**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

# 2018 Interim Report


# Contents

# (I) Definitions

*In this interim 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 2018 to 30 June 2018 |
| "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 in Eastern Shandong Province, including Weifang, Qingdao, Yantai and Weihai, etc |
| "Western Shandong Operating Region" | business located in Central and Western Shandong Province, including Zibo, Jinan and Hebei Province and Tianjin, etc |
| "Southern Shandong Operating Region" | business located in Southern Shandong Province, including Zaozhuang, Jining, Heze and Henan Province, etc |

| | |
|---|---|
| "Northeast China Operating Region" | business located in Liaoning Province, Eastern Inner Mongolia and Jilin Province, etc |
| "Shanxi Operating Region" | business located in Shanxi Province and Shaanxi Province, etc |
| "Xinjiang Operating Region" | business located in 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) Company Information

## 1. BOARD OF DIRECTORS EXECUTIVE DIRECTORS

### Executive Directors

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

### Independent Non-Executive Directors

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

### Audit Committee

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

### Remuneration Committee

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

### Executive Committee

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

### Nomination Committee

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

## 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 | : | Shanshui 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<br>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) Key Data

## 1. KEY FINANCIAL DATA

*(Unit: RMB'000)*

| | **January to June 2018** | January to June 2017 |
|---|---|---|
| Revenue | **6,649,500** | 6,315,011 |
| Gross profit | **2,380,431** | 1,865,328 |
| Gross profit margin | **35.8%** | 29.5% |
| Profit from operations | **1,455,252** | 574,476 |
| Profit margin from operations | **21.9%** | 9.1% |
| EBITDA | **2,144,309** | 1,293,140 |
| EBITDA margin | **32.2%** | 20.5% |
| Net profit/(loss) | **711,107** | (100,520) |
| Profit/(loss) attributable to equity shareholders of the Company | **751,766** | (43,695) |
| Basic earnings/(loss) per share *(RMB)* | **0.22** | (0.01) |
| Net cash generated from operating activities | **1,270,779** | 885,458 |

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| Total assets | **25,406,437** | 25,089,959 |
| Total liabilities | **20,753,779** | 21,072,428 |
| Equity attributable to equity shareholders of the Company | **4,599,867** | 3,915,327 |
| Net gearing ratio | **71.7%** | 76.4% |

## 2. KEY BUSINESS DATA

| | **January to June 2018** | January to June 2017 |
|---|---|---|
| Sales volume of cement *('000 tonnes)* | **15,196** | 18,258 |
| Sales volume of clinker *('000 tonnes)* | **3,530** | 3,853 |
| Sales volume of concrete *('000 $m^3$)* | **1,259** | 1,567 |
| Unit selling price of cement *(RMB/tonne)* | **330.7** | 264.0 |
| Unit selling price of clinker *(RMB/tonne)* | **263.2** | 237.8 |
| Unit selling price of concrete *(RMB/$m^3$)* | **439.1** | 300.8 |

# (IV) Management Discussion and Analysis

## 1. OPERATING ENVIRONMENT AND INDUSTRY OVERVIEW

In the first half of 2018, faced with the complicated and ever-changing international environment and the arduous tasks of domestic reform and development, the Chinese government upheld the general principle of seeking progress while maintaining stability, energetically carried forward the supply-side structural reform, and kept practicing new development concepts. Thanks to its initiative in keeping in alignment with the high quality development requirements, endeavors to overcome difficulties and well-knit work, the national economy continued the development status of going upward while maintaining overall stability, the structural adjustment further proceeded, new driving forces succeeded the old ones incessantly and quality and efficiency were both improved steadily, manifesting a promising outset for the high quality development of economy.

In the first half of 2018, GDP of China was RMB41,896.1 billion, representing a YOY increase of 6.8% at comparable prices, a stable growth despite 0.1 percentage point down from the same period last year. The investment in fixed assets (excluding rural households) was RMB29,731.6 billion, representing a YOY increase of 6.0%. The investment in infrastructure (excluding electricity, heat, gas and water production and supply), representing a YOY increase of 7.3%. The total investment in real estate development was RMB5,553.1 billion, representing a YOY growth of 9.7 percent. The sales area of commercial residential buildings was 771.43 million square meters, representing an increase of 3.3%. The sales in commercial residential buildings were RMB6,694.5 billion, representing an increase of 13.2%. ***(Source: National Bureau of Statistics of China)***

In the first half of 2018, the growth of investment in fixed assets fell slightly, the growth of total investment in real estate development accelerated over the same period last year and the infrastructure investment growth continued to remain at a high pace. China's total cement production amounted to approximately 997 million tons, representing a YOY decrease of 0.6%, a drop narrowed by 0.2 percentage point as compared with that of January to May, while the first half of 2017 saw a YOY growth of 0.4%. China's cement industry realized a total profit of RMB66,865 million, representing an increase of approximately 150.37% over the same period last year. ***(Source: Digital Cement)***

## 2. COMPANY'S BUSINESS REVIEW

In the first half of 2018, the Group is committed to refining our fundamental internal management, to enhance the quality of existing manufacturing operations and the sustainability in profits. During the Reporting Period, there was no new project put into operation or capacity replacement project to be dismantled.

As at 30 June 2018, 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 total sales of cement and clinker were 18.726 million tonnes, representing a YOY decrease of 15.3%; sales volume of concrete was 1.259 million cubic meters, representing a YOY decrease of 19.7%; sales revenue was RMB6,650 million, representing a YOY increase of 5.3%; and the profit for the period was RMB711 million.

## 2. COMPANY'S BUSINESS REVIEW (CONTINUED)

### (I) Business analysis

#### 1. Sales revenues and their respective YOY changes

*(Unit: RMB'000)*

| | January–June 2018 | | January–June 2017 | | Sales revenue YOY |
|---|---|---|---|---|---|
| Product | **Sales** | **proportion** | Sales | proportion | change |
| Cement | **5,026,016** | **75.6%** | 4,819,595 | 76.3% | 4.3% |
| Clinker | **929,243** | **14.0%** | 916,237 | 14.5% | 1.4% |
| Concrete | **552,821** | **8.3%** | 471,361 | 7.5% | 17.3% |
| Others | **141,420** | **2.1%** | 107,818 | 1.7% | 31.2% |
| Total | **6,649,500** | **100.0%** | 6,315,011 | 100% | 5.3% |

During the Reporting Period, the Group's sales revenue increased by 5.3% to RMB6,650 million. With regard to revenue breakdown by products, cement revenue amounted to RMB5,026 million, representing a YOY increase of 4.3%, and clinker revenue amounted to RMB929 million, representing a YOY increase of 1.4%. The revenue from concrete amounted to RMB553 million, representing a YOY increase of 17.3%.

## 2. COMPANY'S BUSINESS REVIEW (CONTINUED)

### (I) Business analysis (Continued)

#### 2. Sales volume, unit selling prices and their respective YOY changes

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

| Product | **Sales volume for the Reporting period *('000 tonnes)*** | Sales volume for the same period of last year *('000 tonnes)* | Sales volume change | **Unit selling price for the Reporting period *(RMB/tonne)*** | Unit selling price for the same period of last year *(RMB/tonne)* | Change in unit selling price |
|---|---|---|---|---|---|---|
| Cement | **15,196** | 18,258 | -16.8% | **330.7** | 264.0 | 25.3% |
| Clinker | **3,530** | 3,853 | -8.4% | **263.2** | 237.8 | 10.7% |
| | ***('000 m³)*** | *('000 m³)* | | ***(RMB/m³)*** | *(RMB/m³)* | |
| Concrete | **1,259** | 1,567 | -19.7% | **439.1** | 300.8 | 46.0% |

During the Reporting Period, the sales volume of cement of the Group amounted to 15.196 million tonnes, representing a YOY decrease of 16.8%, the sales volume of clinker amounted to 3.53 million tonnes, representing a YOY decrease of 8.4%. The unit selling price of cement increased by 25.3% to RMB330.7 per tonne, while the unit selling price of clinker increased by 10.7% to RMB263.2 per tonne. The sales volume of concrete amounted to 1.259 million cubic meters, representing a YOY decrease of 19.7%. The unit selling price of concrete increased by 46.0% to RMB439.1/$m^3$.

## 2. COMPANY'S BUSINESS REVIEW (CONTINUED)

### (I) Business analysis (Continued)

#### 2. Sales volume, unit selling prices and their respective YOY changes (Continued)

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

| Operating region | **Average unit selling price for the Reporting period *(RMB/tonne)*** | Average unit selling price for the same period of last year *(RMB/tonne)* | Change in unit selling price |
|---|---|---|---|
| Shandong Region | **354.5** | 271.9 | 30.4% |
| Eastern Shandong Operating Region | **386.0** | 268.5 | 43.8% |
| Western Shandong Operating Region | **348.1** | 283.3 | 22.9% |
| Southern Shandong Operating Region | **318.8** | 256.7 | 24.2% |
| Northeast China Operating Region | **284.8** | 250.6 | 13.6% |
| Shanxi Operating Region | **242.2** | 227.2 | 6.6% |
| Xinjiang Operating Region | **379.5** | 290.3 | 30.7% |

During the Reporting Period, the average unit selling price of cement in Shandong Region was RMB354.5 per tonne, representing a YOY increase of 30.4%; the average unit selling price of cement in Eastern Shandong Operating Region was RMB386.0 per tonne, representing a YOY increase of 43.8%; the average unit selling price of cement in Western Shandong Operating Region was RMB348.1 per tonne, representing a YOY increase of 22.9%; the average unit selling price of cement in Southern Shandong Operating Region was RMB318.8 per tonne, representing a YOY increase of 24.2%; the average unit selling price of cement in Northeast China Operating Region was RMB284.8 per tonne, representing a YOY increase of 13.6%; the average unit selling price of cement in Shanxi Operating Region was RMB242.2 per tonne, representing a YOY increase of 6.6%; the average unit selling price of cement in Xinjiang Operating Region was RMB379.5 per tonne, representing a YOY increase of 30.7%.

## 2. COMPANY'S BUSINESS REVIEW (CONTINUED)

### (I) Business analysis (Continued)

#### 2. Sales volume, unit selling prices and their respective YOY changes (Continued)

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

| Product | **January–June 2018** | | January–June 2017 | | Change in sales volume |
|---|---|---|---|---|---|
| | **Sales volume *('000 tonnes)*** | **Sales proportion** | Sales volume *('000 tonnes)* | Sales proportion | |
| High grade cement | **11,430** | **75.2%** | 12,365 | 67.7% | -7.6% |
| Low grade cement | **3,766** | **24.8%** | 5,889 | 32.3% | -36.1% |

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

During the Reporting Period, sales volume of high grade cement was 11.43 million tonnes, representing a YOY decrease of 7.6%, and sales volume of low grade cement was 3.766 million tonnes, representing a YOY decrease of 36.1%.

## 2. COMPANY'S BUSINESS REVIEW (CONTINUED)

### (I) Business analysis (Continued)

#### 3. Analysis of sales revenue by operating regions and their respective YOY changes

*(Unit: RMB'000)*

| Region | **January–June 2018** | | January–June 2017 | | Change of sales revenue |
|---|---|---|---|---|---|
| | **Sales revenue** | **Sales proportion** | Sales revenue | Sales proportion | |
| Shandong Region | **4,822,587** | **72.6%** | 4,320,831 | 68.4% | 11.6% |
| Eastern Shandong Operating Region | **1,860,616** | **28.0%** | 1,674,838 | 26.5% | 11.1% |
| Western Shandong Operating Region | **1,926,893** | **29.0%** | 1,704,906 | 27.0% | 13.0% |
| Southern Shandong Operating Region | **1,035,078** | **15.6%** | 941,087 | 14.9% | 10.0% |
| Northeast China Operating Region | **1,093,249** | **16.4%** | 1,267,405 | 20.1% | -13.7% |
| Shanxi Operating Region | **539,142** | **8.1%** | 550,765 | 8.7% | -2.1% |
| Xinjiang Operating Region | **194,522** | **2.9%** | 176,010 | 2.8% | 10.5% |
| Total | **6,649,500** | **100.0%** | 6,315,011 | 100.0% | 5.3% |

During the Reporting Period, the sales revenue in Shandong Operating Region was RMB4,823 million, accounting for 72.6% of the Group's total sales revenue and representing a YOY increase of 11.6%; the sales revenue in Eastern Shandong Operating Region was RMB1,861 million, accounting for 28.0% of the Group's total sales revenue and representing a YOY increase of 11.1%; the sales revenue in Western Shandong Operating Region was RMB1,927 million, accounting for 29.0% of the Group's total sales revenue and representing a YOY increase of 13.0%; the sales revenue in Southern Shandong Operating Region was RMB1,035 million, accounting for 15.6% of the Group's total sales revenue and representing a YOY increase of 10.0%; the sales revenue in Northeast China Operating Region was RMB1,093 million, accounting for 16.4% of the Group's total sales revenue and representing a YOY decrease of 13.7%; the sales revenue in Shanxi Operating Region was RMB539 million, accounting for 8.1% of the Group's total sales revenue and representing a YOY decrease of 2.1%; the sales revenue in Xinjiang Operating Region was RMB195 million, accounting for 2.9% of the Group's total sales revenue and representing a YOY increase of 10.5%.

## 2. COMPANY'S BUSINESS REVIEW (CONTINUED)

### (II) Profit analysis

#### 1. Changes in key profit and loss items

*(Unit: RMB'000)*

| | **January–June 2018** | January–June 2017 | Change |
|---|---|---|---|
| Revenue | **6,649,500** | 6,315,011 | 5.3% |
| Gross profit | **2,380,431** | 1,865,328 | 27.6% |
| EBITDA | **2,144,309** | 1,293,140 | 65.8% |
| Profit from operations | **1,455,252** | 574,476 | 153.3% |
| Profit before taxation | **1,063,308** | 43,521 | 2,343.2% |
| Profit/(loss) for the period | **711,107** | (100,520) | 807.4% |
| Profit/(loss) attributable to equity shareholders of the Company | **751,766** | (43,695) | 1,820.5% |

During the Reporting Period, the Group recorded sales revenue of RMB6,650 million, representing a YOY increase of 5.3%; profit from operations was RMB1,455 million, profit for the period was RMB711 million, representing a YOY increase of 807.4%; profit attributable to equity shareholders of the Company was RMB752 million. The increase in profit was mainly due to the increase in selling prices and the increase of gross profit margin to 35.8% for the period from 29.5% for the same period of last year.

## 2. COMPANY'S BUSINESS REVIEW (CONTINUED)

### (II) Profit analysis (Continued)

#### 2. Comparison and analysis of the proportion of cost of sales to revenue

*(Unit: RMB'000)*

| Cost of sales | **January–June 2018** Amount | **January–June 2018** Proportion to revenue | January–June 2017 Amount | January–June 2017 Proportion to revenue | Change of proportion to revenue |
|---|---|---|---|---|---|
| Raw materials | **1,418,485** | **21.3%** | 1,477,033 | 23.4% | -2.1 P.PT |
| Coal | **1,138,199** | **17.1%** | 1,233,216 | 19.5% | -2.4 P.PT |
| Power | **438,062** | **6.6%** | 571,078 | 9.0% | -2.4 P.PT |
| Depreciation and amortisation | **376,649** | **5.7%** | 436,694 | 6.9% | -1.3 P.PT |
| Others | **897,674** | **13.5%** | 731,662 | 11.6% | 1.9 P.PT |
| Total cost of sales | **4,269,069** | **64.2%** | 4,449,683 | 70.5% | -6.3 P.PT |

During the Reporting Period, the proportion of the Group's total cost of sales to revenue was 64.2%, representing a YOY decrease of 6.3 percentage points, due to the decrease of the total sales volume. Of which, the proportion of raw materials costs to revenue was 21.3%, representing a YOY decrease of 2.1 percentage points. The proportion of coal costs to revenue was 17.1%, representing a YOY decrease of 2.4 percentage points. The Group's average unit purchase price of coal in the first half of 2018 increased by 5.0% to RMB639.4/tonne as compared with the same period of last year (RMB609.0/tonne). As for cost reduction, the output of residual heat power generation was 454 million KWH in the first half of 2018, thus reducing the cost of clinker by RMB153 million.

## 3. COMPANY'S FINANCIAL REVIEW

### (I) Expenses during the period

*(Unit: RMB'000)*

| | **January–June 2018** | | January–June 2017 | | Changes in proportion to sales revenue |
|---|---|---|---|---|---|
| | **Amount** | **Proportion to sales revenue** | Amount | Proportion to sales revenue | |
| Selling and marketing expense | **201,132** | **3.0%** | 256,049 | 4.0% | -1.0 P.PT. |
| Administrative expense | **936,388** | **14.1%** | 1,059,088 | 16.8% | -2.7 P.PT. |
| Finance cost | **400,845** | **6.0%** | 531,231 | 8.4% | -2.4 P.PT. |
| Total | **1,538,365** | **23.1%** | 1,846,368 | 29.2% | -6.1 P.PT. |

During the Reporting Period, the proportion of the Group's selling and marketing expense to sales revenue has a YOY decrease of 1.0 percentage point. The proportion of administrative expense to sales revenue has a YOY decrease of 2.7 percentage points. In addition, the proportion of the Group's finance cost to sales revenue has a YOY decrease of 2.4 percentage points.

The decrease in selling and marketing expense was mainly caused by the YOY decrease in transportation and handling charges. The decrease in administrative expense was mainly caused by the YOY decrease in sewage charges, litigation costs and security costs. The decrease in financial cost was mainly caused by the YOY decrease in interest expenses due to negotiation on debts and accelerated repayment of borrowings.

## 3. COMPANY'S FINANCIAL REVIEW (CONTINUED)

### (II) Changes in balance sheet items

*(Unit: RMB'000)*

| | **30 June 2018** | 31 December 2017 | Change |
|---|---|---|---|
| Non-current assets | **20,434,281** | 20,753,158 | -1.5% |
| Current assets | **4,972,156** | 4,336,801 | 14.7% |
| Total assets | **25,406,437** | 25,089,959 | 1.3% |
| Current liabilities | **19,710,365** | 19,744,702 | -0.2% |
| Non-current liabilities | **1,043,414** | 1,327,726 | -21.4% |
| Total liabilities | **20,753,779** | 21,072,428 | -1.5% |
| Minority interest | **52,791** | 102,204 | -48.3% |
| Equity attributable to equity shareholders of the Company | **4,599,867** | 3,915,327 | 17.5% |
| Total liabilities and equity | **25,406,437** | 25,089,959 | 1.3% |
| Net gearing ratio | **71.7%** | 76.4% | -4.7 P.PT. |

As of 30 June 2018, the Group's total assets were RMB25,406 million, total liabilities were RMB20,754 million and its net assets were RMB4,653 million. The net gearing ratio (net debts/(net debts + total equity)) was 71.7%, representing a decrease of 4.7 percentage point as compared with the end of the last year. The Group's total current assets were RMB4,972 million, its total current liabilities were RMB19,710 million, and its net current liabilities were RMB14,738 million.

## 3. COMPANY'S FINANCIAL REVIEW (CONTINUED)

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

*(Unit: RMB'000)*

| Term of borrowings | **30 June 2018** | 31 December 2017 |
|---|---|---|
| Short-term borrowings (including long-term borrowings with maturity within one year) | **11,662,379** | 12,504,756 |
| Long-term borrowings | **527,477** | 800,888 |
| Total | **12,189,856** | 13,305,644 |

All borrowings of the Group were denominated in Renminbi and USD. As of 30 June 2018, the Company's total borrowings were RMB12,190 million including USD427 million of borrowings (approximately RMB2,827 million) and RMB9,363 million of borrowings, representing a decrease of RMB1,116 million as compared with the end of 2017. Of which, short-term borrowings (including long-term borrowings with maturity within 1 year) amounted to RMB11,662 million and accounted for 95.7% of the Group's total borrowings.

### (IV) Capital expenditures

During the Reporting Period, the capital expenditures invested were approximately RMB269 million, which were mainly invested in respect of cement and clinker production lines.

Outstanding capital commitments under production facility construction contracts and equipment purchase agreements not provided for in the financial statements as at 30 June 2018 were as follows:

*(Unit: RMB'000)*

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| Authorised and contracted for | | |
| – plant and equipment | **318,166** | 270,497 |
| Authorised but not contracted for | | |
| – plant and equipment | **84,389** | 67,186 |
| Total | **402,555** | 337,683 |

As of 30 June 2018, the capital commitment which the Group had authorised and contracted for amounted to RMB318 million, representing an increase of RMB48 million as compared with the end of 2017. Furthermore, the capital commitment which was authorised but not contracted for amounted to RMB84 million.

## 3. COMPANY'S FINANCIAL REVIEW (CONTINUED)

### (V) Net cash flow analysis

*(Unit: RMB'000)*

| | January–June 2018 | January–June 2017 |
|---|---|---|
| Net cash generated from operating activities | **1,270,779** | 885,458 |
| Net cash used in investing activities | **(177,818)** | (298,993) |
| Net cash used in financing activities | **(1,011,044)** | (437,699) |
| Net change in cash and cash equivalents | **81,917** | 148,766 |
| Balance of cash and cash equivalents as at 1 January | **307,995** | 276,500 |
| Effect of foreign exchange rates change | **(413)** | (734) |
| Balance of cash and cash equivalents as at 30 June | **389,499** | 424,532 |

Cash and cash equivalent of the Group are mainly denominated in Renminbi. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB1,271 million, representing an increase of RMB385 million over the same period of last year. Net cash used in investing activities amounted to RMB178 million, representing an decrease of RMB121 million over the same period of last year. Net cash used in financing activities amounted to RMB1,011 million, representing an increase of RMB573 million over the same period of last year.

### (VI) Material acquisition and disposal

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

### (VII) Pledge of assets

Details in relation to pledge of assets of the Group as at 30 June 2018 are set out in Note 15–17 to the Financial Statements.

### (VIII)Contingent liabilities

Details in relation to contingent liabilities of the Group as at 30 June 2018 are set out in Note 23 to the Financial Statements.

## 4. OUTLOOK FOR THE SECOND HALF OF THE YEAR

### Macro operating environment outlook for the second half of the year

According to the information from the National Bureau of Statistics, during the first half of 2018, the incremental rate of accumulated fixed asset investment in China decreased slightly, the incremental rate of investment in real estate increased as compared with the same period of last year, and the infrastructure investment growth rate maintained stably at a high level. The areas under construction and new construction areas of real estate developers sustained the year-on-year growth at a continuously rising rate. The real estate developers also recorded a rapid year-on-year increase in the land acquisition acreage.

In the first half of 2018, the overall operation of the cement industry in China was featured with YOY increase in and month-on-month stability of cement price and the slight decrease in cement demands, which remained stable in the south while declined in the north. As the government continued to intensify its efforts on the supply-side structural reform and environmental regulation, a variety of production restriction measures that have impact on the release of cement capacity such as “production restriction for the sake of environmental protection”, “blue sky protection campaign” and “off-peak production” have been taking effect, the supply and demand relationship in the market kept improving, the industry was running at a lean inventory, both the effectiveness and the profits maintained rapid growth.

The cement demands throughout the year are expected to decline slightly compared to last year. Under the circumstance of environmental governance and supply constraints, cement price will rise further in the second half of the year and there is high possibility that the industry profits for the entire year will set a new historic record.

### On the demand front, following the substantial decrease in infrastructure and recovery of investment in real estate, cement demand declined slightly

Pertaining to a cyclic industry that is highly dependent on the macro economy, cement is exposed to the pressure arising from the stable but slowing growth of economy. Given the cement demand in China has reached a high-level plateau at present, the continuing slowdown of investment growth and the further transformation of investment structure in the course of economic restructure will also evoke the gradual decline of cement demand.

In the first half of 2018, given a series of policy regulations in terms of risk prevention, deleveraging, etc., the infrastructure investment which was closely related to the demand for cement showed a significant decline. In the first half of 2018, the growth rate of infrastructure investment (excluding electricity, heat, gas and water production and supply) fell by 2.1 percentage points, representing a sharp drop as compared with the 21.1% in the same period last year. The local governments strengthened regulation over deleveraging and standard operation of PPP projects. Certain local governments cleaned up or stopped or slowed down construction of a number of projects, which also caused the investment growth to slow down objectively.

## 4. OUTLOOK FOR THE SECOND HALF OF THE YEAR (CONTINUED)

### Macro operating environment outlook for the second half of the year (Continued)

#### On the demand front, following the substantial decrease in infrastructure and recovery of investment in real estate, cement demand declined slightly (Continued)

Real estate investment performed well, and its growth rate rebounded significantly as compared with the same period of 2017. In January to June 2018, the national real estate development investment saw a YOY nominal growth of 9.7%, up by 1.2 percentage points over the growth rate of last year. The rebound of real estate investment and the continuation of infrastructure investment of last year jointly supported the overall demand for cement in the first half of the year, and the demand only dropped slightly as compared with the same period last year. Regional differentiation continued and presented the characteristics of stabilization in Southern China and decrease in Northern China.

According to the current development trend of real estate investment and infrastructure investment in the PRC, due to the continued high pressure posed by the real estate regulation policy in the later period, the real estate investment maintained a “moderate downside” trend in 2018, and the investment fell further in the second half of the year. However, at the same time, the growth rate of infrastructure investment is expected to bottom out and pick up slightly in the second half of the year. It is expected that there will be no cliff-like decline in the overall demand for cement in the second half of the year. The demand for cement throughout the year will be lower than that of last year to a limited extent. From the perspective of regional performance, the demand for cement was still relatively sluggish in the Northeast and Northwest China and rose steadily in the Eastern and Northern China, and is expected to continue growth in the Southwest and Southern China. The overall situation will still be characterized by stabilization in Southern China and decrease in Northern China.

The Company believes that, in the second half of 2018, with the support of the Central Government of the PRC, China’s economic growth will remain stable driven by investment in infrastructure and real estate, and the demand for cement will continue to be healthy.

## 4. OUTLOOK FOR THE SECOND HALF OF THE YEAR (CONTINUED)

### Macro operating environment outlook for the second half of the year (Continued)

#### On the supply front, cement producers continue to maintain low inventory levels amid mounting environmental pressure

In the first half of 2018, amid deepening supply-side structural reform and tightening environmental regulation in the country, a number of production restriction measures, including “off-peak production” and “production curtailment”, were introduced and implemented in most provinces in China, which has resulted in a noticeable change in cement supply market. In particular, in southern China where there has been relatively strong market demand, the supply and demand has been gradually brought into balance with inventory levels going significantly lower and the ratio of average cement inventory to storage capacity in general falling more than 10% as compared with the same period of 2017, resulting in stable prices and higher profit margins.

In the first half of 2018, despite four new production lines of cement clinker were put into service, China’s total production capacity of cement clinker remained at 2 billion tonnes, partly because the four new production lines were scattered in different regions and had no significant impact on the market. The utilization rate of clinker production capacity in the first half of 2018 was 65 %, basically the same as that of the same period in 2017

It is expected that PRC government will further increase environmental governance efforts in the second half of 2018, which may result in a general decline in inventories of the cement industry and reemergence of a tight supply of cement clinker in some areas. Against such backdrop, cement price is likely to see a further rise, and the total profit of the cement industry is expected to hit a new high. However, given the low utilization rates in northeastern China, northwestern China and northern China, the average price of cement in China will remain low. Therefore, it is essential to increase efforts to eliminate outdated capacity and reshuffle the structure of supply and demand so as to improve utilization rate and the economic efficiency of the cement industry as a whole.

In 2017, under the guidance of the “Belt and Road Initiative”, major cement makers, such as China National Building Materials, Anhui Conch Cement and Hongshi, set up large cement plants overseas. In the wave of domestic leading enterprises investing and establishing factories abroad, it is expected that in the second half of 2018 more enterprises will go abroad and set up factories in emerging countries and in regions where cement demand is high. With cement price lingering at high levels, cement makers are likely to continue the profit growth momentum in 2017, and the total profits of the whole industry will reach or exceed the historical high of RMB102 billion recorded in 2011. Reduction in supply will boost the prosperity of the industry, and the sustainability of such policy is the key to success.

The Group is the sixth largest cement and clinker manufacturer in China in terms of capacity. The PRC government’s implementation of stricter environmental and off-peak production measures will facilitate us in cementing our market position and enhancing our economic performance.

## 4. OUTLOOK FOR THE SECOND HALF OF THE YEAR (CONTINUED)

### Macro operating environment outlook for the second half of the year (Continued)

#### Business outlook for the second half of the year

As disclosed in the announcements of the Company, the Company's management and operations have been subject to some adverse impact caused by the continued suspension of trading in its shares due to insufficient public float, and the fight over control of the Company, but with the assistance of Jinan municipal government and its shareholders, the Company has made progress in settling the dispute over control of the Company in a proper way, and the debt crisis of the Company has been gradually and properly resolved. In addition, the Company is in talks with its shareholders and professional advisers to take action to solve the issue of insufficient public float.

With the rising price of cement, it is expected that most large-sized cement producers in China will record considerable profits. Looking ahead, in the second half of 2018, the Group will, while proactively dealing with the two major issues mentioned above, make extra efforts to enhance its profitability. The Group will keep staying in sync with market conditions so as to stabilize selling prices, enhance centralized procurement to reduce costs, and strengthen internal rules and regulations and staff trainings to improve the quality of internal control management and professional quality of its employees. Moreover, The Group will embrace its social responsibility and uphold the green development philosophy by taking measures to ensure production safety, reduce emissions and build green intelligent mines.

In conclusion, with the efforts of all employees, the Group will be able to restore its reputation, improve the quality of operations, and grow into a top player in the industry. Also, the Group will fulfill its social responsibility and repay its shareholders and employees and the society with better performance.

## 5. EMPLOYEES AND THEIR REMUNERATION

As of 30 June 2018, the Group had a total of 18,501 employees. The aggregate remuneration of the employees for the Reporting Period was RMB748 million.

# (V) 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 30 June 2018, 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.

During the Reporting Period, the Company has not issued any additional Shares.

As of 30 June 2018, the Company has issued a total of 3,379,140,240 Shares.

## 2. SUSPENSION OF TRADING

As at 16 April 2015, the public float of the Company fell 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, 20 September 2018 and 7 October 2018.

## 3. SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS AND DIRECTORS

### (1) Shareholdings of substantial shareholders

As of 30 June 2018, 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% |
| 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% |
| Yu Yuan Investment Corporation Limited | 142,643,000 (L) | Beneficial owner | 4.22% |
| | 749,325,647 (L)[5] | 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 | 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% |

## 3. SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS AND DIRECTORS (CONTINUED)

### (1) Shareholdings of substantial shareholders (Continued)

*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.

(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 30 June 2018 is 3,379,140,240.

Save as disclosed above, and so far as the Directors are aware, as of 30 June 2018, 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.

## 3. SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS AND DIRECTORS (CONTINUED)

### (2) Directors' and Chief Executives' Interests in the Shares, Underlying Shares and Debentures

As of 30 June 2018, 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. SHARE OPTION SCHEME

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

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

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

## 4. SHARE OPTION SCHEME (CONTINUED)

By virtue of the High Court Miscellaneous Proceedings No. 593 of 2015 ("HCMP 593/2015"), 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 High Court that it will not take steps 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.

## 4. SHARE OPTION SCHEME (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 | Six months after the date of grant | 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 |

## 4. SHARE OPTION SCHEME (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 30 June 2018.

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.

## 5. 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.

# (VI) Major Events

## I. 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 30 June 2018, the Group in aggregate borrowed RMB1,561 million 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$89.91 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, 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 RMB30.42 million for settling litigation costs.

As of 30 June 2018, outstanding borrowings of the Company from Tianrui Group was RMB854 million.

## II. 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 (together with the Cayman Petition, the "**Cayman Proceedings**").

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 has similarly requested that the application for appointment of JPL's be refused. The substantive hearing of these matters was heard in the Grand Court of the Cayman Islands on 10 and 11 October 2018 (the "**Cayman Hearing**").

At the Cayman Hearing, the Company was granted a Validation Order from the Grand Court of the Cayman Islands, on the terms requested by the Company, permitting it to make payments in the ordinary course of business.

For further details, please refer to the announcements published by the Company on 4 September 2018, 20 September 2018 and 12 October 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 was held on 11 October 2018 (the "**Hong Kong Hearing**").

Tianrui's legal representatives indicated at the Hong Kong Hearing that Tianrui would abide in the Hong Kong Proceedings by the position taken by the Court in the Cayman Proceedings. Accordingly, the Company has been granted a Validation Order from the High Court of Hong Kong, on the terms requested by the Company, permitting it to make payments in the ordinary course of business.

For further details, please refer to the announcements published by the Company on 4 September 2018, 20 September 2018, 12 October 2018 and 16 October 2018.

## II. MAJOR EVENTS (CONTINUED)

### 2. MATERIAL LITIGATION IN HONG KONG (Continued)

#### 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 Caikui 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.

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.

## II. MAJOR EVENTS (CONTINUED)

### 2. MATERIAL LITIGATION IN HONG KONG (Continued)

#### HCA 2880 of 2015 (Continued)

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.

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.

## II. MAJOR EVENTS (CONTINUED)

### 2. MATERIAL LITIGATION IN HONG KONG (Continued)

#### 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.

#### 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.

## II. MAJOR EVENTS (CONTINUED)

### 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 Senior 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.

## II. MAJOR EVENTS (CONTINUED)

### 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.

## II. MAJOR EVENTS (CONTINUED)

### 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.

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, and the trial was held on 16 October 2018.

## II. MAJOR EVENTS (CONTINUED)

### 3. MATERIAL LITIGATION IN PRC (CONTINUED)

#### 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.

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.

## II. MAJOR EVENTS (CONTINUED)

### 3. MATERIAL LITIGATION IN PRC (CONTINUED)

#### Other litigations in the PRC

As of the date of this report, there are 59 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 57 unsettled litigations with Shandong Shanshui as defendants, with the subject matter of the litigations approximately RMB823 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, 6 cases of equity dispute, 3 cases of financial loan dispute, 7 cases of construction and supervision dispute, 2 cases of corporate bond transactions dispute, 1 case of dispute over agreement on contracted management of enterprise, 18 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 41 cases in the first instance, a total of 4 cases in the second instance, and 12 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.

## III 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.

## IV. PUBLIC FLOAT

As at 16 April 2015, the public float of the Company was below 25%.As such, at the request of the Company, trading in the Shares and debt securities of the Company was suspended as from 9:00 a.m. on 16 April 2015. The Stock Exchange indicated that the trading in the Shares and debt securities of the Company will remain suspended until the 25% minimum public float is restored.

The Board has been taking active steps in consulting financial advisers 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 the Cinda and FCSL agreed to act as placing agents of the Company in addition of SHKIS and ABCI for the Placing.

## IV. PUBLIC FLOAT (CONTINUED)

On 28 November 2016, the Company, Cinda (the "**Manager**"), FCSL, SHKIS and ABCI (collectively placing agents (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.

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.

## IV 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**").

## IV. 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 its share trading resumption plan and 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. The adjourned annual general meeting and the extraordinary general meeting (the "**Meetings**") will be held on 30 October 2018 to approve its share trading resumption plan. 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.

## IV. PUBLIC FLOAT (CONTINUED)

On 16 October 2018, the Company announced that it had since applied to the Listing (Review) Committee to adjourn the Review Hearing until after the Meetings. The Company received a notification letter from the Listing (Review) Committee on 16 October 2018 under which the Listing (Review) Committee allows the Company's application. The Company and the Listing Department may apply to restore the Review Hearing.

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, 7 October 2018 and 16 October 2018 in relation to, among other things, the proposed cancellation of listing and plan on resumption of trading.

# (VII) Interim Financial Statements (Unaudited)
## Consolidated statement of profit or loss

*For the six months ended 30 June 2018 – Unaudited*
*(Expressed in Renminbi)*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| **Revenue** | 3, 4 | **6,649,500** | 6,315,011 |
| Cost of sales | | **(4,269,069)** | (4,449,683) |
| **Gross profit** | | **2,380,431** | 1,865,328 |
| Other revenue | 5 | **203,019** | 64,630 |
| Other net income/(expenses) | 6 | **9,322** | (75,094) |
| Selling and marketing expenses | | **(201,132)** | (256,049) |
| Administrative expenses | | **(936,388)** | (1,024,339) |
| **Profit from operations** | | **1,455,252** | 574,476 |
| Finance costs | 7(a) | **(400,845)** | (531,231) |
| Share of results of associates | | **8,901** | 276 |
| **Profit before taxation** | 7 | **1,063,308** | 43,521 |
| Income tax expense | 8 | **(352,201)** | (144,041) |
| **Profit/(loss) for the period** | | **711,107** | (100,520) |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **751,766** | (43,695) |
| Non-controlling interests | | **(40,659)** | (56,825) |
| **Profit/(loss) for the period** | | **711,107** | (100,520) |
| **Earnings/(loss) per share** | 9 | | |
| Basic *(RMB)* | | **0.22** | (0.01) |
| Diluted *(RMB)* | | **0.22** | (0.01) |

The notes on pages 51 to 92 form part of this interim financial report.

# (VII) Interim Financial Statements (Unaudited)

## Consolidated statement of profit or loss and other comprehensive income

*For the six months ended 30 June 2018 – Unaudited*
*(Expressed in Renminbi)*

| | Note | Six months ended 30 June 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Profit/(loss) for the period** | | **711,107** | (100,520) |
| **Other comprehensive (expenses)/income for the period:** | | | |
| Item that will not be reclassified to profit or loss: | | | |
| Exchange differences arising on translation | | **(67,226)** | 116,367 |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Available-for-sales securities: | | | |
| net movement in fair value reserve (recycling) | 8 | **–** | 376 |
| **Other comprehensive (expenses)/income for the period** | | **(67,226)** | 116,743 |
| **Total comprehensive income for the period** | | **643,881** | 16,223 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **684,540** | 73,048 |
| Non-controlling interests | | **(40,659)** | (56,825) |
| **Total comprehensive income for the period** | | **643,881** | 16,223 |

The notes on pages 51 to 92 form part of this interim financial report.

# (VII) Interim Financial Statements (Unaudited)
## Consolidated statement of financial position

*At 30 June 2018 – Unaudited*
*(Expressed in Renminbi)*

| | Notes | At 30 June 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | 10 | | |
| – Property, plant and equipment | | **16,425,121** | 16,769,993 |
| – Land lease prepayments | | **2,214,657** | 2,241,969 |
| | | **18,639,778** | 19,011,962 |
| Intangible assets | | **606,303** | 618,574 |
| Goodwill | | **14,223** | 14,223 |
| Other financial assets | | **432,400** | 489,158 |
| Interest in associates | | **312,065** | 299,607 |
| Deferred tax assets | | **150,804** | 159,335 |
| Other long-term assets | | **278,708** | 160,299 |
| | | **20,434,281** | 20,753,158 |
| **Current assets** | | | |
| Inventories | 11 | **1,811,844** | 1,506,993 |
| Trade and bills receivables | 12 | **2,033,707** | 1,805,752 |
| Other receivables and prepayments | 13 | **653,804** | 653,220 |
| Restricted bank deposits | 14 | **83,302** | 62,841 |
| Bank balances and cash | 14 | **389,499** | 307,995 |
| | | **4,972,156** | 4,336,801 |
| **Current liabilities** | | | |
| Bank loans | 15 | **4,615,049** | 4,790,599 |
| Other borrowings | 16 | **1,321,509** | 1,736,722 |
| Current portion of long-term bonds | 17 | **5,725,821** | 5,977,435 |
| Trade payables | 18 | **3,652,700** | 3,225,907 |
| Other payables and accrued expenses | 19 | **4,121,455** | 3,888,522 |
| Taxation payable | | **273,831** | 125,517 |
| | | **19,710,365** | 19,744,702 |
| **Net current liabilities** | | **(14,738,209)** | (15,407,901) |
| **Total assets less current liabilities** | | **5,696,072** | 5,345,257 |

# (VII) Interim Financial Statements (Unaudited)
## Consolidated statement of financial position (Continued)

*At 30 June 2018 – Unaudited*
*(Expressed in Renminbi)*

| | Notes | **At 30 June 2018 RMB'000** | At 31 December 2017 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Other borrowings | 16 | **175,727** | 403,841 |
| Long-term bonds | 17 | **351,750** | 397,047 |
| Defined benefit obligations | | **137,070** | 137,070 |
| Deferred income | | **258,207** | 266,807 |
| Long-term payables | | **19,992** | 20,347 |
| Deferred tax liabilities | | **100,668** | 102,614 |
| | | **1,043,414** | 1,327,726 |
| **Net assets** | | **4,652,658** | 4,017,531 |
| **Capital and reserves** | | | |
| Share capital | 20(b) | **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 | | **(281,991)** | (966,531) |
| **Total equity attributable to equity shareholders of the Company** | | **4,599,867** | 3,915,327 |
| **Non-controlling interests** | | **52,791** | 102,204 |
| **Total equity** | | **4,652,658** | 4,017,531 |

The notes on pages 51 to 92 form part of this interim financial report.

# (VII) Interim Financial Statements (Unaudited)
# Consolidated statement of changes in equity

*For the six months ended 30 June 2018 – Unaudited*
*(Expressed in Renminbi)*

| | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Statutory reserves | Other reserves | Exchange reserves | Fair value reserves (recycling) | 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* |
| **Balance at 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 |
| **Changes in equity for the six months ended 30 June 2017:** | | | | | | | | | | |
| Loss for the period | – | – | – | – | – | – | (43,695) | (43,695) | (56,825) | (100,520) |
| Other comprehensive income | – | – | – | – | 116,367 | 376 | – | 116,743 | – | 116,743 |
| Total comprehensive income/(expenses) for the period | – | – | – | – | 116,367 | 376 | (43,695) | 73,048 | (56,825) | 16,223 |
| Distribution to non-controlling interests | – | – | – | – | – | – | – | – | (741) | (741) |
| **Balance at 30 June 2017** | 227,848 | 4,654,010 | 1,193,568 | 268,921 | (232,834) | 5,178 | (2,944,955) | 3,171,736 | 99,985 | 3,271,721 |
| **Balance at 1 January 2018** | **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** |
| Impact of initial application of IFRS 9 | **–** | **–** | **–** | **–** | **–** | **(5,225)** | **5,225** | **–** | **–** | **–** |
| Adjusted balance at 1 January 2018 | **227,848** | **4,654,010** | **1,282,801** | **268,976** | **(147,387)** | **–** | **(2,370,921)** | **3,915,327** | **102,204** | **4,017,531** |
| **Changes in equity for the six months ended 30 June 2018:** | | | | | | | | | | |
| Profit for the period | **–** | **–** | **–** | **–** | **–** | **–** | **751,766** | **751,766** | **(40,659)** | **711,107** |
| Other comprehensive expenses | **–** | **–** | **–** | **–** | **(67,226)** | **–** | **–** | **(67,226)** | **–** | **(67,226)** |
| Total comprehensive (expenses)/income for the period | **–** | **–** | **–** | **–** | **(67,226)** | **–** | **751,766** | **684,540** | **(40,659)** | **643,881** |
| Appropriation of safety production reserve | **–** | **–** | **–** | **27,557** | **–** | **–** | **(27,557)** | **–** | **–** | **–** |
| Distribution to non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(8,754)** | **(8,754)** |
| **Balance at 30 June 2018** | **227,848** | **4,654,010** | **1,282,801** | **296,533** | **(214,613)** | **–** | **(1,646,712)** | **4,599,867** | **52,791** | **4,652,658** |

The notes on pages 51 to 92 form part of this interim financial report.

# (VII) Interim Financial Statements (Unaudited)
## Condensed consolidated cash flow statement

*For the six months ended 30 June 2018 – Unaudited*
*(Expressed in Renminbi)*

| | Note | Six months ended 30 June 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | | **1,869,066** | 1,308,645 |
| Interest paid | | **(400,986)** | (309,397) |
| Income tax paid | | **(197,301)** | (113,790) |
| **Net cash generated from operating activities** | | **1,270,779** | 885,458 |
| **Investing activities** | | | |
| Payment of purchase of long-term assets | | **(302,213)** | (334,286) |
| Others | | **124,395** | 35,293 |
| **Net cash used in investing activities** | | **(177,818)** | (298,993) |
| **Financing activities** | | | |
| Proceeds from new loans and borrowings | | **280,000** | 64,000 |
| Proceeds from loans from a shareholder | | **148,668** | 140,087 |
| Repayment of loans and borrowings | | **(1,098,877)** | (281,415) |
| Repayment of long-term bonds | | **(332,116)** | (370,000) |
| Others | | **(8,719)** | 9,629 |
| **Net cash used in financing activities** | | **(1,011,044)** | (437,699) |
| **Net increase in cash and cash equivalents** | | **81,917** | 148,766 |
| **Cash and cash equivalents at 1 January** | 14 | **307,995** | 276,500 |
| **Effect of foreign exchange rates changes** | | **(413)** | (734) |
| **Cash and cash equivalents at 30 June, representing bank balances and cash** | 14 | **389,499** | 424,532 |

The notes on pages 51 to 92 form part of this interim financial report.

## 1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 ("IAS 34") "Interim financial reporting", issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 18 October 2018. 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 of Hong Kong Limited was suspended with effect from 9:00 a.m. on 16 April 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted by China Shanshui Cement Group Limited (the "Company") and its subsidiaries (collectively, the "Group") in the preparation of the consolidated financial statements for the year ended 31 December 2017, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company.

The auditor of the Company did not express an opinion on the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year ended 31 December 2017 in their report dated 6 October 2018. The auditor of the Company expressed a qualified audit opinion on the audited consolidated statement of financial position as at 31 December 2017 in their report dated 6 October 2018. The report also includes a Material Uncertainty Related to Going Concern section that draws attention to the Group's current liabilities exceeding its current assets by RMB15,408 million, which indicates that a material uncertainty exists that may cast significant doubt on the Group's ability as a going concern; an Other Matters section that draw attention to the matters which led the predecessor auditor to disclaim their opinion on the consolidated financial statements of the Group for the year ended 31 December 2016.

### Material uncertainties relating to the Group's ability to continue as a going concern

As at 30 June 2018, the Group's current liabilities exceeded its current assets by RMB14,738 million. Its total interest-bearing borrowings liabilities amounted to RMB12,190 million, out of which RMB11,662 million was due within 12 months. The bank balances and cash of the Group amounted to RMB389 million as at 30 June 2018.

## 1 BASIS OF PREPARATION (CONTINUED)

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

As disclosed in notes 15 to 17, the Group breached the default clauses of the lending agreements of bank loans, other borrowings and long-term bonds totalling RMB1,677 million, RMB460 million and RMB5,277 million, respectively which are included in the Group's interest-bearing borrowings as at 30 June 2018, hence these balances were repayable on demand. As at 30 June 2018, through commencing legal proceedings, several banks have demanded that the Group repay the overdue principal of other borrowings and long-term bonds of approximately RMB4,300 million, and certain suppliers and third parties also have demanded that the Group repays the overdue payables of approximately RMB343 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.

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 seeking to wind up the Company before the Grand Court of the Cayman Islands (the "Cayman Proceedings") and the Court of First Instance of the High Court of the Hong Kong Special Administrative Region (the "Hong Kong Proceedings"). 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"). Tianrui's JPL Application and the Company's application to strike out the petition in the Cayman Proceedings were heard substantively in the Grand Court of the Cayman Islands on 10 and 11 October 2018 (the "Cayman Hearing"). The Company's application to strike out the petition in the Hong Kong Proceedings was the subject of a call-over hearing on 11 October 2018. At the Cayman Hearing, the Company was granted a validation order allowing the Company to make payments in the ordinary course of business (the "Validation Order") from the Grand Court of the Cayman Islands. The corresponding Validation Order has been granted in the Hong Kong Proceedings on 16 October 2018. The Company is in the process of arranging payment of coupon and overdue interest for the 2020 Notes. The Grand Court of the Cayman Islands has not made a ruling (reserved its decision) in relation to the Company's application to strike out the winding up petition and the appointment of JPLs. The hearing of the Company's application to strike out the Hong Kong Petition was adjourned to 23 October 2018. Details of which are set out in the Company's announcements on 12 October 2018 and 16 October 2018.

## 1 BASIS OF PREPARATION (CONTINUED)

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

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) The Group has been actively negotiating with a number of PRC banks and financial institutions for renewal and extension of loans and banking facilities with extended repayment terms.

Up to the date of approval of the interim report, the Group has repaid bank borrowings of RMB357 million and has renewed or rolled over bank borrowings with principal amount of RMB2,142 million, of which RMB999 million will be due in second half of 2019 and after. The Group has further obtained new banking facilities with amount of RMB15 million, of which RMB6 million and RMB9 million will be expired within one year and after one year from 30 June 2018 respectively.

(ii) During the six months ended 30 June 2018, the Group has successfully reached agreements with holders of short-term financing bills to restructure the repayment terms. As at 30 June 2018, the Group has entered into agreements with holders of defaulted and past due short-term financing bills with principal amounts of RMB1,034 million on settlement plans to extend the repayment of RMB861 million and RMB173 million to within one year and after one year from 30 June 2018 respectively. 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 RMB474 million and entered into agreements with other short-term financing bills holders with principal amounts of RMB330 million. According to the agreements, the outstanding short-term financing bills of RMB330 million will be repayable within one year from 30 June 2021 and carry interest at 6.4% – 7.7% per annum on the condition that the Group fully complies with the revised repayment plan.

(iii) During the six months ended 30 June 2018, the Group has successfully reached agreements with certain holders of medium-term notes to restructure the repayment terms of the notes. As at 30 June 2018, the Group has entered into agreements with holders of medium-term notes that had been overdue with principal amounts of RMB801 million on settlement plans to extend the repayment of RMB449 million and RMB352 million to within one year and after one year from 30 June 2018 respectively. The creditors have also agreed to waive portion of loan principal and interests accrued to the outstanding liabilities on the condition that the Group repays the outstanding liabilities according to the revised repayment plans.

*For the six months ended 30 June 2018*

## 1 BASIS OF PREPARATION (CONTINUED)

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

(iii) (Continued)

Up to the date of approval of the consolidated financial statements, the Group repaid medium-term notes of RMB243 million and entered into agreements with other medium-term notes holders with principal amounts of RMB1,410 million. According to the agreements, the Group was discharged from the liabilities of certain medium-term notes with principal amount of RMB2 million, and the remaining outstanding medium-term notes of RMB341 million, RMB410 million, RMB501 million and RMB156 million will be repayable within one year from 30 June 2018, 2019, 2020 and 2021 and after respectively and carry interest at 2% – 8.9% on the condition that the Group fully complies with the revised repayment plans.

(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 winding up petitions in the Cayman Islands and in Hong Kong (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 financial statements for the six months ended 30 June 2018 on a going concern basis.

## 1 BASIS OF PREPARATION (CONTINUED)

### 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 the financial statements.

## 2 CHANGES IN ACCOUNTING POLICIES

### (a) Overview

The IASB has issued several IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements.

IFRS 9, Financial instruments
IFRS 15, Revenue from contracts with customers

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

The impact of the adoption of these standards and the new accounting policies are disclosed in note 2(b) and 2(c) below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

*For the six months ended 30 June 2018*

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (a) Overview (Continued)

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of IFRS 9 and IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the condensed consolidated statement of financial position that has been impacted by IFRS 9 and/or IFRS 15:

| | At 31 December 2017 *RMB'000* | Impact on initial application of IFRS 9 *(Note 2(b))* *RMB'000* | Impact on initial application of IFRS 15 *(Note 2(c))* *RMB'000* | At 1 January 2018 *RMB'000* |
|---|---|---|---|---|
| Other payables and accrued expenses | | | | |
| – Customers deposits and receipt in advance | 676,712 | – | (676,712) | – |
| – Contract liabilities | – | – | 676,712 | 676,712 |
| Fair value reserves | 5,225 | (5,225) | – | – |
| Accumulated losses | (2,376,146) | 5,225 | – | (2,370,921) |

Further details of these change are set out in sub-sections (b) and (c) of this note.

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (b) IFRS 9, Financial instruments

IFRS 9 replaces IAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

#### (i) Classification of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVTOCI) and at fair value through profit or loss (FVTPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

– FVTOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (b) IFRS 9, Financial instruments (Continued)

#### (i) Classification of financial assets and financial liabilities (Continued)

– FVTPL, if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVTPL, unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as FVTPL or FVTOCI (recycling), are recognised in profit or loss as other income.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under IAS 39 and reconciliations of the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

| | **IAS 39 Carrying amount at 31 December 2017** | **Reclassification** | **IFRS 9 carrying amount at 1 January 2018** |
|---|---|---|---|
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| **Other financial assets** | | | |
| Financial asset measured at FVTPL *(note)* | – | 9,229 | 9,229 |
| **Other financial assets** | | | |
| Available-for-sale investments, at fair value *(note)* | 7,968 | (7,968) | – |
| Unquoted equity investments in non-listed companies | 1,261 | (1,261) | – |

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (b) IFRS 9, Financial instruments (Continued)

#### (i) Classification of financial assets and financial liabilities (Continued)

*Note:*

Under IAS 39, unlisted equity investments that were not held for trading were classified as available-for-sale financial assets and carried at cost less impairment. These unlisted equity investments are classified as FVTPL under IFRS 9.

The Group did not designate or de-designate any financial liability at FVTPL at 1 January 2018.

#### (ii) Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit losses" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and bills receivables and prepayments, deposits and other receivables); and

– contract assets as defined in IFRS 15.

Financial assets measured at fair value, including equity securities measured at FVTPL and embedded derivative or convertible bond, are not subject to the ECL assessment.

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (b) IFRS 9, Financial instruments (Continued)

#### (ii) Credit losses (Continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade and bills receivables, prepayments, deposits and other receivables and contract assets are always measured at an amount equal to lifetime ECL. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (b) IFRS 9, Financial instruments (Continued)

#### (ii) Credit losses (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (b) IFRS 9, Financial instruments (Continued)

#### (ii) Credit losses (Continued)

Significant increases in credit risk (Continued)

Basis of calculation of interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

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

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

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

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

At 1 January 2018, the Group assessed the impact of expected loss allowance is not significant to the Group.

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (b) IFRS 9, Financial instruments (Continued)

#### (iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

### (c) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaced IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

| | **Carrying amount at 31 December 2017** *RMB'000* | **Reclassification** *RMB'000* | **Carrying amount at 1 January 2018** *RMB'000* |
|---|---|---|---|
| Other payables and accruals | | | |
| – Customer deposits and receipt in advance | 676,712 | (676,712) | – |
| – Contract liabilities | – | 676,712 | 676,712 |

*For the six months ended 30 June 2018*

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (c) IFRS 15, Revenue from contracts with customers (Continued)

#### (i) Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to contracts in progress were presented in the consolidated statement of financial position under "prepayment, deposits and other receivables" or "other payables and accruals" respectively, and work in progress in respect of the Group's made-to-order arrangements was included within inventory until the products were delivered to the customer and the revenue was recognised.

To reflect these changes, receipt in advance amounting to RMB676,712,000 were reclassified as contract liabilities from other payables and accrued expenses at 1 January 2018, as a result of the adoption of IFRS 15.

#### (ii) Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (c) IFRS 15, Revenue from contracts with customers (Continued)

#### (ii) Timing of revenue recognition (Continued)

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue.

*For the six months ended 30 June 2018*

## 3 REVENUE AND SEGMENT REPORTING

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

The Group manages its businesses by geographical areas. 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 the following four reportable segments based on the region in which the Group 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.
- 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.

### (a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Sales of cement | **5,026,016** | 4,819,595 |
| Sales of clinker | **929,243** | 916,237 |
| Sales of concrete | **552,821** | 471,361 |
| Sales of other products | **137,507** | 107,755 |
| Rendering of services | **3,913** | 63 |
| | **6,649,500** | 6,315,011 |

The Group's revenues for the six months ended 30 June 2018 and 2017 were generated in the PRC. Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b).

## 3 REVENUE AND SEGMENT REPORTING (CONTINUED)

### (b) 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 reportable segment on the following bases:

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

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

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

## 3 REVENUE AND SEGMENT REPORTING (CONTINUED)

### (b) Segment results, assets and liabilities (Continued)

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as 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 period is set out below.

| | 2018 | | | | | 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **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* |
| For the six months ended | | | | | | | | | | |
| **Disaggregated by timing of revenue** | | | | | | | | | | |
| Point in time | **4,819,524** | **1,093,074** | **538,467** | **194,522** | **6,645,587** | 4,320,768 | 1,267,405 | 550,765 | 176,010 | 6,314,948 |
| Over time | **3,063** | **175** | **675** | **–** | **3,913** | 63 | – | – | – | 63 |
| Revenue from external customers | **4,822,587** | **1,093,249** | **539,142** | **194,522** | **6,649,500** | 4,320,831 | 1,267,405 | 550,765 | 176,010 | 6,315,011 |
| Inter-segment revenue | **14,874** | **4,578** | **26,486** | **–** | **45,938** | 23,355 | – | – | – | 23,355 |
| **Reportable segment revenue** | **4,837,461** | **1,097,827** | **565,628** | **194,522** | **6,695,438** | 4,344,186 | 1,267,405 | 550,765 | 176,010 | 6,338,366 |
| **Reportable segment profit/(loss)** (adjusted profit/(loss) before taxation) | **1,639,515** | **20,291** | **148,350** | **56,262** | **1,864,418** | 718,689 | (129,511) | (5,909) | 44,692 | 627,961 |
| As at 30 June/31 December | | | | | | | | | | |
| **Reportable segment assets** | **9,368,974** | **8,899,683** | **5,427,614** | **1,247,430** | **24,964,701** | 9,678,847 | 8,566,619 | 5,359,711 | 1,083,668 | 24,688,845 |
| **Reportable segment liabilities** | **(16,549,420)** | **(1,742,961)** | **(792,398)** | **(299,117)** | **(19,383,896)** | 3,732,180 | 2,143,616 | 667,620 | 322,140 | 6,865,556 |

## 3 REVENUE AND SEGMENT REPORTING (CONTINUED)

### (c) Reconciliations of reportable segment profit or loss

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Profit** | | |
| Reportable segment profit | **1,864,418** | 627,961 |
| Elimination of inter-segment (profit)/loss | **(76,986)** | 5,831 |
| Reportable segment profit derived from the Group's external customers | **1,787,432** | 633,792 |
| Share of results of associates | **8,901** | 276 |
| Waiver of interest expense | **114,442** | – |
| Waiver of loan principal | **3,750** | – |
| Unallocated finance costs | **(343,130)** | (488,328) |
| Unallocated head office and corporate expenses | **(508,087)** | (102,219) |
| Consolidated profit before taxation | **1,063,308** | 43,521 |

## 4 SEASONALITY OF OPERATIONS

The Group generally experiences higher cement demands in the second half of the year compared to first half of the year due to construction season starts at second quarter of each year. As a result, the Group typically reports lower revenue and results in the first half of the year.

# Notes to the unaudited interim financial report (Continued)

*For the six months ended 30 June 2018*

## 5 OTHER REVENUE

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Interest income | **9,137** | 3,704 |
| Government grants (note) | **54,223** | 46,610 |
| Amortisation of deferred income | **8,915** | 8,341 |
| Waiver of interest expenses | **114,442** | – |
| Waiver of loan principal | **3,750** | – |
| Others | **12,552** | 5,975 |
| | **203,019** | 64,630 |

*Note:* Government grants mainly represented tax refunds, subsidies and energy reduction incentives from local governments.

## 6. OTHER NET INCOME/(EXPENSES)

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Net gain/(loss) from disposal of fixed assets | **2,377** | (95) |
| Net foreign exchange loss | **–** | (34,309) |
| Reversal of/(impairment loss) on trade receivables, net | **6,870** | (51,788) |
| Reversal of other receivables, net | **5,795** | 17,039 |
| Loss on fair value changes on other financial asset at FVTPL | **(603)** | – |
| Penalties | **(237)** | (3,372) |
| Others | **(4,880)** | (2,569) |
| | **9,322** | (75,094) |

## 7 PROFIT BEFORE TAXATION

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

### (a) Finance costs

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Interest on bank loans | **143,694** | 140,010 |
| Interest on other borrowings and long-term bonds | **248,541** | 374,044 |
| Less: capitalised interest expenses(*) | **(141)** | (239) |
| Net interest expenses | **392,094** | 513,815 |
| Unwinding of discount | **880** | 2,945 |
| Bank charges | **7,871** | 14,471 |
| | **400,845** | 531,231 |

* The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 5.94% and 5.94% for the six months ended 30 June 2018 and 2017 respectively.

### (b) Other items

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Depreciation | **603,057** | 645,536 |
| Amortisation | | |
| – land lease prepayments | **29,594** | 29,073 |
| – intangible assets | **47,505** | 43,779 |

## 8 INCOME TAX EXPENSE

Taxation in the consolidated statement of profit or loss represents:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Current tax expenses** | | |
| Provision for the PRC income tax | **345,616** | 136,112 |
| **Deferred taxation** | | |
| Origination and reversal of temporary differences | **6,585** | 7,929 |
| | **352,201** | 144,041 |

(i) The Group's PRC subsidiaries are subject to PRC income tax at the statutory rate of 25% (six months ended 30 June 2017: 25%) unless otherwise specified.

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

The Company and its subsidiaries incorporated in Hong Kong are subject to Hong Kong Profits Tax at the rate of 16.5% (six months ended 30 June 2017: 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 six months ended 30 June 2018 (six months ended 30 June 2017: 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.

## 9 EARNINGS/(LOSS) PER SHARE

### (a) Basic earnings/(loss) per share

The calculation of basic earnings per share for the six months ended 30 June 2018 is based on the profit attributable to ordinary equity shareholders of the Company for the period of RMB751,766,000 (six months ended 30 June 2017: loss RMB43,695,000) and the weighted average number of ordinary shares of 3,379,140,240 (six months ended 30 June 2017: 3,379,140,240) in issue during the interim period.

### (b) Diluted earnings/(loss) per share

The Company has granted two batches of share options to directors and employees, they are:

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

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

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

The 2011 Options have not been included in the calculation of diluted earnings per share because they were assumed to have been anti-dilutive for both the six months ended 30 June 2016 and 2018, on the assumption that in the period from 16 April 2015 to 30 June 2017 the share price of the Company will not have risen above its last quoted price on 15 April 2015 and therefore the average market price of the Company's shares for the six months ended 30 June 2016 and 2017 is assumed to be less than the exercise price of the 2011 Options.

The directors of the Company are also of the opinion that the 2015 Options are anti-dilutive for the six months ended 30 June 2016 and 2017. This assumption has been made as the directors cannot conclude that the exercise of the 2015 Options would result in the issue of ordinary shares for less than the average market price of ordinary shares during six months ended 30 June 2018, in the absence of market price information from 16 April 2015 to 30 June 2018 and taking into account the adverse nature of the events which have affected the affairs of the Company and its subsidiaries since that date.

*For the six months ended 30 June 2018*

## 10 FIXED ASSETS

(a) During the six months ended 30 June 2018, the addition of fixed assets of the Group amounted to RMB269 million (six months ended 30 June 2017: RMB149 million). Items of fixed assets with net book value totalling RMB9 million were disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB62 million), resulting in a gain on disposal of RMB2 million (six months ended 30 June 2017: loss RMB0.1 million).

(b) As at 30 June 2018, land lease prepayments carried at RMB31 million (31 December 2017: RMB31 million) and fixed assets carried at RMB76 million (31 December 2017: RMB62 million) have been frozen by the PRC Court pending the outcome of the legal proceedings initiated by the Group's creditors relating to overdue bank loans, other borrowings and long-term bonds. Further details of this litigation are set out in notes 16 to 18. Under the Court order, the Group may continue to use these assets in its business but is prohibited from selling or transferring the assets until the litigation is resolved.

## 11 INVENTORIES

| | **At 30 June 2018** | At 31 December 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **680,498** | 433,173 |
| Semi-finished goods | **400,050** | 393,579 |
| Finished goods | **388,404** | 337,792 |
| Spare parts | **342,892** | 342,449 |
| | **1,811,844** | 1,506,993 |

## 12 TRADE AND BILLS RECEIVABLES

| | At 30 June 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|
| Bills receivables | **1,021,800** | 716,301 |
| Trade receivables | **1,259,313** | 1,343,726 |
| Less: allowance for doubtful debts | **(247,406)** | (254,275) |
| | **2,033,707** | 1,805,752 |

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

| | At 30 June 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|
| Within 3 months | **1,101,446** | 844,894 |
| 3 to 6 months | **398,517** | 443,438 |
| 6 to 12 months | **235,471** | 196,083 |
| Over 12 months | **298,273** | 321,337 |
| | **2,033,707** | 1,805,752 |

All of the trade and bills receivables (net of impairment losses for bad and doubtful debts) are expected to be recovered within one year.

Generally, the Group requires full payment upon delivery of goods for sale of cement and clinker. 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 an average of credit period ranging from 90 days to 180 days.

Receivables that were past due but not impaired relate to a number of independent customers that have a good credit 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.

No trade receivables are pledged to secure bank loans granted to the Group as at 30 June 2018 (31 December 2017: RMB64,000,000).

## 13 OTHER RECEIVABLES AND PREPAYMENTS

| | Note | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|---|
| Deposit | | **66,609** | 83,246 |
| Prepayments for raw materials | | **45,774** | 66,130 |
| VAT recoverable | | **135,074** | 168,700 |
| Amount due from related parties | 24(b) | **61,262** | 40,834 |
| Amount due from third parties | | **202,959** | 206,786 |
| Disputed cash with ex-directors | 13(a) | **6,500** | 6,500 |
| Others | | **135,626** | 81,024 |
| | | **653,804** | 653,220 |

(a) 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 date of approval of this consolidated financial statement, the Group reclassified the RMB6.50 million cash as other receivables as at 30 June 2018.

## 14 RESTRICTED BANK DEPOSITS

Restricted bank deposits include RMB23,445,000 as at 30 June 2018 (31 December 2017: RMB19,252,000) of cash deposits pledged to banks for the performance guarantee in relation to certain sales or purchases contracts and unsettled letter of credit, and RMB59,857,000 (31 December 2017: RMB43,589,000) of cash and cash equivalents which has been frozen by the PRC Court pending the outcome of the legal proceedings initiated by the Group's creditors relating to other borrowings, long-term bonds and certain sales or purchase contracts. Further details of this litigation are set out in notes 16 to 18.

The pledged bank deposits will be released upon the expiry of the relevant guarantee in 2022. The frozen cash and cash equivalents may not be used by the Group until the litigation is resolved.

## 15 BANK LOANS

The analysis of the carrying amount of bank loans is as follows:

| | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| Bank loans – Secured (*) | **218,750** | 241,600 |
| Bank loans – Unsecured | **4,396,299** | 4,548,999 |
| | **4,615,049** | 4,790,599 |

* Bank loans were either pledged by certain land lease prepayments with an aggregate carrying amount of RMB12 million (31 December 2017: RMB12 million) and plants and buildings with an aggregate carrying amount of RMB2 million (31 December 2017: 3 million), trade receivables with an aggregate carrying amount of nil (31 December 2017: RMB64 million).

As at 30 June 2018, bank loans of RMB1,677 million (31 December 2017: RMB569 million) were overdue and carried interest rates ranging from 6.9% to 10.1% per annum (31 December 2017: 6.9% to 10.1% per annum). Up to the date of the interim financial report, the Group has reached agreements with PRC banks to renew bank loans of RMB1,274 million that were overdue as at 30 June 2018.

Bank loans amounting to RMB4,295 million (31 December 2017: RMB4,678 million) and RMB320 million (31 December 2017: RMB112 million) due for repayment within one year and after one year, respectively, which contain a cross default clause that demand 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 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:

| | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| Within one year on demand | **4,295,249** | 4,678,199 |
| After one year but within two years | **319,800** | 65,200 |
| After two years but within five years | **–** | 47,200 |
| | **319,800** | 112,400 |
| | **4,615,049** | 4,790,599 |

## 16 OTHER BORROWINGS

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

| | *Notes* | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|---|
| Loan from government – Unsecured | (i) | **3,636** | 4,545 |
| Short-term financing bills | (ii) | **1,493,600** | 2,136,018 |
| | | **1,497,236** | 2,140,563 |

At 30 June 2018, other borrowings were repayable as follows:

| | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| Within one year on demand | **1,321,509** | 1,736,722 |
| After one year but within two years | **167,909** | 367,113 |
| After two years but within five years | **7,818** | 36,728 |
| | **175,727** | 403,841 |
| | **1,497,236** | 2,140,563 |

*Notes:*

(i) The government loan was received by Liaoning Shanshui Gongyuan Cement Co., Ltd. for constructing an environmental friendly production line. The loan is unsecured, bears interest at one-year PRC deposit interest rate plus 0.3% (31 December 2017: 0.3%) and is repayable in equal instalments from 2012 to 2021.

## 16 OTHER BORROWINGS (CONTINUED)

(ii) All of the short-term financing bills are issued by Shandong Shanshui Cement Group Co., Ltd ("Shandong Shanshui") and tradable in the PRC inter-bank market. As at 30 June 2018, the details of short-term financing bills are listed below:

| Issuer | Outstanding principal *(RMB'000)* | Issue date | Maturity date | Original interest rates *(per annum)* | Interest payment term | Effective interest rates *(per annum)* |
|---|---|---|---|---|---|---|
| Shandong Shanshui | 973,800 (31/12/2017: 1,454,418) | 14/04/2015 | 22/11/2015 | 5.3% | settled at the maturity date | 0%–7.67% |
| Shandong Shanshui | 519,800 (31/12/2017: 681,600) | 14/05/2015 | 12/02/2016 | 4.5% | settled at the maturity date | 0%–7.67% |

As at 30 June 2018, all of the short-term financing bills listed above with original principal amount of RMB2,800 million are overdue. Up to 30 June 2018, the Group has reached agreements with the holders of the short-term financing bills with original principal amount of RMB2,340 million to restructure the repayment terms. The Group has made repayments in accordance with the terms set out in the restructuring plan and made accumulated repayment of principal amount of RMB1,306 million (up to 31 December 2017: RMB664 million) up to 30 June 2018, of which RMB642 million was repaid during the six months ended 30 June 2018. As at 30 June 2018, the remaining principal amount of RMB861 million and RMB173 million are repayable within one year and after one year from 30 June 2018. The repayment schedule in accordance with the revised terms is disclosed above.

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 waived interest related to financing bills of RMB78 million (31 December 2017: RMB82 million) has been recognised as other income in profit or loss during the six months ended 30 June 2018.

Subsequent to the period end and up to the date of the approval of the interim report, the Group has completed negotiation and entered into agreements with other financial institutions and PRC banks for restructuring plan in respect of short term financing bills in the principal amount of RMB330 million. According to the restructuring plans, the outstanding short-term financing bills with principal amount of RMB330 million will be repayable after one year from 30 June 2018 and carries interest at 6.4%–7.7% per annum on the condition that the Group fully complies with the revised repayment plan.

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 RMB1,950 million, plus any interest, penalty interest and expenses incurred during the litigation. As of the date of this report, all of the above mentioned litigations have been judged by the PRC Courts, with the Courts ordering the Group to repay the overdue principal, the related interest, penalty interest and expenses incurred during the litigation. As at 30 June 2018 and subsequent to the period end, the Group has reached agreements with several holders of the short-term financing bills for extension of repayment of principal in respect of the above mentioned litigations with principal amount of RMB1,540 million and RMB330 million respectively. As at 30 June 2018, the Group has made repayment in accordance with the terms set out in the restructuring plan and repaid principal of RMB895 million in aggregate to these holders of short-term financing bills. For the remaining overdue principal of RMB80 million, 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 short-term financing bills of RMB50 million. The management has been actively negotiating with certain financial institutions for a renewal or an extension or a restructuring plan.

Certain assets of the Group have been frozen by the PRC Courts in respect of the litigations relating to other borrowings, long-term bonds and certain sales or purchases contracts. As at 30 June 2018, RMB19 million (31 December 2017: RMB44 million) of bank balances, RMB6,127 million (31 December 2017: RMB6,165 million) of investments in subsidiaries, RMB31 million (31 December 2017: RMB31 million) of land use rights and RMB76 million (31 December 2017: RMB62 million) of fixed assets have been frozen by the PRC Courts.

## 17 LONG-TERM BONDS

| | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| Medium-term notes and other note | **3,250,600** | 3,582,716 |
| Less: Current portion of medium-term notes and other note | **(2,898,850)** | (3,185,669) |
| Senior notes | **2,826,971** | 2,791,766 |
| Less: Current portion of senior notes | **(2,826,971)** | (2,791,766) |
| Long-term bonds, less current portion | **351,750** | 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)* | **Interest payment term** | **Effective interest rates** *(per annum)* |
|---|---|---|---|---|---|---|
| **(a) Medium-term notes issued in the PRC inter-bank market (notes (i) and (ii))** | | | | | | |
| Shandong Shanshui | RMB1,424,000 (31/12/2017: RMB1,601,216) | 18/01/2013 | 21/01/2016 | 5.44% | annually | 0%–7.67% (31/12/2017: 0%–7.67%) |
| Shandong Shanshui | RMB897,000 (31/12/2017: RMB965,000) | 27/02/2014 | 27/02/2017 | 6.10% | annually | 0%–7.67% (31/12/2017: 0%–7.67%) |
| Shandong Shanshui | RMB929,600 (31/12/2017: RMB1,016,500) | 09/05/2014 | 12/05/2017 | 6.20% | annually | 0%–7.67% (31/12/2017: 0%–7.67%) |
| **(b) Senior notes issued in the Stock Exchange of Hong Kong Limited (note (iii))** | | | | | | |
| The Company | USD427,253 (31/12/2017: USD427,253) | 11/03/2015 | 10/03/2020 | 7.50% | semi-annually | 7.5% (31/12/2017: 7.5%) |

## 17 LONG-TERM BONDS (CONTINUED)

*Notes:*

(i) As at 30 June 2018, all of the medium-term notes listed above with original principal amount of RMB4,000 million are overdue. Up to 30 June 2018, the Group has reached agreements with the holders of the medium-term notes with original principal amount of RMB1,550 million to restructure the repayment terms. The Group was discharged from the liabilities of certain medium-term notes with principal amount of RMB4 million (31 December 2017: nil) according to the agreements, the Group has made repayments in accordance with the terms set out in the restructuring plan and made accumulated repayment of principal amount of RMB749 million (up to 31 December 2017: RMB417 million) up to 30 June 2018, of which RMB328 million was repaid during the six months ended 30 June 2018. As at 30 June 2018, the remaining principal amount of RMB449 million and RMB352 million are repayable within one year and after one year from 30 June 2018. The repayment schedule in accordance with the revised terms is disclosed above.

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 medium-term notes on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. The waived loan principal and interest related to financing bills of RMB4 million and RMB36 million (31 December 2017: nil and RMB35 million) respectively has been recognised as other income in profit or loss during the six months ended 30 June 2018.

Subsequent to period 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 RMB1,410 million. According to the agreements, the Group was discharged from the liabilities of certain medium-term notes with principal amount of RMB2 million, and the remaining outstanding medium-term notes with principal amount RMB341 million and RMB1,067 million will be repayable in within one year and after one year from 30 June 2018 respectively of which, medium-term notes with principal of RMB8 million is interest-free and medium-term notes with principal of RMB1,400 million carries interest at 2%–8.9% on the condition that the Group fully complies with the revised repayment plans.

Several banks and financial institutions have commenced legal proceedings against the Group to demand immediate repayment of the overdue principal of medium-term notes of RMB2,350 million, plus any interest, penalty interest and expenses incurred during the litigation. As of the date of this report, all of the above mentioned litigations have been judged by the PRC Courts, with the Courts ordering the Group to repay the overdue principal, the related interest, penalty interest and expenses incurred during the litigation. As at 30 June 2018 and subsequent to the period end, the Group has reached agreements with several holders of the medium-term notes for extension of repayment of principal in respect of the above mentioned litigations with principal amount of RMB1,100 million and RMB940 million respectively. As at 30 June 2018, the Group has made repayment in accordance with the terms set out in the restructuring plan and repaid principal of RMB389 million in aggregate to these holders of medium-term notes. For the remaining overdue principal of RMB310 million, 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 medium-term notes of RMB1,040 million. The management has been actively negotiating with certain financial institutions for a renewal or an extension or a restructuring plan.

(ii) Certain assets of the Group have been frozen by the PRC Court in respect of the litigation of the medium-term notes (see note 16).

(iii) The Company issued a senior note with principal of USD500 million (five-year period) to corporate investors in The Stock Exchange of Hong Kong Limited on 11 March 2015 (the "2020 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 undue 2020 Note 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 Note have validly accepted the proposal. The Company has re-purchased USD72,747,000 of the principal of the 2020 Note 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.

In August 2018 and September 2018, Tianrui filed the winding up Petitions and made an JPL Application to the Company. At the Cayman Hearing in October 2018, the Company was granted a Validation Order allowing the Company to make payments in the ordinary course of business from the Grand Court of the Cayman Islands. The corresponding Validation Order has been granted in the Hong Kong Proceedings on the same terms as the Validation Order granted in the Cayman Proceedings on 16 October 2018, and the Company will accordingly proceed to make full payment of the 10 September 2018 coupon (which includes additional overpaid interest) for the 2020 Notes.

The Company has entered into a RSA to complete the Tender Offer with 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.

## 18 TRADE PAYABLES

| | **At 30 June 2018** ***RMB'000*** | At 31 December 2017 *RMB'000* |
|---|---|---|
| Trade payables | **3,652,700** | 3,225,907 |

As at 30 June 2018 and 31 December 2017, all trade payables of the Group are repayable on demand. All trade payables are expected to be settled within one year.

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

| | **At 30 June 2018** ***RMB'000*** | At 31 December 2017 *RMB'000* |
|---|---|---|
| Within 3 months | **1,892,698** | 1,621,293 |
| 3 to 6 months | **498,454** | 404,311 |
| 6 to 12 months | **397,873** | 173,232 |
| Over 12 months | **863,675** | 1,027,071 |
| | **3,652,700** | 3,225,907 |

As at 30 June 2018, certain suppliers and third parties have filed 104 (31 December 2017: 186) lawsuits against the Group to demand immediate settlement of trade payables with a carrying amount of RMB167 million (31 December 2017: RMB326 million) as at 30 June 2018 plus interest for late payment, if any.

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.

## 19 OTHER PAYABLES AND ACCRUED EXPENSES

| | Notes | **At 30 June 2018** ***RMB'000*** | At 31 December 2017 *RMB'000* |
|---|---|---|---|
| Customer deposits and receipts in advance | | **–** | 676,712 |
| Contract liabilities | | **880,689** | – |
| Accrued payroll and welfare | | **99,418** | 314,268 |
| Taxes payable other than income tax | | **102,361** | 77,678 |
| Staff compensation and termination provisions | | **181,094** | 185,116 |
| Amount due to related parties | 24(b) | **886,636** | 750,974 |
| Payable to third parties of acquired subsidiaries | | **153,288** | 109,507 |
| Acquisition consideration payable | (i) | **250,048** | 210,049 |
| Acquisition of property, plant and equipment | | **16,299** | 19,151 |
| Accrued expenses and other payables | (ii) | **1,551,622** | 1,545,067 |
| | | **4,121,455** | 3,888,522 |

*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, RMB17 million, RMB77 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, 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) Included in accrued expenses and other payables are interest payables, payable for mine management, contract guarantee received of RMB916 million, RMB150 million and RMB113 million (31 December 2017: RMB945 million, RMB126 million and RMB83 million) respectively.

(iii) As at 30 June 2018, certain suppliers and third parties have 175 lawsuits against the Group to demand immediately settlement of other payables with carrying amount of RMB176 million as at 30 June 2018 plus interest for late payment, if any.

## 20 CAPITAL, RESERVES AND DIVIDENDS

### (a) Dividends

The directors of the Company did not to declare any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

## 20 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

### (b) Share capital

| | 30 June 2018 and 31 December 2017 | |
|---|---|---|
| | **Number of shares** | **RMB equivalent** |
| | | *RMB'000* |
| **Authorised:** | | |
| Ordinary shares of the Company of USD0.01 each | 10,000,000,000 | 701,472 |
| **Ordinary shares of the Company, issued and fully paid:** | | |
| At 1 January and 30 June/31 December | 3,379,140,240 | 227,848 |

## 21 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

### (a) Financial assets measured at fair value

#### (i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available;

- Level 3 valuations: Fair value measured using significant unobservable inputs.

## 21 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

### (a) Financial assets measured at fair value (Continued)

#### (i) Fair value hierarchy (Continued)

As at 30 June 2018, the Group's financial instruments measured at fair value at the end of the reporting period on a recurring basis categorised into the three-level of the fair value hierarchy defined in IFRS 13 is as follows:

| | **Fair value at 30 June 2018** | **Fair value measurements as at 30 June 2018 using** | | |
|---|---|---|---|---|
| | | **Level 1** | **Level 2** | **Level 3** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| **Assets** | | | | |
| Other financial assets | | | | |
| – Listed financial asset at FVTPL | **7,365** | **7,365** | **–** | **–** |

| | Fair value at 31 December 2017 | Fair value measurements as at 31 December 2017 using | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Assets** | | | | |
| Available-for-sale securities (note): | | | | |
| – Listed | 7,968 | 7,968 | – | – |

*Note:* Available-for-sale securities were reclassified to financial assets at FVTPL upon the adoption of IFRS 9 at 1 January 2018.

## 21 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2018 and 31 December 2017 due to the short-term maturities of their instruments:

In the opinion of the directors of the Company, the fair value of the long-term borrowings approximate their carrying amounts.

## 22 CAPITAL COMMITMENTS

Capital commitments outstanding not provided for in the interim financial report were as follows:

| | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| Authorised and contracted for | | |
| – the acquisitions of fixed assets | **318,166** | 270,497 |

## 23 CONTINGENT LIABILITIES AND OTHER EVENTS

### (a) Guarantees issued

On 14 December 2016, the Company entered into a guarantee in favor of Bank of China Pingdingshan Branch as a security for the provision of the loan facility of RMB400 million to Tianrui Group. As at the reporting date, the directors 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.

## 23 CONTINGENT LIABILITIES AND OTHER EVENTS (CONTINUED)

### (b) Litigation contingencies

(i) Shandong Shanshui and Pingyin Shanshui Cement Co., Ltd. have provided guarantees on behalf of Shanshui Heavy Industries for its bank loan with the principal of RMB300 million. The bank loan of Shanshui Heavy Industries bears the interest rate quoted by the People's Bank of China and is repayable within five years from 2015. The guarantee will expire two years after the agreed repayment date.

The PRC bank has commenced legal proceedings against Shanshui Heavy Industries and the Group to repay the overdue bank loan, the related interest, penalty interest and expenses incurred during the litigation. Certain land use right and properties of Shanshui Heavy Industries have been seized by the court. The directors of the Company considered that the fair value of seized assets was more than 300 million, and no provision for this claim is needed accordingly.

(ii) As at 30 June 2018, 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 RMB12,808,000 which have yet been concluded. No provision for these litigation claims was made in the interim financial report during the six months ended 30 June 2018 as in the opinion of the directors of the Company, the possibility of an outflow of economic resources is remote.

(iii) As at 30 June 2018, 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 RMB3,680,000 which have yet been concluded. No provision for these litigation claims was made in the interim report for the six months ended 30 June 2018 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 30 June 2018, 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 30 June 2018, 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.

## 24 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Transactions

| | Notes | Six months ended 30 June 2018 RMB'000 | Six months ended 30 June 2017 RMB'000 |
|---|---|---|---|
| ***Recurring transactions*** | | | |
| **Sales to:** | | | |
| – Dong'e Shanshui Dongchang Cement Co., Ltd. ("Dong'e Shanshui") | (i) | **48** | 1,973 |
| – Dalian Cement Group Co., Ltd. ("Dashui Group") | (ii) | **–** | 1,591 |
| – Chifeng Taiying Cement Management Co., Ltd. ("Taiying Cement") | | **602** | – |
| – Liaoning Yunding Cement Group Co., Ltd. ("Yunding Cement") | | **67,566** | – |
| | | **68,216** | 3,564 |
| **Purchase from:** | | | |
| – Dashui Group | | **17** | – |
| – Shanshui Heavy Industries | | **6,000** | – |
| | | **6,017** | – |
| **Service and management fee paid:** | | | |
| – Zibo Lianhe Cement Enterprise Management Co., Ltd ("Lianhe Cement") | | **2,889** | – |
| – Zibo Banyang Limestone Enterprise Management Co., Ltd ("Banyang Limestone") | | **12,666** | – |
| – Yunding Cement | | **4,661** | – |
| – Xinganmeng Jixing Cement Joint Operation Co., Ltd. | | **236** | – |
| | | **20,452** | – |
| ***Non-recurring transactions*** | | | |
| **Loans from related parties:** | | | |
| – Jinan Shanshui Lixin Investment Development Co., Ltd. ("Jinan Lixin") | (iii) | **–** | 5,215 |
| – Tianrui Group | (iv) | **148,668** | 140,087 |
| – Jinan Cement Product Factory | (v) | **6,825** | 3,000 |
| | | **155,493** | 148,302 |

## 24 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

### (a) Transactions (Continued)

| | Notes | Six months ended 30 June 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Loans to an associate and related interest income:** | | | |
| – Dong'e Shanshui | (vi) | **315** | 1,056 |
| **Repayment of loans to an associate and related interests by:** | | | |
| – Dong'e Shanshui | (vi) | **38,736** | – |
| **Repayment of loans from related parties:** | | | |
| – Jinan Lixin | (iii) | **–** | 20,505 |
| – Jinan Cement Product Factory | (v) | **6,790** | 3,300 |
| | | **6,790** | 23,805 |
| **Interest paid on behalf of related parties:** | | | |
| – Shanshui Heavy Industries | | **7,101** | 8,282 |

*Notes:*

(i) These represent sales of clinker to 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 from Jinan Lixin which are all interest free. As at 30 June 2018, the unpaid principal to Jinan Lixin is RMB6,500,000 (31 December 2017: RMB6,500,000).

(iv) These relate to loans from Tianrui Group. These loans with total principal of RMB854,222,000 (31 December 2017: RMB696,746,000) bear interest free.

(v) These relate to loans from Jinan Cement Product Factory. As at 30 June 2018, the unpaid principal to Jinan Cement Product Factory is RMB2,195,000 (31 December 2017: nil).

(vi) These relate to loans and related interests to Dong'e Shanshui, the associate of the Group. These loans with total principal of RMB35,600,000 bear interest at one-year PRC bank loan interest rate of 5.4% (31 December 2017: 5.4%) and Dong'e Shanshui has fully repaid the loan as at 30 June 2018.

## 24 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Balances with related parties

| | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| **Accounts receivables due from:** | | |
| – Shanshui Heavy Industries | **4,692** | 18,764 |
| **Advances to suppliers:** | | |
| – Dong'e Shanshui | **9** | 9 |
| – Shanshui Heavy Industries | **6,025** | 6,526 |
| | **6,034** | 6,535 |
| **Other receivables due from:** | | |
| – China Shanshui Investment | **738** | 729 |
| – Dong'e Shanshui | **8** | 5 |
| – Jinan Lixin | **12,000** | – |
| – Qixia City Xinghao Cement Co., Ltd. | **5,530** | – |
| – Taiying Cement | **165** | – |
| – Shanshui Heavy Industries | **29,709** | 23,483 |
| – Jinan Shanshui Group Co., Ltd. ("Jinan Shanshui Group") | **60** | 60 |
| – Dashui Group | **–** | 3,000 |
| – Lianhe Cement | **4,014** | 4,000 |
| – Banyang Limestone | **3,000** | 3,000 |
| – Yunding Cement | **4** | 22 |
| | **55,228** | 34,299 |
| **Other financial assets due from** | | |
| – Dong'e Shanshui | **–** | 38,421 |
| **Accounts payable due to:** | | |
| – Shanshui Heavy Industries | **80,849** | 86,365 |
| **Other payables due to:** | | |
| – Dong'e Shanshui | **30** | 30 |
| – Jinan Lixin | **6,500** | 6,500 |
| – Jinan Shanshui Group | **6** | 6 |
| – Shanshui Heavy Industries | **23,683** | 45,532 |
| – Tianrui Group | **854,222** | 696,746 |
| – Jinan Cement Product Factory | **2,195** | 2,160 |
| | **886,636** | 750,974 |
| **Advances from customers:** | | |
| – Dong'e Shanshui | **27** | 27 |

## 24 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

### (c) 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 is as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Salary, allowances and other benefits | 7,323 | 5,787 |
| Contribution to defined contribution retirement plans | 193 | 163 |
| | 7,516 | 5,950 |

## 25 NON ADJUSTING EVENTS AFTER THE REPORTING PERIOD

In addition to the events disclosed elsewhere in the interim financial report, the following non-adjusting events has 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.

## 25 NOW ADJUSTING EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(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.

## 26 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

*Reclassification for the consolidated statement of profit or loss for the six months ended 30 June 2017:*

Impairment loss on trade receivables and reversal of impairment loss on other receivables of RMB51,788,000 and RMB17,039,000 respectively have been reclassified from administrative expenses to other net expenses.

## I. INTERIM DIVIDEND

The Board does not recommend the payment of any dividend for the first half of 2018.

## II. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

## III. CORPORATE GOVERNANCE

The Board is committed to maintaining good corporate governance standards.

### Corporate Governance Code

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.

#### Chairman and Chief Executive Officer

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

From 1 January 2017 to 18 March 2018, Mr. LIU Yiu Keung, Stephen 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 on 19 March 2018, 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).

#### Directors' liability insurance

In compliance with the Code Provision A.1.8 under the Corporate Governance Code, the Company is required to take out and maintain Directors' liability insurance policy to provide appropriate cover for certain legal actions against Directors. The Directors' liability insurance policy taken out by the Company has expired on 14 June 2018, while the renewal thereof upon expiry failed to be completed due to postponement of delivery of 2017 annual report of the Company. In light of the foregoing, the Company will arrange for taking out appropriate insurance policy to offer cover to Directors as soon as possible upon issue of 2017 annual report.

## III. CORPORATE GOVERNANCE (CONTINUED)

### Rule 3.10(1) and 3.21 of the Listing Rules

Rule 3.10(1) of the Listing Rules requires that every board of directors of a listed issuer must include at least three independent non-executive directors.

Rule 3.21 of the Listing Rules requires that an audit Committee shall comprise at least 3 members, among whom, at least one member shall be an independent non-executive Director possessing proper qualification in compliance with the relevant requirements of Rule 3.10(2) of the Listing Rules or appropriate accounting expertise or 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 relevant requirement. 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.

## IV. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 the reporting period.

## V. 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.

## VI. REVIEW OF INTERIM REPORT BY AUDIT COMMITTEE

The audit committee comprises the three independent non-executive Directors of the Company who reviewed the unaudited interim results of the Company for the six months ended 30 June 2018, and discussed with the Company's management regarding risk management, internal control and other important matters.