU Aizhen as a director of Shandong Shanshui, with effect from 25 January 2017. Ms. SU is subject to approval from China Cinda Asset Management Company Limited to perform her duties as a director of Shandong Shanshui.

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.

(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 the general manager (External Affairs) of Shandong Shanshui.

On 8 May 2017, Mr. CHONG Cha Hwa resigned as a non-executive director of the Company and directorships of all relevant subsidiaries of the Company due to the physical trauma suffered by Mr. CHONG during the Repossession Action and that Mr. CHONG considered the Illegal Occupation in Shandong Shanshui has impeded him from carrying out his duties as a non-executive director of the Company and as a director of all relevant subsidiaries of the Company.

On 2 June 2017, the Company held the 2016 annual general meeting, at which LI Heping, HWA Guo Wai, Godwin and HO Man Kay, Angela retired as Directors by rotation, and CHING Siu Ming and LO Chung Hing was elected as directors of the Company.

On 3 November 2017, Mr. LI Zhiqiang was appointed as a vice chairman of the Board and an executive Director of the Company.

3. APPOINTMENT AND RETIREMENT OF DIRECTORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD (CONTINUED)

On 5 January 2018, LI Heping was released from office as Chairman and Legal Representative of Shandong Shanshui; YANG Yongzheng was released from office as General Manager of Shandong Shanshui (Chief Executive) and YEN Ching Wai, David was released from office as General Manager of Shandong Shanshui (External Affairs); ZHAO Yongkui was released from office as Deputy General Manager of Shandong Shanshui (Finance); YANG Yongzheng, SU Aizhen, LIU Yiu Keung, Stephen, YEN Ching Wai, David, ZHAO Yongkui, GAO Yong and LIU Dequan were released from office as directors of Shandong Shanshui, China Cinda Asset Management Company Limited shall retain the nomination right of one director of Shandong Shanshui; HAN Yike was appointed as Chairman and Legal Representative of Shandong Shanshui; LI Heping was appointed as Vice-Chairman of Shandong Shanshui; ZHAO Zheng was appointed as Deputy General Manager and Finance Controller of Shandong Shanshui; and HAN Yike, QI Shiqiang, ZHAO Zheng and PAN Yongqing were appointed as directors of Shandong Shanshui.

The board of directors and members of the management team of Shandong Shanshui are set out as follows: chairman and legal representative of Shandong Shanshui: HAN Yike; vice-chairman of Shandong Shanshui: LI Heping; deputy general manager and finance controller of Shandong Shanshui: ZHAO Zheng; directors of Shandong Shanshui: HAN Yike, LI Heping, QI Shiqiang, ZHAO Zheng, PAN Yongqing.

On 19 March 2018, Mr. LIU Yiu Keung, Stephen resigned as the chairman of the Board, an executive Director and an authorized representative of the Company and director of subsidiaries of the Company; Mr. YEN Ching Wai, David ceased to act as an alternate Director to Mr. LIU Yiu Keung, Stephen; Mr. LI Zhiqiang resigned as the vice chairman of the Board and an executive Director of the Company; Mr. LI Heping resigned as an executive Director and the chief executive officer of the Company and director of subsidiaries of the Company.

On 19 March 2018, Mr. LI Liufa was appointed as the chairman of the Board and an executive Director of the Company; Mr. ZHU Linhai has been appointed as an executive Director of the Company; and Mr. HWA Guo Wai, Godwin was appointed as an authorized representative of the Company.

On 19 March 2018, Mr. LIU Yiu Keung, Stephen has resigned as the chairman of the Nomination Committee and the chairman of the Executive Committee of the Board; Mr. LI Zhiqiang and Mr. LI Heping have resigned as members of the Executive Committee of the Board.

On 19 March 2018, Mr. LI Liufa has been appointed as the chairman of the Nomination Committee and the chairman of the Executive Committee of the Board; and Mr. ZHU Linhai has been appointed as a member of the Executive Committee of the Board.

On 19 March 2018, Mr. HAN Yike resigned as the chairman and the legal representative of Shandong Shanshui; Mr. LI Heping resigned as the vice chairman of Shandong Shanshui; Mr. ZHAO Zheng resigned as the deputy general manager and the finance controller of Shandong Shanshui; Mr. HAN Yike, Mr. LI Heping, Mr. QI Shiqiang, Mr. ZHAO Zheng and Mr. PAN Yongqing resigned as directors of Shandong Shanshui.

3. APPOINTMENT AND RETIREMENT OF DIRECTORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD (CONTINUED)

On 19 March 2018, Mr. LI Liufa was appointed as the chairman and the legal representative of Shandong Shanshui; Mr. LI Liufa, Mr. DING Jifeng, Ms. SU Aizhen, Mr. ZHAO Yongkui, Mr. GAO Yong and Mr. LIU Dequan were appointed as directors of Shandong Shanshui; and Mr. DING Jifeng was appointed as the general manager of Shandong Shanshui.

On 23 April 2018, Mr. YU Chun Liang resigned as a joint company secretary of the Company and all other positions of the Group.

On 23 May 2018, Mr. LI Liufa was removed as Chairman of the Board and executive Director, Mr. ZHU Linhai and Mr. HWA Guo Wai, Godwin were removed as executive Directors, Ms. HO Man Kay, Angela, Mr. LAW Pui Cheung, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed as independent non-executive Directors.

On 23 May 2018, Mr. CHANG Zhangli was appointed as an executive Director and the Chairman of the Board of the Company; Ms. WU Ling-ling was appointed as an executive Director of the Company; Mr. CHANG Ming-cheng, Mr. LIN Shei-yuan and Mr. LI Jianwei were appointed as independent non-executive Directors of the Company.

On 23 May 2018, Mr. LAW Pui Cheung was removed as the chairman of the Audit Committee of the Company, and Ms. HO Man Kay, Angela, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed as members of the Audit Committee of the Company; Mr. LI Liufa was removed as the chairman of the Nomination Committee of the Company, and Ms. HO Man Kay, Angela, Mr. LAW Pui Cheung, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed as members of the Nomination Committee of the Company; Ms. HO Man Kay, Angela was removed as the chairman of the Remuneration Committee of the Company, and Mr. LAW Pui Cheung, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed as members of the Remuneration Committee of the Company; Mr. LI Liufa was removed as the chairman of the Executive Committee of the Company, and Mr. ZHU Linhai and Mr. HWA Guo Wai, Godwin were removed as members of the Executive Committee of the Company; Dr. CHING Siu Ming was removed as the chairman of the Investigation Committee, and Ms. HO Man Kay Angela, Mr. LAW Pui Cheung, Mr. WONG Chi Keung and Mr. LO Chung Hing were removed as members of the Investigation Committee; Mr. CHANG Ming-cheng was appointed as the chairman of the Audit committee of the Company, and Mr. LIN Shei-yuan and Mr. LI Jianwei were appointed as members of the Audit committee of the Company; Mr. LI Jianwei was appointed as the chairman of the Remuneration Committee of the Company, and Mr. CHANG Ming-cheng and Mr. LIN Shei-yuan were appointed as members of the Remuneration Committee of the Company; Mr. LIN Shei-yuan was appointed as the chairman of the Nomination Committee of the Company, and Mr. CHANG Zhangli, Ms. WU Ling-ling and Mr. CHANG Ming-cheng and Mr. LI Jianwei were appointed as members of the Nomination Committee of the Company; and Mr. CHANG Zhangli was appointed as the chairman of the Executive Committee of the Company, and Ms. WU Ling-ling, Mr. CHANG Ming-cheng, Mr. LIN Shei-yuan and Mr. LI Jianwei were appointed as members of the Executive Committee of the Company.

3. APPOINTMENT AND RETIREMENT OF DIRECTORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD (CONTINUED)

On 23 May 2018, Mr. HWA Guo Wai, Godwin was removed, and Mr. TSANG Wing Tai agreed to cease to act, as the authorised representative of the Company; and Mr. CHANG Zhangli and Ms. WU Ling-ling were appointed as authorised representatives of the Company.

On 20 July 2018, Mr. LIN Shei-yuan resigned as an independent non-executive Director, a member of the Audit Committee, the Remuneration Committee and the Executive Committee of the Board, and the chairman of the Nomination Committee of the Board.

On 26 July 2018, Mr. CHANG Zhangli, Ms. WU Ling-ling and Mr. WANG Mingbo were elected as the executive directors of Shandong Shanshui. Mr. CHANG was also appointed as the chairman of the board and the company representative of Shandong Shanshui. Ms. WU was also appointed as a vice chairman of the board of Shandong Shanshui. In addition, Mr. WANG was appointed as the vice president of Shandong Shanshui and would be primarily responsible for the management of daily affairs of Shandong Shanshui with effect from 26 July 2018.

On 4 September 2018, Mr. HSU You-yuan was appointed as an independent non-executive Director and as a member of both the Audit Committee and the Remuneration Committee of the Board and Mr. CHANG Zhangli, the chairman of the Board, was appointed as the chairman of the Nomination Committee of the Board; and each of Mr. CHANG Ming-cheng and Mr. LI Jianwei was removed as a member of the Executive Committee of the Board.

On 6 September 2018, Mr. TSANG Wing Tai resigned as the company secretary of the Company while Ms. LO Yee Har Susan was appointed as the company secretary of the Company.

4. THE SERVICE CONTRACTS OF DIRECTORS AND DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT AND CONTRACTS

As of the date of publication of this report

The Company has entered service contracts with each of Mr. CHANG Zhangli, Ms. WU Ling-ling, Mr. CHANG Ming-cheng and Mr. LI Jianwei. Their respective term of office (starting from 23 May 2018) and other terms and conditions are determined by the Board. Each of the aforesaid persons is entitled to receive annual salary which shall be determined by the Board with reference to their respective qualification, experience, positions in the Company and duties as well as the prevailing market situation. The Company has entered into a service contract with Mr. HSU You-yuan with a term of three year from 4 September 2018 to 3 September 2021. Pursuant to the letter of engagement of Mr. HSU, his remuneration as an independent non-executive Director shall be no more than RMB1 million per year, which is determined with reference to the salary paid by the comparable companies and his experience, duty and performance. 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 major transaction, arrangement or contract entered into by the Company or its subsidiaries.

5. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT FOR THE YEAR

Please refer to Note 11, 12 and 37(d) to the financial statements on details of the remuneration of Directors and senior management of the Group during the Reporting Period.

The remuneration policy of the employees of the Group is set up on the basis of their merits, qualifications and competence, including basic salary and performance-based bonus. The performance-based bonus is determined with reference to the performance assessment of the employees of the Group.

The Group's PRC subsidiaries participate in the state-management retirement benefits scheme operated by the local government in compliance with applicable PRC regulations. Subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefits scheme.

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

6. HIGHEST PAID INDIVIDUALS

Please refer to Note 12 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 2017, the Group had 18,780 employees (264 in Shandong Shanshui Headquarters; 4,295 in Eastern Shandong Operating Region; 4,788 in Western Shandong Operating Region; 1,582 in Southern Shandong Operating Region; 5,466 in Northeast China Operating Region; 1,905 in Shanxi Operating Region; 480 in Xinjiang Operating Region), including 10,571 in production, 1,289 in sales, 2,229 in technical areas, 666 in finance, 1,375 in the administrative and management areas, and 2,650 in other areas. 9,602 of the employees had secondary and higher education, of which 4,926 received a tertiary or above education. The aggregate remuneration of the employees of the Group for the year amounted to RMB1,645.30 million. For expenses related to employees who have resigned or retired, please refer to Note 28 to the financial statements in this annual report. The Group will review the remuneration policy of employees in a timely manner.

8. PENSION INSURANCE

Details of the pension insurance are set out in Note 28 to the financial statements. Pension booked in the income statement of the Group for the Reporting Period amounted to RMB157.15 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 RMB62.86 million.

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.

Notice of the Annual General Meeting

Pursuant to Code E.1.3 of the CG Code, the issuer should arrange the notice to shareholders to be sent at least 20 clear business days before the annual general meeting. The annual general meeting of the Company was held on 2 June 2017 while the notice thereof was sent to the shareholders on 11 May 2017. Thus, the Company failed to comply with the requirement of the clear 20-business-day notice period and deviated from such code provision, mainly due to the time taken for coordination between the Company and the related parties exceeding the expected time.

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 2017.

3. THE BOARD

The key responsibilities of the Board include 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. The Board operates in accordance with established practices (including those relating to reporting and supervision).

Composition of the Board

The composition of the Board is set out in the section headed "(VIII) Basic Information on Directors, Senior Management and Employees" of this report.

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 management is responsible for the implementation of the Board's decisions and daily management.

3. THE BOARD (CONTINUED)

Composition of the Board (Continued)

The Board currently comprises 2 executive Directors, and 3 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 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.

During the Reporting Period, the Board held 21 meetings, and passed 4 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 within the term of office during the Reporting Period
Executive Directors：	
CHANG Zhangli *(appointed on 23 May 2018 as Chairman)*	N/A
WU Ling-ling *(appointed on 23 May 2018 as an Executive Director)*	N/A
LI Liufa *(appointed on 19 March 2018 as former Chairman)* *(removed on 23 May 2018)*	N/A
LIU Yiu Keung, Stephen *(resigned on 19 March 2018)*	21/21
LI Heping *(resigned on 19 March 2018)*	13/21
HWA Guo Wai, Godwin *(removed on 23 May 2018)*	18/21
LI Zhiqiang *(appointed on 3 November 2017 as former Vice Chairman)* *(resigned on 19 March 2018)*	3/3
ZHU Linhai *(appointed on 19 March 2018 as Executive Director)* *(removed on 23 May 2018)*	N/A

3. THE BOARD (CONTINUED)

Composition of the Board (Continued)

Name of Directors	Attendance/ Number of meetings within the term of office during the Reporting Period
Non-executive Director:	
CHONG Cha Hwa *(resigned on 8 May 2017)*	7/21
Independent Non-executive Directors：	
CHANG Ming-cheng *(appointed on 23 May 2018)*	N/A
LIN Shei-yuan *(appointed on 23 May 2018)* *(resigned on 20 July 2018)*	N/A
LI Jianwei *(appointed on 23 May 2018)*	N/A
HSU You-yuan *(appointed on 4 September 2018)*	N/A
HO Man Kay, Angela *(removed on 23 May 2018)*	14/21
LAW Pui Cheung *(removed on 23 May 2018)*	15/21
WONG Chi Keung *(removed on 23 May 2018)*	16/21
CHING Siu Ming *(removed on 23 May 2018)*	16/21
LO Chung Hing *(removed on 23 May 2018)*	15/21

3. THE BOARD (CONTINUED)

Composition of the Board (Continued)

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.

The Board has not less than one-third of its membership comprising independent non-executive Directors, in compliance with Rule 3.10A of the Listing Rules. One of the three independent non-executive Directors possesses appropriate professional experience and related financial management expertise.

During the Reporting Period, the Company has fulfilled the relevant requirements.

After the Reporting Period, there was a period where the number of independent non-executive Directors fell below the minimum requirement under Rule 3.10(1) of the Listing Rules. Following the resignation of Mr. LIN Shei-yuan which took effect on 20 July 2018, the number of independent non-executive Directors fell below the minimum requirement under Rule 3.10(1) of the Listing Rules. In addition, the number of members of the audit committee and the remuneration committee of the Board fell short of the requirements under Rule 3.21 of the Listing Rules, and fell below the minimum number required under the terms of reference of the audit committee and the remuneration committee of the Board. Since the appointment of Mr. HSU You-yuan as an independent non-executive Director of the Company and a member of the audit committee and remuneration committee of the Board on 4 September 2018, the Company has fulfilled the relevant requirements.

The Board considers that all the independent non-executive Directors of the Company are independent in accordance with Rule 3.13 of 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 are 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 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; (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 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.

From 1 January 2017 to 18 March 2018, Mr. Stephen LIU Yiu Keung served as the Chairman of the Company.

From 19 March 2018 to 22 May 2018, Mr. LI Liufa served as the Chairman of the Company. Mr. CHANG Zhangli has served as the Chairman of the Company since 23 May 2018.

From 1 January 2017 to 19 March 2018, Mr. LI Heping served as the Chief Executive Officer of the Company.

Since Mr. LI resigned as the Chief Executive Officer of the Company, the Company did not appoint any Chief Executive Officer and the Chairman undertakes the responsibilities of the Chief Executive Officer. In allowing the two positions to be occupied by the same person, the Company has considered that both positions require in-depth knowledge and considerable experience of the Group's business. Candidates with the requisite knowledge, experience and leadership are difficult to identify. If either of the positions is occupied by an unqualified person, the Group's performance could be gravely compromised. Besides, the Board believes that the balance of power and authority will not be impaired by such arrangement as it is adequately ensured by the Board which comprises experienced and high calibre individuals (including executive Directors and independent non-executive Directors).

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.

During the Reporting Period, 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, Mr. LAW Pui Cheung, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed on 23 May 2018. On 23 May 2018, Mr. LI Jianwei was appointed as the chairman of the Remuneration Committee of the Company; Mr. CHANG Ming-cheng and Mr. LIN Shei-yuan were appointed as members of the Remuneration Committee of the Company; Mr. LIN Shei-yuan resigned as a member of the Remuneration Committee on 20 July 2018; Mr. HSU You-yuan was appointed as a member of the Remuneration Committee on 4 September 2018.

As at the date of this report, members of the Remuneration Committee are all independent non-executive Directors including Mr. LI Jianwei, Mr. CHANG Ming-cheng and Mr. HSU You-yuan, with Mr. LI Jianwei as the chairman.

During the Reporting Period, the Remuneration Committee has reviewed the remuneration policy for the executive Directors and senior management of the Company, formulated the remuneration packages for the aforesaid persons and made recommendations to the Board of the Company in respect thereof.

5. REMUNERATION COMMITTEE (CONTINUED)

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

Name of Members (all being independent non-executive Directors)	Attendance/ Number of meetings during within the term of office during the Reporting Period
CHANG Ming-cheng *(appointed on 23 May 2018)*	N/A
LIN Shei-yuan *(appointed on 23 May 2018)* *(resigned on 20 July 2018)*	N/A
LI Jianwei *(appointed on 23 May 2018)*	N/A
HSU You-yuan *(appointed on 4 September 2018)*	N/A
HO Man Kay, Angela *(removed on 23 May 2018)*	5/5
LAW Pui Cheung *(removed on 23 May 2018)*	4/5
WONG Chi Keung *(removed on 23 May 2018)*	5/5
CHING Siu Ming *(removed on 23 May 2018)*	4/5
LO Chung Hing *(removed on 23 May 2018)*	5/5

6. AUDIT COMMITTEE

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

The principal duties of the committee include:

– to monitor the independence of external auditors, the financial reporting process and effectiveness of the risk management and internal control system; and

– to perform the following tasks as set out in Code Provision D.3.1 of the Corporate Governance:

(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 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 Audit Committee is a standing committee of the Board.

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. Mr. LAW Pui Cheung, Ms. HO Man Kay Angela, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed on 23 May 2018. On 23 May 2018, Mr. CHANG Ming-cheng was appointed as the chairman of the Audit Committee of the Company; Mr. LI Jianwei and Mr. LIN Shei-yuan were appointed as members of the Audit Committee of the Company; Mr. LIN Shei-yuan resigned as a member of the Audit Committee on 20 July 2018; and Mr. HSU You-yuan was appointed as a member of the Audit Committee on 4 September 2018.

As at the date of this report, the members of the Audit Committee are independent non-executive Directors, including Mr. CHANG Ming-cheng, Mr. LI Jianwei and Mr. HSU You-yuan, with Mr. CHANG Ming-cheng as the chairman.

6. AUDIT COMMITTEE (CONTINUED)

A total of 3 meetings have been held for the Reporting Period. The individual attendance of members is as follows:

Name of Members (all being independent non-executive Directors)	Attendance/ Number of meetings within the term of office during the Reporting Period
CHANG Ming-cheng *(appointed on 23 May 2018)*	N/A
LIN Shei-yuan *(appointed on 23 May 2018)* *(resigned on 20 July 2018)*	N/A
LI Jianwei *(appointed on 23 May 2018)*	N/A
HSU You-yuan *(appointed on 4 September 2018)*	N/A
HO Man Kay, Angela *(removed on 23 May 2018)*	3/3
LAW Pui Cheung *(removed on 23 May 2018)*	3/3
WONG Chi Keung *(removed on 23 May 2018)*	3/3
CHING Siu Ming *(removed on 23 May 2018)*	3/3
LO Chung Hing *(removed on 23 May 2018)*	3/3

During the Reporting Period, the Audit Committee has reviewed the independence of external auditors, the preparation procedures of the financial statements of the Company and the effectiveness of the risk management and internal control system, and performed the tasks as set out in Code Provision D.3.1 of the Corporate Governance Code.

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 Moore Stephens CPA Limited, 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 6 October 2018. 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.

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 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. Mr. LI Zhiqiang was appointed as a member of the Executive Committee on 3 November 2017. On 19 March 2018, Mr. LIU Yiu Keung resigned as the Chairman and an executive Director of the Company; Mr. LI Zhiqiang and Mr. LI Heping resigned as executive Directors of the Company; Mr. LI Liufa was appointed as the chairman of the Board and an executive Director; and Mr. ZHU Linhai was appointed as an executive Director of the Company. On 23 May 2018, Mr. LI Liufa was removed as Chairman of the Board and an executive Director; Mr. ZHU Linhai and Mr. HWA Guo Wai, Godwin were removed as executive Directors; Mr. CHANG Zhangli was appointed as an executive Director and the Chairman of the Board; Ms. WU Ling-ling was appointed as an executive Director; Mr. CHANG Zhangli was appointed as the chairman of the Executive Committee; and Ms. WU Ling-ling, Mr. CHANG Ming-cheng, Mr. LIN Shei-yuan and Mr. LI Jianwei were appointed as members of the Executive Committee of the Company. Mr. LIN Shei-yuan resigned as a member of the Executive Committee on 20 July 2018 and Mr. CHANG Ming-cheng and Mr. LI Jianwei were removed as members of the Executive Committee of the Board on 4 September 2018.

As at the date of this report, the members of the Executive Committee are Mr. CHANG Zhangli and Ms. WU Ling-ling, with Mr. CHANG Zhangli as the chairman.

8. NOMINATION COMMITTEE

The Company established a nomination committee (the "**Nomination Committee**") under the Board. 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.

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 was 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 members of the Nomination Committee on 5 July 2016. On 19 March 2018, Mr. LIU Yiu Keung resigned as the chairman of the Nomination Committee of the Board and Mr. LI Liufa was appointed as the chairman of the Nomination Committee of the Board. On 23 May 2018, Mr. LI Liufa was removed as the chairman of the Nomination Committee; Ms. HO Man Kay, Angela, Mr. LAW Pui Cheung, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed as members of the nomination committee of the Company; and Mr. CHANG Zhangli, Ms. WU Ling-ling, Mr. CHANG Ming-cheng and Mr. LI Jianwei were appointed as members of the Nomination Committee of the Company. Mr. CHANG Zhangli was appointed as the chairman of the Nomination Committee of the Board on 4 September 2018. Mr. HSU You-yuan was appointed as a member of the Nomination Committee on 6 October 2018.

As at the date of this report, the members of the Nomination Committee are Mr. CHANG Zhangli, Ms. WU Ling-ling (both being executive Directors), Mr. CHANG Ming-cheng, Mr. LI Jianwei and Mr. HSU You-yuan (all being independent non-executive Directors), with Mr. CHANG Zhangli as the chairman.

8. NOMINATION COMMITTEE (CONTINUED)

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

Name of Members (* represents independent non-executive Directors, others represent executive Directors)	**Attendance/ Number of meetings within the term of office during the Reporting Period**
CHANG Zhangli *(appointed as a member on 23 May 2018)* *(appointed as the chairman on 4 September 2018)*	N/A
WU Ling-ling *(appointed on 23 May 2018)*	N/A
*CHANG Ming-cheng *(appointed on 23 May 2018)*	N/A
*LI Jianwei *(appointed on 23 May 2018)*	N/A
LI Liufa *(appointed on 19 March 2018)* *(removed on 23 May 2018)*	N/A
LIU Yiu Keung *(resigned on 19 March 2018)*	2/2
*HO Man Kay, Angela *(removed on 23 May 2018)*	2/2
*LAW Pui Cheung *(removed on 23 May 2018)*	1/2
*WONG Chi Keung *(removed on 23 May 2018)*	2/2
*CHING Siu Ming *(removed on 23 May 2018)*	2/2
*LO Chung Hing *(removed on 23 May 2018)*	2/2
*LIN Shei-yuan *(appointed on 23 May 2018)* *(resigned on 20 July 2018)*	N/A
*HSU You-yuan *(appointed on 6 October 2018)*	N/A

During the Reporting Period, the Nomination Committee has reviewed the policy for the nomination of Directors as well as the nomination procedures and selection and recommendation standards for candidates of Directors.

9. INVESTIGATION COMMITTEE

The Board established the Investigation Committee (the "**Investigation Committee**"). 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, with Dr. CHING Siu Ming 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. On 23 May 2018, Dr. CHING Siu Ming was removed as the chairman of the Investigation Committee, and Ms. HO Man Kay Angela, Mr. LAW Pui Cheung, Mr. WONG Chi Keung and Mr. LO Chung Hing were removed as members of the Investigation Committee.

The Board has dissolved the Investigation Committee on 23 May 2018.

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 within the term of office during the Reporting Period
HO Man Kay, Angela *(removed on 23 May 2018)*	2/2
LAW Pui Cheung *(removed on 23 May 2018)*	1/2
WONG Chi Keung *(removed on 23 May 2018)*	2/2
CHING Siu Ming (removed on 23 May 2018)	2/2
LO Chung Hing *(removed on 23 May 2018)*	2/2

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 Company Secretary 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. Their trainings included attending seminars and discussion forums and reading briefings and up-to-date materials.

11. COMPANY SECRETARIES

During the Reporting Period, the Joint Company Secretaries of the Company are Mr. TSANG Wing Tai and Mr. YU Chunliang, who had duly complied with the training requirement under Rule 3.29 of the Listing Rules. Mr. YU Chunliang resigned as a Joint Company Secretary on 23 April 2018 and Mr. TSANG Wing Tai resigned as the Company Secretary on 6 September 2018.

Ms. LO Yee Har Susan from Tricor Services Limited, an external service provider, was appointed as the Company Secretary on 6 September 2018. The Company's primary contact with Ms. LO Yee Har Susan is Ms. WU Ling-ling, an executive Director.

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's 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 auditors 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.

13. AUDITORS AND REMUNERATION

The Company appointed Moore Stephens CPA Limited as the auditors of the Company for the year ended 31 December 2017 with effect from 10 August 2018 to fill the casual vacancy following the resignation of KPMG on 17 July 2018. The remuneration payable to KPMG and Moore Stephens CPA Limited by the Company for the year ended 31 December 2017 amounted to RMB13.22 million and RMB6 million, respectively. During the year ended 31 December 2017, the Company has not engaged KPMG or Moore Stephens CPA Limited 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 each year 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 Level 54, Hopewell centre, 183 Queen's Road East, 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.

14. SHAREHOLDERS AND GENERAL MEETING (CONTINUED)

Procedures for Shareholders to put forward proposals at Shareholders' meetings (Continued)

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 Company Secretary by email and telephone number indicated in the paragraph headed "2. Basic Corporate Information" of "(II) Corporate Information" of this Report.

On 17 February 2017, the Company convened an extraordinary general meeting, at which the ordinary resolution on adjournment of the extraordinary general meeting was approved. Details of which were disclosed in the announcement of the Company dated 17 February 2017 in relation to the poll results of extraordinary general meeting, adjournment of extraordinary general meeting and updates on mareva injunction against the Zhangs.

On 8 March 2017, the Company convened an extraordinary general meeting, at which four ordinary resolutions were approved, including the resolution on the appointment of an independent financial advisor to advise the Company in respect of the proposed transactions, resolution on directing the Board not to convene or adjourn any general meeting and etc., and one ordinary resolution was not passed, namely the resolution on publishing the financial information and providing the Board with the latest grounds prior to any general meeting to be held to consider the proposed transactions, Details of which were disclosed in the announcement of the Company dated 8 March 2017 in relation to the poll results of the extraordinary general meeting.

The AGM of the Company for 2016 was held on 2 June 2017. Seven ordinary resolutions (including the adoption of the audited consolidated financial statements for 2016, re-election 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 2 June 2017.

14. SHAREHOLDERS AND GENERAL MEETING (CONTINUED)

Procedures for Shareholders to put forward proposals at Shareholders' meetings (Continued)

During the Reporting Period, 1 AGM and 2 extraordinary general meetings were held by the Company. For the AGM, Mr. LIU Yiu Keung, Mr. LI Heping, Mr. HWA Guo Wai, Mr. LAW Pui Cheung, Mr. WONG Chi Keung and Mr. CHING Siu Ming, all being the then incumbent Directors, and representatives from the auditor attended the meeting. For the extraordinary general meeting held on 17 February 2017, Mr. LIU Yiu Keung, Mr. LI Heping, Mr. HWA Guo Wai, Mr. CHONG Cha Hwa, Ms. HO Man Kay, Mr. LAW Pui Cheung, Mr. CHING Siu Ming and Mr. LO Chung Hing, all being the then incumbent Directors, attended the meeting. For the extraordinary general meeting held on 8 March 2017, Mr. LIU Yiu Keung, Mr. LI Heping, Mr. HWA Guo Wai, Mr. CHONG Cha Hwa, Ms. HO Man Kay, Mr. LAW Pui Cheung, Mr. CHING Siu Ming and Mr. LO Chung Hing, all being the then incumbent Directors, attended the meeting.

Articles of Association

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 published on the Company's website and the Stock Exchange's website.

15. RISK MANAGEMENT AND 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. The Board has arranged the Audit Committee to review and supervise relevant matters.

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 risk management and 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.

15. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM ON OPERATIONS (CONTINUED)

(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 centralized 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 Group 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.

15. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM ON OPERATIONS (CONTINUED)

(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 Reporting Period.

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, and believed that such systems are effective and sufficient. From now on, the Group will continually improve the establishment and implementation of the risk management and internal control system by reference to the guidelines of the listed companies issued by the Stock Exchange.

16 INSIDE INFORMATION

The Board is responsible for the handling and dissemination of inside information. In order to ensure that the market and shareholders are fully and promptly informed about the material developments of the Company's business, the Board has adopted the Inside Information Disclosure Policy regarding the procedures of proper information disclosure. The release of inside information is subject to the approval of the Board. Unless official authorization is obtained, all staff members of the Company shall not disclose the inside information to any external parties and shall not respond to market speculation and rumors. In addition, all external presentation materials or publications must be pre-vetted before release.

(X) Major Events

1. MATERIAL LITIGATION IN THE CAYMAN ISLANDS

Cause No FSD 161 of 2018 (IMJ)

On 30 August 2018, Tianrui (International) Holding Company Limited ("**Tianrui**"), a Shareholder of the Company, presented a petition seeking to wind up the Company before the Grand Court of the Cayman Islands (the "**Cayman Petition**"). The Cayman Petition asks the court to appoint official liquidators to take over management of the Company.

Tianrui filed a further application on 6 September 2018 for the appointment of joint provisional liquidators ("**JPLs**") over the Company.

The Company believes that the Cayman Petition and application for appointment of JPLs are without basis and an abuse of process, and has accordingly made an application for the Cayman Petition to be struck out; the Company will similarly request that the application for appointment of JPL's be refused. The substantive hearing of these matters will be heard in the Grand Court of the Cayman Islands on 10 and 11 October 2018.

For further details, please refer to the announcements published by the Company on 4 September 2018 and 20 September 2018.

2. MATERIAL LITIGATION IN HONG KONG

HCCW 248 of 2018

On 31 August 2018, Tianrui issued a winding-up petition against the Company in the Hong Kong High Court to commence an ancillary liquidation in respect of the Cayman Petition (the "**Hong Kong Petition**").

As with the Cayman Petition, the Company believes that the Hong Kong Petition is without basis and an abuse of process, and has accordingly made an application for the Hong Kong Petition to be struck out. The initial hearing of the Hong Kong Petition will be held on 11 October 2018.

For further details, please refer to the announcements published by the Company on 4 September 2018 and 20 September 2018.

HCA 2880 of 2015

On 4 December 2015, a Writ of Summons (the "**Writ**") was issued by the Company against former Directors of the Company, namely ZHANG Cai Kui and ZHANG Bin (together, 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.

2. MATERIAL LITIGATION IN HONG KONG (CONTINUED)

HCA 2880 of 2015 (Continued)

The Plaintiffs claimed against the Defendant Directors for (inter alia) (1) various injunctive relief, including restraining them from acting on the allegedly 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, and (2) damages and/or equitable compensation as a result of the alleged misconduct of the former Directors.

On 24 December 2015, the Company obtained 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. 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 remain in effect as of today.

On 7 April 2016, CNBM and ACC were joined as the Defendants to the Action, on the basis of a claim of conspiracy.

The Company also on 4 November 2016 obtained a worldwide injunction against the Zhangs (the "**Worldwide Mareva Injunction**") and issued a Summons on 7 November 2016 (the "**Plaintiffs' Summons**").

On 18 November 2016, the Worldwide Mareva Injunction was varied and directions were given by the High Court to file affidavit evidence for the disposal of the Plaintiffs' Summons. After the substantive hearing on 7 June 2017, the High Court discharged the Worldwide Mareva Injunction and granted a fresh domestic Mareva injunction order against the Zhangs on terms substantially the same as the Worldwide Mareva Injunction.

On 29 May 2017, Shandong Shanshui was joined as the 4th Plaintiff to the Action to introduce a derivative claim against the Zhangs and LI Cheung Hung and further amendments were made to the Amended Statement of Claim.

Following the amendments to the Amended Statement of Claim, the parties have filed a second round of pleadings (Re-Amended Defence or Amended Defence followed by the Amended Reply) except for the Zhangs (who only filed the acknowledgment of service indicating an intention to defend on 13 June 2017 and their defence on 18 September 2017).

All parties have filed and exchanged their List of Documents and the Company has filed a supplemental list of documents on 29 September 2017. The parties have also exchanged witness statements.

2. MATERIAL LITIGATION IN HONG KONG (CONTINUED)

HCA 2880 of 2015 (Continued)

The first case management conference took place on 19 April 2018 and all of the parties agreed for the action to be referred to a Listing Judge for the assignment of a Trial Judge.

There are currently two outstanding interlocutory applications in this action:

(1) The Company has issued a Summons on 27 March 2018 to (inter alia) appoint receivership over the 1st Defendant's shares in China Shanshui Investment Company (the "**Receivership Summons**"). Pursuant to the Order of Deputy High Court Judge Keith Yeung SC dated 3 May 2018, the hearing of the Receivership Summons is adjourned to a date to be fixed. No hearing date has yet been fixed yet. On 17 May 2018, the Company has issued another Summons seeking to amend the Receivership Summons (the "**Amendment Summons**"). Hearing of the Amendment Summons will be held on 23 October 2018.

(2) The Company has, pursuant to the Order of the Honourable Madam Justice Au-Yeung dated 13 July 2018, issued a Summons on 20 July 2018 for the continuation of the December Injunction Order and the January Injunction Order against the 2nd Defendant ("**Continuation Summons**"). Parties will file their respective affirmations and the hearing the Continuation Summons is adjourned to a date to be fixed with one day reserved. No hearing date has been fixed yet.

HCMP 1574 of 2016

The Company has commenced committal proceedings against the Zhangs for non-compliance with the December Injunction Orders and January Injunction Orders made by the High Court of Hong Kong in HCA 2880 of 2015 An application for leave to appeal was taken out by the Zhangs and was heard on 24 March 2017. This application was dismissed with costs on 29 March 2017. The Zhangs further applied for leave to appeal to the Hong Kong Court of Appeal, and this application was also dismissed with costs on 10 May 2017.

The substantive hearing of this matter took place from 28 September 2017 to 29 September 2017. On 28 February 2018, the Court of First Instance of the Hong Kong High Court ruled in favour of the Company.

2. MATERIAL LITIGATION IN HONG KONG (CONTINUED)

HCA 1103 of 2017

On 10 May 2017, MI Jingtian commenced a defamation action against LIU Yiu Keung, Stephen (in his capacity as a former Director of the Company and a Director of the Company during litigation) and the Company by way of a writ of summons with an Indorsement of Claim, claiming against LIU Yiu Keung, Stephen and the Company for (inter alia) (1) an injunction restraining LIU Yiu Keung, Stephen and the Company from publishing the defamatory words of and concerning MI Jingtian contained in the Company's announcements dated 10 and 27 April 2017 respectively, (2) an injunction restraining LIU Yiu Keung, Stephen and the Company from publishing the defamatory words of and concerning MI Jingtian suggesting that he was engaged or involved in any criminal wrongdoing or activities, (3) an order requiring LIU Yiu Keung, Stephen and the Company to render a written apology to MI Jingtian and (4) Damages.

MI Jingtian filed a Statement of Claim on 30 June 2017 and LIU Yiu Keung, Stephen and the Company filed a Defence on 28 July 2017.

On 10 August 2017, MI Jingtian filed a Notice of Discontinuance to discontinue the action.

HCMP 1268 of 2017

On 1 June 2017, ACC and its subsidiaries issued a petition in the High Court of Hong Kong against Tianrui Group, the Company, CSI and certain former directors of the Company. The basis for this action was unfair prejudice in favour of Tianrui Group at the expense of the other shareholders of the Company including ACC (the "**Hong Kong Petition**").

On 6 September 2017, the Company received a writ of summons filed in the Grand Court of the Cayman Islands in which ACC (and its eleven wholly-owned subsidiaries) commenced a derivative claim (the "**Derivative Claim**") against the Company.

For details, please refer to the announcements published by the Company on 2 June 2017 and 11 September 2017, respectively.

2. MATERIAL LITIGATION IN HONG KONG (CONTINUED)

HCA 762 of 2017

On 29 March 2017, the Company, Pioneer Cement and Shandong Shanshui commenced action (HCA 762/2017) against the Former Senior Management of Shandong Shanshui, namely MI Jingtian, CHEN Zhongsheng, ZHAO Liping, LI Maohuan and YU Yuchuan, for (inter alia) injunctive relieve to prohibit the former senior management of Shandong Shanshui (the "**Former SS Management**") from holding themselves out as being director or officer of Shandong Shanshui, entering the premises of Shandong Shanshui, removing asset and records from Shandong Shanshui, and soliciting or enticing officer or employees of Shandong Shanshui. MI Jingtian, ZHAO Liping, LI Maohuan and YU Yuchuan have been prohibited by way of Court order from removing from Hong Kong any of their assets, for each of them up to the value of RMB142 million (or its Hong Kong dollar equivalent) (the "**Mareva Injunction**").

On 11 April 2017, an ex parte injunction order was granted and on 21 April 2017, the Mareva Injunction was varied to exclude the CSI shares registered under the name of MI Jingtian, ZHAO Liping, LI Maohuan and YU Yuchuan from the Mareva Injunction upon the undertaking that ACC has provided a bank guarantee in the sum of RMB142 million to the plaintiffs.

A hearing was held on 16 and 17 April 2018 in the High Court of Hong Kong to determine (i) whether the Mareva Injunction should be discharged, (ii) the defendants' application that the leave granted to the plaintiffs to serve the writ on the defendants out of the jurisdiction should be set aside and (iii) the plaintiffs' application to amend the Statement of Claim to add Jinan Shanshui Lixin Investment Development Company Limited ("Jinan Lixin") and Stephenson Harwood as defendants. A judgment was rendered on 19 July 2018 setting aside the leave granted to the plaintiffs to serve the writ on the defendants out of the jurisdiction, and consequently discharging the Mareva Injunction. Leave was granted to the plaintiffs to add Jinan Lixin and Stephenson Harwood as defendants.

For details, please refer to the announcements published by the Company on 30 March 2017, 12 April 2017, 21 April 2017, 25 April 2017, 1 June 2017 and 20 June 2017, respectively.

3. MATERIAL LITIGATION IN PRC

Progress of litigations against the former directors of Shandong Shanshui for illegal detention of official seal of Shandong Shanshui

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 31 May 2017, Beijing Haidian District People's Court issued (2016) Jing 0108 Min Chu No. 16825 Civil Ruling, requiring ZHANG Bin, ZHANG Caikui and CHEN Xueshi, as defendants, to return the illegally possessed Shandong Shanshui official seal to Shandong Shanshui within ten days from the effective date of the judgement.

On 16 June 2017, ZHANG Caikui, ZHANG Bin and CHEN Xueshi filed an appeal to Beijing First Intermediate People's Court with respect to the (2016) Jing 0108 Min Chu No. 16825 Civil Ruling.

On 16 April 2018, Beijing First Intermediate People's Court issued (2017) Jing 01 Min Zhong No. 6839 Civil Ruling on their appeal and made a final judgment that the appeal should be rejected and the original ruling should be sustained, which is the final judgment.

On 6 August 2018, Shandong Shanshui destroyed the former official seal at Jinan Municipal Public Security Bureau. On the same day, Shandong Shanshui filed a new official seal with Jinan Municipal Public Security Bureau and started to use the new official seal.

3. MATERIAL LITIGATION IN PRC (CONTINUED)

Progress of litigations with Jinan Municipal Bureau of Commerce

On 25 January 2016, the Company's PRC legal advisers 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.

On 6 June 2016, Jinan City Lixia District People's Court issued "Notice of Third Party Participation in Proceedings" (2016) Lu 0102 Xing Chu No. 45 to Shandong Shanshui, notifying Shandong Shanshui that since Jinan City Lixia District People's Court have discovered that there exists a legal interest in Shandong Shanshui involving in 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.

3. MATERIAL LITIGATION IN PRC (CONTINUED)

Progress of litigations with Jinan Municipal Bureau of Commerce (Continued)

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, courts 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 People's court 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 "Administrative Ruling" (2016) Lu 0102 Xing Chu No. 45, dismissing the request for action of the Company.

On 6 April 2017, the Company's PRC legal advisor appealed to the Jinan City Intermediate People's Court.

On 14 July 2017, the Company's PRC legal advisors received the "Administrative Ruling" (2017) Lu 01 Xing Zhong No. 347 serviced by Jinan City Intermediate People's Court, dismissing the request for action and affirming the original judgment.

3. MATERIAL LITIGATION IN PRC (CONTINUED)

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.

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 No.1 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.

3. MATERIAL LITIGATION IN PRC (CONTINUED)

Progress of litigation with former directors of Shandong Shanshui related to damages to Shareholders' interests (Continued)

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, informing that the trial will be held on 5 June 2017.

On 20 June 2017, Shandong Provincial Higher People's Court published a notice in "People's Court Daily" to change the time for the trial to 7 September 2017. On 7 September 2017, when the trail was held, the court investigated and conducted cross-examination on the identity of the legal representative of Shandong Shanshui and the trail was adjourned subsequently.

On 2 October 2018, the Company received the "Notification of Court Summon" of the case, informing that the trial will be held on 16 October 2018. (Not received yet)

Litigation with former senior management of Shandong Shanshui in respect of damages to the Company' interests

On 6 April 2017, legal advisors filed a lawsuit on behalf of Shandong Shanshui with Shandong Provincial Higher People's Court, the defendants being MI Jingtian, LI Maohuan, YU Yuchuan, ZHAO Liping, CHEN Zhongsheng and LIU Xianliang. The case involved the liability dispute of damages to the Company' interests, Case No. (2017) Lu Min Chu No. 22.

On 16 May 2017, the legal advisers appointed by Shandong Shanshui received Application for Jurisdiction Objection delivered by the Shandong Provincial Higher People's Court. CHEN Zhongsheng, YU Yuchuan, LI Maohuan, MI Jingtian, all being defendants, submitted jurisdiction objection respectively, requesting Shandong Provincial Higher People's Court to place this case under the Jinan Municipal People's Court of Changqing District.

On 12 June 2017, the legal advisers appointed by Shandong Shanshui submitted an Application for Property Preservation, Application for Preservation of Conduct, Application for Advanced Execution and Application for an Additional Party to Shandong Provincial Higher People's Court on behalf of Shandong Shanshui.

3. MATERIAL LITIGATION IN PRC (CONTINUED)

Litigation with former senior management of Shandong Shanshui in respect of damages to the Company' interests (Continued)

On 27 June 2017, Shandong Provincial Higher People's Court unofficially responded to the legal advisers appointed by Shandong Shanshui, turning down the application for preservation of conduct and the application for advanced execution filed by Shandong Shanshui.

On 22 June 2017, Shandong Provincial Higher People's Court delivered the (2017) Lu Min Chu No.22 Civil Ruling to the legal advisers appointed by Shandong Shanshui, transferring the case to Intermediate People's Court of Jinan City.

On 9 July 2017, the legal advisers appointed by Shandong Shanshui appealed to the Supreme People's Court in relation to the ruling of jurisdiction objection.

On 24 January 2018, legal advisers appointed by Shandong Shanshui received the (2017) Min Xia Zhong No. 330 Civil Ruling issued to the Company by the Supreme People's Court, which ruled to rescind the (2017) Lu Min Chu No. 22 Civil Ruling, and also ruled to place the case under the jurisdiction of Shandong Provincial Higher People's Court.

Since there is no evidence to confirm the loss claimed in this case, Shandong Shanshui has applied for a withdrawal of its claim in Shandong Provincial Higher People's Court on 23 August 2018. On 4 September 2018, the Shandong Provincial Higher People's Court has approved the rescission of Civil Ruling.

3. MATERIAL LITIGATION IN PRC (CONTINUED)

Other litigations in the PRC

As of the date of this report, there are 61 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 two categories.

(1) Unsettled litigations with Shandong Shanshui as defendants

There are 60 unsettled litigations with Shandong Shanshui as defendants, with the subject matter of the litigations approximately RMB1,227 million. Categorised by causes, there are 10 categories of unsettled litigations and 9 categories of unsettled litigations with Shandong Shanshui as defendants, with 13 cases of sales and purchase contract and transportation contract dispute, 7 cases of equity dispute, 3 cases of financial loan dispute, 7 cases of construction and supervision dispute, 3 cases of f corporate bond transactions dispute, 1 case of dispute over agreement on contracted management of enterprise, 19 cases of labour dispute, 1 case of damages to shareholders' interests dispute, and 6 cases of corporate resolution effectiveness dispute. There are a total of 42 cases in the first instance, a total of 7 cases in the second instance, and 11 cases in the enforcement phase.

(2) Unsettled litigations with Shandong Shanshui as third Party

There is 1 unsettled litigation with Shandong Shanshui as third party. Categorised by cases, there is 1 unsettled litigation with Shandong Shanshui as third party and 1 case of administrative handling dispute, of which 1 case is in the first instance.

4. MAJOR TRANSACTIONS

Issue of Convertible Bonds

On 6 August 2018 and 30 August 2018, the Company entered into respective Subscription Agreements with subscribers in relation to issue and subscription of the convertible bonds in the aggregate principal amount of US$210,900,000 and US$320,700,000, respectively, and the transactions were completed on 8 August 2018 and 3 September 2018, respectively.

For details on both issues of convertible bonds, please refer to the announcements of the Company dated 6 August 2018, 8 August 2018, 31 August 2018 and 3 September 2018, respectively.

5. 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 and certain institutions 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 Company 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, in order to restore the public float of the Company, on 12 September 2016, the Company entered into an Engagement Letter with each of Sun Hung Kai Investment Services Limited ("**SHKIS**") and ABCI Securities Company Limited ("**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 Cinda International Securities Limited ("**Cinda**") and First Capital Securities Limited ("**FCSL**"), pursuant to which Cinda 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, Cinda (the "**Manager**"), FCSL, SHKIS and ABCI (collectively the "**Placing Agents**") 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.

5. PUBLIC FLOAT (CONTINUED)

On 8 February 2017, 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.

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 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.

5. PUBLIC FLOAT (CONTINUED)

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.

On 8 August 2017, the Company published an announcement to inform the Shareholders and the public that the Jinan government was assisting the Company to restructure the board of directors and senior management of Shandong Shanshui. The Jinan government was proactively encouraging various shareholders of the Company to resolve the disputes in a cooperative, reconcilable, and an accountable manner. The Company would work out a timetable with the Placing Agents for the Placing in order to restore the public float of the Company after the dispute was resolved and issue further announcements to update the Shareholders as and when appropriate.

On 27 October 2017, the Company received a letter dated 23 October 2017 ("**Show Cause Letter**") from the Stock Exchange notifying the Company, among others, its intention to commence procedures to cancel the listing of the Company (the "**Proposed Action**") under Rule 6.01(1) and/or (4) by issuing an announcement under Rule 6.10 to provide the Company further time until 30 June 2018 to restore the public float and resolve the matters rendering it unsuitable for listing, failing which the Stock Exchange would recommend the Listing Committee to proceed with the cancellation of the Company's listing.

On 29 December 2017, the Company announced the update on proposed cancellation of listing. On 6 November 2017, the Company sent a letter to the Stock Exchange to raise objection of the Proposed Action (the "**Objection Letter**"). Pursuant to the letter dated 19 December 2017 from the Stock Exchange, the Stock Exchange informed the Company that it has considered the Objection Letter and concluded that the Company failed to demonstrate a reasonable prospect that it would, within a reasonable period of time: (i) restore the minimum public float; and (ii) address the audit issues concerning the lack of written representation regarding proper maintenance of accounting records to its auditors. In view of the above, the Stock Exchange decided to commence procedures to cancel the Company's listing under Rules 6.01(2) and/or Rule 6.01(4) and the grounds set out in the Show Cause Letter. The Company should (a) restore the public float and (b) resolve the matters rendering it unsuitable for listing by 30 June 2018, failing which the Listing Department would make a recommendation to the Listing Committee for the cancellation of the Company's listing (the"**Decision**"). The Company disagreed with the Decision. On 29 December 2017, the Company made a request to review the Decision by the Listing Committee of the Stock Exchange pursuant to Rule 2B.06(1) of the Listing Rules (the "**Review**").

5. PUBLIC FLOAT (CONTINUED)

On 17 May 2018, the Company was pleased to announce that, on 9 May 2018, the review hearing (the "**Review Hearing**") of the Proposed Action was held before the Listing Committee of the Stock Exchange (the "**Listing Committee**"). The Listing Committee informed the Company that it extended the date of commencement to cancel the Company's listing under Rules 6.01(2) and/or Rule 6.01(4) from 30 June 2018 to 31 October 2018, during which period the Company should (i) restore the public float; and (ii) resolve the matters rendering it unsuitable for listing (the "**Listing Committee Decision**"), failing which the Listing Department would make a recommendation to the Listing Committee to proceed with the cancellation of the Company's listing.

On 28 May 2018, the Company submitted a review request (the "**Review Request**") to the Listing (Review) Committee of the Stock Exchange for a second review of the Decision pursuant to Rules 2B.06(2) and 2B.08(1) of the Listing Rules.

On 1 August 2018, the Company announced that the Listing (Review) Committee scheduled to hold the Review Hearing on 21 August 2018. The new Board was communicating with shareholders and a number of stakeholders with a view to proactively find a way to restore the public float and to address the audit issues of the Company (the "**Audit Issues**").

On 19 September 2018, the Company received a reply from the Listing Department to the request submitted by the Company to the Listing (Review) Committee on 8 August 2018. The Listing Department recommended the Listing (Review) Committee to maintain the decision of the Listing Committee, commence procedures to cancel the Company's listing and require the Company to take remedial measures by 31 October 2018.

On 20 September 2018, the Company announced that the Company received a notification from Listing (Review) Committee on 13 September 2018 that the review hearing by the Listing (Review) Committee on the Listing Department's decision to commence procedures to cancel the Company's listing under Rule 6.01(2) and/or Rule 6.01(4) of the Listing Rules was rescheduled to 18 October 2018.

On 7 October 2018, the Company announced that it proposed to obtain a special mandate from shareholders to allot and issue up to 975,000,000 new Shares to resolve the issue of public float. Upon completion of the new Share issuance, new Shares will account for approximately 22.39% of the enlarged issued Shares, and new Shares together with the existing Shares of the Company held by the public will account for not less than 25% of the enlarged issued Shares.

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 circulars made on 12 September 2016, 6 October 2016, 18 November 2016, 28 November 2016, 30 December 2016, 16 February 2017, the announcements made on 27 February 2017 and 13 March 2017 ("**Entering into of placing agreement relating to placing of new shares under specific mandate**"), the announcement on updates on the Group dated 8 August 2017, and the announcements dated 27 October 2017, 29 December 2017, 17 May 2018, 29 May 2018, 1 August 2018, 22 September 2018 and 7 October 2018 in relation to, among other things, the proposed cancellation of listing and plan on resumption of trading.

6. CONNECTED TRANSACTIONS

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

Provision of Corporate Guarantee

On 14 December 2016, the Company entered into the corporate guarantee in favour of Bank of China Limited (Pingdingshan Branch) as a guarantee for the provision of the loan facility of RMB400 million by the Bank to Tianrui Group under a facility agreement. The facility agreement and the corporate guarantee were approved by the bank on 26 December 2016. Tianrui Group is a substantial Shareholder holding 951,462,000 Shares (representing approximately 28.16% issued share capital of the Company) as at the date of entering into the corporate guarantee and a connected person of the Company.

Granting of Unsecured Loan

On 28 December 2016, the Company entered into a supplementary loan agreement with Tianrui Group, pursuant to which Tianrui Group has granted an unsecured loan to the Company to satisfy a bond due 2020 issued by the Company. Pursuant to the supplementary loan agreement, inter alia:

(1) Tianrui Group undertakes to settle the Loan Facility and the interest thereof pursuant to the Facility Agreement;

(2) Tianrui Group undertakes it will not request the repayment of the unsecured loan by the Company, in full or in part, prior to the settlement of the loan facility and the interest thereof by Tianrui Group; and

(3) In the event that there is any default in payment of the loan facility and the interest thereof, the Company agrees to settle such amount under the corporate guarantee and Tianrui Group undertakes to waive the payment obligation of the Company in full under the unsecured loan.

As of 31 December 2017, the Group in aggregate borrowed RMB1.396 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$71.16 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 RMB91.22 million.

(5) A borrowing amounted to RMB28.92 million for settling litigation costs.

As of 31 December 2017, outstanding borrowings of the Company from Tianrui Group was RMB697 million.

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大華馬施雲
會計師事務所有限公司

To the shareholders of China Shanshui Cement Group Limited
(Incorporated in Cayman Islands with limited liability)

DISCLAIMER OF OPINION ON THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS, PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, CHANGES IN EQUITY AND CASH FLOWS

We were engaged to audit the consolidated financial statements of China Shanshui Cement Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 119 to 246, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 statement of profit or loss and consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year ended 31 December 2017. Because of the significance of the matters described in the "Basis for Disclaimer of Opinion on the Consolidated Statements of Profit or Loss, Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows and for Qualified Opinion on the Consolidated Statement of Financial Position" section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2017. Accordingly, we do not express an opinion on the consolidated statement of profit or loss and 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 ended 31 December 2017.

QUALIFIED OPINION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

We have audited the consolidated statement of financial position as at 31 December 2017, and the notes thereon.

In our opinion, except for the possible effects of the matters described in paragraphs (e) and (f) of the "Basis for Disclaimer of Opinion on the Consolidated Statements of Profit or Loss, Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows and for Qualified Opinion on the Consolidated Statement of Financial Position" section of our report, the consolidated statement of financial position gives a true and fair view of the Group's financial position as at 31 December 2017 in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

KEY AUDIT MATTERS

Except for the matters which led to our inability to determine whether the net assets of the Group as at 31 December 2017 and 2016 and the matters described in the paragraphs (e) and (f) of the "Basis for Disclaimer of Opinion on the Consolidated Statements of Profit or Loss, Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows and for Qualified Opinion on the Consolidated Statement of Financial Position" section or Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our report which relate to our qualified opinion on the consolidated statement of financial positon.

BASIS FOR DISCLAIMER OF OPINION ON THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS, PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, CHANGES IN EQUITY AND CASH FLOWS AND FOR QUALIFIED OPINION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Opening balances and comparative information

The opening balances and comparative information disclosed in the consolidated financial statements are based on the consolidated financial statements of the Group for the year ended 31 December 2016. The consolidated financial statements of the Group for the year ended 31 December 2016 were reported upon by another firm of auditors (the "Predecessor Auditor"), whose report dated 30 March 2017 expressed a disclaimer of opinion due to various limitations in evidence available to the Predecessor Auditor. The matters which led the Predecessor Auditor to disclaim their opinion are in relation to the matters described in (i) paragraphs (b) to (f) below; (ii) Material Uncertainties Related to Going Concern section of our report; and (iii) Other Matters section of our report. Therefore, the comparative information presented or disclosed in the consolidated financial statements may not be comparable with the figures and other information presented or disclosed in respect of the current year.

BASIS FOR DISCLAIMER OF OPINION ON THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS, PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, CHANGES IN EQUITY AND CASH FLOWS AND FOR QUALIFIED OPINION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(a) Opening balances and comparative information (Continued)

Further, the closing balances as at 31 December 2016 of the assets and liabilities of the Group entered into the determination of the financial performance and cash flows of the Group for the current financial year ended 31 December 2017 and may have carry forward effects on the closing balances of assets and liabilities of the Group as at 31 December 2017. Hence, any adjustments found to be necessary to the closing balance as at 31 December 2016 may have a significant effect on the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2017 and/or the net assets of the Group as at 31 December 2017.

(b) Scope limitation on the impairment assessment of the Group's fixed assets

There were indications of possible impairment in respect of the Group's fixed assets as at 31 December 2015 in view of the substantial losses incurred by the Group and the declining trend of the cement market in 2015 and provisions for impairment of RMB674 million in total was recorded during the year ended 31 December 2015. As disclosed in note 14 of the consolidated financial statements, the Group recognised an accumulated impairment loss on fixed assets amounting to RMB774.4 million as at 31 December 2016 and impairment loss thereon of RMB15.7 million in consolidated profit or loss for the year then ended. In the absence of sufficient appropriate audit evidence to verify the reasonableness of the assumptions used in the cash flow forecasts upon which the recoverable amounts as at 31 December 2016 of the groups of cash generating units to which the fixed assets belonged were based, the Predecessor Auditor was unable to obtain sufficient audit evidence to satisfy themselves as to the reasonableness of the impairment loss recognised for the fixed assets and there were no other practical alternative audit procedures that the Predecessor Auditor could perform to determine whether the carrying amount of fixed assets was fairly stated as at 31 December 2016.

As disclosed in note 14 to the consolidated financial statements, the Group recognised an impairment loss of fixed assets of approximately RMB5.3 million for the year ended 31 December 2017. However, as we have not been provided with sufficient appropriate audit evidence to satisfy ourselves that the recoverable amounts, and hence the carrying amounts, of the fixed assets of the Group as at 31 December 2016 were free from material misstatements, we were unable to satisfy ourselves that the impairment loss on fixed assets recognised in consolidated profit or loss for the year ended 31 December 2017, and the related elements making up the consolidated statement of changes in equity, the consolidated statement of cash flows and the related disclosures in the financial statements, were free from material misstatements.

BASIS FOR DISCLAIMER OF OPINION ON THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS, PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, CHANGES IN EQUITY AND CASH FLOWS AND FOR QUALIFIED OPINION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(c) Unauthorised expenses for Shandong Shanshui Cement Group Co., Ltd. ("Shandong Shanshui")

As disclosed in note 8 to the consolidated financial statements, Shandong Shanshui accrued an amount of RMB130.6 million as the bonus (the "Accrued 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 then directors of the Company advised the Predecessor Auditor that the so-called bonus and the payment was not approved by the directors of the Company, but the directors of the Company were still of the opinion that RMB130.6 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 the Predecessor Auditor with any evidence of the payment in January 2017. In the absence of sufficient audit evidence as to support the existence and payment of the expense, the Predecessor Auditor was unable to satisfy themselves as to whether 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.

As stated above, the Accrued Bonus has been recorded as settled during the year ended 31 December 2017. However, in the absence of sufficient appropriate audit evidence to support the validity and existence of the Accrued Bonus and to support the asserted payment, we were unable to obtain sufficient appropriate audit evidence, and were unable to carry out alternative audit procedures, to satisfy ourselves as to the nature and purpose of the recorded payment and as to whether the payment resulted in an expense or loss which should be recognised in consolidated profit or loss for the year ended 31 December 2017.

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

The Predecessor Auditor noted during their audit of the consolidated financial statements for the year ended 31 December 2015 that there were payments of personnel expenses and other net expenses of RMB18.7 million and RMB14.3 million respectively (the "Certain Expenses") which were approved by the ex-directors of the Company which were not substantiated with relevant supporting documentation. In the absence of sufficient audit evidence to support the existence of these expenses, the Predecessor Auditor was unable to satisfy whether any adjustments to these expenses for the year ended 31 December 2015 would affect the Group's loss for the year ended 31 December 2016.

BASIS FOR DISCLAIMER OF OPINION ON THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS, PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, CHANGES IN EQUITY AND CASH FLOWS AND FOR QUALIFIED OPINION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

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

As disclosed in note 18 to the consolidated financial statements, Qilu Property Co., Ltd. ("Qilu Property") was acquired by Shandong Shanshui sometime during the period July to September 2015. Due to the Group being unable to find the equity transfer agreement for this transaction and obtain the financial information or any books and records of Qilu Property, the Group fully impaired the carrying amount of the investment in Qilu Property of RMB147 million as at 31 December 2016.

The Group sold 55% interest in Shanshui Heavy Industries Co., Ltd. ("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 2016. Since the Group was 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 2016.

In the absence of any available information or books and records of these associates being provided by the Group's management, the Predecessor Auditor was unable to obtain satisfactory audit evidence to satisfy themselves as to the existence and accuracy of the investments in associates recognised or disclosed for the year ended 31 December 2016.

The directors of the Company have advised us that the Group continued to be unable to have access to any financial information and books and records of Qilu Property and Shanshui Heavy Industries during the year ended 31 December 2017. In the absence of any available information or books and records of these entities being provided by the Group's management, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the existence, accuracy and recoverable amount of the interests in associates as at 31 December 2017 and as to whether any impairment loss or reversal of impairment loss should be recognised in consolidated profit or loss for the year then ended.

BASIS FOR DISCLAIMER OF OPINION ON THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS, PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, CHANGES IN EQUITY AND CASH FLOWS AND FOR QUALIFIED OPINION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(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 2(a) and 17 to the consolidated financial statements, as a result of the continuing difficulties and events described in note 2(a), the board of the Company at the material time had been unable to access any accounting books and records of these three companies nor had 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, the Predecessor Auditor was unable to obtain satisfactory audit evidence to satisfy themselves 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 had been accurately presented.

We were also not provided with access to available information or books and records of these three companies, hence we were also unable to obtain satisfactory audit evidence to satisfy ourselves as to the existence, recording accuracy and recoverable amount of the available-for-sale investments as at 31 December 2017 and as to whether any impairment loss should be recognised in consolidated profit or loss for the year then ended.

BASIS FOR DISCLAIMER OF OPINION ON THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS, PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, CHANGES IN EQUITY AND CASH FLOWS AND FOR QUALIFIED OPINION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

Any adjustments found to be necessary in respect of the matters described in paragraphs (a) to (d) above may have consequential significant impacts on the net assets of the Group as at 31 December 2016 and its net profit or loss, other comprehensive income or expense and cash flows for the years ended 31 December 2016 and 2017 and the related disclosures thereof in the consolidated financial statements. Any adjustments found to be necessary in respect of the matters described in paragraphs (e) and (f) above may have consequential significant impacts on the net assets of the Group as at 31 December 2017 and 2016 and its net profit or loss, other comprehensive income and cash flows for the years then ended and the related disclosures thereof in the consolidated financial statements.

We conducted our audit on the consolidated statement of financial position of the Group as at 31 December 2017 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on the consolidated statement of financial position as at 31 December 2017.

MATERIAL UNCERTAINTIES RELATED TO GOING CONCERN

We draw attention to note 2(b) to the consolidated financial statements, which highlights that the Group's current liabilities exceeded its current assets by RMB15,408 million as at 31 December 2017 and as at that date, certain loan principal repayments of RMB3,724 million and interest payments were overdue and the Group was in default in repayment and the Group had also breached the default clauses of the lending arrangements of bank loans, other borrowings and long-term bonds totalling RMB569 million, RMB490 million and RMB5,457 million, respectively. Up to the date of the approval of the consolidated financial statements, the Group is facing a significant number of legal actions from banks and creditors demanding immediate repayment and a winding-up petition filed by one of the shareholders of the Company. These conditions, further details of which are described in note 2(b) to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubts about the Group's ability to continue as a going concern. Our disclaimer of opinion is not modified in respect of this matter.

Independent Auditor's Report (Continued)

OTHER MATTERS

As referred to above, the Predecessor Auditor who was engaged to audit the consolidated financial statements of the Group for the year ended 31 December 2016 expressed a disclaimer of opinion on those statements on 30 March 2017. The matters which led the Predecessor Auditor to disclaim their opinion are in relation to the matters described in (i) paragraphs (b) to (f) above; (ii) Material Uncertainties Related to Going Concern section of our report; (iii) scope limitation on the board's representation, details of which are reproduced below, and on impairment assessment of the Group's goodwill, details of which are described below.

"Scope limitation on the board's representation

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."

OTHER MATTERS (CONTINUED)

In respect of the scope limitation on impairment assessment of the Group's goodwill, as disclosed in note 16 of the consolidated financial statements, the Group recognised an accumulated impairment loss on goodwill amounting to approximately RMB2,331.6 million as at 31 December 2016 and no impairment loss thereon in consolidated profit or loss for the year then ended. In the absence of sufficient appropriate audit evidence to verify the reasonableness of the assumptions used in the cash flow forecasts upon which the recoverable amounts as at 31 December 2016 of the groups of cash generating units to which the goodwill belonged were based, the Predecessor Auditor was unable to obtain sufficient audit evidence to satisfy themselves as to the reasonableness of the impairment loss recognised for the goodwill and there were no other practical alternative audit procedures that the Predecessor Auditor could perform to determine whether the carrying amount of goodwill was fairly stated as at 31 December 2016.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the "Basis for Disclaimer of Opinion on the Consolidated Statements of Profit or Loss, Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows and for Qualified Opinion on the Consolidated Statement of Financial Position" section above, we were unable to obtain sufficient appropriate evidence about the matters described in paragraphs (a) to (f) therein. Accordingly, we are unable to conclude whether or not the other information in the directors' report is materially misstated with respect to this matter.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view of the Company 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

However, because of the matters described in the "Basis for Disclaimer of Opinion on the Consolidated Statements of Profit or Loss, Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows and for Qualified Opinion on the Consolidated Statement of Financial Position" section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated statement of profit or loss and 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 ended 31 December 2017.

Moore Stephens CPA Limited
Certified Public Accountants

Cheung Sai Kit
Practising Certificate Number: P05544

Hong Kong, 6 October 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Notes	**2017** ***RMB'000***	2016 *RMB'000*
Revenue	6(a)	**14,765,328**	11,284,193
Cost of sales		**(10,361,241)**	(8,808,192)
Gross profit		**4,404,087**	2,476,001
Other income	7	**336,425**	182,300
Other net expenses	8	**(108,021)**	(518,304)
Selling and marketing expenses		**(580,786)**	(486,954)
Administrative expenses		**(2,071,191)**	(1,414,882)
Profit from operations		**1,980,514**	238,161
Finance costs	9(a)	**(1,021,372)**	(1,030,649)
Share of results of associates		**8,198**	(36,807)
Profit/(loss) before taxation	9	**967,340**	(829,295)
Income tax expense	10(a)	**(420,870)**	(149,566)
Profit/(loss) for the year		**546,470**	(978,861)
Attributable to:			
Equity shareholders of the Company		**600,817**	(738,281)
Non-controlling interests		**(54,347)**	(240,580)
Profit/(loss) for the year		**546,470**	(978,861)
Earnings/(loss) per share	13		
Basic *(RMB)*		**0.18**	(0.22)
Diluted *(RMB)*		**0.18**	(0.22)

The notes on pages 126 to 246 form parts of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Note	2017 *RMB'000*	2016 *RMB'000*
Profit/(loss) for the year		**546,470**	(978,861)
Other comprehensive income/(expenses) for the year			
Item that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit obligations	28(c)	**13,530**	18,400
Exchange differences arising on translation		**201,814**	(214,974)
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale securities: net movement in the fair value reserve		**423**	(645)
Other comprehensive income/(expenses) for the year		**215,767**	(197,219)
Total comprehensive income/(expenses) for the year		**762,237**	(1,176,080)
Attributable to:			
Equity shareholders of the Company		**816,584**	(935,500)
Non-controlling interests		**(54,347)**	(240,580)
Total comprehensive income/(expenses) for the year		**762,237**	(1,176,080)

The notes on pages 126 to 246 form parts of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
Non-current assets			
Fixed assets	14		
– Property, plant and equipment		**16,769,993**	17,716,429
– Land lease prepayments		**2,241,969**	2,293,955
		19,011,962	20,010,384
Intangible assets	15	**618,574**	512,565
Goodwill	16	**14,223**	14,223
Other financial assets	17	**489,158**	474,065
Interests in associates	18	**299,607**	256,559
Deferred tax assets	30(b)	**159,335**	134,329
Other long-term assets	21(b)	**160,299**	250,554
		20,753,158	21,652,679
Current assets			
Inventories	19	**1,506,993**	1,452,355
Trade and bills receivables	20	**1,805,752**	1,533,881
Other receivables and prepayments	21(a)	**653,220**	916,738
Restricted bank deposits	22	**62,841**	88,003
Bank balances and cash	22	**307,995**	276,500
		4,336,801	4,267,477
Current liabilities			
Bank loans – amount due within one year	23	**4,790,599**	5,074,250
Other borrowings	24	**1,736,722**	2,770,909
Current portion of long-term bonds	25	**5,977,435**	7,193,863
Trade payables	26	**3,225,907**	3,726,792
Other payables and accrued expenses	27	**3,888,522**	3,298,938
Taxation payable	30(a)	**125,517**	77,632
		19,744,702	22,142,384
Net current liabilities		**(15,407,901)**	(17,874,907)
Total assets less current liabilities		**5,345,257**	3,777,772

Consolidated Statement of Financial Position (Continued)

At 31 December 2017

	Notes	**31 December 2017 *RMB'000***	31 December 2016 *RMB'000*
Non-current liabilities			
Other borrowings	24	**403,841**	4,546
Long-term bonds	25	**397,047**	–
Defined benefit obligations	28(c)	**137,070**	156,773
Deferred income	29	**266,807**	273,298
Long-term payables		**20,347**	20,444
Deferred tax liabilities	30(b)	**102,614**	66,472
		1,327,726	521,533
Net assets		**4,017,531**	3,256,239
Capital and reserves			
Share capital	32(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		**(966,531)**	(1,783,170)
Total equity attributable to equity shareholders of the Company		**3,915,327**	3,098,688
Non-controlling interests		**102,204**	157,551
Total equity		**4,017,531**	3,256,239

The consolidated financial statements on pages 119 to 246 were approved and authorised for issue by the Board of Directors on 6 October 2018.

CHANG, Zhangli
Director

WU, Ling-ling
Director

The notes on pages 126 to 246 form parts of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Statutory reserves	Other reserves	Exchange reserve	Fair value reserve	Accumulated loss	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*
At 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
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	–	–	(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
At 31 December 2016 and 1 January 2017	**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**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**600,817**	**600,817**	**(54,347)**	**546,470**
Other comprehensive income	**–**	**–**	**–**	**–**	**201,814**	**423**	**13,530**	**215,767**	**–**	**215,767**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**201,814**	**423**	**614,347**	**816,584**	**(54,347)**	**762,237**
Distribution to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(747)**	**(747)**
Transfer between reserves	**–**	**–**	**89,233**	**–**	**–**	**–**	**(89,233)**	**–**	**–**	**–**
Acquisition of non-controlling interests	**–**	**–**	**–**	**55**	**–**	**–**	**–**	**55**	**(253)**	**(198)**
Balance at 31 December 2017	**227,848**	**4,654,010**	**1,282,801**	**268,976**	**(147,387)**	**5,225**	**(2,376,146)**	**3,915,327**	**102,204**	**4,017,531**

The notes on pages 126 to 246 form parts of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
Operating activities			
Profit/(loss) before taxation		**967,340**	(829,295)
Adjustments for:			
Depreciation	9(c)	**1,306,353**	1,337,908
Amortisation of land lease prepayments	9(c)	**58,600**	58,279
Amortisation of intangible assets	9(c)	**94,060**	86,342
Amortisation of deferred income	7	**(17,480)**	(16,900)
Impairment loss on fixed assets, net	9(c)	**5,336**	15,658
Impairment loss on intangible assets	9(c)	**–**	21,812
Impairment loss on other financial assets	9(c)	**41,806**	262,045
Impairment loss on trade and bills receivables, net	9(c)	**51,788**	(10,629)
(Reversal of)/impairment loss on other receivables, net	9(c)	**(17,039)**	91,299
Write-down of inventories	9(c)	**109**	4,562
Finance costs	9(a)	**1,021,372**	1,030,649
Share of results of associates		**(8,198)**	36,807
Interest income	7	**(6,019)**	(6,597)
Net loss/(gain) from disposal of fixed assets	8	**969**	(42,947)
Net foreign exchange (gain)/loss	8	**(5,186)**	8,040
		3,493,811	2,047,033
Changes in working capital:			
Increase in inventories		**(54,747)**	(262,484)
Increase in trade and bills receivables		**(407,659)**	(75,880)
Decrease/(increase) in restricted bank deposits		**25,162**	(46,701)
Decrease/(increase) in other receivables and prepayments		**280,539**	(424,211)
Decrease in other long-term assets		**88,495**	62,376
(Decrease)/increase in trade and bills payables		**(500,885)**	212,716
Increase in other payables and accrued expenses		**436,781**	260,759
Decrease in defined benefit obligations		**(19,703)**	(17,887)
Increase in deferred income		**10,989**	–
(Decrease)/increase in long-term payables		**(97)**	62,378
Cash generated from operations		**3,352,686**	1,818,099
Interest paid		**(1,015,494)**	(775,803)
Income tax paid		**(361,990)**	(63,954)
Net cash generated from operating activities		**1,975,202**	978,342

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2017

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Investing activities		
(Increase)/decease in other financial assets	**(108,794)**	28,255
Payment for purchase of fixed assets	**(462,843)**	(332,616)
Payment for purchase of intangible assets	**(200,069)**	(134,751)
(Advance of)/repayment from loan to an associate	**(2,039)**	5,000
Proceeds from disposals of fixed assets	**81,893**	17,851
Acquisition of interests in associates	**(14,850)**	(11,864)
Interest received	**6,019**	6,597
De-recognition of subsidiaries	**–**	(13,281)
Repayment from loans due from a third party	**54,499**	16,000
Net cash used in investing activities	**(646,184)**	(418,809)
Financing activities		
Capital element of finance lease rentals paid	**–**	(7,639)
Proceeds from new loans and borrowings	**284,700**	1,017,600
Proceeds from bills discounted	**64,000**	72,129
Loans from shareholders	**277,268**	1,119,702
Loans from related parties	**10,815**	10,204
Repayment of loans and borrowings	**(1,203,243)**	(1,270,784)
Repayment of long-term bonds	**(647,284)**	(747,046)
Repayment of loans from shareholders	**(31,974)**	(676,054)
Repayment of loans from related parties	**(47,427)**	(6,244)
Repayment of interest of bills receivable discounted	**–**	(1,081)
Acquisitions of additional interest of existing subsidiaries	**(198)**	(11,126)
Dividends paid to non-controlling interests	**(747)**	(9,620)
Net cash used in financing activities	**(1,294,090)**	(509,959)
Net increase in cash and cash equivalents	**34,928**	49,574
Cash and cash equivalents at 1 January	**276,500**	222,907
Effect of foreign exchange rate changes	**(3,433)**	4,019
Cash and cash equivalents at 31 December, representing bank balances and cash	**307,995**	276,500

The notes on pages 126 to 246 form parts of these financial statements.

1. GENERAL

China Shanshui Cement Group Limited (the "Company") is a public limited company incorporated in Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Due to the failure to meet the minimum public float requirement, trading in the shares and debt securities of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on 16 April 2015.

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company's functional currency is the United States dollars ("USD" or "US$"). However, the presentation currency of the consolidated financial statement is the RMB in order to present the operating results and financial position of the Group based on the economic environment in which the operating subsidiaries of the Group operate.

The Company is an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 40 and 18, respectively.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(a) Matters arising from the change in directors

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 "2015 New Board"). Since 1 December 2015, the 2015 New Board began to take over the management of the Group from the ex-directors.

During 2016 and 2017, there has been several changes in the board composition.

With effect from the conclusion of an extraordinary general meeting on 23 May 2018, all directors were removed and 2 directors were appointed (the "2018 New Board" or the directors"). The directors of the Company have reviewed the Group's corporate governance structure and identified appropriate management and key personnel who are responsible for the relevant functions and can direct the relevant activities in previous years. In the opinion of the directors of the Company, the accounting books and records of the Group, including those of Shandong Shanshui Cement Group Co., Ltd ("Shandong Shanshui") and its subsidiaries, have been properly maintained for the year ended 31 December 2017. Based on the directors' assessment, except for the limitations as stated below, the directors are in the view that they are eligible to fulfil their responsibilities to prepare the consolidated financial statements.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(a) Matters arising from the change in directors (Continued)

As at the date of approval of the consolidated financial statements, the 2018 New Board took over the management of the Group, with the following exceptions:

(i) A former subsidiary, Jinan Changqing Shanshui Micro Finance Co., Ltd. ("Shanshui Micro Finance"), is under the management of the Mr. Zhangs. During the years of 2016 and 2017 and up to the date of the approval of the consolidated financial statements, the Group 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 since January 2016;

(ii) Before the 2015 New Board 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). 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. Since then, the Group 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 since May 2016; and

(iii) 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 taken 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. In accordance with the judgement, the Group had accrued a provision of RMB33 million as at 31 December 2016 and 2017 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 Group 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.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(a) Matters arising from the change in directors (Continued)

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 during the years ended 31 December 2016 and 2017 and up to the date of approval of the consolidated financial statements, 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 and has made full impairment provision for the carrying amount of these investments as at 31 December 2016.

The 2018 New Board is in the process of relevant assessment to formulate a plan to resolve the issues with the above three entities.

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

As at 31 December 2017, the Group's current liabilities exceeded its current assets by RMB15,408 million, its total interest-bearing borrowings amounted to RMB13,306 million, out of which RMB12,505 million are due within 12 months or are repayable on demand under cross default clauses in the relevant loan agreements. The bank balances and cash of the Group amounted to RMB308 million as at 31 December 2017.

As disclosed in notes 23 to 25, the Group breached the repayment obligations and default clauses of the lending agreements of bank loans, other borrowings and long-term bonds totaling RMB569 million, RMB490 million and RMB5,457 million, respectively, as at 31 December 2017, hence these balances were repayable on demand.

As at 31 December 2017, through commencing legal proceedings, several banks have demanded that the Group repays the overdue principal of other borrowings and long-term bonds of approximately RMB2,720 million and certain suppliers and third parties also have demanded that the Group repays the overdue payables of approximately RMB509 million.

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

On 14 January 2016, the Company made an announcement to propose an offer (the "Tender Offer") to re-purchase the principal amount of USD500,000,000 of its 7.5% senior notes due 2020 (the "2020 Notes") at 101% of par. As at the expiration date of the proposal on 14 March 2016, the note holders of USD484,971,000 of the principal amount of the 2020 Notes have validly accepted the proposal. The Company has re-purchased USD72,747,000 of the principal of the 2020 Notes during 2016. On 1 November 2017, certain 2020 Notes holders commenced an action against the Company in New York state court. The note holders allege that the 2020 Notes had become immediately due and payable in full. The legal action is still in progress.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(b) Material uncertainties relating to the Group's ability to continue as a going concern (Continued)

On 6 August 2018 and 30 August 2018, the Company entered into agreements to issue convertible bonds with an aggregate principal amount of US$531,600,000 for the purpose, among other things, of completing the Tender Offer. However, on 30 August 2018 and 31 August 2018, Tianrui (International) Holding Company Limited ("Tianrui"), one of the shareholders of the Company with significant influence over the Company, filed petitions (the "Petitions") seeking to wind up the Company before the Grand Court of the Cayman Islands and the Court of First Instance of the High Court of the Hong Kong Special Administrative Region. On 6 September 2018, Tianrui also made an application to the Grand Court of the Cayman Islands for the appointment of joint provisional liquidators to the Company (the "JPL Application"). Hearings on the Petitions and JPL Application have been fixed for 10 and 11 October 2018. Until the Petitions and JPL Application are dismissed, the Company cannot use the cash raised from the issuance of the convertible bonds to complete the Tender Offer. Details of which are set out in the Company's announcement on 4 September 2018.

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 2017, 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.

Up to the date of approval of the consolidated financial statements, the Group has repaid bank borrowings of RMB397 million and has renewed or rolled over bank borrowings with principal amount of RMB2,916 million of which RMB2,632 million will be due in 2019 and after.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(b) Material uncertainties relating to the Group's ability to continue as a going concern (Continued)

(ii) During 2017, the Group has successfully reached agreements with holders of short-term financing bills to restructure the repayment terms. As at 31 December 2017, the Group has entered into agreements with holders of defaulted and past due short-term financing bills with principal amounts of RMB1,646 million on settlement plans to extend the repayment of RMB1,246 million to 2018 and RMB400 million to after 2018. The creditors have also agreed to waive portion of interests accrued to the outstanding liabilities on the condition that the Group repays the outstanding liabilities according to the revised repayment plans.

Up to the date of approval of the consolidated financial statements, the Group has repaid short-term financing bills of RMB1,116 million and entered into agreements with other short-term financing bills holders with principal amounts of RMB360 million. According to the agreements, the outstanding short-term financing bills of RMB30 million and RMB330 million will be repayable in 2018 and 2021 respectively, of which, loans with principal of RMB30 million is interest-free and loans with principal of RMB330 million carries interest at 6.4% – 7.7% per annum on the condition that the Group fully complies with the revised repayment plan.

(iii) During 2017, the Group has successfully reached agreements with certain holders of medium-term notes to restructure the repayment terms of the notes. As at 31 December 2017, the Group has entered into agreements with holders of medium-term notes that had been overdue with principal amounts of RMB918 million on settlement plans to extend the repayment of RMB521 million to 2018 and RMB397 million to after 2018. The creditors have also agreed to waive portion of interests accrued to the outstanding liabilities on the condition that the Group repays the outstanding liabilities according to the revised repayment plans.

Up to the date of approval of the consolidated financial statements, the Group repaid medium-term notes of RMB572 million and entered into agreements with other medium-term notes holders with principal amounts of RMB1,205 million. According to the agreements, the Group was discharged from the liabilities of certain principal amounting to RMB4 million, the remaining outstanding medium-term notes of RMB308 million, RMB305 million, RMB489 million and RMB100 million will be repayable in 2018, 2019, 2020, and 2021 respectively of which, medium-term notes with principal of RMB81 million is interest-free and medium-term notes with principal of RMB1,120 million carries interest at 5.5% – 8.9% per annum on the condition that the Group fully complies with the revised repayment plans.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(b) Material uncertainties relating to the Group's ability to continue as a going concern (Continued)

(iv) On 8 August 2018 and 3 September 2018, the Company issued convertible bonds in principal amounts of US$210,900,000 and US$320,700,000 respectively. The issue price was 100% of the aggregate principal amount of the convertible bonds.

(v) On 20 September 2018, the Company has entered into a restructuring support agreement ("RSA") to complete the Tender Offer with multiple holders of the 2020 Notes (the Consenting Noteholders"). Pursuant to the terms of the RSA, the Company and the Consenting Noteholders agree to oppose the Petitions and the JPL Application, the Company agrees to complete the Tender Offer at 101% of par plus accrued interest through the date of payment, and the Consenting Noteholders agree not to enforce their rights under the indenture governing the 2020 Notes unless and until the RSA is terminated.

(vi) The Company has appointed lawyers to represent it in respect of the opposition of the Petitions and based on the advice from the lawyers, the directors of the Company are of the opinion that the Company has reasonable prospects of success with its application to strike out the Petitions.

(vii) 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.

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 consolidated financial statements for the year ended 31 December 2017 on a going concern basis.

However, the outcome of the measures described above to deal with the events and conditions which cast significant doubts on the Group's ability to continue as a going concern cannot be reliably ascertained. Hence, there exists material uncertainties related to these events and conditions that may cast significant doubts on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(b) Material uncertainties relating to the Group's ability to continue as a going concern (Continued)

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 these consolidated financial statements for the year ended 31 December 2017.

(c) Measurement basis

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value:

– available-for-sale investments

The preparation of the consolidated financial statements in conformity with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 recognized 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.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by the IASB for the first time in the current year:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014–2016 Cycle

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements for the year ended 31 December 2017.

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 36. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 36, the application of these amendments has had no impact on the Group's consolidated financial statements.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC-Interpretation 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC-Interpretation 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 15	Clarification to IFRS 15 Revenue from Contracts with Customers[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venure[3]
Amendments to IAS 19	Employee Benefits[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014–2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018

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

3 Effective for annual periods beginning on or after a date to be determined

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

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

IFRS 9 Financial instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 that are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 "Financial instruments: Recognition and measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of IFRS 9:

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

IFRS 9 Financial instruments (Continued)

Classification and measurement:

- Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in note 17: these securities qualified for designation as measured at FVTOCI under IFRS 9, however, the Group plans not to elect the option for the designation and will measure these securities at fair value with subsequent fair value gain or losses to be recognised in profit or loss upon initial application of IFRS 9 fair value reserve of RMB5,225,000 related to available-for-sale investments will be transferred to accumulated loss at 1 January 2018;

- Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 17: these securities qualified for designation as measured at FVTOCI under IFRS 9, however, the Group plans not to elect the option for designating these securities to be measured at FVTOCI and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Detailed impact will be disclosed in the consolidated financial statements for the year ending 31 December 2018.

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that are subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade receivables, loans to an associate, loans due from a third party and amount due from third parties. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

IFRS 15 Revenue from contracts with customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. In 2016, the IASB issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance. The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 "Leases" and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group as lessee had non-cancellable operating lease commitments of RMB97,815,000 (31 December 2016: RMB126,391,000) as disclosed in note 34(b). A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon the application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. Detailed impact will be disclosed after a detailed analysis is performed.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs, which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measure at fair values, as explained in accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based payment", leasing transactions that are within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in the Group's ownership interests in existing subsidiaries (Continued)

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash- generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

The Group's policy for goodwill arising on the acquisition of an associate is described below.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in change in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (Continued)

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Land lease prepayments

Land lease prepayments represent cost of 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. The cost of Land lease prepayments is charged to expenses on a straight-line basis over the respective periods of the rights.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, and an appropriate proportion of production overheads and borrowing costs.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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.

Construction in progress

Construction in progress is stated at cost less impairment losses. 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.

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. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (Continued)

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair values at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leased assets (Continued)

(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. 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.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on tangible and intangible assets other than goodwill (Continued)

Recoverable amount is the higher of 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro- rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash- generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years.

A reversal of an impairment loss is recognised immediately in profit or loss.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories (Continued)

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.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss ("financial assets at FVTPL").

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, loans to an associate, loan due from a third party, amounts due from third parties, restricted bank deposits, and bank balances and cash) are carried at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged declined in the fair value of the security below its cost is considered to be objective evidence of impairment.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and amounts due from associates/investees, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable, or amounts due from associates/investees is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including trade payables, other payables, bank loans, other borrowings, long-term bonds and long-term payables) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition (Continued)

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (iii) below 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 (iii) below. 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 (iii) below.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial guarantees issued, provisions and contingent liabilities (Continued)

(iii) Other provisions and contingent liabilities (Continued)

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.

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 to customers which are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership have been transferred to the customers. 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 a non-current asset are recognised as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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;
- (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);

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

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

(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 the 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.

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 chief operating decision maker 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.

5. ACCOUNTING JUDGEMENT AND ESTIMATES

Notes 28 and 33 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 discount rates, growth rates and the projected sales volume, selling price, direct costs, gross margin and other related expenses. The directors conducted a review of the Group's production assets, details of the review are disclosed in note 14. During the year ended 31 December 2017, impairment loss of RMB5,336,000 (31 December 2016: RMB15,658,000) has been recognised in respect of those fixed assets in note 14.

– Goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use or fair value less cost of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit. In determining the value in use, expected cash flows generated by the cash-generating unit are discounted to their present values, which require significant judgement relating to items such as the discount rates, growth rates and the projected sales volume, selling price, direct costs, gross margin and other related expenses. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, further impairment loss may arise. As at 31 December 2017, the carrying amount of goodwill is RMB14,223,000 (31 December 2016: RMB14,223,000), which is net of accumulated impairment loss of RMB2,331,634,000 (31 December 2016: RMB2,331,634,000). Details of the recoverable amount calculation are disclosed in note 16.

5. ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

(i) Impairments (Continued)

– Inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. The Group will reassess the estimations at each statement of financial position date. As at 31 December 2017, carrying amount of inventories is RMB1,506,993,000 (31 December 2016: RMB1,452,355,000).

– 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 uncollectable amounts may be higher than the amount estimated. As at 31 December 2017, the carrying amount of trade and other receivables is RMB2,458,972,000 (31 December 2016: RMB2,405,619,000)

(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.

5. ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

(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.

(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.

6. REVENUE AND SEGMENT REPORTING

(a) Revenue

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

Revenue 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:

	2017	2016
	RMB'000	*RMB'000*
Sales of cement	**11,165,673**	8,745,749
Sales of clinker	**2,175,092**	1,735,381
Sales of concrete	**1,175,130**	677,406
Sales of other products	**241,856**	124,152
Rendering of services	**7,577**	1,505
	14,765,328	11,284,193

(b) Segment reporting

As the Group operates in a single business, the manufacturing and sale of cement, clinker and concrete in the People's Republic, of China (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. Based on the manner in which information is reported internally to the executive directors of the Company, being the Group's chief operating decision maker ("CODM"), for the purposes of resource allocation and performance assessment, the Group has identified and presented the following four reportable segments based on the region in which the Group's business operates. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

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

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

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

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

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

(i) Segment results, assets and liabilities

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

Segment assets include all tangible and intangible assets and current assets, with the exception of interests in associates, deferred tax assets and other corporate assets. Segment liabilities include trade payable, other payables and accrued expenses and bank loans and other borrowings managed directly by the segments.

Revenue and expenses are allocated to the operating 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.

Segment results represents profits earned by each segment without allocation of head office corporate administrative expenses, share of result of associates, waiver of interest expense, directors' remuneration, auditor's remuneration and finance costs in relation to the unallocated bank loans and borrowings, long-term bonds.

In addition to receiving segment information concerning adjusted profit before taxation, the CODM 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.

6. REVENUE 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 CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

	2017					2016				
	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	9,826,735	3,128,440	1,328,002	482,151	14,765,328	6,922,365	3,108,620	825,094	428,114	11,284,193
Inter-segment revenue	31,422	13,254	17,503	–	62,179	6,028	–	–	–	6,028
Reportable segment revenue	9,858,157	3,141,694	1,345,505	482,151	14,827,507	6,928,393	3,108,620	825,094	428,114	11,290,221
Reportable segment profit/(loss) (adjusted profit/(loss) before taxation)	1,742,250	153,900	2,497	141,893	2,040,540	689,322	(71,968)	(149,837)	82,956	550,473
Included in arriving at segment results are:										
Interest income	3,148	980	81	40	4,249	1,828	2,077	43	39	3,987
Interest expense	36,703	27,110	22	9,820	73,655	83,195	30,815	394	12,132	126,536
Depreciation and amortisation for the year	591,597	523,596	287,550	48,452	1,451,195	638,740	549,074	244,775	46,744	1,479,333
Impairment of property, plant and machinery	(8,328)	13,664	–	–	5,336	18,161	–	(2,503)	–	15,658
Reportable segment assets	9,678,847	8,566,619	5,359,711	1,083,668	24,688,845	11,139,381	8,064,643	5,065,669	912,495	25,182,188
Additions to fixed assets and intangible assets during the year	425,906	139,478	78,622	6,913	650,919	234,453	209,099	105,009	11,008	559,569
Reportable segment liabilities	3,732,180	2,143,616	667,620	322,140	6,865,556	3,453,208	1,956,815	803,376	345,546	6,558,945

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

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

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**14,827,507**	11,290,221
Elimination of inter-segment revenue	**(62,179)**	(6,028)
Consolidated revenue	**14,765,328**	11,284,193
Profit/(loss)		
Reportable segment profit	**2,040,540**	550,473
Elimination of inter-segment (profit)/loss	**(8,099)**	6,546
Reportable segment profit derived from Group's external customers	**2,032,441**	557,019
Share of results of associates	**8,198**	(36,807)
Waiver of interest expense	**117,006**	–
Unallocated finance costs	**(1,141,180)**	(904,113)
Unallocated head office and corporate expenses	**(49,125)**	(445,394)
Consolidated profit/(loss) before taxation	**967,340**	(829,295)

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned or generated by each segment without allocation of central administration costs, directors' salaries, certain share of results of associates and unallocated finance costs. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

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

	2017 *RMB'000*	2016 *RMB'000*
Assets		
Reportable segment assets	**24,688,845**	25,182,188
Elimination of inter-segment profit	**(785)**	(43,823)
Elimination of inter-segment receivables	**(464,049)**	(108,146)
	24,224,011	25,030,219
Deferred tax assets	**159,335**	134,329
Interests in associates	**299,607**	256,559
Unallocated head office and corporate assets	**407,006**	499,049
Consolidated total assets	**25,089,959**	25,920,156
Liabilities		
Reportable segment liabilities	**6,865,556**	6,558,945
Elimination of inter-segment payables	**(464,049)**	(108,146)
	6,401,507	6,450,799
Deferred tax liabilities	**102,614**	66,472
Unallocated bank loans and other borrowings	**6,374,481**	6,885,750
Unallocated long-term bonds	**6,252,262**	7,193,863
Unallocated head office liabilities	**1,941,564**	2,067,033
Consolidated total liabilities	**21,072,428**	22,663,917

(iii) Geographical information

The Group's revenue and non-current assets are arisen in and located in the PRC during both years.

(iv) Information about major customers

No single external customer contributed revenue from transactions amounting to 10% or more of the revenue of the Group during both years.

7. OTHER INCOME

	Notes	2017 RMB'000	2016 RMB'000
Interest income		**6,019**	6,597
Government grants	(i)	**166,290**	143,288
Amortisation of deferred income	29	**17,480**	16,900
Waiver of interest expenses	(ii)	**117,006**	–
Others		**29,630**	15,515
		336,425	182,300

Notes:

(i) Government grants mainly represented tax refunds, operating subsidies and energy reduction incentives from local governments.

(ii) During the year ended 31 December 2017, the Group entered into agreements with holders of certain short-term financing bills with outstanding principal and interests of RMB1,646 million and RMB236 million respectively and medium-term notes with outstanding principal and interests of RMB918 million and RMB88 million respectively, in respect of settlement plans of defaulted bills and notes. The Group has made full repayment of certain bills and notes with principal amount of RMB145 million according to the agreed repayment schedule stated in the agreements. Accordingly, as per the terms specified in the agreements, portion of outstanding interest amounting to RMB117 million was waived by the creditors.

8. OTHER NET EXPENSES

	Notes	2017 RMB'000	2016 RMB'000
Net foreign exchange gain/(loss)		**5,186**	(21,095)
Net (loss)/gain from disposal of fixed assets		**(969)**	42,947
Impairment loss on fixed assets, net	14	**(5,336)**	(15,658)
Impairment loss on intangible assets	15	**–**	(21,812)
(Impairment loss)/reversal of impairment on trade receivables, net		**(51,788)**	10,629
Reversal of impairment/(impairment loss) on other receivables, net		**17,039**	(91,299)
Impairment loss on other financial assets	17	**(41,806)**	(262,045)
Penalties		**(11,514)**	(2,535)
Donations		**(4,865)**	(7,838)
Expenses without appropriate authorisation	(i)	**–**	(130,613)
Others		**(13,968)**	(18,985)
		(108,021)	(518,304)

8. OTHER NET EXPENSES (CONTINUED)

Note:

(i) Shandong Shanshui accrued an amount of RMB130.6 million as the bonus for year 2016 to be paid to the senior management of Shandong Shanshui and its subsidiaries. The amount was subsequently fully paid out during January 2017. This bonus and the payment thereof were not approved by the directors of the Company at the material point in time. As the amount was disbursed in relation to operations in 2016, the directors of the Company are of the opinion that RMB130.6 million should be recorded as an expense for year 2016 and therefore the amount had been accrued in the 2016 consolidated financial statements.

9. PROFIT/(LOSS) BEFORE TAXATION

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

(a) Finance costs

	Notes	**2017** **RMB'000**	2016 *RMB'000*
Interest on bank loans		**275,651**	299,732
Interest on other borrowings and long-term bonds		**714,556**	701,583
Less: capitalised interest expenses	(i)	**(411)**	(1,799)
Net interest expenses		**989,796**	999,516
Unwinding of discount	(ii)	**6,290**	7,026
Finance charges on obligations under finance lease		**–**	456
Bank charges		**25,286**	23,651
		1,021,372	1,030,649

Notes:

(i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 4.58% (2016: 5.84%) per annum for the year ended 31 December 2017.

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

	Note	**2017** **RMB'000**	2016 *RMB'000*
Defined benefit obligations	28(c)	**4,530**	5,050
Long-term payables		**1,760**	1,976
		6,290	7,026

9. PROFIT/(LOSS) BEFORE TAXATION (CONTINUED)

(b) Personnel expenses

	Note	**2017** **RMB'000**	2016 RMB'000
Salaries, wages and other benefits		**1,155,193**	1,098,468
Bonus and awards		**299,293**	126,105
Contributions to defined contribution retirement plans		**185,342**	146,707
Expense recognised in respect of defined benefit obligations	28(c)	**5,470**	9,140
		1,645,298	1,380,420

As disclosed in note 8, Shandong Shanshui accrued an amount of RMB130.6 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 bonus was not approved by the directors of the Company, the personnel expenses disclosed above do not include this expense of RMB130.6 million.

9. PROFIT/(LOSS) BEFORE TAXATION (CONTINUED)

(c) Other items

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
Amortisation			
– land lease prepayments	14	**58,600**	58,279
– intangible assets	15	**94,060**	86,342
		152,660	144,621
Depreciation	14	**1,306,353**	1,337,908
Impairment losses/(reversal of impairment) on			
– fixed assets, net	14	**5,336**	15,658
– intangible assets	15	**–**	21,812
– trade receivables, net	20(b)	**51,788**	(10,629)
– other receivables, net		**(17,039)**	91,299
– inventories	19(b)	**109**	4,562
– other financial assets	17	**41,806**	262,045
		82,000	384,747
Operating lease charges		**15,779**	27,641
Auditors' remuneration			
– audit and assurance services		**6,000**	5,200
– other services *(note (ii))*		**13,862**	3,387
		19,862	8,587
Cost of inventories sold *(note (i))*	19(b)	**10,361,241**	8,808,192

9. PROFIT/(LOSS) BEFORE TAXATION (CONTINUED)

(c) Other items (Continued)

Notes:

(i) Cost of inventories sold included RMB1,954,891,000 (2016: RMB1,659,276,000) relating to personnel expenses, depreciation and amortization expenses and impairment loss on inventories and cost of raw materials consumed amounting RMB3,420,862,000 (2016: RMB4,389,393,000) for the year ended 31 December 2017.

(ii) Auditors' remuneration – other services for the year ended 31 December 2017 include an amount of RMB13,222,000 paid to the predecessor auditors of the Company for work done up to the date of their resignation.

10. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2017 *RMB'000*	2016 *RMB'000*
Current tax		
Provision for PRC income tax	**403,813**	172,835
Under-provision in respect of prior years	**6,063**	657
Deferred tax		
Origination and reversal of temporary differences *(note 30(b))*	**10,994**	(23,926)
	420,870	149,566

10. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

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

	Notes	**2017** ***RMB'000***	2016 *RMB'000*
Profit/(loss) before taxation		**967,340**	(829,295)
Tax at the domestic income tax rate of 25% (2016: 25%)	(i)	**241,835**	(207,324)
Tax rate differential in foreign jurisdictions	(ii)	**13,388**	71,167
Effect of tax holiday	(iii)	**(20,786)**	(11,260)
Effect of non-deductible expenses	(iv)	**158,177**	19,266
Effect of non-taxable income		**(5,737)**	–
Effect of unused tax losses not recognised		**108,701**	249,881
Effect of deductible temporary differences not recognised		**78,917**	110,203
Effect of unrecognised prior year's deductible temporary differences utilised during the year		**(56,016)**	(45,906)
Effect of tax credit	(v)	**(3,411)**	(4,731)
Effect of unrecognised prior year's tax losses utilised during the year		**(98,212)**	(41,589)
Underprovision in prior year		**6,063**	657
Effect of share of results of associates		**(2,049)**	9,202
Actual income tax expense		**420,870**	149,566
Effective tax rate		**43.5%**	(18.0%)

10. 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% (2016: 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 juridictions.

The Company and its subsidiaries incorporated in Hong Kong are subject to Hong Kong Profits Tax at the rate of 16.5% (2016: 16.5%). No provision for Hong Kong Profits Tax has been made as the Company and the subsidiaries incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax during the year ended 31 December 2017 (2016: 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 and expenses of the Company which were non-deductible as the Company did not generate assessable income during the years.

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

11. 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 2017

	Directors' fees	Salaries, allowances and other benefits	Bonuses	Contributions to defined contribution retirement plans	Subtotal	Share-based payment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman, Executive director							
Liu Yiu Keung *(note(i) and (ii))*	–	–	–	–	–	–	–
Executive directors							
Li Heping *(note (v))*	3,028	–	–	–	3,028	–	3,028
Hwa Guo Wai *(note (vi))*	3,650	675	–	–	4,325	–	4,325
Li Zhiqiang *(note (iv))*	–	–	–	–	–	–	–
Non-executive directors							
Chong Cha Hwa *(note(iii))*	639	–	–	–	639	–	639
Independent non-executive directors							
Ho Man Kay *(note (vii))*	580	–	52	–	632	–	632
Law Pui Cheung *(note (vii))*	580	–	52	–	632	–	632
Wong Chi Keung *(note (vii))*	580	–	52	–	632	–	632
Ching Siu Ming *(note (vii))*	580	–	52	–	632	–	632
Lo Chung Hing *(note (vii))*	580	–	52	–	632	–	632
Total	10,217	675	260	–	11,152	–	11,152

11. DIRECTORS' REMUNERATION (CONTINUED)

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 *(note (v))*	–	–	4,282	–	4,282	–	4,282
Cheung Yuk Ming (retired on 17 June 2016)	1,893	–	–	–	1,893	–	1,893
Hwa Guo Wai *(note (vi))*	1,011	–	137	–	1,148	–	1,148
Non-executive directors							
Chong Cha Hwa *(Note(iii))*	1,096	–	69	–	1,165	–	1,165
Ng Qing Hai (resigned on 2 February 2016)	46	–	–	–	46	–	46
Independent non-executive directors							
Ho Man Kay *(note (vii))*	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(vii))*	269	–	–	–	269	–	269
Lo Chung Hing (appointed on 5 July 2016) *(note(vii))*	269				269		269
Total	6,212	–	4,488	–	10,700	–	10,700

11. 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 ("Mr. Liu") has been appointed as the chairman of the Board with effect from 2 June 2016. Mr. Liu has resigned as the chairman of the Board and the executive director of the Company on 19 March 2018.

(ii) Mr. Yen Ching Wai has been appointed as an alternate director to Mr. Liu on 16 December 2015 and has ceased to act as the alternative director to Mr. Liu on 19 March 2018.

(iii) Mr. Chong Cha Hwa has been re-designated from an executive director to a non-executive director on 2 February 2016 and has resigned on 8 May 2017.

(iv) Mr. Li Zhiqiang has been appointed as an executive director on 3 November 2017 and has resigned as the vice chairman of the Board and executive director of the Company on 19 March 2018.

(v) Mr. Li Heping has resigned as an executive director on 19 March 2018.

(vi) Mr. Hwa Guo Wai was removed as an executive director on 23 May 2018.

(vii) Ms Ho Man Kay, Mr. Law Pui Cheung, Mr. Wong Chi Keung, Dr. Ching Siu Ming and Mr. Lo Chung Hing were removed as independent non-executive director on 23 May 2018.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals with the highest emoluments, included two directors whose emoluments are disclosed in note 11 for the year ended 31 December 2017 (2016: four).

The aggregate of the remuneration in respect of the other three (2016: one) individuals is as follows:

	2017 **RMB'000**	2016 RMB'000
Salaries, allowances and other benefits	**5,424**	1,028
Bonuses	**–**	–
Contributions to defined contribution retirement plans	**58**	–
Share-based payment	**–**	–
	5,482	1,028

The emoluments of the three (2016: one) individuals with the highest remuneration is within the following bands:

	2017 **Number of individuals**	2016 Number of individuals
HKD1,000,001 to HKD1,500,000	**–**	1
HKD1,500,001 to HKD2,000,000	**3**	–
	3	1

13. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings per share for the year ended 31 December 2017 is based on the profit (2016: loss) attributable to ordinary equity shareholders of the Company of RMB600,817,000 (2016: RMB738,281,000) and the weighted average number of ordinary shares of 3,379,140,240 (2016: 3,379,140,240) shares in issue during the year.

(b) Diluted earnings/(loss) per share

As disclosed in note 31, 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 were vested immediately after being granted ("the 2011 Options"). The exercise price of the 2011 Options is HKD7.90.

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

The Company's shares have been suspended for trading since 16 April 2015. The average share price of the Company for the period from 1 January 2015 to 15 April 2015 was HKD4.49.

The 2011 Options have not been included in the calculation of diluted earnings/(loss) per share because they are assumed to have been anti-dilutive for the years ended 31 December 2016 and 2017, on the assumption that in the period from 16 April 2015 to 31 December 2016 and the year ended 31 December 2017, the fair value of the share 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 years ended 31 December 2016 and 2017 is assumed to be less than the exercise price of the 2011 Options.

The existing directors of the Company are also of the opinion that the 2015 Options are anti-dilutive for the years ended 31 December 2016 and 2017. In respect of the year ended 31 December 2016, the 2015 Options were anti-dilutive to the loss per share. In respect of the year ended 31 December 2017, the directors believe that the exercise of the 2015 Options would not result in the issue of ordinary shares for less than the average market price of ordinary shares during 2017, in the absence of market price information from 16 April 2015 onward and taking into account the adverse nature of the events which have affected the affairs of the Group since that date.

14. FIXED ASSETS

	Plants and buildings *RMB'000*	Equipment *RMB'000*	Motor vehicles and others *RMB'000*	Construction in progress *RMB'000*	Sub-total *RMB'000*	Land lease prepayments *RMB'000*	Total fixed assets *RMB'000*
Cost:							
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
At 1 January 2017	12,769,391	13,909,327	457,622	262,357	27,398,697	2,722,749	30,121,446
Additions	27,054	98,016	46,412	276,633	448,115	6,614	454,729
Transfers	181,890	129,413	13,489	(324,792)	–	–	–
Disposals	(141,354)	(55,679)	(24,557)	–	(221,590)	–	(221,590)
At 31 December 2017	**12,836,981**	**14,081,077**	**492,966**	**214,198**	**27,625,222**	**2,729,363**	**30,354,585**
Accumulated depreciation, amortisation and impairment:							
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)
At 1 January 2017	(2,265,503)	(7,171,728)	(215,700)	(29,337)	(9,682,268)	(428,794)	(10,111,062)
Charge for the year	(298,591)	(969,720)	(38,042)	–	(1,306,353)	(58,600)	(1,364,953)
Reversal of/(impairment loss) for the year	9,799	(15,404)	269	–	(5,336)	–	(5,336)
Written back on disposals	72,785	45,121	20,822	–	138,728	–	138,728
At 31 December 2017	**(2,481,510)**	**(8,111,731)**	**(232,651)**	**(29,337)**	**(10,855,229)**	**(487,394)**	**(11,342,623)**
Net book value:							
At 31 December 2017	**10,355,471**	**5,969,346**	**260,315**	**184,861**	**16,769,993**	**2,241,969**	**19,011,962**
At 31 December 2016	10,503,888	6,737,599	241,922	233,020	17,716,429	2,293,955	20,010,384

14. FIXED ASSETS (CONTINUED)

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

(b) Construction in progress ("CIP") mainly represents technical improvement project of cement and clinker production line.

(c) As at 31 December 2017, application for the registration of land lease prepayments with cost of approximately RMB129,931,000 (31 December 2016: RMB158,142,000) was still in progress. With reference to the legal opinion received by management, the directors of the Company are of the opinion that the Group is entitled to lawfully and validity occupy or use the properties and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2017.

(d) As at 31 December 2017, the ownership certificates for certain plants and buildings with a carrying amount of RMB374,588,000 have not been obtained (31 December 2016: RMB459,423,000).With reference to the legal opinion received by management, the directors of the Company are of the opinion that the Group is entitled to lawfully and validity occupy or use the properties and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2017.

(e) As at the date of approval of the consolidated financial statements, the Group is in the process of obtaining construction permits for certain clinker and cement production lines. The carrying amount for construction in progress in respect of these clinker and cement production lines as at 31 December 2017 was RMB1,930,705,000 (31 December 2016: RMB1,395,789,000).

(f) Certain land lease prepayments with an aggregate carrying amount of RMB12,471,000 (31 December 2016: RMB4,478,000) and plants and buildings with an aggregate amount of RMB2,539,000 for the year ended 31 December 2017, are pledged to secure bank loans (see note 23) granted to the Group.

(g) As at 31 December 2017, land lease prepayments carried at RMB31,136,000 (31 December 2016: RMB38,000,000) and lands and buildings carried at RMB62,144,000 (31 December 2016: RMB123,006,000) 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 24 to 26. 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.

14. FIXED ASSETS (CONTINUED)

(h) As at 31 December 2017, the Group assessed the recoverable amounts of its property, plant and equipment by assessing the recoverable amounts of the cash generating units ("CGUs") to which they belong with reference to the value in use calculations of the CGUs. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and the projected sales volume, selling prices, direct costs, gross margin and other related expenses for each of the related CGUs used in the cash flow forecasts. The projected financial information is determined based on the unit's historical performance, unit's projected production plan and management's expectations for the market development. The value in use calculations use cash flow projections based on the financial budgets approved by the management covering a one-year period with growth rates ranged from nil to 4% for the following four years and the discount rate of 11%. The growth rate is based on the industry growth forecasts. The cash flows beyond the five-year period are extrapolated using zero growth rate. Based on the cash flow projections and financial budgets of 2017 approved by the management, the value in use calculated by the discounted cash flow analysis is higher than the carrying amount for certain cash generating units, hence, reversal of impairment of fixed assets of RMB86,619,000 was recognised for the year ended 31 December 2017.

In addition, the Group conducted a review of the Group's production assets and determined that the assets of certain subsidiaries were idle and/or obsolete and that it is expected that these assets will not generate future benefit to the Group. Accordingly, impairment loss of RMB91,955,000 (2016: nil) has been recognised in respect of those assets.

For the year ended 31 December 2016, the directors assessed the recoverable amount of these CGUs 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 rates and the projected sales volume, selling prices and direct costs for each of the related CGUs used in the cash flow forecasts. The value in use calculations use cash flow projections based on the financial budgets approved by the management included estimated growth rates covering five-year period for each cash generating unit and the discount rate of 9%. Based on the financial budgets of 2016 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 CGUs of fixed assets, the directors of the Company has provided fixed assets impairment of RMB15,658,000 for the year ended 31 December 2016. As at 31 December 2016, the Group recognised accumulated impairment loss on fixed assets amounting to RMB774,434,000.

15. 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 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
Additions	196,802	–	–	3,267	200,069
Write off	–	–	–	(63)	(63)
At 31 December 2017	**1,094,320**	**48,181**	**92,522**	**80,488**	**1,315,511**
Accumulated amortisation and impairment:					
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)
Amortisation for the year	(82,539)	–	(7,261)	(4,260)	(94,060)
Impairment loss for the year	–	–	–	–	–
Write off	–	–	–	63	63
At 31 December 2017	**(513,774)**	**(48,181)**	**(70,292)**	**(64,690)**	**(696,937)**
Net book value:					
At 31 December 2017	**580,546**	**–**	**22,230**	**15,798**	**618,574**
At 31 December 2016	466,283	–	29,491	16,791	512,565

15. INTANGIBLE ASSETS (CONTINUED)

(a) The limestone mining rights which are granted from the respective land resources bureaus 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 2017, the ownership certificates for certain limestone mining rights with a carrying amount of RMB87,642,000 have not been obtained (31 December 2016: RMB38,547,000).

(c) The gross 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") 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 2017 is RMB22,230,000 (31 December 2016: RMB22,230,000).

16. GOODWILL

	RMB'000
Cost:	
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	2,345,857
Impairment losses:	
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	(2,331,634)
Net book value:	
At 31 December 2017	14,223
At 31 December 2016	14,223

16. 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 groups 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 CGUs (being subsidiaries acquired in each acquisition), which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

For the years ended 31 December 2017 and 2016

The Group recognised accumulated impairment loss on goodwill amounting to approximately RMB2,331,634,000 as at 31 December 2016. For the year ended 31 December 2017, the directors assessed the recoverable amount of these CGUs with reference to their value in use calculations. The value in use calculations use cash flow projections based on the financial budgets approved by the management covering a one-year period with growth rate of 4% for the following four years and the discount rate of 11% (2016: 10.1%). The growth rate is based on the industry growth forecasts. The cash flows beyond the five-year period are extrapolated using zero growth rate in considering the economic condition of the market. Other key assumptions for the value in use calculations include the projected sales volume, selling prices, direct costs, gross margin and other related expenses for each of the related CGUs used in the cash flow forecasts, such estimation is based on the unit's historical performance, unit's projected production plan and management's expectations for the market development of each of the groups of CGUs. The directors of the Company believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of each of the groups of CGUs to exceed the aggregate recoverable amount of each of the groups of CGUs. During the year ended 31 December 2017, no impairment loss on goodwill was recognised (2016: nil).

17. OTHER FINANCIAL ASSETS

	Notes	2017 RMB'000	2016 RMB'000
Available-for-sale securities, at fair value	(a)	**7,968**	7,403
Unquoted equity investments in non-listed companies	(b)	**1,261**	43,067
Loans to an associate	(c)	**38,421**	36,382
Loan due from a third party	(d)	**21,710**	36,111
Amounts due from third parties	(e)	**419,798**	351,102
		489,158	474,065

Notes:

(a) Available-for-sale securities represented the Group's investment in equity shares listed on the Shanghai Stock Exchange and held by the Group as long term investment. The investment is 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 2(a), since the directors did not have the ability to direct the relevant activities which significantly affect the three former subsidiaries' returns, namely, Shanshui Micro Finance, Xinghao Cement and Rushan Shanshui for which the Group has held 49%, 100% and 67% shareholdings respectively. The directors are of the opinion that the Group has 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 gross 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.

(c) The loans to an associate are unsecured, bear interest at interest rate of 5.4% (2016: 6%) and have no fixed repayment terms.

(d) Loan due from a third party represents loan due from a minority shareholder of Bohai Cement (Huludao) Co., Ltd. ("Bohai Cement") with gross amount of RMB119 million. The minority shareholder held 30% interest in Bohai Cement as at 31 December 2016 and 2017. 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 for impairment loss of RMB97 million during the year ended 31 December 2016, which were included in administrative expense.

(e) Amount due from third parties represent amounts deposited for environmental restoration in respect of the Group's limestone mines.

18. INTERESTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Cost	**733,555**	698,705
Less: share of post-acquisition result	**(26,238)**	(34,436)
Less: impairment losses	**(407,710)**	(407,710)
Share of net assets	**299,607**	256,559

18. INTERESTS IN ASSOCIATES (CONTINUED)

As at 31 December 2017, 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 31.12.2017		Proportion of ownership interest 31.12.2016	
					Direct	Indirect	Direct	Indirect
Dong'e Shanshui Dongchang Cement Co., Ltd. ("Dong'e Shanshui") *(note (a))*	Shandong, PRC 1 March 2010	Production and sales of cement, clinker and related products	RMB100,000,000	RMB100,000,000	–	51%	–	51%
Dalian Cement Group Co., Ltd. ("Dashui Group") *(note (b))*	Liaoning, PRC 11 June 1992	Production and sales of cement and related products	RMB888,980,000	RMB888,980,000	–	22.04%	–	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%	–	30%
Shandong Shanshui Heavy Industries Co., Ltd. ("Shanshui Heavy Industries") *(note (d))*	Shandong, PRC 12 March 2002	Installation of equipment and spare parts of cement machines	RMB171,000,000	RMB171,000,000	–	44.99%	–	44.99%
Chifeng Taiying Cement Management Co., Ltd. ("Taiying Cement") *(note (e))*	Inner Mongolia, PRC 23 January 2017	Sales of cement, clinker, limestone and other products	RMB500,000	RMB500,000	–	34%	N/A	N/A
Zibo Lianhe Cement Enterprise Management Co., Ltd. ("Lianhe Cement") *(note (f))*	Shandong, PRC 27 February 2017	Provide cement management services including cement corporate marketing planning and business management consulting	RMB65,000,000	RMB52,000,000	–	30.61%	N/A	N/A
Zibo Banyang Limestone Enterprise Management Co., Ltd ("Banyang Limestone") *(note (g))*	Shandong, PRC 23 December 2016	Provide corporate management service, general freight, sales of limestone and investment advisory services	RMB10,000,000	RMB4,900,000	–	6.93%	N/A	N/A
Liaoning Yunding Cement Group Co., Ltd. ("Yunding Cement") *(note (h))*	Liaoning, PRC 21 August 2017	Sales and production of cement and provide business information consulting services	RMB32,170,000	RMB32,170,000	–	43.36%	N/A	N/A

18. INTERESTS IN ASSOCIATES (CONTINUED)

Notes:

(a) According to the articles of association of Dong'e Shanshui, the resolutions in relation to material financial and operating decisions have to be passed by more than half of directors. As the Group only has rights to appoint two out of five directors of Dong'e Shanshui, the directors of the Company is in the opinion that the Group has significant influence in Dong'e Shanshui but does not have control over Dong'e Shanshui although the Company owns more than half of equity interests in Dong'e Shanshui.

(b) As at 31 December 2016, the Group recognised an impairment loss of RMB181,500,000 on the equity interest in Dashui Group.

During the year ended 31 December 2017, the directors of the Company are of the opinion that no further impairment is considered necessary.

(c) On 23 July 2015, Shandong Shanshui acquired 30% interest in Qilu Property with total consideration of RMB146,878,000. 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 RMB146,878,000 as at 31 December 2015. During the years ended 31 December 2016 and 2017, the directors continued to be unable to access any books and records of the associate.

(d) After the 2015 New Board took over the management of Shandong Shanshui in January 2016, the 2015 New Board found that Shandong Shanshui sold 55% interest in Shanshui Heavy Industries to two suppliers of the Group with a total consideration of RMB94,050,000. After the disposal transaction, Shandong Shanshui's remaining interest in Shanshui Heavy Industries was 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 RMB79,331,000 as at 31 December 2015. During the years ended 31 December 2016 and 2017, the directors continued to be unable to access any books and records of the associate.

(e) Alu Kerqin Qi Sanshui Cement Co., Ltd, contributed cash of RMB200,000 for the establishment of Taiying Cement with two independent third parties and obtained 40% equity interest in Taiying Cement. The Group has 34% effective equity interest in Taiyang Cement.

(f) The Company's 99% owned subsidiary, Zibo Shanshui Cement Co., Ltd., and wholly-owned subsidiary, Linyi Shanshui Cement Co., Ltd., contributed RMB20,000,000, settled by the transfer of bill receivable of RMB20,000,000 expiring in July 2017 for the establishment of Lianhe Cement with six independent third parties and obtained 30.76% equity interest in Lianhe Cement. The Group in aggregate has 30.61% effective equity interest in Lianhe Cement.

(g) The Company's 99% owned subsidiary, Zibo Shanshui Cement Co., Ltd contributed cash of RMB700,000 for the establishment of Banyang Limestone with seven independent third parties. The directors of the Company is in the opinion that the Group has significant influence in Banyang Limestone even the Company owns less than 20% of equity interest in Banyang Limestone as each investor appoints 1 director out of 9 directors in Banyang Limestone and the resolution of the board requires 50% vote. The Group has 6.93% effective equity interest in Banyang Limestone.

(h) The Company's wholly owned subsidiary, Liaoning Shanshui Gongyuan Cement Co., Ltd. contributed cash of RMB13,950,000 for the establishment of Yunding Cement for 39.64% equity interest with three independent third parties. After one of the shareholders has withdrawn the shares from Yunding Cement, the Group's equity interest in Yunding Cement was increased to 43.36%.

18. INTERESTS 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:

	2017	2016
	RMB'000	*RMB'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**299,607**	256,559
Aggregate amounts of the Group's share of those associates'		
Profit/(loss) for the year	**8,198**	(36,807)
Total comprehensive income/(expenses)	**8,198**	(36,807)

19. INVENTORIES

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

	2017	2016
	RMB'000	*RMB'000*
Raw materials	**433,173**	371,050
Semi-finished goods	**393,579**	398,325
Finished goods	**337,792**	306,100
Spare parts	**342,449**	376,880
	1,506,993	1,452,355

19. INVENTORIES (CONTINUED)

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

	2017	2016
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**10,361,132**	8,803,630
Write-down of inventories	**109**	4,562
	10,361,241	8,808,192

20. TRADE AND BILLS RECEIVABLES

		2017	2016
	Note	***RMB'000***	*RMB'000*
Bills receivable		**716,301**	215,425
Trade debtors		**1,343,726**	1,520,943
Less: allowance for doubtful debts	(b)	**(254,275)**	(202,487)
		1,805,752	1,533,881

(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:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**844,894**	711,488
3 to 6 months	**443,438**	202,181
6 to 12 months	**196,083**	200,536
Over 12 months	**321,337**	419,676
	1,805,752	1,533,881

All of the trade and bills receivables (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 33(a).

20. TRADE AND BILLS RECEIVABLES (CONTINUED)

(b) Impairment of trade and bills receivables

Impairment loss in respect of trade and bills receivables 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.

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

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**202,487**	213,950
Impairment loss recognised	**83,424**	41,922
Uncollectible amounts written off	**–**	(834)
Reversal of doubtful debt	**(31,636)**	(52,551)
	254,275	202,487

(c) Trade and bills receivables that are past due but not impaired

The ageing analysis of trade and bills receivables that are past due but not impaired are as follows:

	2017	2016
	RMB'000	*RMB'000*
Overdue within one year	**289,240**	375,628
Overdue over one year	**236,572**	138,548
	525,812	514,176

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.

20. TRADE AND BILLS RECEIVABLES (CONTINUED)

(d) Pledged trade receivables

Certain trade receivables with an aggregate carrying amount of RMB64,000,000 (31 December 2016: nil) for the year ended 31 December 2017, are pledged to secure bank loans (see note 23) granted to the Group.

21. OTHER RECEIVABLES AND PREPAYMENTS AND OTHER LONG-TERM ASSETS

(a) Other receivables and prepayments

	Notes	**2017** **RMB'000**	2016 RMB'000
Deposit		**83,246**	206,329
Prepayments for raw materials		**66,130**	62,851
VAT recoverable		**168,700**	238,442
Amounts due from related parties	37(c)	**40,834**	29,299
Amounts due from third parties		**206,786**	306,799
Disputed cash with ex-directors	(i)	**6,500**	6,500
Others		**81,024**	66,518
		653,220	916,738

Note:

(i) 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, the RMB6.50 million has been sealed up by government authorities on 30 January 2016. Since the RMB6.50 million cash is still sealed up by government authorities as at the approval of this consolidated financial statement date, the Group reclassified the RMB6.5 million cash as other receivables as at 31 December 2017.

21. OTHER RECEIVABLES AND PREPAYMENTS AND OTHER LONG-TERM ASSETS (CONTINUED)

(b) Other long-term assets

Other long-term assets mainly represented prepayment for purchase of property, plant and equipment of RMB74,026,000 (2016: RMB52,212,000) and VAT recoverable of RMB46,744,000 (2016: RMB158,597,000).

These balances are not expected to be recovered within one year from the end of reporting period, and is accordingly classified as non-current.

22. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

Restricted bank deposits include RMB19,252,000 as at 31 December 2017 (31 December 2016: RMB33,143,000) of cash deposits pledged to banks for the performance guarantee in relation to certain sales or purchases contracts, and RMB43,589,000 (31 December 2016: RMB54,860,000) of bank balances which have 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 24 to 26. The above restricted bank deposits included RMB2,354,000 as at 31 December 2017 (2016: nil) of cash deposits which has been frozen by the PRC Court pending the outcome of the legal proceedings initiated by Shanshui Heavy Industries's creditors relating to certain sales or purchases contracts which the Group had provided the guarantee.

The pledged bank deposits will be released upon the expiry of the relevant guarantee in 2018. The frozen bank balances may not be used by the Group until the litigation is resolved.

23. BANK LOANS

The bank loans were secured as follows:

	2017	2016
	RMB'000	*RMB'000*
Bank loans – Secured (*)	**241,600**	281,950
Bank loans – Unsecured	**4,548,999**	4,792,300
	4,790,599	5,074,250

* These bank loans were pledged by certain land lease prepayments with an aggregate carrying amount of RMB12,471,000 (2016: RMB4,478,000) and plants and buildings with an aggregate carrying amount of RMB2,539,000 (2016: nil) (see note 14), trade receivables with an aggregate carrying amount of RMB64,000,000 (2016: nil) (see note 20).

23. BANK LOANS (CONTINUED)

As at 31 December 2017, unsecured bank loans of approximately RMB569,049,000 were overdue and carried interest rates ranging from 6.9% to 10.1% per annum. As at 31 December 2016, no bank loan was overdue. Up to the date of approval of the consolidated financial statements, the Group has reached agreements with PRC banks to renew bank loans of RMB414,000,000 that was overdue on 31 December 2017.

Bank loans amounting to approximately RMB4,678,199,000 (2016:RMB3,485,050,000) and RMB112,400,000 (2016: RMB1,589,200,000) due for repayment within one year and after one year respectively which contain a cross default clause that demands immediate repayment when there is default in any bank loans repayment or a clause which give the banks the right to recall the loans on demand at their sole discretion had become repayable on demand and hence are classified as current liabilities.

Bank loans due for repayment, based on the scheduled repayment terms set out in the loan agreements and without taking into account the effect of any repayment on cross default clause or clauses which give the banks the right to recall the loans on demand at their sole discretion are as follows:

	2017 ***RMB'000***	2016 *RMB'000*
Within one year or on demand	**4,678,199**	3,485,050
After one year but within two years	**65,200**	1,476,800
After two years but within five years	**47,200**	112,400
	112,400	1,589,200
	4,790,599	5,074,250

Up to the date of approval of the consolidated financial statements for the year ended 31 December 2017, bank loans of RMB3,585,200,000 became matured, of which, the Group has reached agreements with PRC banks to extend the repayment of loans amounting to RMB2,502,000,000 and the Group has repaid RMB266,200,000. The Group is still negotiating with the PRC banks on the extension of the remaining overdue bank loans.

24. OTHER BORROWINGS

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

	Notes	**2017** **RMB'000**	2016 RMB'000
Loan from government – Unsecured	(i)	**4,545**	5,455
Short-term financing bills	(ii), (iii)	**2,136,018**	2,770,000
		2,140,563	2,775,455

Other borrowings were repayable as follows:

	2017 **RMB'000**	2016 RMB'000
Within one year or on demand	**1,736,722**	2,770,909
After one year but within two years	**367,113**	909
After two years but within five years	**36,728**	2,728
After five years	**–**	909
	403,841	4,546
	2,140,563	2,775,455

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% (2016: 0.3%) and is repayable in equal instalments from 2012 to 2021.

24. OTHER BORROWINGS (CONTINUED)

Notes: (Continued)

(ii) All of the short-term financing bills are issued by Shandong Shanshui and tradeable in the PRC inter-bank market. As at 31 December 2017, the details of short-term financing bills were listed below:

Issuer	**Outstanding Principal** *(RMB'000)*	**Issue date**	**Maturity date**	**Original Interest rates** *(per annum)*	**Original interest payment term**	**Effective Interest rates** *(per annum)*
Shandong Shanshui	1,454,418 (2016: 1,970,000)	14/04/2015	22/11/2015	5.3%	settle at the maturity date	0%–7.67%
Shandong Shanshui	681,600 (2016: 800,000)	14/05/2015	12/02/2016	4.5%	settle at the maturity date	0%–7.67%

As at 31 December 2017 and 31 December 2016, 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 RMB1,440 million, plus any interest, penalty interest and expenses incurred during the litigation. As at 31 December 2017, the status of these litigations so far as to relate to other borrowings is as follows:

– All of the above mentioned litigations 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.

– During the year ended 31 December 2017, the Group has negotiated with the holders of the short-term financing bills for extension of repayment of principal amounting to RMB1,246 million and RMB400 million to be repaid in 2018 and after 2018 respectively, including the principal amounting to RMB1,410 million previously under legal proceedings. The Group has made repayment in accordance with the terms set out in the restructuring plan and repaid principal of RMB634 million during the year. Under the restructuring plans, the PRC banks have agreed to waive portion of the interest and penalty interest accrued on the principal amounts up to the date of the restructuring plan to the short term financing bills on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. The financing bills related waived interest of RMB82 million has been recognised as other income in profit or loss.

– The repayment schedule in accordance with the revised terms is disclosed above.

– Subsequent to year end and up to the date of the approval of these consolidated financial statements, the Group has completed negotiation with the financial institutions and PRC banks for restructuring plan in respect of short term financing bills in the principal amount of RMB360 million, including the principal amount of RMB30 million previously under legal proceedings.

  According to the restructuring plans, the outstanding short-term financing bills of RMB30 million and RMB330 million will be repayable in 2018 and 2021 respectively, of which, loans with principal of RMB30 million is interest-free and loans with principal of RMB330 million carries interest at 6.4% – 7.7% per annum on the condition that the Group fully complies with the revised repayment plan.

The defaults have not yet resulted in any litigation in respect of the remaining overdue principal of other borrowings of RMB130 million. The management has been actively negotiating with these financial institutions and PRC banks for a renewal or an extension or a restructuring plan.

(iv) 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 31 December 2017, RMB44 million (2016: RMB55 million) of cash and cash equivalents (see note 22), RMB6,165 million (2016: RMB4,713 million) of investments in subsidiaries (see note 40), RMB31 millions (2016: RMB38 million) of land use rights (see note 14) and RMB62 million (2016: RMB123 million) of fixed assets (see note 14) have been frozen by the PRC Courts.

25. LONG-TERM BONDS

	2017	2016
	RMB'000	*RMB'000*
Medium-term notes and other notes	**3,582,716**	4,230,000
Less: Current portion of medium-term notes and other note	**(3,185,669)**	(4,230,000)
Senior notes	**2,791,766**	2,963,863
Less: Current portion of senior notes	**(2,791,766)**	(2,963,863)
Long-term bonds, less current portion	**397,047**	–

All of the long-term bonds are carried at amortised cost. The details of long-term bonds are listed below:

Issuer	Outstanding Principal *(RMB'000/USD'000)*	Issue date	Maturity date	Original Interest rates *(per annum)*	Original Interest payment term	Effective Interest rates *(per annum)*
(a) Medium-term notes issued in the PRC inter-bank market (note (i))						
Shandong Shanshui	RMB1,601,216 (2016: RMB1,800,000)	18/01/2013	21/01/2016	5.44%	annually	0%–7.67% (2016: 7.67%)
Shandong Shanshui	RMB965,000 (2016: RMB990,000)	27/02/2014	27/02/2017	6.10%	annually	0%–7.67% (2016: 6.1%)
Shandong Shanshui	RMB1,016,500 (2016: RMB1,140,000)	09/05/2014	12/05/2017	6.20%	annually	0%–7.67% (2016: 6.2%)
(b) Senior notes issued in the Stock Exchange of Hong Kong Limited (note (iii))						
The Company	USD427,253 (2016: USD427,253)	11/03/2016	10/03/2020	7.50%	semi-annually	7.50% (2016: 7.50%)
(c) Other notes (note(iv))						
Shandong Shanshui	RMBnil (2016:RMB300,000)	31/03/2014	31/03/2017	6.60%	annually	6.60% (2016: 6.60%)

25. LONG-TERM BONDS (CONTINUED)

Notes:

(i) As at 31 December 2017 and up to the date of approval of the consolidated financial statements, all of the medium-term notes issued by Shandong Shanshui are overdue.

Several financial institutions have commenced legal proceedings against the Group to demand immediate repayment of the overdue principal amounts of medium-term notes of approximately RMB1,280 million plus any interest, penalty interest and expenses incurred during the litigation. As at 31 December 2017, the status of these litigations is as follows:

– Certain litigations with overdue principal of RMB1,230 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.

– During the year ended 31 December 2017, the Group has negotiated with the holders of medium-term notes for extension of repayment of principal amounting to RMB521 million and RMB397 million to be repaid in 2018 and after 2018 respectively, including the principal amounting to RMB800 million previously under legal proceedings. The Group has made repayment in accordance with the terms set out in the restructuring plans and repaid principal of RMB347 million during the year. Under the restructuring plans, the medium-term note holders have agreed to waive portion of the interest and penalty interest accrued on the principal amounts up to the date of the restructuring plan to the medium-term notes on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. The related waived interest of RMB35 million has been recognised as other income in profit or loss.

– The repayment schedule in accordance with the revised terms is disclosed above.

– Subsequent to year end and up to the date of approval of the consolidated financial statements, the Group has completed negotiation with medium-term note holder for extension and restructuring plan in respect of notes in the principal amount of RMB1,205 million, including the principal amount of RMB40 million which was previously under legal proceedings and RMB50 million which is still under legal proceedings as at 31 December 2017.

  According to the agreements, the Group was discharged from the liabilities of certain principal amounting to RMB4 million, the remaining outstanding medium-term notes of RMB308 million, RMB305 million, RMB489 million and RMB100 million will be repayable in 2018, 2019, 2020, and 2021 respectively of which, medium-term notes with principal of RMB81 million is interest-free and medium-term notes with principal of RMB1,120 million interest at 5.5% – 8.9% per annum on the condition that the Group fully complies with the revised repayment plans.

– For the remaining overdue principal of RMB390 million which was previously under legal proceedings, the Group is still negotiating with the financial institutions and PRC banks for an extension or a restructuring plan.

The default has not yet resulted in any litigation in respect of the remaining overdue principal of the medium-term notes of RMB1,060 million. For the overdue principal, the Group is still negotiating with the PRC banks and financial institutions for an extension or a restructuring plan.

(ii) Certain assets of the Group have been frozen by the PRC Courts in respect of the litigations of these medium-term notes (see note 24).

25. LONG-TERM BONDS (CONTINUED)

Notes: (Continued)

(iii) The Company issued senior notes 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 Notes"). The 2020 Notes bear fixed interest of 7.5% per annum payable semi-annually.

On 14 January 2016, the Company made an announcement to propose a Tender Offer to re-purchase the principal amount of USD500,000,000 of the 2020 Notes at 101% of par. As at the expiration date of the proposal on 14 March 2016, USD484,971,000 of the principal amount of the 2020 Notes have validly accepted the proposal. The Company has re-purchased USD72,747,000 of the principal of the 2020 Notes during 2016.

On 1 November 2017, certain 2020 Notes holders commenced an action against the Company in New York state court. The Note holders allege that the 2020 Notes had become immediately due and payable in full. The legal action is still in progress.

On 6 August 2018 and 30 August 2018 the Company entered into agreements to issue convertible bonds with an aggregate principal amount of US$531,600,000 for the purpose, among other things, of completing the Tender Offer. However, on 30 August 2018 and 31 August 2018, Tianrui filed Petitions seeking to wind up the Company before the Grand Court of the Cayman Islands and the Court of First Instance of the High Court of the Hong Kong Special Administrative Region. On 6 September 2018, Tianrui also made an application to the Grand Court of the Cayman Islands for the appointment of joint provisional liquidators to the Company (the "JPL Application"). Hearings on the Petitions and JPL Application have been fixed for 10 and 11 October 2018. Until the Petitions and JPL Application are dismissed, the Company cannot use the cash raised from the issuance of the convertible bonds to complete the Tender Offer.

The Company has entered into a restructuring support agreement ("RSA") to complete the Tender Offer with multiple holders of the 2020 Notes (the "Consenting Noteholders"). Pursuant to the terms of the RSA, the Company and the Consenting Noteholders agree to oppose the Petitions and the JPL Application, the Company agrees to complete the Tender Offer at 101% of par plus accrued interest through the date of payment, and the Consenting Noteholders agree not to enforce their rights under the indenture governing the 2020 Notes unless and until the RSA is terminated.

(iv) The Group has fully repaid the other notes during the year ended 31 December 2017.

26. TRADE PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**3,225,907**	3,726,792

As at 31 December 2017 and 2016, all trade payables of the Group are repayable on demand. All trade payables are expected to be settled within one year.

26. TRADE PAYABLES (CONTINUED)

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**1,621,293**	1,835,732
3 to 6 months	**404,311**	405,763
6 to 12 months	**173,232**	343,866
Over 12 months	**1,027,071**	1,141,431
	3,225,907	3,726,792

As at 31 December 2017, certain suppliers and third parties have initiated 186 lawsuits against the Group to demand immediately settlement of trade payables with carrying amount of RMB326 million as at 31 December 2017 plus interest for late payment, if any. As of the date of the approval of this consolidated financial statement, the status of these limitations is as follows:

Certain litigations with carrying amount of RMB231 million have been judged by the PRC Court, with the Court ordering the Group to settle the trade payables, the related interest, penalty interest and expenses incurred during the litigation. Certain litigations with carrying amount of RMB79 million are still in progress.

On 11 January 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 whose carrying amount as at 31 December 2017 amounted to RMB62 million plus interest for late payment. 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 40) on 25 January 2016. The net assets of Liaocheng Shanshui included in the consolidated statement of financial position as at 31 December 2017 are about RMB210 million. Such decision by the PRC court prohibited the sale or transfer of investment in Liaocheng Shanshui by Shandong Shanshui until the litigation is resolved. Up to date of the approval of this consolidated financial statement, the PRC court did not determine the hearing date of second instance for this lawsuit yet.

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.

27. OTHER PAYABLES AND ACCRUED EXPENSES

	Notes	**2017** **RMB'000**	2016 RMB'000
Customer deposits and receipts in advance		**676,712**	525,794
Accrued payroll and welfare		**314,268**	298,016
Taxes payable other than income tax		**77,678**	136,215
Staff compensation and termination provisions	28(b)	**185,116**	186,874
Amounts due to related parties	37(c)	**750,974**	615,390
Payable to ex-shareholders of acquired subsidiaries		**109,507**	109,594
Acquisition consideration payable *(note (i))*		**210,049**	296,270
Current portion of long-term payables		**–**	16,094
Acquisition of property, plants and equipment		**19,151**	10,626
Accrued expenses and other payables *(note (iii))*		**1,545,067**	1,104,065
		3,888,522	3,298,938

Notes:

(i) Included in the balance is amounts payable for the acquisition of Xinghao Cement, Qingdao Shanshui Hengtai Cement, Dailian Heyuan Investment and Liaocheng Meijing Zhongyuan Cement amounting to RMB131 million, RMB23 million, RMB100 million and RMB25 million, respectively. The previous shareholder of Xinghao Cement and Liaocheng Meijing Zhongyuan Cement has sued the Group to settle the unpaid acquisition consideration payable of RMB131 million and RMB25 million plus interest for late payment. Up to date of the approval of this consolidated financial statement, the litigation is still in progress.

In addition, as disclosed in note 2(a)(iii), the Group has accrued a provision of RMB33 million in relation to the acquisition of 33% equity interest in Rushan Cement based on the judgement of first trial of the related litigation. The appeal by the Group is still under process.

(ii) As at 31 December 2017, certain suppliers and third parties have 42 lawsuits against the Group to demand immediately settlement of other payables with carrying amount of RMB183 million plus interest for late payment, if any.

(iii) Included in accrued expenses and other payables are interest payables, payable for mine management, contract guarantee received of RMB944,710,000, RMB126,146,000 and RMB83,421,000 respectively.

28. 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 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.

28. EMPLOYEE BENEFITS (CONTINUED)

(b) Staff compensation and termination provision

	Note	**2017** **RMB'000**	2016 *RMB'000*
Staff compensation and termination provision	27	**185,116**	186,874

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 amounts are required to be paid to the employees as soon as they cease to be employed by the Group. These amounts are included in other payables and accrued expenses in the consolidated statement of financial position (see note 27).

(c) Defined benefit obligations

The liabilities recognised in the consolidated statement of financial position represent:

	2017 **RMB'000**	2016 *RMB'000*
Present value of the defined benefit obligations	**137,070**	156,773

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 28(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.

28. EMPLOYEE BENEFITS (CONTINUED)

(c) Defined benefit obligations (Continued)

(i) Movements in the defined benefit obligations are set out as follows:

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**156,773**	174,660
Remeasurements	**(13,530)**	(18,400)
Payments	**(11,643)**	(8,627)
Current service cost	**940**	4,090
Interest expense	**4,530**	5,050
At 31 December	**137,070**	156,773

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

	2017	2016
	RMB'000	*RMB'000*
Interest expense	**4,530**	5,050
Current service cost	**940**	4,090
Total amounts recognised in profit or loss	**5,470**	9,140
Actuarial gain recognised in other comprehensive income	**(13,530)**	(18,400)
Total defined benefit costs	**(8,060)**	(9,260)

28. 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:

	2017	2016
	RMB'000	*RMB'000*
Finance costs	**4,530**	5,050
Administrative expenses	**940**	4,090
	5,470	9,140

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

	2017	2016
Discount rate	**4.00%**	3.00%
Annual growth rate of cost of living	**3.00% – 10.00%**	3.00% – 10.00%
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 2017 would have (increase)/decrease as a result of 0.5% change in the significant actuarial assumptions:

Discount rate	**2017**	2016
	RMB'000	*RMB'000*
Effect on defined benefit obligation		
– Increase in 0.5%	**(6,010)**	(7,540)
– Decrease in 0.5%	**6,550**	8,260

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.

29. DEFERRED INCOME

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**273,298**	295,599
Additions	**10,989**	–
Recognised in consolidated statement of profit or loss	**(17,480)**	(16,900)
De-recognition of subsidiaries	**–**	(5,401)
At 31 December	**266,807**	273,298

Deferred income mainly represents the PRC local government grants received from relevant PRC authorities for fixed asset investments, 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 fixed assets. There are no unfulfilled conditions and contingencies relating to the grants.

30. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position

	2017	2016
	RMB'000	*RMB'000*
Provision for PRC income tax for the year	**403,813**	172,835
Under-provision in respect of prior years	**6,063**	657
Provisional income tax paid	**(284,359)**	(95,860)
	125,517	77,632

30. 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 2017 are as follows:

	At 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets				
Intra-group unrealised profits	47,976	2,024	–	50,000
Depreciation of property, plant and equipment	3,250	(604)	–	2,646
Tax loss (*)	6,693	(5,990)	–	703
Impairment losses for property, plant and equipment	6,879	6,047	–	12,926
Deferred income	35,778	(1,309)	–	34,469
Accrued bonus	22,226	(14,226)	–	8,000
Long-term payables	8,260	(464)	–	7,796
Accrued expenses	2,593	–	–	2,593
Impairment of trade receivable	3,730	6,698	–	10,428
Intangible assets	–	4,807	–	4,807
	137,385	(3,017)	–	134,368
Deferred tax liabilities				
Change in fair value of available-for-sale securities	(1,600)	–	(142)	(1,742)
Fixed assets	(67,141)	(8,764)	–	(75,905)
Intangible assets	(787)	787	–	–
	(69,528)	(7,977)	(142)	(77,647)
Total	67,857	(10,994)	(142)	56,721

30. 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 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 in 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

* 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.

30. 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

	2017 **RMB'000**	2016 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**159,335**	134,329
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(102,614)**	(66,472)
	56,721	67,857

(c) Tax losses and deductible temporary differences not recognised

As at 31 December 2017, the Group did not recognise deferred tax assets in respect of unused tax losses and deductible temporary differences of certain PRC subsidiaries of RMB2,620,476,000 and RMB315,668,000 respectively (2016: RMB2,627,122,000 and RMB440,808,000), as it is not probable that future taxable profits which the losses and deductible temporary differences can be utilised will be available. Included in unrecognised tax losses as at 31 December 2017 are losses of RMB148,848,000, RMB359,581,000, RMB982,866,000, RMB694,376,000 and RMB434,805,000 that will be expired in 2018, 2019, 2020, 2021 and 2022, respectively. Unrecognised tax losses amounting to RMB48,602,000 (2016: RMB14,014,000) was expired as at 31 December 2017.

(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 2017, temporary differences relating to the undistributed profits of the Company's PRC subsidiaries amounted to RMB7,047,672,000 (31 December 2016: RMB5,951,471,000). Deferred tax liabilities of RMB704,767,200 (31 December 2016: RMB595,147,100) 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.

31. 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 2016, 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 the approval of this consolidated financial statement, 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 35. 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 years ended 31 December 2016 and 2017.

32. 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 2016	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
Changes in equity for 2017:						
Total comprehensive expenses for the year	–	–	–	(18,996)	(265,653)	(284,649)
Balance at 31 December 2017	227,848	4,654,010	435,164	(307,147)	(4,424,935)	584,940

(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 25), the Board of Directors has proposed no dividend distribution for the year ended 31 December 2017 and the year ended 31 December 2016.

32. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends (Continued)

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

	2017	2016
	RMB'000	*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.

(c) Share capital

	2017 & 2016	
	Number of share	**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

32. 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 of the Group 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 of the Group 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.

32. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves (Continued)

(iv) Exchange reserve

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(v) Fair value reserve

The fair value reserve of the Group comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period.

(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 2017, the Company does not have any of distributable reserves (2016: RMB206,577,000). The Company is unable to make any distributions due to the liquidity constraints described in note 32(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.

32. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(f) Capital management (Continued)

The gearing ratio is as follows:

		The Group	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
Current liabilities:			
Short-term bank loans	23	**4,790,599**	5,074,250
Current portion of other borrowings	24	**1,736,722**	2,770,909
Current portion of long-term bonds	25	**5,977,435**	7,193,863
		12,504,756	15,039,022
Non-current liabilities:			
Other borrowings less current portion	24	**403,841**	4,546
Long-term bonds less current portion	25	**397,047**	–
		800,888	4,546
Total debt		**13,305,644**	15,043,568
Less: Cash and cash equivalents	22	**(307,995)**	(276,500)
Net debt		**12,997,649**	14,767,068
Total equity		**4,017,531**	3,256,239
Total capital		**17,015,180**	18,023,307
Gearing ratio*		**76.4%**	81.9%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

* Gearing ratio = net liabilities/ (net liabilities + equity of the Company).

33. 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 reporting period, 0% (31 December 2016: 0%) and 1.2% (31 December 2016: 1.1%) of the total trade and bills receivable were due from the Group's largest customer and the five largest customers respectively. 3.8% (31 December 2016: 2.6%) and 8.4% (31 December 2016: 7.7%) of the total trade and bills receivables were due from the Group's largest debtors and the five largest debtors respectively.

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

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.

(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, so 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 2 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.

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (Continued)

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:

	2017								
	Contractual undiscounted cash outflow								
	Within 3 months or on demand	More than 3 months but less than 6 months	More than 6 months but less than 9 months	More than 9 months but less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans *(note 23)*	4,790,599	–	–	–	–	–	–	4,790,599	4,790,599
Other borrowings *(note 24)*	657,428	428,792	424,457	258,475	387,604	40,982	–	2,197,738	2,140,563
Long-term bonds *(note 25)*	6,018,845	200,240	152,870	104,060	332,458	97,311	–	6,905,784	6,374,482
Trade and bills payable *(note 26)*	3,225,907	–	–	–	–	–	–	3,225,907	3,225,907
Other payables and accrued expense *(note 27)*	3,211,810	–	–	–	–	–	–	3,211,810	3,211,810
Long-term payables	–	–	–	–	2,248	6,429	11,670	20,347	20,347
	17,904,589	629,032	577,327	362,535	722,310	144,722	11,670	20,352,185	19,763,708

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (Continued)

	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 23)*	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 24)*	2,980,501	–	–	–	1,059	2,997	940	2,985,497	2,775,455
Long-term bonds *(note 25)*	7,703,103	–	–	–	–	–	–	7,703,103	7,193,863
Trade and bills payable *(note 26)*	1,817,270	408,444	350,831	–	636,994	513,253	–	3,726,792	3,726,792
Other payables and accrued expense *(note 27)*	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

(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 notes 23, 24 and 25 respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

33. 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.

	2017		2016	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank loans	**5.5% – 10.1%**	**1,390,948**	4.75%~13.07%	2,148,500
Other borrowings	**0% – 7.67%**	**2,136,016**	6.50%	2,770,000
Long-term bonds	**0% – 7.67%**	**6,374,481**	6.1%~7.56%	7,193,863
Less: Loans to third Parties		**–**	–	–
		9,901,445		12,112,363
Variable rate borrowings:				
Bank loans	**4.53% – 7.83%**	**3,399,650**	4.57%~6.77%	2,925,750
Other borrowings	**1.8%**	**4,545**	3.30%	5,455
		3,404,195		2,931,205
Total borrowings		**13,305,640**		15,043,568
Net fixed rate borrowings as a percentage of total borrowings		**74%**		81%

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.

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

At 31 December 2017, 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 RMB36,992,000 (2016: increase/decrease loss after tax by RMB21,984,000). 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 2016.

(d) Currency risk

The Group did not does not have significant currency risk.

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.

33. 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 investments (see note 17).

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 2017, it is estimated that an increase/decrease of 50% (2016: 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 accumulated losses) and other components of equity as follows:

	2017			2016		
	Increase/ (decrease) in the relevant risk variable rates	**Increase/ decrease in accumulated losses** *RMB'000*	**(Increase)/ decrease in on other components of equity** *RMB'000*	Increase/ (decrease) in the relevant risk variable rates	Increase/ decrease in accumulated losses *RMB'000*	(Increase)/ decrease in on other components of equity *RMB'000*
Change in the stock price of the listed investment	**50%**	**–**	**2,988**	50%	–	2,776
	(50%)	**(2,988)**	**–**	(50%)	(2,776)	–

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and accumulated losses) 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 2016.

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

The fair value measurement of the Group's financial instruments is categorised into a three-level fair value hierarchy according to the extent to which are based on observable market data. As at 31 December 2017, the Group only has available-for-sale securities which was measured at fair value at the end of the reporting period and the fair value impairment falls 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).

2017

	Fair value at 31 December 2017 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**
Assets				
Available-for-sale securities:				
– Listed	**7,968**	**7,968**	**–**	**–**

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	–	–

33. 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 at amortised cost are not materially different from their fair values as at 31 December 2017 and 31 December 2016 due to the short-term maturities of these instruments.

In the opinion of the directors of the Company, the fair value of the long-term fixed rate borrowings approximate their carrying amounts.

(iii) This note provides information about how the Group determines fair value of various financial assets and financial liabilities.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

1. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

2. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value measurement (Continued)

(iii) This note provides information about how the Group determines fair value of various financial assets and financial liabilities. (Continued)

Financial asset	Fair values as at 31 December 2017 *RMB'000*	Fair values as at 31 December 2016 *RMB'000*	Fair value hierarchy	Valuation techniques and key inputs
AFS investments listed in Shanghai	7,968	7,403	Level 1	Quoted bid price in an active market

There were no transfers between Levels 1, 2 and 3 during the year.

The directors of the Company consider that except from financial assets as disclosed in above table, the carrying amounts of remaining financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

34. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2017 not provided for in the financial statements were as follows:

	2017 *RMB'000*	2016 *RMB'000*
Authorised and contracted for		
– the acquisitions of fixed assets	**270,497**	272,630
Authorised but not contracted for		
– the acquisitions of fixed assets	**67,186**	65,166
	337,683	337,796

34. COMMITMENTS (CONTINUED)

(b) At 31 December 2017, the total future minimum lease payments under non-cancellable operating lease are payable as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**17,611**	16,293
After 1 year but within 2 years	**4,657**	16,293
After 2 years but within 5 years	**12,597**	48,878
After 5 years	**62,950**	44,927
	97,815	126,391

The Group leases a number of pieces of land and port storage spaces under non-cancellable operating leases. The leases typically run without any contingent lease terms, nor do the lease agreements contain any terms that may require higher future rental payments, restrictions on dividends, additional liabilities, or other terms.

35. 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. The guarantee will expire in 2018. As at the reporting date, the directors consider that the fair value of the guarantee is minimal and do not consider it probable that a claim will be made against the Group under the guarantee.

(b) Litigation contingencies

(i) Shandong Shanshui and Pingyin Shanshui have provided guarantees on behalf of Shanshui Heavy Industries, an associate of the Group, 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. The guarantees will expire two years after the agreed repayment date.

As at the reporting date, the directors consider that the fair value of the guarantee is minimal.

Certain land use right and properties of Shanshui Heavy Industries have been seized by the court. The directors of the Company consider that the fair value of seized assets was more than RMB300 million. In the opinion of the directors of the Company, no provision for this claim is needed accordingly.

35. CONTINGENT LIABILITIES AND OTHER EVENTS (CONTINUED)

(b) Litigation contingencies (Continued)

(ii) As at 31 December 2017, several litigation claims were initiated by the customers against the Group to demand immediate repayment of the outstanding balance in relation to certain cement and other products sales contracts with an aggregate amount of approximately RMB37,665,000 which have yet been concluded. No provision for these litigation claims was made in the consolidated financial statements for the year ended 31 December 2017 as in the opinion of the directors of the Company, the possibility of an outflow of economic resources is remote.

(iii) As at 31 December 2017, several litigation claims were initiated by the lessor and lessee of certain rental agreements entered into by the Group to demand remedies for alleged breach of contract with an aggregate amount of approximately RMB4,672,000 which have yet been concluded. No provision for these litigation claims was made in the consolidated financial statements for the year ended 31 December 2017 as in the opinion of the directors of the Company, the possibility of an outflow of economic resources is remote.

Other than the disclosure of above, as at 31 December 2017, the Group was not involved in any other material litigation or arbitration. As far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at 31 December 2017, the Group was the defendant of certain non-material litigations, and also a party to certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the directors of the Company believe that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position of the Group.

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank loans *(note 23)* *RMB'000*	Other borrowings *(note 24)* *RMB'000*	Long-term bonds *(note 25)* *RMB'000*	Total *RMB'000*
At 1 January 2017	5,074,250	2,775,455	7,193,863	15,043,568
Addition	284,700	–	–	284,700
Repayment of bank loans	(568,351)	–	–	(568,351)
Repayment of other borrowings	–	(634,892)	–	(634,892)
Repayment of long-term bonds	–	–	(647,284)	(647,284)
Total changes from financing cash flow	(283,651)	(634,892)	(647,284)	(1,565,827)
Exchange differences	–	–	(172,097)	(172,097)
At 31 December 2017	**4,790,599**	**2,140,563**	**6,374,482**	**13,305,644**

37. MATERIAL RELATED PARTY TRANSACTIONS

(a) During the years ended 31 December 2017 and 2016, transactions with the following parties are considered as related party transactions:

Name of party	Relationship
Tianrui Group	Non-controlling shareholder of the Company with significant influence
China Shanshui Investment	Non-controlling shareholder of the Company with significant influence
Jinan Shanshui Group Co., Ltd. ("Jinan Shanshui Group")	Entity controlled by the former director of the Company
Jinan Shanshui Lixin Investment Development Co., Ltd. ("Lixin Investment")	Entity controlled by the former director of the Company
Jinan Shanshui Jianxin Investment Development Co., Ltd. ("Jianxin Investment")	Entity controlled by the former director of the Company
Jinan Cement Product Factory	Entity controlled by the former director of the Company
Dong'e Shanshui	Associate of the Group
Dashui Group	Associate of the Group
Shanshui Heavy Industries	Associate of the Group
Taiying Cement	Associate of the Group
Lianhe Cement	Associate of the Group
Banyang Limestone	Associate of the Group
Yunding Cement	Associate of the Group

37. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties of the Group

	Notes	2017 RMB'000	2016 RMB'000
Recurring transactions			
Sales:			
– Dong'e Shanshui	(i)	**2,097**	7,115
– Dashui Group	(ii)	**28,634**	–
– Shanshui Heavy Industries		**171**	–
– Yunding Cement		**444**	–
		31,346	7,115
Purchase:			
– Dong'e Shanshui	(i)	**–**	684
– Dashui Group		**–**	1,052
– Shanshui Heavy Industries		**1,514**	22,773
		1,514	24,509
Service and management fee paid:			
– Taiying Cement		**1,756**	–
– Lianhe Cement		**11,500**	–
– Banyang Limestone		**21,680**	–
– Yunding Cement		**5,271**	–
		40,207	–
Non-recurring transactions			
Loans to an associate and relevant interest income:			
– Dong'e Shanshui	(iii)	**2,039**	2,166
Repayment of loans to associates and related interests by:			
– Dong'e Shanshui	(iii)	**–**	7,220

37. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties of the Group (Continued)

	Notes	2017 RMB'000	2016 RMB'000
Loans from related parties and relevant interest expenses:			
– Lixin Investment	(iv)	**5,215**	1,733
– Jinan Shanshui Group		**–**	51
– Tianrui Group	(v)	**277,268**	1,119,702
– Jinan Cement Product Factory		**5,600**	8,420
		288,083	1,129,906
Repayment of loans from related parties and related interests:			
– Lixin Investment	(iv)	**30,766**	–
– Jinan Shanshui Group		**11,001**	44
– Tianrui Group		**31,974**	676,054
– Jinan Cement Product Factory		**5,660**	6,200
		79,401	682,298
Interest and principal paid on behalf of related parties:			
– Shanshui Heavy Industries		**18,188**	–

Notes:

(i) These represent sales of coal and 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 RMB35,600,000 as at 31 December 2016 and 31 December 2017. These loans bear interest at one-year PRC bank loan interest rate of 5.4% (2016: 6%).

(iv) These relate to loans from Lixin Investment which are interest free. As at 31 December 2017, the unpaid principal to Lixin Investment is RMB6,500,000 (2016: RMB32,052,000)

(v) These relate to loans and related interests from Tianrui Group. These loans with total principal of RMB696,746,000 (2016: RMB486,147,000) are interest free.

37. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties of the Group

	2017 RMB'000	2016 RMB'000
Accounts receivable due from:		
– Dong'e Shanshui	–	195
– Shanshui Heavy Industries	18,764	17,936
	18,764	18,131
Advances to suppliers:		
– Dong'e Shanshui	9	9
– Shanshui Heavy Industries	6,526	19,464
	6,535	19,473
Other receivables due from:		
– China Shanshui Investment	729	772
– Jianxin Investment	–	1,917
– Shanshui Heavy Industries	23,483	4,077
– Jinan Shanshui Group	60	60
– Dashui Group	3,000	3,000
– Dong'e Shanshui	5	–
– Lianhe Cement	4,000	–
– Banyang Limestone	3,000	–
– Yunding Cement	22	–
	34,299	9,826
Other financial asset due from:		
– Dong'e Shanshui	38,421	36,382

37. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties of the Group (Continued)

	2017	2016
	RMB'000	*RMB'000*
Accounts payable due to:		
– Shanshui Heavy Industries	**86,365**	97,772
Other payable due to:		
– Dong'e Shanshui	**30**	356
– Lixin Investment	**6,500**	32,051
– Jinan Shanshui Group	**6**	11,007
– Shanshui Heavy Industries	**45,532**	83,604
– Tianrui Group	**696,746**	486,147
– Jinan Cement Product Factory	**2,160**	2,220
	750,974	615,385
Advances from customers:		
– Dong'e Shanshui	**27**	5

(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 11, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Salary, allowances and other benefits	**39,985**	17,557
Contributions to defined contribution retirement plans	**394**	366
	40,379	17,923

37. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Key management personnel remuneration (Continued)

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

	Note	**2017** **RMB'000**	2016 *RMB'000*
Directors and supervisors	11	**11,152**	10,700
Senior management		**29,227**	7,223
		40,379	17,923

The emoluments of senior management were within the following bands:

	2017 **Number of individuals**	2016 Number of individuals
HKD1 to HKD500,000	**3**	21
HKD500,001 to HKD1,000,000	**10**	4
HKD1,000,001 to HKD2,000,000	**14**	1
HKD2,000,001 to HKD3,000,000	**1**	–
HKD3,000,001 to HKD4,000,000	**1**	–
	29	26

As disclosed in note 8, Shandong Shanshui accrued an amount of RMB130.6 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 bonus was not approved by the directors of the Company at the material point is time, the emoluments for key management personnel for the year ended 31 December 2016 disclosed above do not include this expense of RMB130.6 million.

38. NON-ADJUSTING EVENTS AFTER THE END OF THE REPORTING PERIOD

In addition to the events disclosed in note 2(a) and notes 22 to 26, the following non-adjusting events have occurred after the end of the reporting period:

(a) On 8 August 2018, the Company issued convertible bonds in an aggregate principal amount of US$210,900,000 to an independent subscriber maturing on 7 August 2021. The issue price was 100% of the aggregate principal amount of the convertible bonds. Until the convertible bonds are fully converted or redeemed and cancelled, the convertible bonds shall bear interest at the rate of 20% per annum, which shall be payable by the Company semi-annually in arrears.

On 3 September 2018, the Company has issued additional convertible bonds in an aggregate principal amount of US$320,700,000 to six independent subscribers maturing on 7 August 2021. The issue price was 100% of the aggregate principal amount of the convertible bonds. Until the convertible bonds are fully converted or redeemed and cancelled, the convertible bonds shall bear interest at the rate of 20% per annum, which shall be payable by the Company in cash in arrears on 7 February and 7 August of each calendar year after issuing the convertible bond.

The details of which are set out in the Company's announcement dated 8 August 2018 and 3 September 2018.

(b) On 30 August 2018, a winding-up petition had been filed against the Company by Tianrui, one of the shareholders of the Company with significant influence over the Company, in the Grand Court of the Cayman Islands. On 31 August 2018, a winding-up petition had been filed against the Company in the Court of First Instance of the High Court of the Hong Kong Special Administrative Region to commence an ancillary liquidation in Hong Kong. Details of which are set out in the Company's announcement dated 4 September 2018.

(c) On 20 September 2018, the Company has entered into a RSA to complete the Tender Offer of its 7.5% 2020 Notes with multiple holders of the 2020 Notes. Details of which are set out in the Company's announcement dated 20 September 2018.

39. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2017	2016
	RMB'000	*RMB'000*
Non-current assets		
Fixed assets	**18**	24
Investments in a subsidiary	**680,380**	413,248
Amounts due from subsidiaries	**4,787,242**	5,270,309
	5,467,640	5,683,581
Current assets		
Other receivables	**13,356**	197
Cash and cash equivalents	**18,644**	90,801
	32,000	90,998
Current liabilities		
Current portion of long-term bonds	**2,791,765**	2,963,863
Amount due to a subsidiary	**1,288,378**	1,320,025
Other payables and accrued expenses	**834,557**	621,102
	4,914,700	4,904,990
Net current liabilities	**(4,882,700)**	(4,813,992)
Total assets less current liabilities	**584,940**	869,589
Net assets	**584,940**	869,589
Capital and reserves		
Share capital	**227,848**	227,848
Reserves	**357,092**	641,741
Total equity	**584,940**	869,589

The Company's statement of financial position was approved and authorised for issue by the board of directors on 6 October 2018.

CHANG, Zhangli	**WU, Ling-ling**
Director	*Director*

40. 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.

			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 subsidiaries	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

40. 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 subsidiaries	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	99.01	–	99.70	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

40. 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 subsidiaries	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. 肥城山水水泥有限公司	Shandong, PRC 16 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

40. 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 subsidiaries	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

40. 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 subsidiaries	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,
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

40. 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 subsidiaries	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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

40. 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 subsidiaries	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

40. 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 subsidiaries	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	RMB30,000,000	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 29 January 2010	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 12 March 2013	RMB15,000,000	100.00	–	100.00	Production and sales of concrete

40. 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 subsidiaries	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	60.60	–	86.57	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. 紥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

40. 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 subsidiaries	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	Registered capital of RMB20,000,000 and paid in capital RMB 6,000,000	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

40. 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 subsidiaries	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	Registered capital of RMB100,000,000 and paid in RMB 60,000,000	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 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

40. 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 subsidiaries	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 4 April 1994	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 30 August 2012	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

40. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Note:

Investments in subsidiaries with carrying amount of RMB6,165 million (2016: RMB4,713 million) in the Shandong Shanshui's statement of financial position and with total assets as at 31 December 2017 of RMB20,062 million and liabilities of RMB6,586 million in the consolidated financial statements of the Group have been frozen by the PRC Courts pending the outcome of the legal proceedings initiated by the Group's creditors relating to overdue other borrowings, long-term bonds and trade payables. The carrying amount of assets mainly represented cash and cash equivalent of RMB6,028 million, property, plant and equipment of RMB5,128 million and land lease prepayment of RMB904 million. The carrying amount of liabilities mainly represented trade payable of RMB1,541 million and long-term infrastructure payable of RMB2,464 million. Further details of this litigation are set out in notes 24 to 26. 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.

41. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

Reclassification for the consolidated statement of financial position as at 31 December 2016:

Band loans with cross default clauses of RMB1,589,200,000 are reclassified as current liabilities on the consolidated statement of financial position.

Prepayment for fixed assets amounting to RMB52,212,000 are reclassified from other receivables and prepayments under current assets to other long-term assets under non-current assets on the consolidated statement of financial position.

Reclassification for the consolidated statement of profit or loss for the year ended 31 December 2016:

Impairment loss on other financial assets of RMB97,094,000 has been reclassified from administrative expenses to other net expenses.

Reversal of impairment loss on trade receivable and impairment loss on other receivable of RMB10,629,000 and RMB91,299,000 respectively have been reclassified from administrative expenses to other net expenses.