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 Annual Report

Contents

(I) Definitions

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

"Company" or "China Shanshui" or "Shanshui Cement"	China Shanshui Cement Group Limited
"Group" or "China Shanshui Group"	the Company and its subsidiaries
"Financial Statements"	the consolidated financial statements of the Group
"Reporting Period"	the period from 1 January 2018 to 31 December 2018
"Board"	the Board of Directors of the Company
"Director(s)"	the Director(s) of the Company
"China Shanshui (HK)"	China Shanshui Cement Group (Hong Kong) Company Limited
"Pioneer Cement"	China Pioneer Cement (Hong Kong) Company Limited
"Continental Cement"	Continental Cement Corporation
"American Shanshui"	American Shanshui Development Inc.
"Shandong Shanshui"	Shandong Shanshui Cement Group Company Limited
"ACC"	Asia Cement Corporation
"CNBM"	China National Building Material Company Limited
"CSI"	China Shanshui Investment Company Limited
"Tianrui Group"	Tianrui Group Company Limited
"Shandong Region"	business covered by Eastern Shandong Operating Region, Western Shandong Operating Region and Southern Shandong Operating Region
"Eastern Shandong Operating Region"	business located at the Eastern Shandong Province, including Weifang, Qingdao, Yantai and Weihai, etc
"Western Shandong Operating Region"	business located at the Central and Western Shandong Province, including Zibo, Jinan and Hebei Province and Tianjin, etc
"Southern Shandong Operating Region"	business located at the Southern Shandong Province, including Zaozhuang, Jining, Heze and Henan Province, etc

(I) Definitions (Continued)

"Northeast China Operating Region"	business located at Liaoning Province, the Eastern Inner Mongolia and Jilin Province, etc
"Shanxi Operating Region"	business located at Shanxi Province and Shaanxi Province, etc
"Xinjiang Operating Region"	business located at Kashi, Xinjiang
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"SFO"	Securities and Futures Ordinance (Cap. 571) (as amended, supplemented or otherwise modified from time to time)
"Shares"	the ordinary shares in the share capital of the Company with a nominal value of US$0.01 each
"Shareholder(s)"	holder(s) of the Share(s)
"Articles of Association"	the amended and restated memorandum and articles of association of the Company adopted on 16 May 2014
"YOY"	year on year comparison
"clinker"	a semi-finished product in the cement production process
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"RMB"	Renminbi, the lawful currency of the PRC, which is the currency unit used in this report, unless otherwise specified
"PRC"	The People's Republic of China

(II) Corporate Information

1. BOARD OF DIRECTORS AND BOARD COMMITTEES

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	:	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
(4)	Website	:	www.sdsunnsygroup.com
(5)	Authorised Representatives	:	CHANG Zhangli and WU Ling-ling
(6)	Company Secretary	:	LO Yee Har Susan
(7)	Listing Date	:	4 July 2008
(8)	Exchange on which the Company's shares are listed	:	The Stock Exchange
(9)	Stock code	:	00691
(10)	Stock Short Name	:	Shanshui Cement
(11)	Hong Kong Share Registrar and Transfer Office	:	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
(12)	Legal Adviser as to Hong Kong law	:	Freshfields Bruckhaus Deringer
(13)	Auditor	:	Moore Stephens CPA Limited

(III) Financial and Business Data Summary

1. CONSOLIDATED INCOME STATEMENT

(Unit: RMB'000)

	For the 12 months ended 31 December				
	2018	2017	2016	2015	2014
Revenue	**17,638,370**	14,773,644	11,284,193	11,166,212	15,596,440
Gross profit	**5,923,471**	4,412,403	2,476,001	1,228,285	3,346,865
Gross profit margin	**33.6%**	29.9%	21.9%	11.0%	21.5%
Profit/(Loss) from operations	**3,779,350**	1,980,514	238,161	(4,869,076)	1,812,813
Profit/(Loss) margin from operations	**21.4%**	13.4%	2.1%	(43.6%)	11.6%
EBITDA	**5,238,698**	3,447,725	1,683,883	(3,430,464)	3,172,359
EBITDA margin	**29.7%**	23.4%	14.9%	(30.7%)	20.3%
Net profit/(loss)	**2,168,847**	546,470	(978,861)	(6,693,655)	308,578
Attributable to:					
Equity shareholders of the Company	**2,196,657**	600,817	(738,281)	(6,387,259)	347,650
Minority interests	**(27,810)**	(54,347)	(240,580)	(306,396)	(39,072)
Basic earnings/(loss) per share *(RMB)*	**0.62**	0.18	(0.22)	(1.89)	0.12
Diluted earnings/(loss) per share *(RMB)*	**0.58**	0.18	(0.22)	(1.89)	0.12

2. CONSOLIDATED BALANCE SHEET

(Unit: RMB'000)

	As at 31 December				
	2018	2017	2016	2015	2014
Non-current assets	**20,214,657**	20,753,158	21,652,679	23,109,951	26,645,735
Current assets	**5,858,056**	4,336,801	4,267,477	3,903,749	7,049,762
Total assets	**26,072,713**	25,089,959	25,920,156	27,013,700	33,695,497
Total liabilities	**16,486,377**	21,072,428	22,663,917	22,520,535	22,329,171
Equity attributable to equity shareholders of the Company	**9,522,248**	3,915,327	3,098,688	4,030,252	10,597,967
Non-controlling interests	**64,088**	102,204	157,551	462,913	768,359
Non-current liabilities	**3,258,193**	1,327,726	521,533	772,186	12,484,072
Current liabilities	**13,228,184**	19,744,702	22,142,384	21,748,349	9,845,099
Total equity and liabilities	**26,072,713**	25,089,959	25,920,156	27,013,700	33,695,497
Net gearing ratio	**42.6%**	76.4%	81.9%	77.6%	56.9%

(III) Financial and Business Data Summary (Continued)

3. CONSOLIDATED CASH FLOW STATEMENT

(Unit: RMB'000)

	For the 12 months ended 31 December				
	2018	2017	2016	2015	2014
Net cash generated from/(used in) operating activities	**2,216,178**	1,865,912	978,342	(342,913)	1,375,826
Net cash used in investing activities	**(849,094)**	(577,489)	(418,809)	(1,591,087)	(2,184,284)
Net cash (used in)/generated from financing activities	**(384,229)**	(1,253,495)	(509,959)	1,002,770	682,207
Net increase/(decrease) in cash and cash equivalents	**982,855**	34,928	49,574	(931,230)	(126,251)

4. KEY BUSINESS DATA

	2018	2017	2016	2015	2014
Sales volume of cement *('000 tonnes)*	**39,186**	41,131	43,959	45,821	53,146
Sales volume of clinker *('000 tonnes)*	**9,953**	9,232	10,544	8,421	9,818
Sales volume of concrete *('000 m^3)*	**2,882**	3,420	2,680	2,370	3,471
Unit selling price of cement *(RMB/tonne)*	**337.2**	276.3	199.0	198.8	235.4
Unit selling price of clinker *(RMB/tonne)*	**270.9**	239.8	164.6	154.3	191.6
Unit selling price of concrete *(RMB/m^3)*	**459.1**	349.8	252.8	267.6	298.6

(IV) Corporate Profile

(1) COMPANY BACKGROUND

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

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

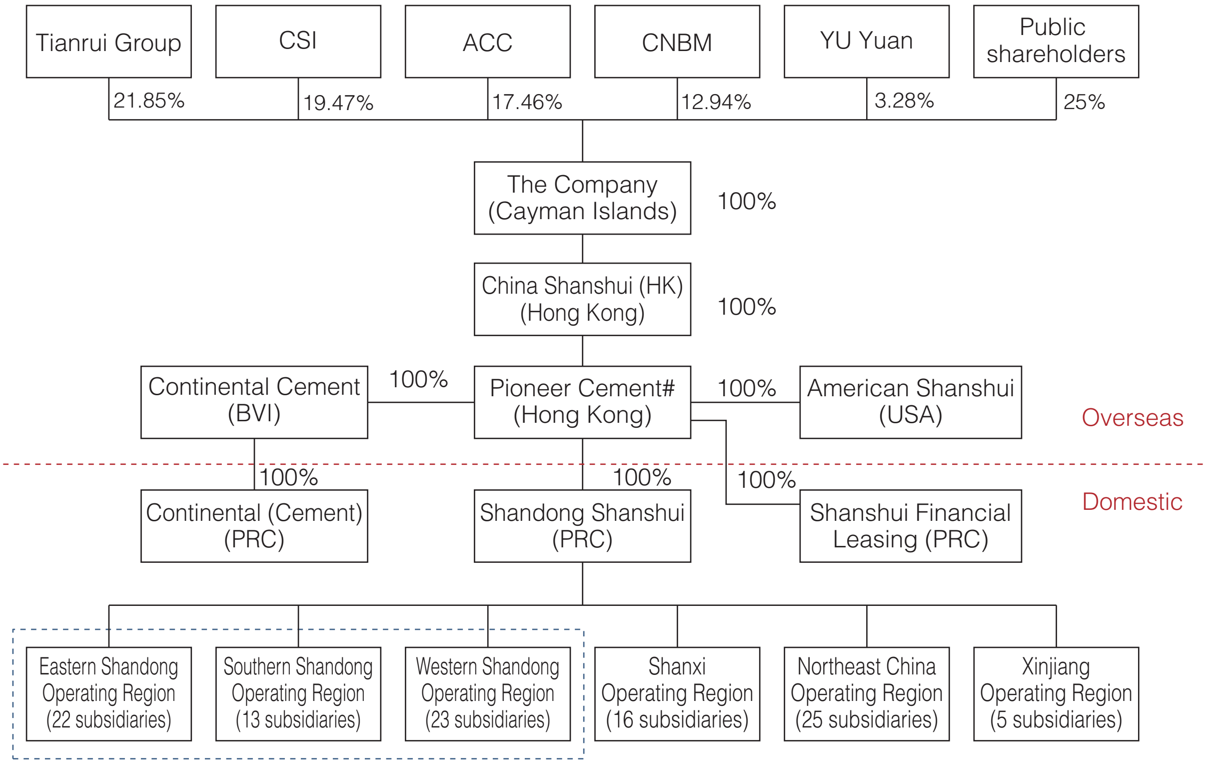
Shandong Shanshui is a wholly foreign-owned limited company established by Pioneer Cement in 2005 through the acquisition of shares in Jinan, Shandong Province in accordance with the laws and regulations of the PRC.

Shandong Shanshui is one of the 12 national large-scale cement enterprises with national key support. At present, Shandong Shanshui has 107 subsidiaries spreading across more than ten provinces including Shandong, Liaoning, Shanxi, Inner Mongolia and Xinjiang.

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

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

(2) SHAREHOLDING STRUCTURE OF THE GROUP



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

(IV) Corporate Profile (Continued)

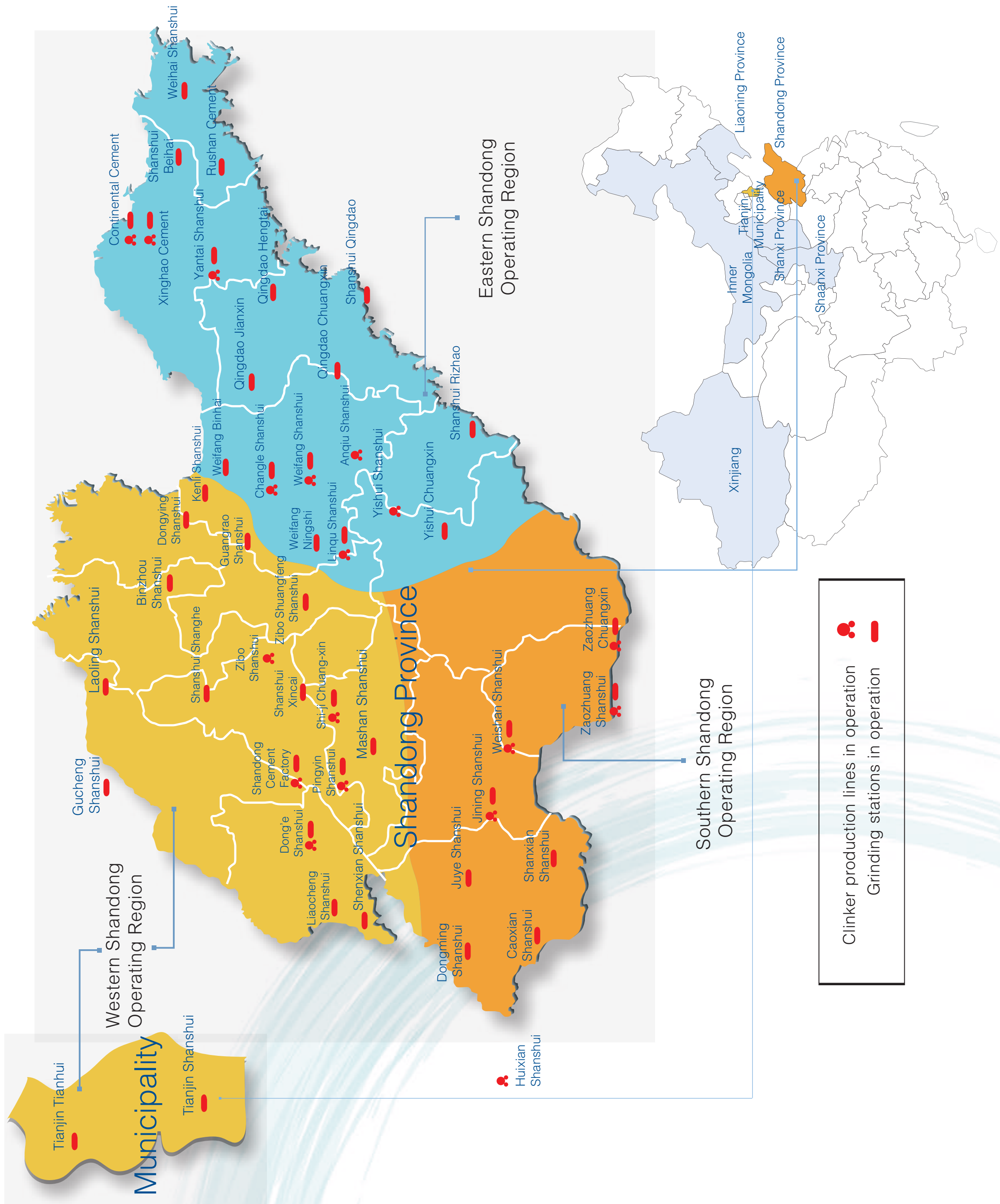
(3) DISTRIBUTION OF PRODUCTION FACILITIES AND CAPACITY

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

As of 31 December 2018, the total capacity of cement and clinker of the Group is listed below:

	Cement Capacity *(million tonnes)*	**Clinker Capacity** *(million tonnes)*
Shandong Region	53.76	24.93
Eastern Shandong Operating Region	24.41	10.75
Western Shandong Operating Region	20.15	7.94
Southern Shandong Operating Region	9.20	6.24
Shanxi Operating Region	15.60	8.64
Northeast China Operating Region	27.02	15.10
Xinjiang Operating Region	4.00	1.60
Total	100.38	50.27

Locations of major production facilities in Shandong Region as of 31 December 2018:



(IV) Corporate Profile (Continued)

Eastern Shandong Operating Region

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

(IV) Corporate Profile (Continued)

Southern Shandong Operating Region

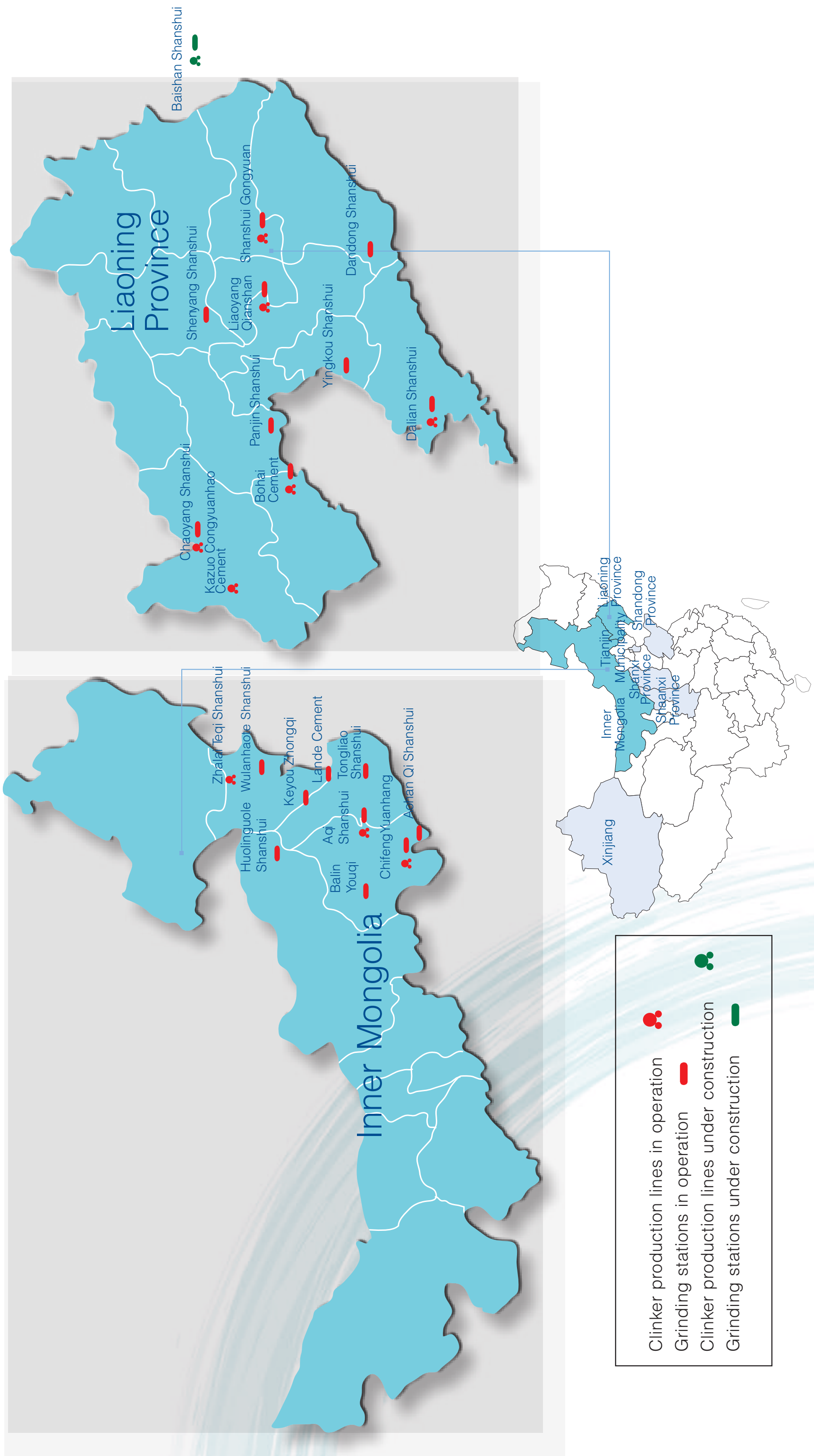
Company Name	Principal Business
Bengbu Shanshui Cement Co., Ltd. ("Bengbu Cement")	Establishment of cement production line
Bozhou Shanshui Cement Co., Ltd. ("Bozhou Cement")	Establishment of cement production line
Caoxian Shanshui Cement Co., Ltd. ("Caoxian Shanshui")	Production and sales of cement
Dongming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

(IV) Corporate Profile (Continued)

Western Shandong Operating Region

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

Locations of major production facilities in Northeast China Operating Region as of 31 December 2018:



(IV) Corporate Profile (Continued)

Northeast China Operating Region

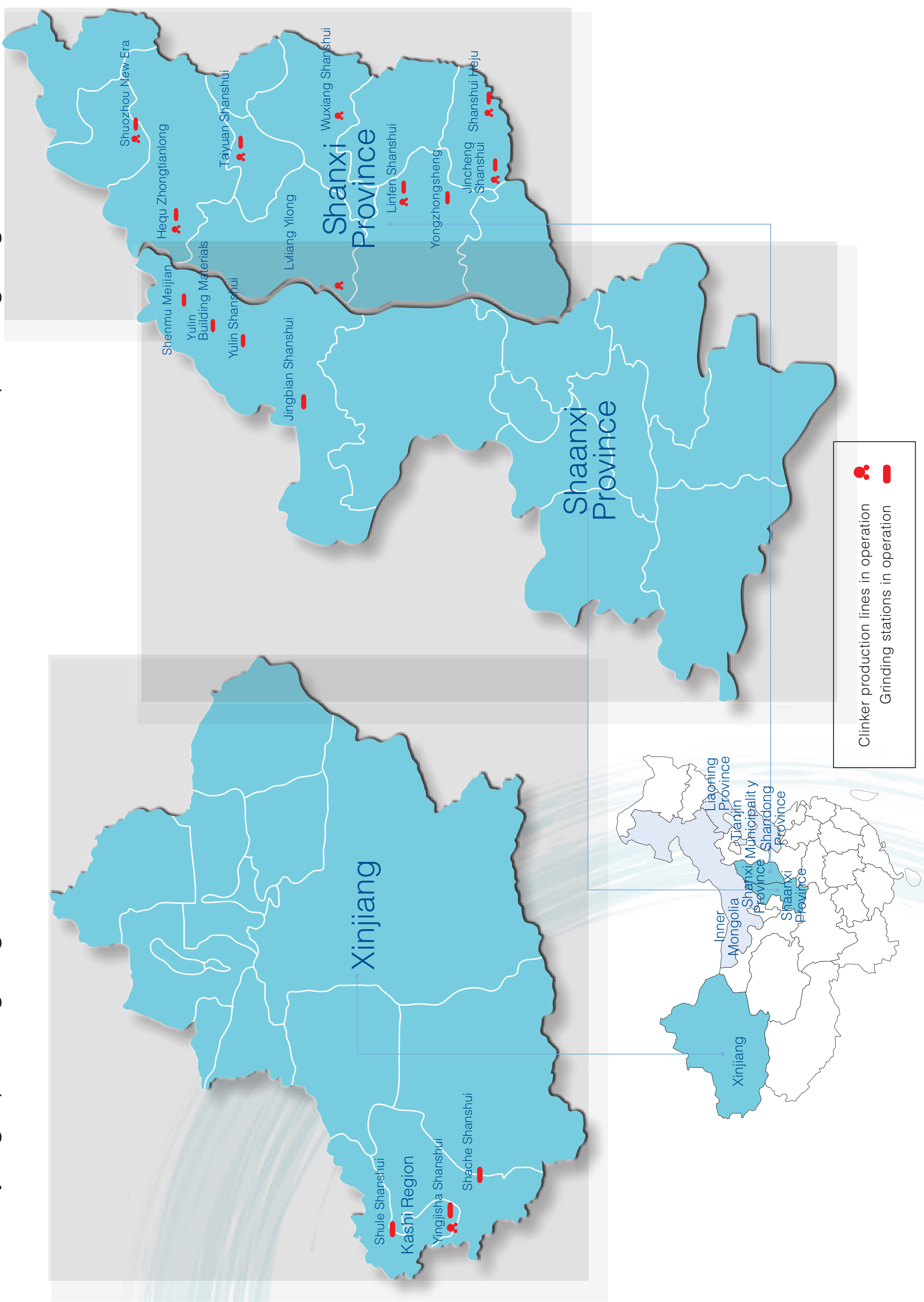
Company Name	Principal Business
Alu Kerqin Qi Shanshui Cement Co., Ltd. ("Aqi Shanshui")	Production and sales of cement and clinker
Aohan Qi Shanshui Cement Co., Ltd. ("Aohan Shanshui")	Production and sales of cement and related products
Baishan Shanshui Cement Co., Ltd. ("Baishan Shanshui")	Production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

(IV) Corporate Profile (Continued)

Locations of major production facilities in Shanxi and Xinjiang Operating Regions as of 31 December 2018:

Shanxi Operating Region

Xinjiang Operating Region



(IV) Corporate Profile (Continued)

Shanxi Operating Region

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

Xinjiang Operating Region

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

(V) Management Discussion and Analysis

1. OPERATING ENVIRONMENT OF THE CEMENT INDUSTRY

In 2018, China's economy maintained a medium-high growth rate, with GDP growing by 6.6% YOY to RMB90,030.9 billion. Nationwide investment in real estate development was RMB12,026.4 billion, representing a YOY increase of 9.5%; and nationwide investment in fixed assets (excluding rural households) was RMB63,563.6 billion, representing a YOY increase of 5.9%, down by 1.3 percentage points from the previous year. The added value of industrial enterprises above designated size increased by 6.2% YOY, down by 0.4 percentage point as compared with that of the previous year and staying within a reasonable range. The industrial structure has been constantly optimized, the effects of supply-side structural reform expanding, and the profitability of industrial enterprises enhanced. (Source: National Bureau of Statistics of China)

2018 marked the outset year for all-round implementation of the guiding principles from the 19th CPC National Congress and the 40th anniversary of China's reform and opening-up. During the year, the Chinese government insisted on pursuing supply-side structural reform as its main task. In pursuit of a favorable environment with clear water, blue skies and uncontaminated soil, since the beginning of the year, the government has made multiple efforts to prevent and control pollution. With the implementation and promotion of environmental protection policies such as energy conservation and emission reduction, peak-off production and mine reclamation, cement production capacity has been constrained. From the perspective of the demand side, in 2018, the rapid growth in new housing construction and rural demand arising from the national poverty alleviation program had offset the impact of the decline in infrastructure investment, and thus the total demand for cement remained at a plateau. Stable demand and shrinking supply, coupled with significant improvement in the industry self-discipline driven by industry associations and large cement producers, led to substantial improvement in the overall supply-demand imbalance in the cement market in China. Further, benefiting from low inventory levels in most regions of China, the prices of cement climbed all the way up to a record high, and the profit of the entire cement industry in 2018 also reached a historic high.

According to the National Bureau of Statistics of China, the national accumulated cement output was 2.18 billion tonnes in 2018, representing a YOY increase of 3%; the national accumulated clinker output was 1.42 billion tonnes in 2018, representing a YOY increase of 3.56%. China's cement industry as a whole saw significant improvement in economic performance over the previous year, realized total revenue of RMB882.3 billion, representing a YOY increase of 24.7%, and total profit of RMB154.55 billion, representing a YOY increase of 113.59%. The total profit hit a new high after seven years, RMB52.6 billion higher than the historical record set in 2011. (Source: Digital Cement)

2. OPERATIONS OVERVIEW

In 2018, the Group was committed to refining fundamental internal management to enhance the quality of existing production and operation and to sustain the Company's profitability. As at 31 December 2018, the Group had a total production capacity of 100.38 million tonnes of cement, 50.27 million tonnes of clinker and 19.30 million cubic meters of concrete. During the Reporting Period, the Group's sales volume of cement was 39.186 million tonnes, representing a YOY decrease of 4.73%; sales volume of clinker was 9.953 million tonnes, representing a YOY increase of 7.81%; sales volume of concrete was 2.882 million cubic meters, representing a YOY decrease of 15.73%; sales revenue was RMB17,638 million, representing a YOY increase of 19.46%; and the profit for the period was RMB2,169 million.

During the Reporting Period, the Group's total production capacity has no changes.

(I) Business review

(a) Sales revenue analysis and the respective YOY changes

(Unit: RMB million)

Product	**2018** Sales revenue	**2018** Sales proportion	2017 Sales revenue	2017 Sales proportion	Change in sales revenue
Cement	**12,942**	**73.4%**	11,174	75.6%	15.8%
Clinker	**2,640**	**15.0%**	2,175	14.7%	21.4%
Concrete	**1,295**	**7.3%**	1,175	8.0%	10.2%
Others	**761**	**4.3%**	250	1.7%	204.4%
Total	**17,638**	**100%**	14,774	100%	19.4%

During the Reporting Period, the Group's revenue increased by 19.4% to RMB17,638 million. Revenue from cement amounted to RMB12,942 million, representing a YOY increase of 15.8%. Revenue from clinker amounted to RMB2,640 million, representing a YOY increase of 21.4 %. Revenue from concrete amounted to RMB1,295 million, representing a YOY increase of 10.2 %. The revenue of the Group has substantially improved due to the increase of sales price.

2. OPERATIONS OVERVIEW (CONTINUED)

(I) Business review (Continued)

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

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

Product	**2018 Sales volume ('000 tonnes)**	2017 Sales volume ('000 tonnes)	Sales volume change	**2018 Unit selling price (RMB/ tonne)**	2017 Unit selling price (RMB/ tonne)	Selling price change
Cement	**39,186**	41,131	-4.7%	**337.2**	276.3	22.0%
Clinker	**9,953**	9,232	7.8%	**270.9**	239.8	13.0%
	('000 m^3)	('000 m^3)		**(RMB/m^3)**	(RMB/m^3)	
Concrete	**2,882**	3,420	-15.7%	**459.1**	349.8	31.2%

2. OPERATIONS OVERVIEW (CONTINUED)

(I) Business review (Continued)

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

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

During the Reporting Period, the sales volume of cement of the Group amounted to 39.186 million tonnes, representing a YOY decline of 4.7%, while the sales volume of commercial clinker increased to 9.953 million tonnes, representing a YOY increase of 7.8%. The unit selling price of cement increased by 22.0% to RMB337.2 per tonne, while the unit selling price of clinker increased by 13.0% to RMB270.9 per tonne. The sales volume of concrete decreased to 2.882 million cubic meters, representing a YOY decrease of 15.7%. The unit selling price of concrete increased by 31.3% to RMB459.1/m^3.

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

Operating regions	**Average unit selling price in 2018 *(RMB/tonne)***	Average unit selling price in 2017 *(RMB/tonne)*	Change in selling price
Shandong Region	**372.1**	288.9	28.8%
Eastern Shandong Operating Region	**396.2**	290.3	36.5%
Western Shandong Operating Region	**364.8**	294.0	24.1%
Southern Shandong Operating Region	**349.2**	276.2	26.4%
Northeast China Operating Region	**272.1**	256.7	6.0%
Shanxi Operating Region	**252.6**	227.0	11.3%
Xinjiang Operating Region	**410.3**	309.5	32.6%

2. OPERATIONS OVERVIEW (CONTINUED)

(I) Business review (Continued)

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

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

During the Reporting Period, the average unit selling price of cement in Shandong Region was RMB372.1 per tonne, representing a YOY increase of 28.8%; the average unit selling price of cement in Eastern Shandong Operating Region was RMB396.2 per tonne, representing a YOY increase of 36.5%; the average unit selling price of cement in Western Shandong Operating Region was RMB364.8 per tonne, representing a YOY increase of 24.1%; the average unit selling price of cement in Southern Shandong Operating Region was RMB349.2 per tonne, representing a YOY increase of 26.4%; the average unit selling price of cement in Northeast China Operating Region was RMB272.1 per tonne, representing a YOY increase of 6.0%; the average unit selling price of cement in Shanxi Operating Region was RMB252.6 per tonne, representing a YOY increase of 11.3%; the average unit selling price of cement in Xinjiang Operating Region was RMB410.3 per tonne, representing a YOY increase of 32.6%.

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

Product	**2018** Sales volume *('000 tonnes)*	**2018** Sales proportion	2017 Sales volume *('000 tonnes)*	2017 Sales proportion	Change in sales volume
High grade cement	**30,554**	**78.0%**	29,920	72.7%	2.1%
Low grade cement	**8,632**	**22.0%**	11,211	27.3%	-23.0%

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

During the Reporting Period, sales volume of high grade cement was 30.554 million tonnes, representing a YOY increase of 2.1%, and sales volume of low grade cement was 8.632 million tonnes, representing a YOY decrease of 23.0%.

2. OPERATIONS OVERVIEW (CONTINUED)

(I) Business review (Continued)

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

(Unit: RMB'000)

Operating region	2018 Sales revenue	2018 Sales proportion	2017 Sales revenue	2017 Sales proportion	Change in sales revenue
Shandong Region	**12,389,561**	**70.3%**	9,835,051	66.5%	26.1%
Eastern Shandong Operating Region	**4,713,867**	**26.7%**	4,053,231	27.4%	16.5%
Western Shandong Operating Region	**5,269,510**	**30.0%**	3,813,285	25.8%	38.2%
Southern Shandong Operating Region	**2,406,184**	**13.6%**	1,968,535	13.3%	22.2%
Northeast China Operating Region	**3,128,384**	**17.7%**	3,128,440	21.2%	–
Shanxi Operating Region	**1,643,017**	**9.3%**	1,328,002	9.0%	23.7%
Xinjiang Operating Region	**477,408**	**2.7%**	482,151	3.3%	-1.0%
Total	**17,638,370**	**100%**	14,773,644	100%	19.5%

During the Reporting Period, the sales revenue in Shandong Region was RMB12,390 million, accounting for 70.3% of the Group's total sales revenue and representing a YOY increase of 26.1%; the sales revenue in Eastern Shandong Operating Region was RMB4,710 million, accounting for 26.7% of the Group's total sales revenue and representing a YOY increase of 16.5%; the sales revenue in Western Shandong Operating Region was RMB5,270 million, accounting for 30.0% of the Group's total sales revenue and representing a YOY increase of 38.2%; the sales revenue in Southern Shandong Operating Region was RMB2,410 million, accounting for 13.6% of the Group's total sales revenue and representing a YOY increase of 22.2%; the sales revenue in Northeast China Operating Region was RMB3,130 million, accounting for 17.7% of the Group's total sales revenue, roughly flat with the previous year; the sales revenue in Shanxi Operating Region was RMB1,640 million, accounting for 9.3% of the Group's total sales revenue and representing a YOY increase of 23.7%; the sales revenue in Xinjiang Operating Region was RMB480 million, accounting for 2.7% of the Group's total sales revenue and representing a YOY decrease of 1.0%.

2. OPERATIONS OVERVIEW (CONTINUED)

(II) Profit analysis

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

(Unit: RMB'000)

	2018	2017	Change
Revenue	**17,638,370**	14,773,644	19.4%
Gross profit	**5,923,471**	4,412,403	34.2%
EBITDA	**5,238,698**	3,447,725	51.9%
Profit from operations	**3,779,350**	1,980,514	90.8%
Profit/(loss) before taxation	**3,046,987**	967,340	215.0%
Net profit/(loss) for the year	**2,168,847**	546,470	296.9%
Profit/(loss) attributable to equity holders of the Company	**2,196,657**	600,817	265.6%

During the Reporting Period, the Group recorded sales revenue of RMB17,638 million, representing a YOY increase of 19.4%; profit from operations was RMB3,779 million; net profit for the year was RMB2,169 million, representing a YOY increase of 296.9%; profit attributable to equity shareholders of the Company was RMB2,197 million. The increase in profit was mainly due to the pickup of selling price and the increase of gross profit margin for the period from 29.9% to 33.6%.

2. OPERATIONS OVERVIEW (CONTINUED)

(II) Profit analysis (Continued)

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

(Unit: RMB'000)

	2018		2017		Change of
		Proportion		Proportion	proportion
Cost of sales	**Amount**	**to revenue**	Amount	to revenue	to revenue
Raw materials	**4,176,120**	**23.6%**	3,420,862	23.2%	0.4 P.Pt.
Coal	**2,885,318**	**16.4%**	2,862,089	19.4%	-3.0 P.Pt.
Power	**1,040,600**	**5.9%**	1,119,881	7.6%	-1.7 P.Pt.
Depreciation and amortisation	**973,003**	**5.5%**	1,004,085	6.8%	-1.3 P.Pt.
Others	**2,639,858**	**15.0%**	1,954,324	13.2%	1.8 P.Pt.
Total cost of sales	**11,714,899**	**66.4%**	10,361,241	70.2%	-3.8 P.Pt.

During the Reporting Period, the proportion of the Group's total cost of sales to revenue was 66.4%, representing a YOY decrease of 3.8 percentage points. In particular, the proportion of raw materials costs increased by 0.4 percentage point, coal, power costs, depreciation and amortisation decreased by 3.0 percentage points, 1.7 percentage points, 1.3 percentage points, respectively, while others increased by 1.8 percentage points.

The YOY increase in raw materials cost was mainly attributed to the rise in cost of limestone and the like and in purchase of clinker. The average purchase price of coal was up by 4.1% to RMB654.9/ton compared with the same period of last year (RMB629.4/ton). The YOY decrease in depreciation and amortisation was mainly ascribed to the off-peak production policy, long period of suspension of production and transfer of related expenses to administrative expenses. Others rose compared with the same period of last year, mainly due to increased labor cost, maintenance cost and cost of additional sales business of raw materials.

3. FINANCIAL REVIEW

(a) Expenses during the period

(Unit: RMB'000)

	2018		2017		Proportion to sales revenue change
	Amount	**Proportion to sales revenue**	Amount	Proportion to sales revenue	
Selling and marketing expenses	**528,040**	**3.0%**	580,786	3.9%	-0.9 P.Pt.
Administrative expenses	**2,023,048**	**11.5%**	2,079,507	14.1%	-2.6 P.Pt.
Finance costs	**778,320**	**4.4%**	1,021,372	6.9%	-2.5 P.Pt.
Total	**3,329,408**	**18.9%**	3,681,665	24.9%	-6.0 P.Pt.

During the Reporting Period, the proportion of selling and marketing expenses to sales revenue has a YOY decrease of 0.9 percentage point the proportion of administrative expenses to sales revenue has a YOY decrease of 2.6 percentage points; the proportion of finance costs to sales revenue has a YOY decrease of 2.5 percentage points compared with that of 2017.

The YOY decrease in selling and marketing expenses was mainly due to the decline in related service fees, port berth fees and handling charges. Administrative expenses decreased as compared with the same period of last year, mainly attributable to the reduction in litigation losses, security fees, employee compensation and turnover provisions. Finance costs was down year on year, mainly due to the decrease in interest expense after the conversion of convertible bonds into new shares, the issuance of new shares to improve the financial structure, debt negotiation and accelerated repayment in the second half of the year.

3. FINANCIAL REVIEW (CONTINUED)

(b) Changes in balance sheet items

(Unit: RMB'000)

	31 December 2018	31 December 2017	Change
Non-current assets	**20,214,657**	20,753,158	-2.6%
Current assets	**5,858,056**	4,336,801	35.1%
Total assets	**26,072,713**	25,089,959	3.9%
Current liabilities	**13,228,184**	19,744,702	-33.0%
Non-current liabilities	**3,258,193**	1,327,726	145.4%
Total liabilities	**16,486,377**	21,072,428	-21.8%
Non-controlling interest	**64,088**	102,204	-37.3%
Equity attributable to equity shareholders of the Company	**9,522,248**	3,915,327	143.2%
Total liabilities and equity	**26,072,713**	25,089,959	3.9%
Net gearing ratio	**42.6%**	76.4%	-33.8 P.Pt.

As at 31 December 2018, the Group's total assets were RMB26,073 million, total liabilities were RMB16,486 million and its net assets were RMB9,587 million. The net gearing ratio (net liabilities÷(net liabilities+equity of the Company)) was 42.6%, representing a decrease of 33.8 percentage points as compared with the end of the previous year. The Group's total current assets were RMB5,858 million, its total current liabilities were RMB13,228 million, and its net current liabilities were RMB7,370 million. As at 31 December 2018, the Group has negotiated and reached reconciliation with creditors in tandem. For details, please refer to Notes 2(b) and 23–25 to the Financial Statements.

3. FINANCIAL REVIEW (CONTINUED)

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

(Unit: RMB'000)

Term of borrowings	31 December 2018	31 December 2017
Short-term borrowings (including long-term borrowings with maturity within one year)	**5,918,509**	12,504,756
Long-term borrowings	**2,501,327**	800,888
Total	**8,419,836**	13,305,644

All borrowings of the Group were denominated in Renminbi and USD. As at 31 December 2018, the Group's total borrowings were RMB8,420 million, which includes outstanding and unredeemed US-dollars denominated convertible corporate bonds together with accrued interest thereon totaling approximately US$92 million (approximately RMB633 million) and RMB denominated borrowings of RMB7,787 million,representing a decrease of RMB4,886 million as compared with the end of 2017. In particular, short-term borrowings amounted to RMB5,919 million and accounted for 70.29% of the Group's total borrowings.

(d) Capital expenditures

During the Reporting Period, capital expenditures were approximately RMB929 million, which were mainly used as investment in the cement and clinker production lines.

Outstanding capital commitments under production facility construction contracts and the equipment purchase contracts not provided for in the financial statements as at 31 December 2018 were:

(Unit: RMB'000)

	31 December 2018	31 December 2017
Authorised and contracted for		
－plant and equipment	**321,051**	270,497
Authorised but not contracted for		
－plant and equipment	**79,660**	67,186
Total	**400,711**	337,683

As at 31 December 2018, the capital commitments authorised and contracted for by the Group amounted to RMB321 million, which represents an increase of RMB51 million or 18.9% as compared with the end of 2017. Capital commitments authorised but not contracted for amounted to RMB80 million.

3. FINANCIAL REVIEW (CONTINUED)

(e) Net cash flow analysis

(Unit: RMB'000)

	2018	2017
Net cash flow generated from operating activities	**2,216,178**	1,865,912
Net cash flow used in investing activities	**(849,094)**	(577,489)
Net cash flow used in financing activities	**(384,229)**	(1,253,495)
Net changes in cash and cash equivalents	**982,855**	34,928
Balance of cash and cash equivalents at 1 January	**307,995**	276,500
Effect of foreign exchange rate changes	**13,093**	(3,433)
Balance of cash and cash equivalents at 31 December	**1,303,943**	307,995

Cash and cash equivalent of the Group is mainly denominated in Renminbi. During the Reporting Period, the Group's net cash flow generated in operating activities was RMB2,216 million, representing a YOY increase of RMB252 billion. The net negative cash flow used in investing activities was RMB849 million, representing a YOY increase of RMB203 million. The net negative cash flow used in financing activities was RMB384 million, representing a YOY decrease of RMB899 million.

(f) Material acquisition and disposal

During the Reporting Period, except for the acquisition of 33% equity interests in and the thereby regaining of control over Rushan Shanshui in December 2018, the Group has no material acquisition or disposal.

(g) Pledge of assets

Details in relation to pledge of assets of the Group as at 31 December 2018 are set out in Note 23 to the Financial Statements.

(h) Contingent liabilities

Details in relation to contingent liabilities of the Group as at 31 December 2018 are set out in Note 36 to the Financial Statements.

3. FINANCIAL REVIEW (CONTINUED)

(i) Management of foreign exchange exposure

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

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

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

4. FINANCIAL REPORTING AND CORPORATE ACCOUNTING POLICY

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

5. 2019 OUTLOOK

(a) Operating environment outlook (Source: Analysis of the Economic Operation of Cement Industry in 2018 and Prospects for 2019, Digital Cement Network, and China Cement Network)

The year 2019, which marks the 70th anniversary of the founding of the PRC, is a crucial year for securing a decisive victory in building a moderately prosperous society in all respects. The annual Central Economic Work Conference mapped out China's 2019 economic work plans, which include upholding the basic principle of seeking progress while maintaining stability, practicing new development philosophy and pursuing high-quality development; insisting on continued efforts to propel supply-side structural reforms as the main task, deepening market-oriented reforms and expanding high-level opening-up to accelerate the construction of a modern economic system; making coordinated efforts to stabilize economic growth, promote reform, adjust structure, improve people's livelihoods and guard against risks, keeping economic operation in a reasonable range; further stabilizing employment, financial sector, foreign trade, investment and market expectations and boosting market confidence, maintaining sustained and healthy economic development as well as overall social stability.

The external environment for China's economic development in 2019 would be more complicated and grimmer than that in 2018. According to the predictions of the State Information Center of China, investment growth would pick up, consumption drop slightly, exports slow down, consumer prices would be generally stable, the price scissors between industrial and consumer goods would be narrowing, and overall economic growth would slow down. However, the effects of supply-side structural reforms on stabilizing economy will continue to kick in, the signals of encouraging the development of private enterprises and deepening reform and opening-up are conducive to stabilizing the confidence of market players, and the policies on stabilizing employment, financial sector, foreign trade, foreign investment, domestic investment and market expectations will gradually come to play. It is estimated that China's economy will grow by more than 6% in 2019 and consumer inflation will be controlled at around 3%. Investment in real estate will continue to grow at a rate above 5%, and thus the demand for cement will be relatively stable.

In terms of the cement industry: Excess capacity is still the main contradiction, and cross-regional capacity replacement and insufficient implementation of off-peak production will affect the confidence of the industry, but the overall demand for cement will stay at a plateau.

5. 2019 OUTLOOK (CONTINUED)

(a) Operating environment outlook (Continued) (Source: Analysis of the Economic Operation of Cement Industry in 2018 and Prospects for 2019, Digital Cement Network, and China Cement Network)

The cement industry recorded historical-high profits in 2018, with new business philosophy and business model taking shape. In 2019, the deepening of industry operations and the continuous advancement of platform construction will provide guarantee for a steady improvement in the economic efficiency of the industry. An industry environment featuring government support, guidance of industry associations and proactive fulfilment of responsibility by large enterprises has been created, with off-peak production and kiln shutdown for limiting production changing from being actions voluntarily undertaken by industry players to policy-dictated constraints. The coverage of off-peak production gradually expands from northern regions to southern regions, which will effectively narrow the supply-demand differences between northern and southern regions. In addition, the cancellation of grade 32.5 cement is conducive to resolving severe overcapacity, maintaining a dynamic balance between supply and demand, cleansing market operating environment and improving the development quality of the industry.

In terms of demand: Infrastructure investment will see a rebound, and real estate investment will slow down amid downward pressure but will be generally controllable.

1. Obvious rebound in infrastructure investment: China will implement a proactive fiscal policy, and speed up the construction of infrastructure projects, with enhanced efforts to shore up weaknesses in infrastructure and other areas; and reaffirm the importance of pursuing a proactive fiscal policy and a prudent monetary policy, and launch major infrastructure projects such as Sichuan-Tibet Railway. With the policies designed to drive infrastructure development to sustain steady economic growth, China's infrastructure investment, currently growing at historically low levels, is expected to gradually stabilize and pick up in 2019, which will contribute to the rigid demand for cement.

2. As housing market continues to face tightening regulation, real estate investment will see a slowdown in growth amid downward pressure but will be within a controllable range.

5. 2019 OUTLOOK (CONTINUED)

(a) Operating environment outlook (Continued) (Source: Analysis of the Economic Operation of Cement Industry in 2018 and Prospects for 2019, Digital Cement Network, and China Cement Network)

3. Cement demand is very unlikely to see a significant decline, and the cement demand in 2019 will remain at a plateau with fine-tunings. In light of an expected slowdown of real estate investment growth and a lag effect in demand from newly invested infrastructure projects, we expect that nationwide cement output in 2019 will decline by around 2%.

4. "Regional performance being better than nationwide average performance" demonstrates robust demand, with developed regions in eastern and central southern China seeing increasing demand year on year, while Beijing, Tianjin and Hebei further contributing to resilience: It is expected that the overall funding pressure will ease in 2019. Following the executive meeting of the State Council held in July 2018, the Chinese government has it made clear to shore up weaknesses in infrastructure, especially for major projects financed by the central government through increasing leverage (mainly including investments in rail transit and railway projects) and infrastructure investment in economically developed provinces (Beijing-Tianjin-Hebei region represented by Xiong'an New Area, Yangtze River Delta and Pearl River Delta regions), which is expected to support the economic growth. The performance of the real estate market exceeded expectations in December 2018, with both investments and construction works at high levels and an increased number of completion projects. We hold that the real estate demand in 2019 will be supported by the revitalization of the "dead stock" of land, and expect real estate investment to increase by 5–10% in 2019, with overall demand better than market expectation, especially in the core city belts. Therefore, we believe that the demand in 2019 will still be strong in eastern and southern regions as well as Beijing, Tianjin and Hebei.

In terms of supply side: Environmental efforts have gradually moved away from "one size fits all" approach and the margin of supply has eased somewhat.

The totally different price movements of cement and steel in the fourth quarter of 2018 best demonstrate the trends of commodities with different attributes and patterns when the one-size-fits-all policy on environmental protection changes. On the whole, it is expected that there will be no major change in China's cement supply landscape in 2019, with widening differences between northern and southern regions. The clinker production capacity put into production in 2019 is expected to exceed 25 million tonnes, slightly higher than 2018, mainly distributed in the central western region. There is not much room for stricter off-peak production in the northern region, the time length of kiln shutdown varies in different areas, and such production restrictions are likely to loosen in Shandong and Henan. While in southern region, there is much greater room for increasing the time length of kiln shutdown and implementing stricter production restrictions.

5. 2019 OUTLOOK (CONTINUED)

(a) Operating environment outlook (Continued) (Source: Analysis of the Economic Operation of Cement Industry in 2018 and Prospects for 2019, Digital Cement Network, and China Cement Network)

In terms of import and export, it is estimated that Vietnam's domestic market consumption will increase in 2019, with about 30 million tonnes of cement to be exported, basically the same as 2018. It is also estimated that Vietnam's clinker export to China will be slightly less than 10 million tonnes next year, which will not cause material impact on China's cement industry.

In terms of prices and economic performance: Cement prices and profitability are likely to stay at high levels in 2019, but with great resistance for further rise.

1. Cement prices and profitability are likely to stay at high levels in 2019, but with great resistance for further rise. New (ignition) production capacity, differentiated off-peak production and imported clinker will have temporary impact on certain regional markets. However, in 2019, the central government will continue to enforce environmental governance and will not lessen its efforts in any significant way, especially in the southern market, which will continue to impact supply shrinking.

2. As the Chinese government has significantly increased investment in infrastructure, market demand in the northern regions (northern, northwestern and northeastern China) is expected to pick up, especially in the cement markets in Beijing, Tianjin and Hebei.

3. The large enterprise groups will continue to enjoy promising economic prospects. Some large enterprise groups will pursue upgrading through internal capacity reduction and replacement such as shutdown or elimination of clinker production lines that are inefficient or ineffective assets, so as to concentrate mine resources, optimize market deployment, improve capital structure, and raise performance indicators.

4. The construction of a regional market platform targeted large-sized enterprises is conducive to stabilizing price system. In 2019, cement prices will stabilize in southern regions but are expected to recover slowly in the northern regions.

5. 2019 OUTLOOK (CONTINUED)

(b) Business outlook of the Company

The year 2018 witnessed the most heartening and inspiring experience of China Shanshui Group in its development course. The Group made a series of uplifting achievements in respect of corporate governance, compliance operation, innovative management, green development and team building, and achieved record-high economic returns, which were mainly instantiated as follows: firstly, operating results grew substantially. Major KPIs and profit of the Group both enjoyed great year-on-year increase. Secondly, operating achievements shone in the industry. It fulfilled its social responsibility as a business conglomerate, promoted building of the regional platform management company and voluntarily shouldered the burden as a pacesetter of off-peak production, having thus exerted the leading role of an advanced mainstay enterprise and enhanced industrial self-discipline, which was of great significance to the stability of the cement market; thirdly, innovative transformation was carried ahead at a higher pace. It made new achievements in terms of technological transformation and management innovation and was awarded the First Prize for Modern Management and Innovation Achievements of National Building Materials Enterprises (全國建材企業管理現代化創新成果一等獎); development of aggregate business was accelerated and such new businesses as logistics industrial park, intelligent logistics, Internet + transaction platform were also carried forward stepwise; fourthly, internal management and control standards improved consistently. Thanks to the implementation of comprehensive cost management, certain cost management and control indicators were ahead of its peers in the industry and the coal consumption rate was also at a nationwide advantageous level; on-site management, quality management, goal management and production safety continued the positive trend and the corporate brand effect heightened on an ongoing basis; fifthly, risks arising from bonds were resolved effectively. Since the establishment of the New Board, the Group has been taking efforts to resolve domestic and overseas risks. After reaching compromises with domestic creditors and settling the offshore bonds in the amount of US$500 million, it regained the support of domestic financial institutions and the credibility in the Hong Kong capital market.

5. 2019 OUTLOOK (CONTINUED)

(b) Business outlook of the Company (Continued)

In 2019, the Group will continue to pursue high-quality development by launching the following specific efforts:

(I) Act on the "One Center"

We will hew to the goal of "bringing about record-high economic returns" to accelerate the transformation and upgrade as well as quality improvement and efficiency enhancement. In terms of Shandong, intensified efforts will rest on "establishing first-class enterprises"; in Xinjiang areas, nurturing the new economic growth driver of aggregate business will be the focal point; aggressive innovation will be carried out in a bid to reverse the landscape of "sophisticated South vs fledging North" demonstrated by the subordinate enterprises in Shanxi areas; and weight will be given to making breakthroughs in respect of "taking the lead in industrial operation" in cooperation with big conglomerate in the northeastern area. We will stay clearly aware and get better prepared for eventualities to devote tirelessly efforts to forge ahead against all odds in the furtherance of high-quality development of enterprises at full stretch. In addition, we will insist on transformation and upgrade as well as quality improvement and efficiency enhancement and carry out work under the gist of pursuing "progress" on the basis of "stability" and promoting "stability" in virtue of "progress".

(II) Implement the "Three Major Strategies" Attentively

1. Implement resource reserve strategy aiming for long-term development

   First, promoting the construction of green mines. The Group will emphatically boost the formulation of implementation plans for green mine construction by the enterprises in possession of mines in the three operating zones in Shandong, and conduct such work in other operating zones pursuant to the requirements of competent local authorities when appropriate. Among the 13 relevant enterprises in Shandong, while 6 enterprises is promoting the green mine projects, the rest 7 enterprises will strive to complete the formulation of implementation plans for green mine construction in the first quarter of the year.

   Second, exerting intensive efforts on standard mining. The Group will carry out mine treatment and reclamation in a comprehensive manner. In strict compliance with the requirements of relevant regulations in relation to mining, green mine construction, mine environment treatment and land reclamation, the Group requires full application of the policy of "simultaneous implementation of mining and stripping, prioritizing stripping, mining both rich and lean ores" and the principle of "mining and managing concurrently"; meanwhile, the Group will also work for mine treatment and reclamation in full swing so as to prepare the ground for normalized management of mine resources and meet up with the regulatory requirements of the industry.

5. 2019 OUTLOOK (CONTINUED)

(b) Business outlook of the Company (Continued)

(II) Implement the "Three Major Strategies" Attentively (Continued)

1. Implement resource reserve strategy aiming for long-term development (Continued)

   Third, setting the minimum threshold of resource reserve and pushing forward the enlargement and expansion of mine resources. In 2019, the Group will observe the resource reserve strategy and set minimum threshold of resource reserve for each enterprise based on the capacity needs and resource status of the enterprises in accordance with the regulatory requirements. In addition, we will advance the completion of relevant formalities for the mines on hand as well as the enlargement and expansion work to strive for increase of the mine reserves of the Group in a lawful, compliant and efficient manner. Especially, we will prioritize resource reserves for enterprises facing or about to face resource exhaustion.

2. Carry out industry chain extension strategy striving for transformation and upgrade

   The Group will give priority to the construction of industry parks for enterprises mainly engaged in building materials business in Pingyin County of Jinan, Zichuan District of Zibo, Linqu County of Weifang and Qixia City of Yantai. In addition, the Group will accelerate the construction of aggregate projects of Yingjisha Shanshui and Zibo Shanshui to ensure smooth commissioning and early reward, push for the commencement of construction of the respective aggregate project of Chifeng Yuanhan and Taiyuan Shanshui as soon as possible; and complete work in respect of the transformation and upgrade project construction in an all-round way.

3. Execute talents-oriented development strategy making for the replacement of old growth drivers with new ones

   First, optimizing the talents nurturing mechanism. We will establish a dynamic "backup talents pool" to guarantee the continuity of the leadership hierarchy and shorten the length of key position vacancies; and have the regular communication by way of cadre relocation institutionalized and normalized, which will be able to equip the cadre team with stable mind state and sufficient vitalities while achieving job rotation. Meanwhile, we will encourage youth cadres to sharpen themselves in arduous environment for improvement of capability and increase of experience. In addition, we will institutionalize the paired supporting exchange initiative to maximize the overall strength of the Group as well as organizing all kinds of trainings and highlighting peer communications with the view to levelling up the overall capability of the employees comprehensively.

5. 2019 OUTLOOK (CONTINUED)

(b) Business outlook of the Company (Continued)

(II) Implement the "Three Major Strategies" Attentively (Continued)

3. Execute talents-oriented development strategy making for the replacement of old growth drivers with new ones (Continued)

   Second, innovating talents recruiting mode. We will exploit both campus recruitment and social employment to usher in fresh blood and inlet advanced ideas so as to utilize talents boldly regardless of traditional thinking patterns. We will establish the "talents nurturing bases of China Shanshui Group" as designated demonstration units, allow enterprises covered by such units to recruit and select certain cadres for further cultivation outside the corporate personnel quota and without consideration of the company payroll.

   Third, enhancing talent incentive mechanism. We will cast aside the outmoded convention of "universe wage hike" and determine remuneration based on the actual performance arrived at after assessing the attainment of profit, production indicators, post responsibilities, personal contributions, etc., and taking into account the total payroll hike of the Group. We will also map out a promotion program and consummate the post competition mechanism such that the superior will wax and the inferior wane, thereby giving the floor to person of ability. In addition, an employee career development landscape will be conceived to present new recruits with clear promotion track, channel and qualifications and enable them to decide on their working direction. Furthermore, we will encourage the employees, veteran or new comer, to act on the enterprise spirit in work and cultural integration so as to enhance corporate cohesion and sense of belonging and in turn attract talents in addition to retaining the current ones.

Looking ahead to 2019, we believe that the Group will achieve more solid profitability with the support of investors and employees, and will reward shareholders and all parties with better results for their support and trust.

(VI) Report of the Directors

The Directors hereby present the annual audited financial statements of the Group for the year ended 31 December 2018:

1. MAJOR INVESTMENT DURING THE REPORTING PERIOD

(1) The major investments were:

Serial No.	Name of Project	Status	Amounts invested during the Reporting Period *(RMB'000)*
1	2.7-million-tonne cement grinding capacity displacement project of Jinan Shi-ji Chuang-xin Cement Co., Ltd.	Operation commenced	18,602
2	Spring water project with an annual capacity of 26,000 tonnes of Shandong Runshengyuan Spring Water Co., Ltd. (山東潤生源山泉水有限公司)	Under construction	9,411
3	0.6-million-tonne/year fine powder production line of Liaoning Shanshui Gongyuan Cement Co., Ltd.	Operation commenced	4,489
4	1-million-tonne clinker project of Jincheng Shanshui Heju Cement Co., Ltd. for consumption of magnesium rich limestones from proprietary mine	Under construction	10,177
5	2-million-tonne/year environmental concrete clinker and machine-made sand production line of Yingjisha Shanshui Cement Co., Ltd.	Under construction	8,627

(2) Capital increase in subsidiaries during the Reporting Period

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

(3) Disposal or de-registration of subsidiaries during the Reporting Period

During the Reporting Period, except for the deregistration of Caoxian Chuangxin Concrete Co., Ltd., no major subsidiary of the Group has been disposed or de-registered.

2. MAJOR SUBSIDIARIES WITH CONTROLLING INTERESTS

The Company is an investment holding company. As at 31 December 2018, the Company had controlling interests in 112 subsidiaries. For details, please refer to "(IV) Corporate Profile" of this report. There were no significant changes in the nature of the Group's principal businesses in 2018.

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

Name of company	Revenue *(RMB'000)*	Profit from operations *(RMB'000)*	Net profit *(RMB'000)*
Pingyin Shanshui	824,113	341,968	280,120
Yantai Shanshui	779,579	286,802	212,156
Anqiu Shanshui	680,498	262,211	196,435
Zibo Shanshui	829,727	260,965	194,014
Linqu Shanshui	758,568	253,816	188,603

3. DIVIDEND FOR 2018

The Board does not recommend any dividend payment for the year ended 31 December 2018.

4. TAX REDUCTION AND EXEMPTION

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

5. MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, total sales attributable to the top five customers of the Group were less than 30% of total sales of the Group, and total purchases attributable to the top five suppliers of the Group were less than 30% of total purchases of the Group.

None of the Directors, nor their respective close associates (as defined in the Listing Rules) nor, to the knowledge of the Board, shareholders holding 5% or more of the issued shares of the Company has interests in any of the five largest customers or five largest suppliers of the Group for the year ended 31 December 2018.

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

6. TOTAL ASSETS

As at 31 December 2018, the total assets of the Group were RMB26,073 million, representing an increase of RMB983 million compared to the previous year, mainly due to increase in monetary capital.

7. DISTRIBUTABLE RESERVES

As at 31 December 2018, the distributable reserves of the Company, as calculated based on the Companies Law of the Cayman Islands, amounted to RMB3,431 million, which includes the share premium account of approximately RMB8,235 million and accumulated losses of approximately RMB4,804 million. No dividend may be paid out of the distributable reserves unless immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Influenced by the winding up petitions (please refer to (X) Major Events - Material Litigation in the Cayman Islands for more information), any disposition of the Company's property (including dividend payments) will be void, unless they fall within the scope of the validation order made on 11 October 2018 or other validation order sanctioned by the Grand Court.

8. LOANS AND BORROWINGS

Details of the Group's loans and borrowings for the year ended 31 December 2018 are set out in Notes 23, 24 and 25 of the Financial Statements.

9. BUSINESS REVIEW, OUTLOOK AND MAJOR RISK FACTORS

For details on the business review, outlook for 2018 and the major risk factors of the Group, please refer to the two sections headed "(IV). Corporate Profile" and "(V). Management Discussion and Analysis" in this report, such discussions form part of this report.

10. DIRECTORS

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

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

Name	Position	Gender	Age	Term of office
LIU Yiu Keung, Stephen (廖耀強)	Chairman and Executive Director	M	58	1 December 2015 – 19 March 2018
LI Zhiqiang (李志強)	Vice chairman and Executive Director	M	55	3 November 2017 – 19 March 2018
LI Heping (李和平)	Chief Executive Officer and Executive Director	M	61	1 December 2015 – 19 March 2018
HWA Guo Wai, Godwin (華國威)	Executive Director	M	56	5 July 2016 –23 May 2018
HO Man Kay Angela (何文琪)	Independent Non-Executive Director	F	55	1 December 2015 – 23 May 2018
LAW Pui Cheung (羅沛昌)	Independent Non-Executive Director	M	62	1 December 2015 – 23 May 2018
WONG Chi Keung (黃之強)	Independent Non-Executive Director	M	63	2 February 2016 – 23 May 2018
CHING Siu Ming (程少明)	Independent Non-Executive Director	M	58	5 July 2016 – 23 May 2018
LO Chung Hing (盧重興)	Independent Non-Executive Director	M	66	5 July 2016 – 23 May 2018
LI Liufa (李留法)	Chairman and Executive Director	M	60	19 March 2018 – 23 May 2018
ZHU Linhai (朱林海)	Executive Director	M	46	19 March 2018 – 23 May 2018
LIN Shei-yuan (林學淵)	Independent Non-Executive Director	M	55	23 May 2018 – 20 July 2018
CHANG Zhangli (常張利)	Chairman and Executive Director	M	49	23 May 2018 – Now
WU Ling-ling (吳玲綾)	Executive Director	F	53	23 May 2018 – Now
CHANG Ming-cheng (張銘政)	Independent Non-Executive Director	M	64	23 May 2018 – Now
LI Jianwei (李建偉)	Independent Non-Executive Director	M	45	23 May 2018 – Now
HSU You-yuan (許祐淵)	Independent Non-Executive Director	M	64	4 September 2018 – Now

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

10. DIRECTORS (CONTINUED)

(2) As of the date of this Report, the members of the Board of the Company are set out below:

Name	Position	Gender	Age	Term of office
CHANG Zhangli (常張利)	Chairman and Executive Director	M	49	23 May 2018 – Now
WU Ling-ling (吳玲綾)	Executive Director	F	53	23 May 2018 – Now
CHANG Ming-cheng (張銘政)	Independent Non-Executive Director	M	64	23 May 2018 – Now
LI Jianwei (李建偉)	Independent Non-Executive Director	M	45	23 May 2018 – Now
HSU You-yuan (許祐淵)	Independent Non-Executive Director	M	64	4 September 2018 – Now

11. PERMITTED INDEMNITY

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

12. AUDITOR

On 17 July 2018, KPMG resigned as the auditor of the Company. On 10 August 2018, the Company appointed Moore Stephens CPA Limited as the auditor of the Company until the conclusion of the next annual general meeting of the Company. Moore Stephens CPA Limited will retire and a resolution for its re-appointment as the auditor of the Company will be proposed at the forthcoming annual general meeting.

13. DONATIONS

For the year ended 31 December 2018, the Group contributed RMB10 million to charitable and other donations (2017: RMB5 million).

14. MANAGEMENT CONTRACTS

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

15. SUBSTANTIAL RELATIONSHIP WITH EMPLOYEES

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

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

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

17. EQUITY-LINKED AGREEMENT

No share options were granted during the Reporting Period.

18. CHANGE IN INFORMATION OF 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:

1. Mr. CHANG Zhangli, the Chairman and an executive Director of the Company, serves as a director of China Jushi Co., Ltd., a company listed on Shanghai Stock Exchange (stock code: 600176) and Beijing New Building Materials Public Limited Company, a company listed on Shenzhen Stock Exchange (stock code: 000786), respectively, and the vice president of China Association of Work Safety; and was removed as the vice president of China Cement Association and the vice president of China Building Materials Enterprise Management Association.

2. Ms. WU Ling-ling, an executive Director of the Company, was removed as a supervisor of Oriental Union Chemical Corporation, a company listed on the Taiwan Stock Exchange Corporation.

3. Mr. CHANG Ming-cheng, an independent non-executive Director of the Company, serves as an executive Director of the Accounting Research and Development Foundation and a supervisor of the Ship and Ocean Industries R&D Center (船舶暨海洋產業研發中心).

4. Mr. LI Jianwei, an independent non-executive Director of the Company, serves as an independent Director of China Quanjude (Group) Co., Ltd. (中國全聚德(集團)股份有限公司) whose shares have been listed on the Shenzhen Stock Exchange (Stock Code: 002186).

19. ISSUE OF SHARES AND DEBENTURES

During the year ended 31 December 2018, the Company issued 974,825,988 shares due to the subscription as detailed below.

On 6 October 2018, the Company entered into subscription agreements and conversion agreements with not less than six subscribers to allot and issue 974,825,988 new shares of the Company (the "New Shares"). The subscription price for each New Share was HK$4.20. Certain holders of convertible bonds issued by the Company on 8 August 2018 and 3 September 2018 entered into conversion agreements with the Company and agreed to convert their convertible bonds early at the conversion price of HK$4.20 per New Share. The allotment and issue of New Shares was subject to the granting of a specific mandate by shareholders, which was obtained in the extraordinary general meeting of the Company on 30 October 2018. The allotment and issue of New Shares was completed on the same day.

The price of HK$4.20 per New Share represented a discount of approximately 33.23% to the closing price of HK$6.29 per share of the Company as quoted on the Stock Exchange on 15 April 2015, the last trading day prior to the trading suspension on 16 April 2015.

The aggregate gross proceeds from the allotment and issue of New Shares were approximately HK$360.6 million (RMB338.6 million) and the aggregate net proceeds were approximately HK$360.4 million (RMB338.6 million). Approximately 95% of the net proceeds were used to redeem the 2020 Notes and the balance were intended to be used to repay debt owed by the Group and/or as working capital.

20. MAJOR EVENTS

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

21. ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company is preparing an environment, social and governance report in accordance with the Environmental, Social and Governance Reporting Guide published by the Stock Exchange and is expected to be published on or before 30 June 2019.

On behalf of the Board
China Shanshui Cement Group Limited
CHANG Zhangli
Chairman

20 March 2019

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

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

As of 31 December 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 issued a total of 974,825,988 Shares.

As of 31 December 2018, the Company has issued a total of 4,353,966,228 Shares.

2. SUSPENSION OF TRADING AND PROGRESS UPDATE ON RESUMPTION OF TRADING

Trading in the shares of the Company on the Stock Exchange had been suspended with effect from 9:00 a.m. on 16 April 2015 as the public float was less than 25%. The Company has now fulfilled all the conditions for resumption of trading set out by the Stock Exchange. As such, trading in the shares of the Company on the Stock Exchange resumed with effect from 9:00 a.m. on 31 October 2018.

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

3. SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

(1) Shareholdings of substantial shareholders

As of 31 December 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	21.85%
LI Fengluan[2a]	951,462,000 (L)	Interests of corporations controlled by substantial shareholder	21.85%
Tianrui Group Company Limited[2a]	951,462,000 (L)	Interests of corporations controlled by substantial shareholder	21.85%
Tianrui (International) Holding Company Limited[2a]	951,462,000 (L)	Beneficial owner	21.85%
China Bohai Bank Co., Ltd. Dalian Branch[2b]	791,000,000 (L)	Security interest in shares	18.17%
China Shanshui Investment Company Limited[3]	847,908,316 (L)	Beneficial owner	19.47%
Asia Cement Corporation[4]	428,393,000 (L)	Interests of corporations controlled by substantial shareholder	9.84%
	331,878,315 (L)	Beneficial owner	7.62%
	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	3.28%
Yu Yuan Investment Corporation Limited	142,643,000 (L)	Beneficial owner	3.28%
	760,271,315 (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	17.46%
China National Building Material Group Corporation[6]	563,190,040 (L)	Interests of corporations controlled by substantial shareholder	12.94%
China National Building Material Company Limited[6]	563,190,040 (L)	Interests of corporations controlled by substantial shareholder	12.94%
China Building Material Holdings Co., Limited[6]	563,190,040 (L)	Beneficial owner	12.94%
Cithara Investment International Limited	484,582,571 (L)	Investment Manager	11.13%
Cithara Global Multi-Strategy SPC-CMB Chung Wai Greater China Alpha Strategy SP	484,582,571 (L)	Beneficial owner	11.13%

3. SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS (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 Co., Ltd. for a bank loan.

(3) According to the Form 2 filed on 18 November 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 331,878,315 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 Building Material Holdings Co., Limited.

(7) The number of issued shares of the Company as at 31 December 2018 was 4,353,966,228.

Save as disclosed above, and so far as the Directors are aware, as of 31 December 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 (CONTINUED)

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

As of 31 December 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. PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2018, the Company redeemed in full the 7.50% senior notes due in 2020 with an aggregate principal amount of US$484,971,000, which were listed on the Stock Exchange (the "2020 Notes"). The repayment represented 101% of the principal amounts plus accrued and unpaid interest.

During the year ended 31 December 2018, the Company issued 974,825,988 shares due to the subscription as detailed below.

On 6 October 2018, the Company entered into subscription agreements and conversion agreements with not less than six subscribers to allot and issue 974,825,988 new shares of the Company (the "New Shares"). The subscription price for each New Share was HK$4.20. Certain holders of convertible bonds issued by the Company on 8 August 2018 and 3 September 2018 entered into conversion agreements with the Company and agreed to convert their convertible bonds early at the conversion price of HK$4.20 per New Share. The allotment and issue of New Shares was subject to the granting of a specific mandate by shareholders, which was obtained at the extraordinary general meeting of the Company on 30 October 2018. The allotment and issue of New Shares was completed on the same day.

The price of HK$4.20 per New Share represented a discount of approximately 33.23% to the closing price of HK$6.29 per share of the Company as quoted on the Stock Exchange on 15 April 2015, the last trading day prior to the trading suspension on 16 April 2015.

The aggregate gross proceeds from the allotment and issue of New Shares were approximately HK$360.6 million (RMB338.6 million) and the aggregate net proceeds were approximately HK$360.4 million (RMB338.6 million). Approximately 95% of the net proceeds were used to redeem the 2020 Notes and the balance were intended to be used to repay debt owed by the Group and/or as working capital.

Except as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

5. SHARE OPTION SCHEME

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

At the Adoption Date, the Existing Scheme Mandate Limit was granted to allow the Company to grant options entitling holders to subscribe for Shares not exceeding 10% of the then issued Shares as at the date of the approval of the Share Option Scheme, which amounted to 260,336,000 options to subscribe for 260,336,000 Shares. During the period from the Adoption Date to the date of this report, 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).

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 date of this report is 45,736,000 Shares, representing approximately 17.57% of the Existing Scheme Mandate Limit.

5. 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

5. 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 4.93% of the share capital in issue (4,353,966,228 Shares) as of 31 December 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.

6. PRE-EMPTIVE RIGHTS

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

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

1. DURING THE REPORTING PERIOD

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

Name	Position	Gender	Age	Term of office
LIU Yiu Keung, Stephen (廖耀強)	Chairman and Executive Director	M	58	1 December 2015 – 19 March 2018
LI Zhiqiang (李志強)	Vice chairman and Executive Director	M	55	3 November 2017 – 19 March 2018
LI Heping (李和平)	Chief Executive Officer and Executive Director	M	61	1 December 2015 – 19 March 2018
HWA Guo Wai, Godwin (華國威)	Executive Director	M	56	5 July 2016 –23 May 2018
HO Man Kay Angela (何文琪)	Independent Non-Executive Director	F	55	1 December 2015 – 23 May 2018
LAW Pui Cheung (羅沛昌)	Independent Non-Executive Director	M	62	1 December 2015 – 23 May 2018
WONG Chi Keung (黃之強)	Independent Non-Executive Director	M	63	2 February 2016 – 23 May 2018
CHING Siu Ming (程少明)	Independent Non-Executive Director	M	58	5 July 2016 – 23 May 2018
LO Chung Hing (盧重興)	Independent Non-Executive Director	M	66	5 July 2016 – 23 May 2018
LI Liufa (李留法)	Chairman and Executive Director	M	60	19 March 2018 – 23 May 2018
ZHU Linhai (朱林海)	Executive Director	M	46	19 March 2018 – 23 May 2018
LIN Shei-yuan (林學淵)	Independent Non-Executive Director	M	55	23 May 2018 – 20 July 2018
CHANG Zhangli (常張利)	Chairman and Executive Director	M	49	23 May 2018 – Now
WU Ling-ling (吳玲綾)	Executive Director	F	53	23 May 2018 – Now
CHANG Ming-cheng (張銘政)	Independent Non-Executive Director	M	64	23 May 2018 – Now
LI Jianwei (李建偉)	Independent Non-Executive Director	M	45	23 May 2018 – Now
HSU You-yuan (許祐淵)	Independent Non-Executive Director	M	64	4 September 2018 – Now

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

2. AS OF THE DATE OF THIS REPORT

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

Name	Position	Gender	Age	Term of office
CHANG Zhangli (常張利)	Chairman and Executive Director	M	49	23 May 2018 – Now
WU Ling-ling (吳玲綾)	Executive Director	F	53	23 May 2018 – Now
CHANG Ming-cheng (張銘政)	Independent Non-Executive Director	M	64	23 May 2018 – Now
LI Jianwei (李建偉)	Independent Non-Executive Director	M	45	23 May 2018 – Now
HSU You-yuan (許祐淵)	Independent Non-Executive Director	M	64	4 September 2018 – Now

(2) Biography of Directors and senior management

(a) Executive Directors

Mr. CHANG Zhangli, aged 49, has been an executive Director of the Company since 23 May 2018 and is the Chairman of the Board, the chairman of both the Executive Committee and the Nomination Committee of the Company as well as the chairman of various subsidiaries of the Company, including Pioneer Cement, China Shanshui (HK) and Shandong Shanshui. Mr. CHANG Zhangli is currently the vice president of China National Building Material Group Co., Ltd., and an non-executive director of CNBM, whose shares are listed on the Main Board of the Stock Exchange (stock code: 3323). Mr. CHANG Zhangli has approximately 30 years of experience in handling listing-related matters for listed companies, with participation in all major matters of CNBM relating to the global offering of the shares, listing of shares on the Stock Exchange, additional issue of shares as well as merger through absorption. Mr. CHANG Zhangli has served as directors and other key positions in many important subsidiaries of CNBM since 2005. Mr. CHANG Zhangli is also a director of Beijing New Building Materials Public Limited Company, a company listed on Shenzhen Stock Exchange (stock code: 000786), and China Jushi Co., Ltd., a company listed on Shanghai Stock Exchange (stock code: 600176). Mr. CHANG Zhangli is an engineer who received a bachelor's degree in engineering from Wuhan Polytechnic University (now Wuhan University of Technology) in July 1994 and received an MBA degree from Tsinghua University in July 2005. Currently, Mr. CHANG Zhangli concurrently serves as the vice president of the Listed Companies Association of Beijing, the vice president of China Association for Public Companies and the vice president of China Association of Work Safety. Mr. CHANG Zhangli was awarded the first prize of National Corporate Management Modernization and Innovation Achievements (國家級企業管理現代化創新成果).

2. AS OF THE DATE OF THIS REPORT (Continued)

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

(a) Executive Directors (Continued)

Ms. WU Ling-ling, aged 53, has been an executive Director of the Company since 23 May 2018 and is a member of the Executive Committee and the Nomination Committee of the Board of the Company as well as the director of various subsidiaries of the Company, including Pioneer Cement, China Shanshui (HK) and Shandong Shanshui. Ms. WU is a financial executive with more than 30 years of experience in working with international public accounting, manufacturing, telecommunications and internet service provider firms. Since July 2007, Ms. WU Ling-ling has served as the chief financial officer and executive vice president of Asia Cement Corporation, a limited liability company incorporated in Taiwan with its shares listed on the Taiwan Stock Exchange Corporation (stock code: 1102), and its affiliate, Far Eastern Group of Taiwan. Ms. WU Ling-ling serves as a director and supervisor for more than 30 companies including being a former supervisor and member of the board of directors of Oriental Union Chemical Corporation, a company listed on the Taiwan Stock Exchange Corporation, a supervisor of Chia Hui Power Corporation, a subsidiary of Asia Cement and a joint venture with J Power. Ms. WU Ling-ling was an executive Director of the Company from 14 October 2015 to 1 December 2015. Ms. WU Ling-ling serves as an executive director of Asia Cement (China) Holdings Corporation (whose shares are listed on the Main Board of the Stock Exchange (stock code: 743)) since 1 April 2016. From June 2001 and July 2004, Ms. WU Ling-ling served as the vice president of Internal Audit Department and Corporate Controller of Far EasTone Telecommunications Co., Ltd., also a listed affiliate of FEG. She had served in diverse positions since joining the firm in June 2001. Ms. WU Ling-ling has financial expertise in mergers and acquisitions, working capital management, process control, and regulatory accounting and reporting. She specializes in supporting corporate strategy including streamlining, controllership, and growth initiatives. She has been successful in leading both corporate turnarounds and rapid growth expansion through two initial public equity offerings and multiple acquisitions. Ms. WU Ling-ling is a Certified Public Accountant registered in the United States of America and Taiwan. She received a master of business administration degree having majored in accounting from the California State University, Los Angeles and a master of business administration degree from National Chengchi University in Taipei.

2. AS OF THE DATE OF THIS REPORT (Continued)

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

(b) Independent Non-executive Directors

Mr. CHANG Ming-cheng, aged 64, has been an independent non-executive Director of the Company since 23 May 2018 and is the chairman of the Audit Committee, a member of both the Remuneration Committee and the Nomination Committee of the Company. Mr. CHANG received a bachelor degree in mechanical engineering from Taiwan University in 1976 and a master degree in business administration from the University of Michigan in 1978. He passed the U.S. Uniform Certified Public Accountant Examination in May 1978. After working in the United States for one year, he returned to Taiwan in 1979 and joined Deloitte & Touche Taiwan, and became an audit partner in 1990. Between September 1994 and August 1996, he was seconded to Shanghai and involved in the B share listing of Huangshan Tourism and Gujinggong Liquor. As an experienced auditor, he had a high level of participation in merger and acquisition activities in the PRC and Taiwan. Since June 2007, he assumed the role of reputation and risk leader at Deloitte & Touche Taiwan and was responsible for its overall quality of services and risk management till his retirement in October 2014. Mr. CHANG Ming-cheng has been an executive director of the Accounting Research and Development Foundation and the chairman of the Auditing Standards Committee of Taiwan since April 2017 and his term will expire in March 2020. He also serves as independent director for three Taiwanese public companies, namely Medigen Vaccine Biologics Corporation (高端疫苗生物製劑股份有限公司), Alexander Marine Co., Ltd. (東哥企業股份有限公司) and United AlloyTech Company Ltd. (精確實業股份有限公司). He has been appointed as a supervisor of the Ship and Ocean Industries R&D Center (船舶暨海洋產業研發中心) since January 2019.

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

2. AS OF THE DATE OF THIS REPORT (Continued)

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

(b) Independent Non-executive Directors (Continued)

Mr. LI Jianwei, aged 45, has been an independent non-executive Director of the Company since 23 May 2018 and is the chairman of the Remuneration Committee, a member of both the Nomination Committee and the Audit Committee of the Company. Mr. LI is a Juris Doctor, a professor of Commercial Law at China University of Political Science and Law and a supervisor of doctoral students. He also serves as the director of Department of Law and Commerce of Business School, deputy chairman of Academic Committee of Business School, as well as the deputy director of the Institute of Commercial Law. His main research areas include, among others, civil and commercial law, corporate law, securities law, corporate governance etc. He is a well-known young and middle-aged company law expert in China who has made outstanding achievements in the research of a broad range of commercial laws including company law, securities law, insurance law, investment fund law and trust law etc. He worked as a post-doctoral researcher at the Business School of the Renmin University of China from 2002 to 2004, a senior visiting scholar at the Law School of University of The New South Wales, Australia from 2008 to 2009 and a visiting professor at the Law School of The Aoyama Gakuin University in Japan from 2013 to 2015. His past positions also include the executive director and secretary general of the Commercial Law Research Society of China Law Society, executive director of China Association of Business Law, member of the 1st and 2nd Hong Kong and Macau Law Committee of Zhuhai Hengqin New Area, member of Expert Advisory Committee of courts such as Guangzhou Intermediate People's Court, instructor of judges in courts such as Bao'an District People's Court of Shenzhen, and arbitrator of arbitration committees in Beijing, Fuzhou, Changsha and Zhuhai etc. He has been in charge of more than 10 national and provincial level projects under the National Social Science Fund of China, Humanities and Social Science Fund of the Ministry of Education, rule of law theory projects of the Ministry of Justice and social science projects under Beijing Social Science Fund. He has been in charge of the Youth Research Innovation Team Project of Commercial Law in China University of Political Science and Law for 6 years from 2012 to 2018. He has published more than 100 academic papers in publications such as China Legal Science, Chinese Journal of Law and Xinhua Digest, and published more than 10 books and translated works including "A Study of Independent Directors", "Corporate Mechanism, Corporate Management and Corporate Governance" and "Company Law". He has won many awards for research excellence such as the second prize in Dong Biwu Youth Law Achievement Award and the third prize in the 4th China Law Outstanding Achievement Award. As a legal expert, he has successively participated in expert argumentation of a number of legislative and judicial interpretation documents, including, among others, General Principles of Civil Law, Civil Code – Contracts, Company Law, Electronic Commerce Law and Company Law Interpretation (3) (4). He has won the Outstanding Teacher Award of 2011 and Excellent Teacher Award of 2007, 2009, 2010, 2016 of the China University of Political Science and Law. He has been awarded as one of the Ten Teachers Most Welcomed by Undergraduates in 2006, 2008

2. AS OF THE DATE OF THIS REPORT (Continued)

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

(b) Independent Non-executive Directors (Continued)

and 2010. In 2015, he obtained the qualification of independent director from the Shanghai Stock Exchange and is currently the independent director of Hanwang Technology Co., Ltd. (漢王科技股份有限公司), whose shares have been listed on the Shenzhen Stock Exchange (Stock Code: 002362) since April 2018, Linksus Digiwork Marketing Communication Co., Ltd. (靈思雲途營銷顧問股份有限公司) whose shares have been listed on the National Equities Exchange and Quotations (Stock Code: 838290) since May 2017, and China Quanjude(Group) Co., Ltd. (中國全聚德(集團)股份有限公司) whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 002186) since 29 December 2018 and serves as the chairman of the board of Beijing Fangyuan Zhonghe Culture Communication Co., Ltd. (北京方圓眾合教育科技有限公司).

Mr. HSU You-yuan, aged 64, has been an independent non-executive Director of the Company since 4 September 2018 and is a member of the Remuneration Committee, the Audit Committee and the Nomination Committee of the Company. Mr. HSU has been the chairman and president of DCH Solargiga GmbH since February 2018 and a non-executive director of Solargiga Energy Holdings Limited (Stock Code: 757) ("Solargiga") since June 2016. He was the CEO of Solargiga from February 2007 to September 2015 and an executive director of Solargiga from February 2007 to June 2016. Mr. HSU was the managing director of Wafer Works Corp. ("WWX") from February 1998 to June 2003 and later became the vice-chairman of the board of WWX in June 2003. WWX is a manufacturer of silicon wafer for the semiconductor industry and is listed on the Gre Tai Securities Market in Taiwan with stock code 6182 since May 2002. He was the managing director of Silicon Technology Investment (Cayman) Corp. and was appointed as the chief executive officer of Solar Technology Investment (Cayman) Corp., responsible for overseeing, amongst others, WWX's investment in the solar energy industry. In March 2006, he was appointed as a director and he was subsequently appointed as the chairman of the board of Jinzhou Youhua Silicon Materials Co., Ltd. in September 2006. Mr. HSU's previous work credentials also include acting as deputy general manager of Mosel Vitelic Inc., a company listed on the Taiwan Stock Exchange with stock code 2342 and as a member of the board of directors and executive vice-president of Mosel Vitelic (Hong Kong) Limited, a subsidiary of Mosel Vitelic Inc. Mr. HSU had also made contributions to non-commercial sectors in the past. He served as a researcher, a deputy director, and the director of business department of the Executive Yuan Development Fund of Taiwan (Executive Yuan Development Fund is now known as National Development Fund, Executive Yuan). He was also a lecturer of Statistics and Managerial Mathematics for the business administration department at the Chinese Culture University and published the Supply and Demand Models of Cement in Taiwan in the Taiwan Economy (Issue 59 of 1981) of the Economic Planning and Mobilization Council Taiwan Provincial Government. Mr. HSU obtained his bachelor's degree in Statistics from National Cheng Kung University in 1978 and his master's degree in International Business Administration from Chinese Culture University in 1980.

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

2. AS OF THE DATE OF THIS REPORT (Continued)

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

(c) Senior management

Mr. WANG Mingbo, aged 56, was appointed as a director and vice president of Shandong Shanshui in July 2018, mainly responsible for managing the daily affairs of Shandong Shanshui. Mr. WANG graduated from Jinan Textile Industry School (濟南紡織工業學校) and successively studied industrial enterprise management and economic management at Shandong University of Technology (山東工業大學) and Shandong Provincial School of the Communist Party of China (山東省委黨校) as a part-time student. He is a member of the Communist Party of China. Mr. WANG has 29 years of experience in governments and over 30 years of experience in economy management. Mr. WANG served the Technology Development Company of Jinan Economic Committee from August 1987 to October 1990, responsible for the management of enterprises. From October 1990 to April 2010, he successively served as a deputy-senior staff, a senior staff of the production department, a senior staff of the production department, a deputy director and director of the safety and environment protection department, the head of the office of the petroleum zone and the director of the industrial restructuring and adjustment division con the head of the supervision office of key technological projects of Jinan Economic Committee. He was the director of the planning and technological transformation department of Jinan Economic and Information Technology Committee from April 2010 to June 2012; the deputy head of Jinan Economic and Information Technology Committee from June 2012 to July 2018. Mr. WANG has been the chairman and a deputy general manager of Jinan Industrial Development and Investment Group Company Limited (濟南產業發展投資集團有限公司) since July 2018.

(d) Company secretary

Ms. LO Yee Har Susan, aged 61, was appointed as the company secretary of the Company in 6 September 2018. Ms. LO is an executive director of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Her practice focuses on corporate and fiduciary services, in the areas of corporate governance and administration, regulatory compliance, and the setting up of family trusts and employee share incentive plans and their ongoing administration. Ms. LO has over 30 years of experience in the corporate secretarial field. She is a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 6 October 2018, Mr. HSU You-yuan was appointed as a member of the Nomination Committee of the Company.

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

As of the date of publication of this report

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

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

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

As of the date of publication of this report (Continued)

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

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

5. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT FOR THE YEAR

Please refer to Notes 11, 12 and 38(d) to the financial statements in this annual report on details of the remuneration of Directors and senior management of the Group during the Reporting Period.

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

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

6. HIGHEST PAID INDIVIDUALS

Please refer to Note 12 to the financial statements in this annual report for details of the remuneration of the five highest paid individuals of the Group during the Reporting Period.

7. HUMAN RESOURCES

As at 31 December 2018, the Group had a total of 18,280 employees. The Group provides retirement insurance, medical insurance and unemployment insurance and makes contributions to the housing provident scheme for its employees in the PRC in accordance with applicable laws and regulations in the PRC. The Group remunerates its employees based on their respective work performance and experience and reviews its employee remuneration policies as and when appropriate.

(IX) Report on Corporate Governance

CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "**Board**") of the Company is committed to maintaining good corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders (the "**Shareholders**"), enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has applied the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (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 2018 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 2018 to 19 March 2018, Mr. LI Heping served as the Chief Executive Officer of the Company.

Since Mr. LI Heping resigned as the Chief Executive Officer of the Company on 19 March 2018, the Company did not appoint any Chief Executive Officer and Mr. CHANG Zhangli, 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).

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

Notice of 2018 Annual General Meeting

According to the code provision E.1.3 of the CG Code, the Company should arrange for the notice to Shareholders to be sent for annual general meetings at least 20 clear business days before the meeting. Less than 20 clear business days notice was given for the 2018 Annual General Meeting as more time was required for finalizing the material information contained in the circular to be dispatched to Shareholders prior to the convening of the meeting. Nevertheless, sufficient notice was given in accordance with the Company's Articles of Association and the laws of the place of incorporation of the Company.

Composition of the Nomination Committee

According to the code provision A.5.1 of the CG Code, the nomination committee of the Company should comprise a majority of independent non-executive directors. There was a period where it did not comprise a majority of independent non-executive directors. Since the appointment of Mr. HSU You-yuan as a member of the nomination committee of the Company on 6 October 2018, the Company has fulfilled the relevant requirement.

Re-election of Directors

Code provision A.4.2 states that all directors appointed to fill a casual vacancy should be subject to election by Shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. Under the Company's Articles of Association, the Chairman presiding at any meeting of members or of the Board shall not be subject to the retirement provisions. The proposed amendment of this article at upcoming AGM of the Company is subject to Shareholders' approval at AGM to be held on Thursday, 30 May 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a set of Code of Conduct for Securities Transactions by Directors ("Code of Conduct"), the terms of which are not less exacting than the Model Code. Having made specific inquiries to all Directors, all Directors confirmed that they have complied with the Code of Conduct throughout 2018.

BOARD OF DIRECTORS

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

BOARD OF DIRECTORS (CONTINUED)

Board Composition

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

The Board currently comprises two Executive Directors, and three Independent Non-executive Directors. The brief biographical details of the Directors are set out in the section headed "(2) Biography of Directors and senior management" of "(VIII) Basic Information on Directors, Senior Management and Employees" of this report. The executive Directors of the Company are responsible for the day to day operations of the Company whereas the Independent Non-executive Directors of the Company are responsible for ensuring a high standard of financial and management reporting to the Board and Shareholders as well as to provide a balanced composition in the Board so that there is a strong independent element on the Board.

The Board of the Company during the reporting period comprises the following Directors:

Executive Directors

Mr. CHANG Zhangli
(appointed on 23 May 2018 as Chairman)
Ms. WU Ling-ling
(appointed on 23 May 2018)
Mr. LI Liufa
(appointed on 19 March 2018 as former Chairman)
(removed on 23 May 2018)
Mr. LIU Yiu Keung, Stephen
(resigned on 19 March 2018)
Mr. LI Heping
(resigned on 19 March 2018)
Mr. HWA Guo Wai, Godwin
(removed on 23 May 2018)
Mr. LI Zhiqiang
(resigned on 19 March 2018)
Mr. ZHU Linhai
(appointed on 19 March 2018)
(removed on 23 May 2018)

BOARD OF DIRECTORS (CONTINUED)

Board Composition (Continued)

Independent Non-executive Directors
Mr. CHANG Ming-cheng
(appointed on 23 May 2018)
Mr. LI Jianwei
(appointed on 23 May 2018)
Mr. HSU You-yuan
(appointed on 4 September 2018)
Mr. LIN Shei-yuan
(appointed on 23 May 2018)
(resigned on 20 July 2018)
Ms. HO Man Kay, Angela
(removed on 23 May 2018)
Mr. LAW Pui Cheung
(removed on 23 May 2018)
Mr. WONG Chi Keung
(removed on 23 May 2018)
Dr. CHING Siu Ming
(removed on 23 May 2018)
Mr. LO Chung Hing
(removed on 23 May 2018)

None of the members of the Board is related to one another.

Board Meetings and Directors' Attendance Records

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

Apart from regular Board meetings, the Chairman also held meetings with Independent Non-executive Directors only without the presence of other Directors during the Reporting Period.

BOARD OF DIRECTORS (CONTINUED)

Board Meetings and Directors' Attendance Records (Continued)

During the Reporting Period, the Board held 23 meetings and the Directors' attendance records are as follows:

Name of Directors	Attendance/Number of meetings within the term of office during the Reporting Period
Executive Directors:	
Mr. CHANG Zhangli *(appointed on 23 May 2018 as Chairman)*	17/17
Ms. WU Ling-ling *(appointed on 23 May 2018)*	17/17
Mr. LI Liufa *(appointed on 19 March 2018 as former Chairman)* *(removed on 23 May 2018)*	0/4
Mr. LIU Yiu Keung, Stephen *(resigned on 19 March 2018)*	4/4
Mr. LI Heping *(resigned on 19 March 2018)*	3/4
Mr. HWA Guo Wai, Godwin *(removed on 23 May 2018)*	2/7
Mr. LI Zhiqiang *(resigned on 19 March 2018)*	2/4
Mr. ZHU Linhai *(appointed on 19 March 2018)* *(removed on 23 May 2018)*	0/4

BOARD OF DIRECTORS (CONTINUED)

Board Meetings and Directors' Attendance Records (Continued)

Name of Directors	Attendance/Number of meetings within the term of office during the Reporting Period
Independent Non-executive Directors:	
Mr. CHANG Ming-cheng *(appointed on 23 May 2018)*	17/17
Mr. LI Jianwei *(appointed on 23 May 2018)*	17/17
Mr. HSU You-yuan *(appointed on 4 September 2018)*	7/7
Mr. LIN Shei-yuan *(appointed on 23 May 2018)* *(resigned on 20 July 2018)*	4/4
Ms. HO Man Kay, Angela *(removed on 23 May 2018)*	6/6
Mr. LAW Pui Cheung *(removed on 23 May 2018)*	6/6
Mr. WONG Chi Keung *(removed on 23 May 2018)*	6/6
Dr. CHING Siu Ming *(removed on 23 May 2018)*	5/6
Mr. LO Chung Hing *(removed on 23 May 2018)*	5/6

BOARD OF DIRECTORS (CONTINUED)

Chairman and Chief Executive Officer

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

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

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

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Since Mr. LI Heping resigned as the Chief Executive Officer of the Company on 19 March 2018, the Company did not appoint any Chief Executive Officer and Mr. CHANG Zhangli, 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).

BOARD OF DIRECTORS (CONTINUED)

Independent Non-executive Directors

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors are independent.

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 three 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 year ended 31 December 2018, 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, the Remuneration Committee and the Nomination Committee of the Company fell short of the requirements under Rule 3.21 of the Listing Rules and code provision A.5.1, and fell below the minimum number required under the terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. 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 Company on 4 September 2018, and a member of the Nomination Committee of the Company on 6 October 2018, the Company has fulfilled the relevant requirements.

Appointment and Re-election of Directors

The Non-executive Directors (including Independent Non-executive Directors) of the Company are appointed for a specific term of three years, subject to renewal after the expiry of the then current term.

The Company's Articles of Association provides that any Director appointed to fill a casual vacancy shall hold office only until the next following general meeting of the Company and shall then be subject to re-election at that meeting.

Code provision A.4.2 states that all directors appointed to fill a casual vacancy should be subject to election by Shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. Under the Company's Articles of Association, the Chairman presiding at any meeting of members or of the Board shall not be subject to the retirement provisions. The proposed amendment of this article at upcoming AGM is subject to Shareholders' approval at AGM to be held on Thursday, 30 May 2019.

BOARD OF DIRECTORS (CONTINUED)

Responsibilities of the Directors

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Independent Non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

All Directors are encouraged to attend relevant training courses to improve their knowledge and skills. Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. The Company also keeps the Directors informed of the latest updates on the amendments to the Listing Rules and the media coverage disclosed on the Stock Exchange.

BOARD OF DIRECTORS (CONTINUED)

Continuous Professional Development of Directors (Continued)

The individual training record of each existing Director received for year ended 31 December 2018 is set out as follows:

Directors	Type of Training [Note]
Executive Directors	
Mr. CHANG Zhangli	A
Ms. WU Ling-ling	A and B
Independent Non-executive Directors	
Mr. CHANG Ming-cheng	B
Mr. LI Jianwei	A and B
Mr. HSU You-yuan	A

Note:

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

BOARD COMMITTEES

The Board has established five committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee, Executive Committee and Investigation Committee (dissolved on 23 May 2018), for overseeing particular aspects of the Company's affairs. The Audit Committee, Remuneration Committee and Nomination Committee of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Company Information" on page 4.

BOARD COMMITTEES (CONTINUED)

Audit Committee

The Audit Committee consists of three Independent Non-executive Directors, namely Mr. CHANG Ming-cheng, Mr. LI Jianwei and Mr. HSU You-yuan. Mr. CHANG Ming-cheng is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the committee include:

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

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

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

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

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

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

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

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

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

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

The results of the Group for the Reporting Period were reviewed by the Audit Committee at the meeting held on 20 March 2019. At such meeting, the Audit Committee considered and approved the audited financial statements of the Company for the Reporting Period prepared in accordance with IFRS and the internal audit report.

BOARD COMMITTEES (CONTINUED)

Audit Committee (Continued)

During the Reporting Period, the Audit Committee held 4 meetings and the attendance records of the members of the Audit Committee are as follows:

Name of Members of the Audit Committee	Attendance/Number of meetings within the term of office during the Reporting Period
Mr. CHANG Ming-cheng *(appointed on 23 May 2018 as Chairman)*	3/3
Mr. LI Jianwei *(appointed on 23 May 2018)*	3/3
Mr. HSU You-yuan *(appointed on 4 September 2018)*	2/2
Dr. CHING Siu Ming *(removed on 23 May 2018)*	1/1
Ms. HO Man Kay, Angela *(removed on 23 May 2018)*	1/1
Mr. LAW Pui Cheung *(removed on 23 May 2018)*	1/1
Mr. LIN Shei-yuan *(appointed on 23 May 2018)* *(resigned on 20 July 2018)*	0/0
Mr. WONG Chi Keung *(removed on 23 May 2018)*	1/1
Mr. LO Chung Hing *(removed on 23 May 2018)*	1/1

Remuneration Committee

The Remuneration Committee consists of three Independent Non-executive Directors, namely Mr. LI Jianwei, Mr. CHANG Ming-cheng and Mr. HSU You-yuan. Mr. LI Jianwei is the chairman of the Remuneration Committee.

The Remuneration Committee makes recommendations to the Board on the remuneration packages of individual Executive Directors and senior management and is principally responsible for formulating the remuneration policy for the Executive Directors and senior management of the Company and make recommendations to the Board of the Company. The Remuneration Committee is a standing committee of the Board.

BOARD COMMITTEES (CONTINUED)

Remuneration Committee (Continued)

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

Details of the remuneration of the senior management by band are set out in note 38(d) in the Notes to the Audited Financial Statements for the year ended 31 December 2018.

During the Reporting Period, the Remuneration Committee held 4 meetings and the attendance records of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance/Number of meetings within the term of office during the Reporting Period
Mr. LI Jianwei *(appointed on 23 May 2018 as Chairman)*	3/3
Mr. CHANG Ming-cheng *(appointed on 23 May 2018)*	3/3
Mr. HSU You-yuan *(appointed on 4 September 2018)*	0/0
Dr. CHING Siu Ming *(removed on 23 May 2018)*	1/1
Ms. HO Man Kay, Angela *(removed on 23 May 2018)*	1/1
Mr. LAW Pui Cheung *(removed on 23 May 2018)*	1/1
Mr. LIN Shei-yuan *(appointed on 23 May 2018)* *(resigned on 20 July 2018)*	1/1
Mr. LO Chung Hing *(removed on 23 May 2018)*	1/1
Mr. WONG Chi Keung *(removed on 23 May 2018)*	1/1

BOARD COMMITTEES (CONTINUED)

Nomination Committee

The Nomination Committee consists of five members, namely Mr. CHANG Zhangli and Ms. WU Ling-ling (both being Executive Directors), Mr. CHANG Ming-cheng, Mr. LI Jianwei and Mr. HSU You-yuan (all being Independent Non-executive Directors). Mr. CHANG Zhangli is the chairman of the Nomination Committee.

The principal duties of the Nomination Committee are (i) to review the structure, size and composition of the Board on a regular basis; (ii) to consider the succession arrangement of the Directors and other senior management members; (iii) where necessary, to identify suitable candidates to fill the vacancy of the Board and recommend such candidates to the Board for approval; (iv) to review the length of time which Non-executive Directors are required to contribute and the independence of each Independent Non-executive Director; and (v) to make recommendations to the Board in respect of the appointment and re-appointment of Directors. The Nomination Committee is a standing committee of the Board and accountable to the Board.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

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

BOARD COMMITTEES (CONTINUED)

Nomination Committee (Continued)

During the Reporting Period, the Nomination Committee held 4 meetings and the attendance records of the members of the Nomination Committee are as follows:

Name of Members of the Nomination Committee	Attendance/Number of meetings within the term of office during the Reporting Period
Mr. CHANG Zhangli *(appointed on 23 May 2018)* *(appointed on 4 September 2018 as the Chairman)*	3/3
Ms. WU Ling-ling *(appointed on 23 May 2018)*	3/3
Mr. CHANG Ming-cheng *(appointed on 23 May 2018)*	3/3
Mr. LI Jianwei *(appointed on 23 May 2018)*	3/3
Mr. HSU You-yuan *(appointed on 6 October 2018)*	1/1
Dr. CHING Siu Ming *(removed on 23 May 2018)*	1/1
Ms. HO Man Kay, Angela *(removed on 23 May 2018)*	1/1
Mr. LAW Pui Cheung *(removed on 23 May 2018)*	1/1
Mr. LIN Shei-yuan *(appointed on 23 May 2018 as former Chairman)* *(resigned on 20 July 2018)*	1/1
Mr. LI Liufa *(appointed on 19 March 2018 as former Chairman)* *(removed on 23 May 2018)*	0/1
Mr. LIU Yiu Keung, Stephen *(resigned on 19 March 2018)*	1/1
Mr. LO Chung Hing *(removed on 23 May 2018)*	1/1
Mr. WONG Chi Keung *(removed on 23 May 2018)*	1/1

BOARD COMMITTEES (CONTINUED)

Investigation Committee

The Investigation Committee consists of five Independent Non-executive Directors, namely Dr. CHING Siu Ming, Ms. HO Man Kay, Angela, Mr. LAW Pui Cheung, Mr. LO Chung Hing and Mr. WONG Chi Keung. Dr. CHING Siu Ming is the chairman of the Investigation Committee.

The responsibility of the Investigation Committee is to investigate certain events in the past. The Investigation Committee is a temporary committee under the Board of the Company and is accountable to the Board.

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

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

Executive Committee

The Executive Committee consists of two Executive Directors, namely Mr. CHANG Zhangli and Ms. WU Ling-ling. Mr. CHANG Zhangli is the chairman of the Executive Committee.

The responsibility of the Executive Committee is to manage the overall business and to assist the Board in performing its duties. The Executive Committee is a standing committee of the Board and accountable to it.

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

BOARD COMMITTEES (CONTINUED)

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of Independent Non-executive Directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules; and

BOARD COMMITTEES (CONTINUED)

Director Nomination Policy (Continued)

- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Functions

The Audit Committee is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the year, the Audit Committee met four times to review the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Apart from regular Board meetings, the Chairman also held meetings with the Independent Non-executive Directors without the presence of other Directors during the Reporting Period.

Independent Non-executive Directors have attended general meetings to gain and develop a balanced understanding of the view of Shareholders.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM ON OPERATIONS

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM ON OPERATIONS (CONTINUED)

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

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

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

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM ON OPERATIONS (CONTINUED)

The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the Reporting Period.

The Board, as supported by the Audit Committee as well as the management report, reviewed the risk management and internal control systems annually, including the financial, operational and compliance controls, for the Reporting Period, and believed that such systems are effective and sufficient. From now on, the Group will continually improve the establishment and implementation of the risk management and internal control system by reference to the guidelines of the listed companies issued by the Stock Exchange.

INSIDE INFORMATION

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the Financial Statements is set out in the Independent Auditors' Report on pages 105 to 115.

AUDITORS' REMUNERATION

The Company appointed Moore Stephens CPA Limited as the external auditors of the Company with effect from 10 August 2018 to fill the casual vacancy following the resignation of KPMG on 17 July 2018.

The remuneration paid to the Company's external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2018 amounted to RMB6,000,000 and RMB950,000 respectively.

An analysis of the remuneration paid to the external auditors of the Company, Moore Stephens CPA Limited, in respect of audit services and non-audit services for the year ended 31 December 2018 is set out below:

Service Category	**Fees Paid/Payable** *(RMB'000)*
Audit Services	6,000/6,000
Non-audit Services	
– Agreed procedures of 2018 interim report	950/950
	6,950/6,950

COMPANY SECRETARY

During the year ended 31 December 2018, the Joint Company Secretaries of the Company were Mr. TSANG Wing Tai and Mr. YU Chunliang, who had duly complied with the training requirement under Rule 3.29 of the Listing Rules. Mr. YU Chunliang resigned as a Joint Company Secretary on 23 April 2018 and Mr. TSANG Wing Tai resigned as the Company Secretary on 6 September 2018.

Ms. LO Yee Har Susan of Tricor Services Limited, an external service provider, was appointed as the Company Secretary on 6 September 2018. Ms. Lo had duly complied with the training requirement under Rule 3.29 of the Listing Rules. The primary contact person at the Company is Ms. WU Ling-ling, an Executive Director of the Company.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters.

SHAREHOLDERS' RIGHTS

The Company engages with Shareholders through various communication channels. The Company has in place a Shareholders' communication policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a dividend policy on payment of dividends. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the dividend policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval.

To safeguard Shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting/Right to call an Extraordinary General Meeting

To protect all Shareholders in their exercise of rights, the Company convenes an annual general meeting each year and extraordinary general meetings whenever the Board considers appropriate in accordance with the Articles of Association.

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

Putting Forward Proposals at General Meetings

1. To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written notice of his/her proposal ("Proposal") with his/her detailed contact information at the Company's principal place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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

SHAREHOLDERS' RIGHTS (CONTINUED)

Putting Forward Proposals at General Meetings (Continued)

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

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

   (b) At least 21 clear days' and 10 clear business days' notice in writing if the Proposal constitutes a special resolution of the Company in an extraordinary general meeting of the Company or an ordinary resolution of the Company in an annual general meeting of the Company.

The written requisition clearly specifying the objects of the meeting by the requisitionists is required. Shareholders are able to put forward their inquiries to the Board through communication with Company Secretary by email and telephone number indicated in the paragraph headed "2. Basic Corporate Information" of "(II) Corporate Information" of this Report.

On 23 May 2018, the Company convened an extraordinary general meeting, at which seventeen ordinary resolutions regarding the change of directorship were proposed and fourteen ordinary resolutions were approved, one ordinary resolution was invalided and two ordinary resolutions were not passed. Details of which were disclosed in the announcement of the Company dated 23 May 2018 in relation to the poll results of the extraordinary general meeting.

On 31 August 2018, the Company convened an annual general meeting, at which nine ordinary resolutions (including the re-election of directors, appointment of auditors, granting general mandates to the Board and adjournment of the annual general meeting) were approved and adopted. Details of which were disclosed in the announcement of the Company dated 31 August 2018 in relation to the poll results of the annual general meeting.

On 30 October 2018, the Company convened an adjourned annual general meeting, at which the ordinary resolution to adopt 2017 audited accounts and reports was approved. On the same day, the Company convened an extraordinary general meeting, at which two ordinary resolutions (including the granting of a specific mandate to the Board and re-electing Mr. HSU You-yuan as an Independent Non-executive Director) were approved and adopted. Details of which were disclosed in the announcement of the Company dated 30 October 2018 in relation to the poll results of the adjourned annual general meeting and extraordinary general meeting.

SHAREHOLDERS' RIGHTS (CONTINUED)

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
(For the attention of the Board of Directors)
Fax: 2956 2192

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

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

1. MATERIAL LITIGATION IN THE CAYMAN ISLANDS

Cause No.: CICA 26 of 2018

On 30 August 2018, Tianrui (International) Holding Company Limited ("**Tianrui**"), a Shareholder of the Company, presented a petition seeking to wind up the Company (the "**Cayman Petition**") before the Grand Court of the Cayman Islands (the "**Cayman Court**"). 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**").

On 10 and 11 October 2018, the substantive hearing was heard in the Cayman Court (the "**Cayman Hearing**"), at which 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. The Cayman Petition was struck out and the application for JPLs dismissed by order of the Cayman Court dated 19 October 2018 (the "**Grand Court's Order**").

On 8 November 2018, Tianrui filed a Notice of Appeal with the Court of Appeal of the Cayman Islands (the "**Court of Appeal**") seeking, among other things, to set aside the Grand Court's Order (the "**Cayman Appeal**"). During the appeal hearing on 14 to 16 January 2019 in the Court of Appeal, Tianrui withdrew its application for the appointment of JPLs over the Company.

The Court of Appeal on 16 January 2019 (the"**Reinstatement Date**") allowed the Cayman Appeal and set aside the Grand Court's Order. As a result, the Cayman Petition against the Company reinstated and will be returned to the Cayman Court.

The Court of Appeal has issued a Certificate of the Order of the Court dated 11 February 2019 certifying its decision to allow the Cayman Appeal and set aside the Grand Court's Order. The Company has instructed its counsel to prepare an application for leave to appeal to the Privy Council of the United Kingdom.

On 21 March 2019, the Company announced that it was considering applying for a validation order from the Cayman Court to sanction the deposit of share certificates into the Central Clearing and Settlement System ("**CCASS**") of Hong Kong, and asking shareholders who wish to have their share certificates included in any such application for a validation order ("**Requesting Shareholders**") to submit a written request to the Company. Subsequently, the Company received a number of written requests from Requesting Shareholders. On 29 March 2019 (Cayman Islands time), the Company made an application to the Cayman Court (the "**Application**") to, among other things, validate the transfer of shares held by the Requesting Shareholders to HKSCC Nominees Limited, the common nominee for shares deposited in CCASS.

For further details, please refer to the announcements published by the Company on 4 September 2018, 20 September 2018, 12 October 2018, 16 October 2018, 23 October 2018, 29 October 2018, 14 November 2018, 13 December 2018, 18 January 2019, 22 January 2019, 15 February 2019, 21 March 2019, and 1 April 2019.

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 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 Petition was withdrawn on 23 October 2018.

For further details, please refer to the announcements published by the Company on 4 September 2018 20 September 2018, 12 October 2018, 16 October 2018 and 23 October 2018.

HCA 2880 of 2015

On 4 December 2015, a Writ of Summons (the "**Writ**") was issued by the Company against former Directors of the Company, namely ZHANG Cai Kui and ZHANG Bin (together, the "**Zhangs**") and LI Cheung Hung. On 17 December 2015, China Shanshui (HK) and Pioneer Cement were added as Plaintiffs and an additional of 5 former directors, namely CHANG Zhangli, WU Ling-ling (also known as Doris WU), LEE Kuan-chun (also known as Champion LEE), ZENG Xuemin and SHEN Bing were added as Defendants in the Writ.

2. MATERIAL LITIGATION IN HONG KONG (CONTINUED)

HCA 2880 of 2015 (Continued)

The Plaintiffs claimed against the Defendant Directors for (inter alia) (1) various injunctive relief, including restraining them from acting on the allegedly unlawfully altered articles of association of Shandong Shanshui, an order for identifying the current whereabouts of or return the books, records, accounts or computer data or other documents etc. of the Group, and (2) damages and/or equitable compensation as a result of the alleged misconduct of the former Directors.

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

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

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

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

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

Following the amendments to the Amended Statement of Claim, the parties 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 filed and exchanged their List of Documents and the Company has filed a supplemental list of documents on 29 September 2017. The parties have also exchanged witness statements.

2. MATERIAL LITIGATION IN HONG KONG (CONTINUED)

HCA 2880 of 2015 (Continued)

The first case management conference took place on 19 April 2018 and all of the parties agreed for the action to be referred to a Listing Judge for the assignment of a Trial Judge. On 15 April 2019, the parties sent a joint letter to the Listing Officer, Civil to formally apply to have the action assigned to 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.

(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**"). The Company filed their affirmation in support in October 2018 and the 2nd Defendant has yet to file his affirmation in opposition. The hearing the Continuation Summons is adjourned to a date to be fixed with one day reserved. No hearing date has been fixed yet.

HCMP 1574 of 2016

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

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

2. MATERIAL LITIGATION IN HONG KONG (CONTINUED)

HCA 762 of 2017

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

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

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

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

2. MATERIAL LITIGATION IN HONG KONG (CONTINUED)

HCA 548 of 2019

On 29 March 2019, the Company announced that the Company together with its subsidiaries, China Shanshui Cement Group (Hong Kong) Company Limited, China Pioneer Cement (Hong Kong) Company Limited, and Shandong Shanshui Cement Group Company Limited (collectively, the "**Plaintiffs**") had commenced High Court Action No. 548 of 2019 in the High Court of Hong Kong, against Tianrui (International) Holding Company Limited, Tianrui Group Company Limited, Stephen LIU Yiu Keung, David YEN Ching Wai, Godwin HWA Guo Wai, CHONG Cha Hwa, LI Heping, LI Liufa, CHEUNG Yuk Ming, NG Qing Hai, LI Zhi Qiang, HO Man Kay, Angela, LAW Pui Cheung, WONG Chi Keung, CHING Siu Ming, LO Chung Hing, TSANG Wing Tai and Ernst & Young Transactions Limited (collectively, the "**Defendants**") in connection with:

(a) alleged unlawful means conspiracy, by acting in combination and in concert with one another with respect to breaches of fiduciary and other duties, dishonest assistance and/or criminal intimidation and violence, from around 2015 to 2018, with the intention of injuring the Plaintiffs in order to acquire control of the Plaintiffs, and illegitimately maximise economic benefit therefrom for the benefit of the Defendants and at the expense of the Plaintiffs; and

(b) various breaches of duties by the Defendants who are former directors and/or officers of the Company.

For further details, please refer to the announcement published by the Company on 29 March 2019.

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

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

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

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

3. MATERIAL LITIGATION IN PRC (CONTINUED)

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 16 October 2018, the Shandong Provincial Higher People's Court issued the civil ruling on withdrawal of claim for the case.

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.

3. MATERIAL LITIGATION IN PRC (CONTINUED)

Other litigations in the PRC

As of the date of this report, there are 118 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 one category.

(1) Unsettled litigations with Shandong Shanshui as defendants

There are 70 unsettled litigations with Shandong Shanshui as defendants, with the subject matter of the litigations approximately RMB554 million. Categorised by causes, there are 7 categories of unsettled litigations and 6 categories of unsettled litigations with Shandong Shanshui as defendants, with 9 cases of sales and purchase contract and transportation contract dispute, 4 cases of equity dispute, 1 case of financial loan dispute, 3 cases of construction and supervision dispute, 1 case of dispute over agreement on contracted management of enterprise, and 52 cases of labour dispute. There are a total of 62 cases in the first instance, a total of 4 cases in the second instance, and 4 cases in the enforcement phase.

(2) Unsettled litigations with Shandong Shanshui as plaintiffs

There are 4 unsettled litigations with Shandong Shanshui as plaintiffs with the subject matter of the litigations approximately RMB42.28 million and all the cases are of labour dispute and in the first instance.

(3) 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 second instance.

4. MAJOR TRANSACTIONS

Issue of Convertible Bonds

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

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

The Company has entered into the Conversion Agreements with certain holders of the convertible bonds for the purpose of issuing new shares. For details, please refer to the announcements of the Company dated 7 October 2018 and 30 October 2018.

5. PUBLIC FLOAT

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

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

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

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

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

On 18 November 2016, the Company entered into an engagement letter with each of Cinda International Securities Limited ("**Cinda**") and First Capital Securities Limited ("**FCSL**"), pursuant to which Cinda and FCSL agreed to act as placing agents of the Company in addition of SHKIS and ABCI for the Placing.

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

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

5. PUBLIC FLOAT (CONTINUED)

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

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

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

5. PUBLIC FLOAT (CONTINUED)

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

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

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

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

5. PUBLIC FLOAT (CONTINUED)

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

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

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

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

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

5. PUBLIC FLOAT (CONTINUED)

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

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 annual general meeting and the extraordinary general meeting held on 30 October 2018. 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.

On 30 October 2018, the Company announced that completion of the issue of the New Shares occurred on 30 October 2018 following: (a) the approval of the Specific Mandate by ordinary resolution at the EGM; and (b) the Stock Exchange granting approval of the New Issue and the listing of, and permission to deal in, the New Shares issued on the Stock Exchange. Completion of the New Issue has resulted in the New Shares representing approximately 22.39% of the enlarged issued Shares and together with the Shares held by the existing public shareholders of the Company representing no less than 25% of the enlarged issued Shares. Accordingly, the Company has fulfilled the minimum public float requirement under Rule 8.08(1)(a) of the Listing Rules and resolved the Public Float Issue.

The Company has now fulfilled all the resumption of trading conditions set out by the Stock Exchange. As such, the shares of the Company have already resumed trading on the Stock Exchange with effect from 9:00 a.m. on 31 October 2018.

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, 16 October 2018, 30 October 2018 and 31 October 2018 in relation to, among other things, the proposed cancellation of listing and plan on resumption of trading.

6. CONNECTED TRANSACTIONS

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

Provision of Corporate Guarantee

On 14 December 2016, the Company entered into the corporate guarantee in favour of Bank of China Limited (Pingdingshan Branch) as a guarantee for the provision of the loan facility of RMB400 million by the Bank to Tianrui Group under a facility agreement. The facility agreement and the corporate guarantee were approved by the bank on 26 December 2016. Tianrui Group is a substantial Shareholder holding 951,462,000 Shares (representing approximately 21.85% issued share capital of the Company) as at the date of entering into the corporate guarantee and a connected person of the Company.

Granting of Unsecured Loan

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

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

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

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

As of 31 December 2018, the Group in aggregate borrowed RMB1.613 billion on an interest-free basis from Tianrui Group which was mainly used to settle certain debts, including:

(1) Interest from 7.50% senior notes due 2020 amounted to US$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 issued overseas, representing 15% of the total amount of notes (US$484.971 million).

(4) Interest from ultra short term debenture amounted to RMB91.22 million.

(5) A borrowing amounted to RMB30.42 million for settling litigation costs.

As of 31 December 2018, outstanding borrowings of the Company from Tianrui Group was RMB883 million.

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大華馬施雲
會計師事務所有限公司

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

QUALIFIED OPINION

We have audited the consolidated financial statements of China Shanshui Cement Group Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 116 to 264, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the section of "Basis for Qualified Opinion" of our report on the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows of the Group for the year ended 31 December 2018 and the respective comparative information, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

(a) Comparative information of the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows

As detailed in our auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2017, dated 6 October 2018, we expressed a disclaimer opinion on the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows due to various limitations in evidence available to us in relation to the matters described in (i) and (ii) and in paragraphs (b) and (c) below and a qualified opinion on the consolidated statement of financial position in relation to the matters described in paragraphs (b) and (c) below.

(i) Impairment assessment of the Group's fixed assets

The Group recognised accumulated impairment loss on fixed assets of approximately RMB774.4 million as at 31 December 2016 and an impairment loss of approximately RMB5.3 million for the year ended 31 December 2017. However, as we have not been provided with sufficient appropriate audit evidence to satisfy ourselves that the recoverable amounts, and hence the carrying amounts, of the fixed assets of the Group as at 31 December 2016 were free from material misstatements, we were unable to satisfy ourselves that the impairment loss on fixed assets recognised in consolidated profit or loss for the year ended 31 December 2017 were free from material misstatements.

(ii) Unauthorised expenses for Shandong Shanshui Cement Group Co., Limited ("Shandong Shanshui")

Shandong Shanshui accrued an amount of RMB130.6 million as the bonus (the "Accrued Bonus") for the year ended 31 December 2016 to the senior management of Shandong Shanshui and its subsidiaries which was not properly authorised and such Accrued Bonus were recorded as settled during the year ended 31 December 2017. However, in the absence of sufficient appropriate audit evidence to support validity and existence of the Accrued Bonus and to support the asserted payment, we were unable to obtain sufficient appropriate audit evidence, and were unable to carry out alternative audit procedures, to satisfy ourselves as to whether the payment to staff were properly classified, presented and disclosed in consolidated profit or loss for the year ended 31 December 2017.

BASIS FOR QUALIFIED OPINION (CONTINUED)

(a) Comparative information of the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows (Continued)

Any adjustments found to be necessary in respect of the matter described in (i) and (ii) above might have a significant effect on the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2017 and hence may affect the comparability of the current year's figures and the corresponding figures in these statements.

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

As disclosed in note 18 to the consolidated financial statements, Qilu Property Co., Ltd. ("**Qilu Property**") was acquired by Shandong Shanshui sometime during the period July to September 2015. Due to the Group being unable to find the equity transfer agreement for this transaction and obtain the financial information or any books and records of Qilu Property, the Group fully impaired the carrying amount of the investment in Qilu Property of approximately RMB146,878,000 as at 31 December 2015.

The Group sold 55% interest in Shanshui Heavy Industries Co., Ltd. ("**Shanshui Heavy Industries**") in 2015 to two suppliers of the Group. After the disposal transaction, Shandong Shanshui's remaining interest in Shanshui Heavy Industries was 44.99% and it was recorded as an investment in an associate as at 31 December 2016. Since the Group was unable to access any books or records of the associate, the Group fully impaired the investment in Shanshui Heavy Industries of approximately RMB79,331,000 as at 31 December 2015.

As disclosed in note 18, the Group was able to obtain access to the financial information and books and records of Qilu Property and Shanshui Heavy Industries as at 31 December 2018. Based on the management assessment with reference to the net book value of Qilu Property and Shanshui Heavy Industries as at 31 December 2018 as disclosed in note 18, the recoverable amounts of Qilu Property and Shanshui Heavy Industries are assessed to be nil as at 31 December 2018. Accordingly, no reversal of impairment losses on investments in Qilu Property and Shanshui Heavy Industries was recognised by the Group during the year ended 31 December 2018. However, we have not been provided with sufficient appropriate audit evidence to satisfy ourselves that the recoverable amounts, and hence the carrying amounts, of investments in Qilu Property and Shanshui Heavy Industries as at 31 December 2017 were free from material misstatements. Hence, we were unable to satisfy ourselves whether about these carrying amounts as at 31 December 2017 and impairment loss or reversal of impairment loss, if any, recognised in the consolidated profit or loss for the years ended 31 December 2018 and 2017, and the related elements making up the consolidated statement of changes in equity, the consolidated statement of cash flows and the related disclosures in the consolidated financial statements, were free from material misstatements.

BASIS FOR QUALIFIED OPINION (CONTINUED)

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

Shanshui Micro Finance, and Xinghao Cement were subsidiaries of the Group as at 31 December 2015. As disclosed in note 17 to the consolidated financial statements, the board of the Company had been unable to access any accounting books and records of these companies nor had it had the ability to direct the relevant activities which significantly affect these companies' returns. Accordingly, the Group reclassified the investments in each of these companies as available-for-sale investments and made a full impairment provision in prior years.

During the year ended 31 December 2018, the Group was able to obtain access to the financial information and books and records of Shanshui Micro Finance and Xinghao Cement as at 31 December 2018. Based on the management assessment, the fair value of Shanshui Micro Finance and Xinghao Cement are assessed to be nil as at 31 December 2018. Accordingly, no change in fair value on investments in Shanshui Micro Finance and Xinghao Cement was recognised during the year ended 31 December 2018. However, we have not been provided with sufficient appropriate audit evidence to satisfy ourselves that the recoverable amounts, and hence the carrying amounts of investments in Qilu Shanshui Micro Finance and Xinghao Cement as at 31 December 2017, and their fair values as at 1 January 2018 upon transition to IFRS 9, were free from material misstatements. Hence, we were unable to satisfy ourselves whether these carrying amounts as at 31 December 2017 and impairment loss, if any, recognised in the consolidated profit or loss for the year ended 31 December 2017 and the change in fair value of financial assets at fair value through profit or loss recognised in the consolidated profit or loss for the year ended 31 December 2018, and the related elements making up the consolidated statement of changes in equity, the consolidated statement of cash flows and the related disclosures in the consolidated financial statements, were free from material misstatements.

BASIS FOR QUALIFIED OPINION (CONTINUED)

Any adjustments found to be necessary in respect of the matters described in paragraphs (b) and (c) above may have consequential significant impacts on the financial position of the Group as at 31 December 2017 and the net profit or loss, other comprehensive income or expense and cash flows of the Group for the years ended 31 December 2017 and 2018 and the related disclosures thereof in the consolidated financial statements.

We conducted our audit on the consolidated statement of financial position of the Group as at 31 December 2018 in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA and to issue an auditor's report. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the consolidated statement of financial position as at 31 December 2018 and the qualified opinion on the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended.

MATERIAL UNCERTAINTIES RELATED TO GOING CONCERN

We draw attention to note 2(b) to the consolidated financial statements, which highlights that the Group's current liabilities exceeded its current assets by RMB7,370,128,000 as at 31 December 2018 and as at that date, the repayment of certain loan principal of RMB80,000,000 and interest payments were overdue and the Group was in default in repayment. Up to the date of the approval of the consolidated financial statements, the defaulted bank loans were fully repaid. In addition, certain suppliers and third parties have demanded the Group to repay the overdue payables through commencing legal proceedings. These conditions, further details of which are described in note 2(b) to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubts about the Group's ability to continue as a going concern. Our qualified opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the "Basis of Qualified Opinion" and "Material Uncertainties relating to Going Concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How the matter was addressed in our audit
Impairment assessment on property, plant and equipment and intangible assets	
We identified the impairment assessment on property, plant and equipment and intangible assets belonging to certain cash-generating units as a key audit matter due to the involvement of significant judgements and assumptions in estimating the recoverable amounts of the cash-generating units to which property, plant and equipment and intangible assets have been allocated. With reference to the financial performance of certain cash-generating units (being subsidiaries acquired in previous acquisitions), the management considered that indications of impairment of certain property, plant and equipment and intangible assets of the Group existed as at 31 December 2018. Accordingly, the management assessed whether there was any impairment of the property, plant and equipment and intangible assets used by those cash-generating units at 31 December 2018 by preparing value in use calculations. The value in use calculations require the Group to estimate the future cash flows expected to arise from the cash-generating units and suitable discount rates in order to calculate the present value. The carrying amounts of property, plant and equipment and intangible assets for which the management has performed impairment assessment as at 31 December 2018 are RMB18,130,761,000 and RMB894,663,000, respectively, as disclosed in notes 14 and 15, respectively, to the consolidated financial statements.	Our procedures in relation to the impairment assessment on property, plant and equipment and intangible assets included: • We obtained an understanding of the management's process and basis adopted in preparing the cash flow forecasts, including significant assumptions; • We challenged the key assumptions adopted by the management, including growth rates and gross margin, by referring to the industry information and the management's budget; • We assessed the key factors in determining the discount rates, including the cash-generating unit's debt and equity ratio, return on investments and other risk factors, and comparing to discount rates adopted in the cement industry for reasonableness; • We compared the expected changes in projected sales volume, selling prices and direct costs used against historical performance and discussed with the management on revenue growth strategies and cost initiatives in respect of the cash-generating unit; and • We evaluated the sensitivity analysis performed by the management in respect of the growth rates and discount rates to assess the extent of impact on the calculations of the value in use.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How the matter was addressed in our audit
Assessment of loss allowance for expected credit losses on trade and bills receivables and other receivables	
We identified the assessment of loss allowance for expected credit losses on trade and bills receivables and other receivables as a key audit matter as the assessment of excepted credit losses involved high level of estimation uncertainty and required exercise of significant management judgement. The carrying amounts of trade and bills receivables and other receivables for which the management has performed assessment of loss allowance for expected credit losses as at 31 December 2018 are RMB2,126,724,000 and RMB416,960,000 respectively, as disclosed in notes 20 and 21(a) respectively to the consolidated financial statements. Expected credit losses of approximately RMB81,841,000 and RMB64,487,000 in relation to trade and bills receivables and other receivables respectively were recognised as expense during the year.	Our procedures to evaluate the assessment of loss allowance for expected credit losses on trade and bill receivables and other receivables included: • We obtained an understanding of the management's process for credit risk assessment and impairment assessment of allowance for expected credit losses on trade and bills receivables and other receivables; • We tested, on a sample basis, the accuracy of aging of trade and bills receivables balances based on invoice date and due date as at the end of the reporting period to the underlying invoices; and • For the collectively assessed expected credit losses, we assessed the reasonableness of the Group's expected credit losses models, including the model inputs, model design, model performance for significant portfolios.

KEY AUDIT MATTERS (CONTINUED)

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td colspan="2">Classification and valuation of convertible bonds</td></tr>
<tr><td>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 with an exercise price of HK$6.29.

On 30 October 2018, the Company entered into deed of amendment with holders of certain convertible bonds of principal amounts of US$456,600,000 in total to amend certain terms of the subscription agreement including revising the exercise price of convertible bonds to HK$4.2. The initial measurement of the fair value of the respective components of the new convertible bonds and the subsequent measurement involved the use of valuations performed by an independent professional valuer engaged by management (the "Management's Valuer").

We identified the classification and valuation of convertible bonds on initial recognition, date of coming into effect of the amendments and at the end of reporting period as key audit matter as due to the complexity and significant management judgment involved on the parameters adopted to determine the fair values of the convertible bonds.

As at 31 December 2018, the carrying amounts of the outstanding convertible bonds and derivative component of convertible bonds are approximately RMB633,100,000 and RMB246,204,000 respectively as disclosed in note 30 to the consolidated financial statements.</td><td>Our procedures in relation to the classification and valuation of the convertible bonds included:

• We reviewed the terms and conditions of the subscription agreements and discussed with the management to evaluate management's assessment of the nature of the components of the convertible bonds, including any conversion and other embedded features;

• We considered the appropriateness of the valuation methodology adopted by the Management's Valuer in determining the fair values of the convertible bonds against the requirements of the applicable accounting standards;

• We checked, on a sample basis, the accuracy and reasonableness of the input data provided by management to the Management's Valuer;

• We assessed the appropriateness of the valuation methodologies and key assumptions used by the Management's Valuer in their valuation of the convertible bonds; and

• We assessed the adequacy of the disclosures in accordance with the applicable accounting standards.</td></tr>
</table>

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Moore Stephens CPA Limited
Certified Public Accountants

Cheung Sai Kit
Practising Certificate Number: P05544

Hong Kong, 20 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	6(a)	**17,638,370**	14,773,644
Cost of sales		**(11,714,899)**	(10,361,241)
Gross profit		**5,923,471**	4,412,403
Other income	7	**557,697**	336,425
Other net expenses	8	**(150,730)**	(108,021)
Selling and marketing expenses		**(528,040)**	(580,786)
Administrative expenses		**(2,023,048)**	(2,079,507)
Profit from operations		**3,779,350**	1,980,514
Finance costs	9(a)	**(778,320)**	(1,021,372)
Share of results of associates		**45,957**	8,198
Profit before taxation	9	**3,046,987**	967,340
Income tax expense	10(a)	**(878,140)**	(420,870)
Profit for the year		**2,168,847**	546,470
Attributable to:			
Equity shareholders of the Company		**2,196,657**	600,817
Non-controlling interests		**(27,810)**	(54,347)
Profit for the year		**2,168,847**	546,470
Earnings per share	13		
Basic *(RMB)*		**0.62**	0.18
Diluted *(RMB)*		**0.58**	0.18

The notes on pages 123 to 264 form parts of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Profit for the year		**2,168,847**	546,470
Other comprehensive (expenses)/income for the year			
Item that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit obligations	28(c)	**(4,870)**	13,530
Exchange differences arising on translation		**(233,241)**	201,814
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale securities: net movement in the fair value reserve		**–**	423
Other comprehensive (expenses)/income for the year		**(238,111)**	215,767
Total comprehensive income for the year		**1,930,736**	762,237
Attributable to:			
Equity shareholders of the Company		**1,958,546**	816,584
Non-controlling interests		**(27,810)**	(54,347)
Total comprehensive income for the year		**1,930,736**	762,237

The notes on pages 123 to 264 form parts of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current assets			
Fixed assets	14		
– Property, plant and equipment		**15,922,070**	16,769,993
– Land lease prepayments		**2,208,691**	2,241,969
		18,130,761	19,011,962
Intangible assets	15	**894,663**	618,574
Goodwill	16	**14,223**	14,223
Other financial assets	17	**73,391**	69,360
Interests in associates	18	**315,063**	299,607
Deferred tax assets	31(a)	**159,649**	159,335
Other long-term assets	21(b)	**626,907**	580,097
		20,214,657	20,753,158
Current assets			
Inventories	19	**1,458,828**	1,506,993
Trade and bills receivables	20	**2,126,724**	1,805,752
Other receivables and prepayments	21(a)	**692,050**	653,220
Derivative component of convertible bonds	30	**246,204**	–
Restricted bank deposits	22	**30,307**	62,841
Bank balances and cash	22	**1,303,943**	307,995
		5,858,056	4,336,801
Current liabilities			
Bank loans – amount due within one year	23	**4,299,350**	4,790,599
Other borrowings	24	**281,159**	1,736,722
Current portion of long-term bonds	25	**1,338,000**	5,977,435
Trade payables	26	**3,240,134**	3,225,907
Other payables and accrued expenses	27(a)	**3,686,964**	3,888,522
Taxation payable		**382,577**	125,517
		13,228,184	19,744,702
Net current liabilities		**(7,370,128)**	(15,407,901)
Total assets less current liabilities		**12,844,529**	5,345,257

Consolidated Statement of Financial Position (Continued)

At 31 December 2018

	Notes	**31 December 2018 RMB'000**	31 December 2017 RMB'000
Non-current liabilities			
Other borrowings	24	**496,727**	403,841
Long-term bonds	25	**1,371,500**	397,047
Defined benefit obligations	28(c)	**136,640**	137,070
Deferred income	29	**248,303**	266,807
Long-term payables	27(b)	**280,487**	20,347
Deferred tax liabilities	31(a)	**91,436**	102,614
Convertible bonds	30	**633,100**	–
		3,258,193	1,327,726
Net assets		**9,586,336**	4,017,531
Capital and reserves			
Share capital	33(a)	**295,671**	227,848
Share premium		**8,235,037**	4,654,010
Share capital and share premium		**8,530,708**	4,881,858
Other reserves		**991,540**	(966,531)
Total equity attributable to equity shareholders of the Company		**9,522,248**	3,915,327
Non-controlling interests		**64,088**	102,204
Total equity		**9,586,336**	4,017,531

The consolidated financial statements on pages 116 to 264 were approved and authorised for issue by the Board of Directors on 20 March 2019.

CHANG, Zhangli
Director

WU, Ling-ling
Director

The notes on pages consolidated 123 to 264 form parts of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to equity shareholders of the Company									
	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Other reserves RMB'000	Exchange reserve RMB'000	Fair value reserve (recycling) RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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
Profit for the year	–	–	–	–	–	–	600,817	600,817	(54,347)	546,470
Other comprehensive income	–	–	–	–	201,814	423	13,530	215,767	–	215,767
Total comprehensive income for the year	–	–	–	–	201,814	423	614,347	816,584	(54,347)	762,237
Distribution to non-controlling interests	–	–	–	–	–	–	–	–	(747)	(747)
Transfer between reserves	–	–	89,233	–	–	–	(89,233)	–	–	–
Acquisition of non-controlling interests	–	–	–	55	–	–	–	55	(253)	(198)
At 31 December 2017	**227,848**	**4,654,010**	**1,282,801**	**268,976**	**(147,387)**	**5,225**	**(2,376,146)**	**3,915,327**	**102,204**	**4,017,531**
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**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**2,196,657**	**2,196,657**	**(27,810)**	**2,168,847**
Other comprehensive income	**-**	**-**	**-**	**-**	**(233,241)**	**-**	**(4,870)**	**(238,111)**	**-**	**(238,111)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(233,241)**	**-**	**2,191,787**	**1,958,546**	**(27,810)**	**1,930,736**
Issues of new shares of the Company	**5,973**	**332,606**	**-**	**-**	**-**	**-**	**-**	**338,579**	**-**	**338,579**
Issues of shares upon conversion of convertible bonds	**61,850**	**3,249,168**	**-**	**-**	**-**	**-**	**-**	**3,311,018**	**-**	**3,311,018**
Transaction cost attributable to issue of new shares upon conversion of convertible bonds	**-**	**(747)**	**-**	**-**	**-**	**-**	**-**	**(747)**	**-**	**(747)**
Transfer between reserves	**-**	**-**	**188,608**	**-**	**-**	**-**	**(188,608)**	**-**	**-**	**-**
Appropriation to maintenance and production funds	**-**	**-**	**114,913**	**-**	**-**	**-**	**(114,913)**	**-**	**-**	**-**
Utilisation of maintenance and production funds	**-**	**-**	**(84,530)**	**-**	**-**	**-**	**84,530**	**-**	**-**	**-**
Distribution to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(9,643)**	**(9,643)**
Acquisition of non-controlling interests	**-**	**-**	**-**	**(475)**	**-**	**-**	**-**	**(475)**	**(663)**	**(1,138)**
At 31 December 2018	**295,671**	**8,235,037**	**1,501,792**	**268,501**	**(380,628)**	**-**	**(398,125)**	**9,522,248**	**64,088**	**9,586,336**

The notes on pages consolidated 123 to 264 form parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Operating activities			
Profit before taxation		**3,046,987**	967,340
Adjustments for:			
Depreciation	9(c)	**1,247,540**	1,306,353
Amortisation of land lease prepayments	9(c)	**59,473**	58,600
Amortisation of intangible assets	9(c)	**106,378**	94,060
Amortisation of deferred income	7	**(18,504)**	(17,480)
Impairment loss on fixed assets, net	8	**230,311**	5,336
Impairment loss on trade receivables, net	8	**25,902**	51,788
Impairment loss/(reversal of impairment) on other receivables, net	8	**17,766**	(17,039)
Loss on extinguishment of convertible bonds	8	**149,297**	–
Impairment loss on other financial assets	8	**–**	41,806
Loss from write-off of intangible assets	8	**1,826**	–
Write-down of inventories	9(c)	**1,053**	109
Finance costs	9(a)	**778,320**	1,021,372
Share of results of associates		**(45,957)**	(8,198)
Interest income	7	**(25,012)**	(6,019)
Net (gain)/loss from disposal of fixed assets	8	**(4,102)**	969
Gain on fair value changes of financial assets at FVTPL	8	**(9,595)**	–
Gain on fair value changes of derivative component of convertible bonds	8	**(236,190)**	–
Waiver of interest expenses	7	**(259,743)**	(113,023)
Waiver of short-term financing bills and medium-term notes principal	7	**(4,390)**	(3,983)
Net foreign exchange gain	8	**(452)**	(5,186)
		5,060,908	3,376,805
Changes in working capital:			
Decrease/(increase) in inventories		**47,112**	(54,747)
Increase in trade and bills receivables		**(1,303,984)**	(407,659)
Decrease in restricted bank deposits		**32,534**	25,162
(Increase)/decrease in other receivables and prepayments		**(20,896)**	280,539
Decrease in other long-term assets		**41,980**	19,800
Increase/(decrease) in trade payables		**14,227**	(387,862)
(Decrease)/increase in other payables and accrued expenses		**(153,710)**	400,169
Decrease in defined benefit obligations		**(430)**	(19,703)
Increase in deferred income		**–**	10,989
Decrease in long-term payables		**(6,748)**	(97)
Cash generated from operations		**3,710,993**	3,243,396
Interest paid		**(862,243)**	(1,015,494)
Income tax paid		**(632,572)**	(361,990)
Net cash generated from operating activities		**2,216,178**	1,865,912

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Investing activities		
Interest received	**25,012**	6,019
Payment for purchase of fixed assets	**(713,185)**	(462,843)
Payment for purchase of intangible assets	**(127,454)**	(200,069)
Payment for deposit for purchase of fixed assets	**(88,790)**	–
Acquisition of financial assets at FVTPL	**(32,857)**	–
Acquisition of interests in associates	**(2,949)**	(14,850)
Proceeds from disposals of fixed assets	**52,708**	81,893
Repayment from/(advance to) loan to an associate	**38,421**	(2,039)
Repayment from loans due from a third party	**–**	14,400
Net cash used in investing activities	**(849,094)**	(577,489)
Financing activities		
Proceeds from issues of convertible bonds	**3,641,460**	–
Proceeds from new loans and borrowings	**1,381,950**	284,700
Proceeds from bills discounted	**928,043**	64,000
Issue of new shares	**338,579**	–
Loans from shareholders	**150,541**	277,268
Repayment of long-term bonds	**(3,579,788)**	(645,034)
Repayment of loans and borrowings	**(3,233,486)**	(1,201,510)
Dividends paid to non-controlling interests	**(9,643)**	(747)
Acquisitions of additional interest of existing subsidiaries	**(1,138)**	(198)
Transaction costs attributable to issue of new shares	**(747)**	–
Repayment of loans from shareholders	**–**	(31,974)
Net cash used in financing activities	**(384,229)**	(1,253,495)
Net increase in cash and cash equivalents	**982,855**	34,928
Cash and cash equivalents at 1 January	**307,995**	276,500
Effect of foreign exchange rate changes	**13,093**	(3,433)
Cash and cash equivalents at 31 December, representing bank balances and cash	**1,303,943**	307,995

The notes on pages 123 to 264 form parts of these consolidated financial statements.

1. GENERAL

China Shanshui Cement Group Limited (the "Company") is a public limited company incorporated in Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Due to the failure to meet the minimum public float requirement, trading in the shares and debt securities of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on 16 April 2015. Trading in shares of the Company on the Stock Exchange was resumed with effect from 9:00 a.m. on 31 October 2018.

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

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

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

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(a) Matters arising from the change in directors

Pursuant to the resolution of the extraordinary general meeting of the Company held on 1 December 2015, the Company removed all of the directors from the board of the Company and newly appointed 9 directors on the same date (the "2015 New Board"). Since 1 December 2015, the 2015 New Board began to take over the management of the Group from the ex-directors.

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

With effect from the conclusion of an extraordinary general meeting on 23 May 2018, all directors of the New Board were removed and 2 directors were appointed (the "2018 New Board" or the "Directors").

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

(b) Going concern

As at 31 December 2018, the Group's current liabilities exceeded its current assets by RMB7,370,128,000. Its total interest-bearing borrowings amounted to RMB8,419,836,000, out of which RMB5,918,509,000 are due within 12 months. The bank balances and cash of the Group amounted to RMB1,303,943,000 as at 31 December 2018. As disclosed in note 23, the Group breached the default clauses of the lending agreements of bank loans totaling RMB80,000,000 which are included in the Group's interest-bearing borrowings as at 31 December 2018. The defaulted bank loans were fully repaid on 11 March 2019. As at 31 December 2018, through commencing legal proceedings, certain suppliers and third parties also have demanded that the Group repays the overdue payables of approximately RMB568,839,000. These facts and circumstances described above indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

Certain measures have been and are being undertaken to manage the Group's 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.

Subsequent to 31 December 2018 and up to the date of approval of the consolidated financial statements, the Group has repaid bank borrowings of RMB100,500,000. As at 31 December 2018, the Group's unused facilities for bank loans amounted to RMB280,000,000, which will expire in 2020.

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

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

(ii) During the year ended 31 December 2018, the Group has entered into agreements with holders of defaulted and past due short-term financing bills with principal amounts of RMB490,000,000. Based on the extended repayment terms, RMB30,000,000 were repaid by the Group in 2018 and RMB460,000,000 will be repayable in and after 2019. The creditors have also agreed to waive a portion of interest accrued to the outstanding liabilities on the condition that the Group repays the outstanding liabilities according to the revised repayment terms. As at 31 December 2018, the Group has successfully reached agreements with all holders of short-term financing bills to restructure the repayment terms.

Subsequent to 31 December 2018 and up to the date of approval of the consolidated financial statements, the Group has repaid short-term financing bills of RMB23,000,000. The outstanding short-term financing bills with an aggregate of RMB257,250,000 and RMB494,000,000 as at 31 December 2018 will be repayable in 2019 and after 2019, respectively, of which RMB98,250,000 are interest-free and RMB653,000,000 carry interest at 4.50%–7.67% per annum on the condition that the Group fully complies with the revised repayment terms.

(iii) During the year ended 31 December 2018, the Group has entered into agreements with holders of medium-term notes with principal amounts of RMB2,665,000,000 that had been overdue. Based on the extended repayments terms, RMB438,500,000 were repaid in 2018, and RMB940,000,000 and RMB1,286,500,000 will be repayable in 2019 and after 2019, respectively. The creditors have also agreed to waive a portion of interest accrued on the outstanding liabilities on the condition that the Group repays the outstanding liabilities according to the revised repayment terms. As at 31 December 2018, the Group has successfully reached agreements with all holders of medium-term notes to restructure the repayment terms of the notes.

Subsequent to 31 December 2018 and up to the date of approval of the consolidated financial statements, the Group has repaid medium-term notes of RMB82,000,000. The outstanding medium-term notes with an aggregate principal of RMB1,256,000,000 and RMB1,371,500,000 as at 31 December 2018 will be repayable in 2019 and after 2019, respectively, of which RMB200,000,000 are interest-free and RMB2,427,500,000 carry interest at 5.44%–7.67% per annum on the condition that the Group fully complies with the revised repayment terms.

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

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

(iv) 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"). The Cayman Islands Petition was struck out by order of Grand Court dated 19 October 2018 and the Hong Kong Petition was withdrawn by the Petitioner as a result of the strike-out order. The Court of Appeal of the Cayman Islands had issued a Certificate of the Order of the Court dated 11 February 2019 certifying its decision to allow the Cayman Appeal and set aside the Grand Court's Order. The directors of the Company does not believe there is any reasonable basis for the Cayman Islands Petition. The Company has instructed its counsel to prepare an application for leave to appeal to the Privy Council of the United Kingdom.

(v) 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 of the Group have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2018 on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in these consolidated financial statements for the year ended 31 December 2018.

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

New and amendments to IFRSs that are mandatorily effective for the current year

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

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

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

3.1 IFRS 15 "Revenue from Contracts with Customers"

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 and IAS 11 and the related interpretations.

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

New and amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.1 IFRS 15 "Revenue from Contracts with Customers" (Continued)

The Group recognises revenue from the following major sources which arise from contracts with customers:

- sales of cement
- sales of clinker
- sales of concrete
- sales of other products
- rendering of services

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 6 and 4 respectively.

Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	Reclassification	**Carrying amounts under IFRS 15 at 1 January 2018**
	RMB'000	*RMB'000*	***RMB'000***
Current liabilities			
Other payables and accrued expenses			
Customer deposits and receipt in advance	676,712	(676,712)	**–**
Contract liabilities	–	676,712	**676,712**

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

New and amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.1 IFRS 15 "Revenue from Contracts with Customers" (Continued)

Summary of effects arising from initial application of IFRS 15 (Continued)

As at 1 January 2018, deposits and receipt in advance from customers of RMB676,712,000 previously included in other payables and accrued expenses were reclassified to contract liabilities which were also included in other payables and accrued expenses.

The application of IFRS 15 has had no material impact on the Group's accumulated losses as at 1 January 2018 and no material change to the Group's revenue recognition policies in respect of sales of goods and rendering of services.

3.2 IFRS 9 "Financial Instruments"

In the current year, the Group has applied IFRS 9 "Financial Instruments" and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses ("ECL") for financial assets.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of IFRS 9 are disclosed in note 4.

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

New and amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.2 IFRS 9 "Financial Instruments" (Continued)

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Note	Available-for-sale financial assets (included in other financial assets) *RMB'000*	Financial assets at fair value through profit or loss ("FVTPL") (included in other financial assets) *RMB'000*	Fair value reserve (recycling) *RMB'000*	Accumulated losses *RMB'000*
Closing balance at 31 December 2017 – IAS 39		9,229	–	5,225	(2,376,146)
Effect arising from initial application of IFRS 9:					
Reclassification from available-for-sale financial assets	(a)	(9,229)	9,229	(5,225)	5,225
Opening balance at 1 January 2018		–	9,229	–	(2,370,921)

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

New and amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.2 IFRS 9 "Financial Instruments" (Continued)

Summary of effects arising from initial application of IFRS 9 (Continued)

(a) From available-for-sale financial assets

At the date of initial application of IFRS 9, the Group's equity investments listed in the People's Republic of China ("PRC") with an aggregate carrying amount approximately RMB7,968,000 and unquoted equity investments in PRC non-listed companies of approximately RMB1,261,000 were reclassified from available-for-sale financial assets which were classified as other financial assets to financial assets at FVTPL which were also classified as other financial assets. The gain on fair value changes of approximately RMB5,225,000 relating to those equity investments listed in the PRC was transferred from fair value reserve (recycling) to accumulated losses.

(b) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. Except for those which had been determined as credit impaired under IAS 39, trade receivables are grouped based on past due analysis.

Except for those which had been determined as credit impaired under IAS 39, ECL for other financial assets at amortised cost, including other receivables and prepayments, restricted bank deposits, bank balances and cash, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against accumulated losses as the estimated allowance under the ECL model was not significantly different to that under IAS 39.

For outstanding financial guarantees provided on behalf of an associate of RMB300,000,000, the Group considers there has been no significant increase in credit risk since initial recognition and hence the loss allowance is assessed on 12m ECL basis. In the opinion of the directors of the Company, the amounts of the loss allowance determined as at 1 January 2018 and 31 December 2018 are immaterial.

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

New and amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	At 31 December 2017 *RMB'000*	Impact on initial application of IFRS 15 *RMB'000*	Impact on initial application of IFRS 9 *RMB'000*	**At 1 January 2018** ***RMB'000***
Non-current assets				
Other financial assets				
Available-for-sale financial assets	9,229	–	(9,229)	**–**
Financial assets at FVTPL	–	–	9,229	**9,229**
Current liabilities				
Other payables and accrued expenses				
Customer deposits and receipt in advance	676,712	(676,712)	–	**–**
Contract liabilities	–	676,712	–	**676,712**
Capital and Reserves				
Fair value reserve (recycling)	5,225	–	(5,225)	**–**
Accumulated losses	(2,376,146)	–	5,225	**(2,370,921)**

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

New and revised IFRSs in issue but not yet effective

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC-Interpretation 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venure[2]
Amendments to IAS 1 and IAS 8	Amendments to Definition of Material[5]
Amendments to IAS 19	Employee Benefits[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new IFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

IFRS 16 "Leases"

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted for as a sale, IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

IFRS 16 Leases (Continued)

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

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

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group as lessee has non-cancellable operating lease commitments of RMB98,807,000 as disclosed in note 35(b). A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon the application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases. The application of the new requirements may result in changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Amendments to IFRSs "Annual Improvements to IFRSs 2015–2017 Cycle"

IAS 23 "Borrowing Costs"

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

The principal accounting policies are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9/IAS 39, when applicable, the cost on initial recognition of an investment in an associate.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share- based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill

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

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

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

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash- generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates

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

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

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

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (Continued)

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IFRS 9/IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

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

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

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3)

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3) (Continued)

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Revenue is recognised when the control of goods was transferred to a customer, as described below.

(i) Sales of goods

Revenue is recognised when goods (including cements, clinkers, concrete and other products) are transferred to customers which are taken to be the point in time when the customer has control on the goods and thus, the performance obligation was satisfied. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Services rendered

Revenue from the rendering of services is recognised over time by reference to the progress of which the customer simultaneously receives and consumes the benefits when the delivery service is provided by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (before application of IFRS 15 on 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

(i) Sales of goods

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

(ii) Services rendered

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

(iii) Government grants

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

(iv) Dividends

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

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

(v) Interest income

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

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

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

(ii) Defined benefit retirement plan obligations

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

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

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

Taxation

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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

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

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

Foreign currencies

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

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

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

Borrowing costs

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

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

Land lease prepayments

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

Property, plant and equipment

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

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

Depreciation is recognised to write off the cost of assets, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

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

Construction in progress

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

Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred. Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair values at the acquisition date (which is regarded as their cost).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (Continued)

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

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

The following intangible assets with finite useful lives are amortised from the date they are available for use.

The estimated useful lives are as follows:

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

Leased assets

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

(i) Classification of assets leased to the Group

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leased assets (Continued)

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amounts of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

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

Inventories

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories (Continued)

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade and bills receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Interest income which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 3) (Continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 3) (Continued)

(i) Amortised cost and interest income (Continued)

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" in profit or loss.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes/excludes any dividend or interest earned on the financial asset and is included in the "other net expenses" line item.

Impairment of financial assets (upon application of IFRS 9 in accordance with transitions in note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including certain other financial assets, trade and bills receivables and other receivables and prepayments. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and bills receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 in accordance with transitions in note 3) (Continued)

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, 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:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 in accordance with transitions in note 3) (Continued)

(i) Significant increase in credit risk (Continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due with the reference of credit history of customers settlement days unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit- impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 in accordance with transitions in note 3) (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 in accordance with transitions in note 3) (Continued)

(v) Measurement and recognition of ECL (Continued)

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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 amortised cost of the financial asset.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

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

(i) AFS financial assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

(i) AFS financial assets (Continued)

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

(ii) Loans and receivables

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

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

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

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

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

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

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

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

Derecognition of financial assets

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

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an AFS financial asset before the application of IFRS 9 on 1 January 2018, the cumulative gain or loss previously accumulated in the fair value reserve (recycling) is reclassified to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL (Continued)

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IFRS 9/IAS 39 permits the entire combined contract to be designated as at FVTPL.

Upon application of IFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible bonds, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to accumulated losses upon derecognition of the financial liability.

Convertible bonds

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative.

At the date of issue, if the entire convertible bond instrument is not designated as at FVTPL, both the debt component and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible loan notes is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible loan notes using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Embedded derivatives (under IFRS 9 since 1 January 2018)

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Embedded derivatives (before application of IFRS 9 on 1 January 2018)

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Derecognition/non-substantial modification of financial liabilities

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

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities (under IFRS 9 since 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Derecognition/non-substantial modification of financial liabilities (Continued)

Non-substantial modifications of financial liabilities (before application of IFRS 9 on 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, at the point of modification, the carrying amount of the relevant financial liabilities is revised for directly attributable transaction costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument.

When the contractual terms of financial liability are modified such that the revised terms would result in a substantial modification from the original terms, after taking into account all relevant facts and circumstances including qualitative factors, such modification is accounted for as derecognition of the original financial liability and the recognition of new financial liability. The difference between the carrying amount of financial liability derecognised and the fair value of consideration paid or payable, including any liabilities assumed and derivative components recognised, is recognised in profit or loss.

When an existing financial liability is renegotiated in such a way that the liability is extinguished fully or partially by issuing equity instruments, it is accounted for as an extinguishment of the original financial liability and a recognition of equity instrument at the fair value upon issue with the difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the consideration paid (being the fair value of the equity instruments issued), recognised to profit or loss.

Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (since 1 January 2018)/IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (before application of IFRS 9 on 1 January 2018); and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial guarantees issued, provisions and contingent liabilities (Continued)

(ii) Contingent liabilities assumed in business combinations

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

(iii) Other provisions and contingent liabilities

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

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

Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

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

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

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

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

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

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

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

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

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

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

Segment reporting

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

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

5. ACCOUNTING JUDGEMENT AND ESTIMATES

Notes 28 and 34 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Impairments

– Property, plant and equipment and intangible assets

In considering the impairment losses that may be required for the Group's property, plant and equipment and intangible assets, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of fair value less cost of disposal and the value in use. It is difficult to precisely estimate fair value less cost of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to items such as the discount rates, growth rates and the projected sales volume, selling price, direct costs, gross margin and other related expenses. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss or a further impairment loss may arise. The management also conducted a review of the Group's production assets, details of the review are disclosed in note 14. During the year ended 31 December 2018, net impairment loss of RMB230,311,000 (31 December 2017: RMB5,336,000) has been recognised in respect of those property, plant and equipment. No impairment loss has been recognised in respect of the intangible assets for the year ended 31 December 2018 and 2017. Details of the recoverable amount calculation are disclosed in notes 14 and 15 respectively.

– Goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use or fair value less cost of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit. In determining the value in use, expected cash flows generated by the cash-generating unit are discounted to their present values, which require significant judgement relating to items such as the discount rates, growth rates and the projected sales volume, selling price, direct costs, gross margin and other related expenses. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss or a further impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill is RMB14,223,000 (31 December 2017: RMB14,223,000), which is net of accumulated impairment loss of RMB2,331,634,000 (31 December 2017: RMB2,331,634,000). Details of the recoverable amount calculation are disclosed in note 16.

5. ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

(i) Impairments (Continued)

– Inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. The Group will reassess the estimations at each statement of financial position date. As at 31 December 2018, carrying amount of inventories is RMB1,458,828,000 (2017: RMB1,506,993,000).

– Provision of ECL for trade and bills receivables and other receivables

The Group uses provision matrix to calculate ECL for the trade and bill receivables and other receivables. The provision rates are based on internal credit ratings as groupings of receivables that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade and bill receivables and other receivables with significant balances and credit impaired are assessed for ECl individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade and bill receivables and other receivables are disclosed in note 34.

As at 31 December 2018, the carrying amounts of trade and bills receivables and other receivables are RMB2,126,724,000 and RMB692,050,000 respectively (2017: RMB1,805,752,000 and RMB653,220,000 respectively).

(ii) Actuarial determined benefit obligations

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

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

5. ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

(iii) Taxation

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

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

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

(iv) Going concern basis

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

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

6. REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

Revenue from sales of cement, clinker, concrete and other products are recognised when the goods are transferred at a point in time. The performance obligation is satisfied upon the delivery of the goods. Revenue from rendering of services is recognised over time by reference to the progress of delivery services provided by the Group. The performance obligation is satisfied upon the completion of the delivery services.

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

	2018 ***RMB'000***	2017 *RMB'000*
Sales of cement	**12,941,869**	11,173,989
Sales of clinker	**2,639,593**	2,175,092
Sales of concrete	**1,295,411**	1,175,130
Sales of other products	**748,226**	241,856
Rendering of services	**13,271**	7,577
	17,638,370	14,773,644

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 6(b).

(b) Segment reporting

As the Group operates in a single business, the manufacturing and sale of cement, clinker and concrete in the People's Republic, of China (the "PRC"), the Group's risk and rates of return are affected predominantly by differences in the areas it operates.

The Group manages its businesses by geographical areas. Based on the manner in which information is reported internally to the executive directors of the Company, being the Group's chief operating decision maker ("CODM"), for the purposes of resource allocation and performance assessment, the Group has identified and presented the following four reportable segments based on the region in which the Group's business operates.

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

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

- 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.

No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

(i) Segment results, assets and liabilities

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

– Segment assets include all tangible and intangible assets and current assets, with the exception of interests in associates, deferred tax assets, derivative component of convertible bonds 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 operating segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

– Segment results represents profits earned by each segment without allocation of head office administrative expenses, share of result of associates, waiver of interest expenses, waiver of short-term financing bills and medium-term note principal, gain on fair value changes of financial assets at FVTPL, loss on extinguishment of convertible bonds, gain on fair value changes of derivative, directors' remuneration, auditor's remuneration and finance costs in relation to the unallocated bank loans and borrowings, long-term bonds and convertible bonds. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

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

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

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 years ended 31 December 2018 and 2017 is set out below.

	2018					2017				
	Shandong Province	**Northeastern China**	**Shanxi Province**	**Xinjiang Region**	**Total**	Shandong Province	Northeastern China	Shanxi Province	Xinjiang Region	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Disaggregated by timing of revenue										
Point in time	**12,383,043**	**3,127,601**	**1,641,488**	**477,408**	**17,629,540**	9,829,940	3,127,675	1,327,142	481,980	14,766,737
Over time	**6,518**	**783**	**1,529**	**–**	**8,830**	5,111	765	860	171	6,907
Revenue from external customers	**12,389,561**	**3,128,384**	**1,643,017**	**477,408**	**17,638,370**	9,835,051	3,128,440	1,328,002	482,151	14,773,644
Inter-segment revenue	**46,438**	**47,476**	**67,070**	**8**	**160,992**	31,422	13,254	17,503	–	62,179
Reportable segment revenue	**12,435,999**	**3,175,860**	**1,710,087**	**477,416**	**17,799,362**	9,866,473	3,141,694	1,345,505	482,151	14,835,823
Reportable segment profit (adjusted profit before taxation)	**3,415,361**	**2,495**	**217,609**	**154,692**	**3,790,157**	1,742,250	153,900	2,497	141,893	2,040,540
Included in arriving at segment results are:										
Interest income	**15,707**	**5,681**	**262**	**99**	**21,749**	3,148	980	81	40	4,249
Interest expense	**27,881**	**27,212**	**18**	**7,382**	**62,493**	36,703	27,110	22	9,820	73,655
Depreciation and amortisation for the year	**585,813**	**441,015**	**326,294**	**52,322**	**1,405,444**	591,597	523,596	287,550	48,452	1,451,195
Impairment loss (reversal of impairment) of property, plant and equipment	**222,465**	**432**	**7,414**	**–**	**230,311**	(8,328)	13,664	–	–	5,336
Impairment loss (reversal of impairment) of trade receivables, net	**11,151**	**25,087**	**(5,184)**	**1,673**	**32,727**	(48,498)	1,049	87	118	(47,244)
Impairment loss (reversal of impairment) of other receivables, net	**1,083**	**(34,326)**	**–**	**11**	**(33,232)**	33,630	(16,591)	–	–	17,039
Impairment loss of other financial assets	**–**	**–**	**–**	**–**	**–**	41,807	–	–	–	41,807
Additions to fixed assets and intangible assets during the year	**710,916**	**114,243**	**215,095**	**32,292**	**1,072,546**	425,906	139,478	78,622	6,913	650,919
Reportable segment assets	**10,536,958**	**8,129,952**	**5,336,846**	**1,095,822**	**25,099,578**	9,678,847	8,566,619	5,359,711	1,083,668	24,688,845
Reportable segment liabilities	**2,957,600**	**3,175,331**	**1,283,362**	**498,689**	**7,914,982**	3,732,180	2,143,616	667,620	322,140	6,865,556

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

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

	2018 *RMB'000*	2017 *RMB'000*
Revenue		
Reportable segment revenue	**17,799,362**	14,835,823
Elimination of inter-segment revenue	**(160,992)**	(62,179)
Consolidated revenue	**17,638,370**	14,773,644
Profit		
Reportable segment profit	**3,790,157**	2,040,540
Elimination of inter-segment profit	**(69,720)**	(8,099)
Reportable segment profit derived from Group's external customers	**3,720,437**	2,032,441
Share of results of associates	**45,957**	8,198
Waiver of interest expenses	**259,743**	113,023
Waiver of short-term financing bills and medium-term note principal	**4,390**	3,983
Gain on fair value changes of financial assets at FVTPL	**9,595**	–
Loss on extinguishment of convertible bonds	**(149,297)**	–
Gain on fair value changes of derivative component of convertible bonds	**236,190**	–
Unallocated finance costs	**(726,809)**	(970,650)
Unallocated head office administrative expenses	**(353,219)**	(219,655)
Consolidated profit before taxation	**3,046,987**	967,340

The accounting policies of the reportable segments are the same as the Group's accounting policies.

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

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

	2018	2017
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**25,099,578**	24,688,845
Elimination of inter-segment profit	**(697)**	(785)
Elimination of inter-segment receivables	**(703,711)**	(464,049)
	24,395,170	24,224,011
Deferred tax assets	**159,649**	159,335
Interests in associates	**315,063**	299,607
Derivative component of convertible bonds	**246,204**	–
Unallocated head office assets	**956,627**	407,006
Consolidated total assets	**26,072,713**	25,089,959
Liabilities		
Reportable segment liabilities	**7,914,982**	6,865,556
Elimination of inter-segment payables	**(703,711)**	(464,049)
	7,211,271	6,401,507
Deferred tax liabilities	**91,436**	102,614
Unallocated bank loans and other borrowings	**4,147,000**	6,374,481
Unallocated long-term bonds	**2,709,500**	6,252,262
Convertible bonds	**633,100**	–
Unallocated head office liabilities	**1,694,070**	1,941,564
Consolidated total liabilities	**16,486,377**	21,072,428

(iii) Geographical information

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

(iv) Information about major customers

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

7. OTHER INCOME

	Notes	**2018** **RMB'000**	2017 RMB'000
Interest income		**25,012**	6,019
Government grants	(i)	**226,998**	166,290
Amortisation of deferred income	29	**18,504**	17,480
Waiver of interest expenses	(ii)	**259,743**	113,023
Waiver of short-term financing bills and medium-term notes principal	(ii)	**4,390**	3,983
Others		**23,050**	29,630
		557,697	336,425

Notes:

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

(ii) During the year ended 31 December 2018, the Group entered into agreements with holders of certain short-term financing bills with outstanding principal and interests of RMB460,000,000 (2017: RMB1,646,017,000) and RMB104,779,000 (2017: RMB236,000,000) respectively and medium-term notes with outstanding principal and interests of RMB2,226,500,000 (2017: RMB917,716,000) and RMB396,862,000 (2017: RMB88,000,000) respectively, in respect of settlement plans of defaulted bills and notes. The Group has made full repayment of certain bills and notes with an aggregate principal amount of RMB1,410,000,000 during the year (2017: RMB145,000,000) according to the agreed repayment schedules stated in the agreements. Accordingly, as per the terms specified in the agreements, portion of outstanding principal and interest amounting to RMB4,390,000 (2017: 3,983,000) and RMB259,743,000 (2017:RMB113,023,000) respectively were waived by the creditors during the year.

8. OTHER NET EXPENSES

	Notes	**2018** **RMB'000**	2017 RMB'000
Net foreign exchange gain		**452**	5,186
Net gain (loss) from disposal of fixed assets		**4,102**	(969)
Loss from write-off of intangible assets		**(1,826)**	–
Loss on extinguishment of convertible bonds		**(149,297)**	–
Gain on fair value changes of financial assets at FVTPL		**9,595**	–
Gain on fair value changes of derivative component of convertible bonds		**236,190**	–
(Impairment losses) reversal of impairment on:			
– fixed assets, net	14	**(230,311)**	(5,336)
– trade receivables, net		**(25,902)**	(51,788)
– other receivables, net		**(17,766)**	17,039
– other financial assets	17	**–**	(41,806)
Bad debt recovery		**56,733**	–
Penalties		**(10,794)**	(11,514)
Donations		**(9,998)**	(4,865)
Others		**(11,908)**	(13,968)
		(150,730)	(108,021)

9. PROFIT BEFORE TAXATION

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

(a) Finance costs

	Notes	**2018** **RMB'000**	2017 *RMB'000*
Interest on bank loans		**265,908**	275,651
Interest on other borrowings and long-term bonds		**359,030**	714,556
Effective interest expense on convertible bonds		**108,302**	–
Less: capitalised interest expenses	(i)	**(141)**	(411)
Net interest expenses		**733,099**	989,796
Bank charges		**29,068**	25,286
Unwinding of discount	(ii)	**16,153**	6,290
		778,320	1,021,372

Notes:

(i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 4.90% (2017: 4.58%) per annum for the year ended 31 December 2018.

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

	Note	**2018** **RMB'000**	2017 *RMB'000*
Defined benefit obligations	28(c)	**5,240**	4,530
Long-term payables		**10,913**	1,760
		16,153	6,290

(b) Personnel expenses

	Note	**2018** **RMB'000**	2017 *RMB'000*
Salaries, wages and other benefits		**1,227,464**	1,155,193
Bonus and awards		**294,818**	299,293
Contributions to defined contribution retirement plans		**203,836**	185,342
Expense recognised in respect of defined benefit obligations	28(c)	**5,990**	5,470
		1,732,108	1,645,298

9. PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items

	Notes	**2018** **RMB'000**	2017 *RMB'000* (Restated)
Amortisation			
– land lease prepayments	14	**59,473**	58,600
– intangible assets	15	**106,378**	94,060
		165,851	152,660
Depreciation	14	**1,247,540**	1,306,353
Impairment losses on inventories (included in cost of sales)		**1,053**	109
Operating lease charges		**23,578**	15,834
Auditors' remuneration			
– audit and assurance services		**6,000**	6,000
– other services *(note (ii))*		**1,270**	13,862
		7,270	19,862
Cost of inventories sold *(note (i))*		**11,714,899**	10,361,241

Notes:

(i) Cost of inventories sold included RMB1,708,850,000 (2017: RMB1,954,782,000) relating to personnel expenses, depreciation and amortisation expenses and cost of raw materials consumed amounting RMB4,176,120,000 (2017: RMB3,420,862,000) for the year ended 31 December 2018.

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

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

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

	2018	2017
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**905,514**	403,813
(Over) under-provision in respect of prior years	**(15,882)**	6,063
Deferred tax		
Origination and reversal of temporary differences *(note 31(a))*	**(11,492)**	10,994
	878,140	420,870

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

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

	Notes	**2018**	2017
		RMB'000	*RMB'000*
Profit before taxation		**3,046,987**	967,340
Tax at the domestic income tax rate of 25% (2017: 25%)	(i)	**761,747**	241,835
Tax rate differential in foreign jurisdictions	(ii)	**38,074**	13,388
Effect of tax holiday	(iii)	**–**	(20,786)
Tax effect of expenses not deductible for tax purpose	(iv)	**110,937**	158,177
Tax effect of income not taxable for tax purpose		**(18,445)**	(5,737)
Tax effect of unused tax losses not recognised		**132,492**	108,701
Tax effect of deductible temporary differences not recognised		**37,921**	78,917
Tax effect of unrecognised prior year's deductible temporary differences utilised during the year		**(30,383)**	(56,016)
Effect of tax credit	(v)	**(10,040)**	(3,411)
Effect of unrecognised prior year's tax losses utilised during the year		**(116,589)**	(98,212)
(Over) under provision in respect of prior year		**(16,085)**	6,063
Tax effect of share of results of associates		**(11,489)**	(2,049)
Actual income tax expense		**878,140**	420,870
Effective tax rate		**28.8%**	43.5%

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

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

Notes:

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

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first Hong Kong dollars ("HK$" or "HKD")2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The Company and its subsidiaries incorporated in Hong Kong are subject to Hong Kong Profits Tax at the rate of 16.5% (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 year ended 31 December 2018 (2017: nil).

(iii) According to Circular Cai Shui [2011] No. 53, 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. Yingjisha Shanhui and Shache Shanshui first generated operating income in 2013. The tax holiday enjoyed by Yingjisha Shanshui and Shache Shanshui expired in 2017.

(iv) Non-deductible expenses mainly represent miscellaneous expenses in excess of statutory deductible limits for tax purposes according to the PRC tax laws and regulations and expenses of the Company which were non-deductible as the Company did not generate assessable income during the years.

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

11. DIRECTORS' REMUNERATION

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

For the year ended 31 December 2018

	Directors' fees *RMB'000*	Salaries, allowances and other benefits *RMB'000*	Contributions to defined contribution retirement plans *RMB'000*	Total *RMB'000*
Chairman, Executive director				
Chang Zhangli *(note (ix))*	–	–	–	–
Executive directors				
Wu Ling-ling *(note (ix))*	–	985	–	985
Hwa Guo Wai, Godwin *(note (vi))*	–	2,230	–	2,230
Li Zhiqiang *(note (iv))*	–	535	–	535
Zhu Linhai *(note (x))*	–	422	–	422
Independent non-executive directors				
Chang Ming-cheng *(note (xi))*	–	493	–	493
Li Jianwei *(note (xi))*	–	493	–	493
Hsu you-yuan *(note (xii))*	–	264	–	264
Lin Shei-yuan *(note (xi))*	–	131	–	131
Ho Man Kay *(note (vii))*	–	338	–	338
Law Pui Cheung *(note (vii))*	–	338	–	338
Wong Chi Keung *(note (vii))*	–	338	–	338
Dr. Ching Siu Ming *(note (vii))*	–	338	–	338
Lo Chung Hing *(note (vii))*	–	338	–	338
Total	–	7,243	–	7,243

11. DIRECTORS' REMUNERATION (CONTINUED)

For the year ended 31 December 2017

	Directors' fees *RMB'000*	Salaries, allowances and other benefits *RMB'000*	Contributions to defined contribution retirement plans *RMB'000*	Total *RMB'000*
Chairman, Executive director				
Liu Yiu Keung *(note (i) and (ii))*	–	–	–	–
Executive directors				
Li Heping *(note (v))*	–	4,325	–	4,325
Hwa Guo Wai *(note (vi))*	–	4,325	–	4,325
Li Zhiqiang *(note (iv))*	–	412	–	412
Non-executive directors				
Chong Cha Hwa *(note(iii))*	–	708	–	708
Independent non-executive directors				
Ho Man Kay *(note (vii))*	–	605	–	605
Law Pui Cheung *(note (vii))*	–	605	–	605
Wong Chi Keung *(note (vii))*	–	605	–	605
Ching Siu Ming *(note (vii))*	–	605	–	605
Lo Chung Hing *(note (vii))*	–	605	–	605
Total	–	12,795	–	12,795

11. DIRECTORS' REMUNERATION (CONTINUED)

Notes:

(i) Mr. Li Liufa tendered his resignation as an executive director and the chairman of the Board with effect from 31 May 2016. Mr. Liu Yiu Keung ("Mr. Liu") has been appointed as the chairman of the Board with effect from 2 June 2016. Mr. Liu has resigned as the chairman of the Board and the executive director of the Company on 19 March 2018.

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

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

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

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

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

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

(viii) Mr. Li Liufa was appointed as executive director and chairman on 19 March 2018 and was removed on 23 May 2018.

(ix) Mr. Chang Zhangli was appointed as executive director and chairman on 23 May 2018. Ms Wu Ling-ling was appointed as executive director on 23 May 2018.

(x) Mr. Zhu Linhai was appointed as an executive director of the Company on 19 March 2018 and was removed on 23 May 2018.

(xi) Mr. Chang Ming-cheng, Mr. Lin Shei-yuan and Mr. Li Jianwei were appointed as independent non-executive directors of the Company on 23 May 2018. Mr. Lin Shei-yuan resigned on 20 July 2018.

(xii) Mr. Hsu You-yuan was appointed as an independent non-executive director on 4 September 2018.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group for the year. The independent non-executive directors' emoluments shown above were for their services as directors of the Company for the year. The non-executive director's emolument shown above was for his service as the director of the Company in 2017.

There was no arrangement under which a director or the Chairman waived or agreed to waive any remuneration during the year.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals with the highest emolument included one director (2017: two directors) whose emoluments are disclosed in note 11 for the year ended 31 December 2018.

The aggregate of the remuneration in respect of the remaining four (2017: three) individuals is as follows:

	2018	2017
	RMB'000	*RMB'000*
Salaries, allowances and other benefits	**7,768**	5,424
Contributions to defined contribution retirement plans	**273**	58
	8,041	5,482

The emoluments of the remaining four (2017: three) individuals with the highest remuneration is within the following bands:

	2018	2017
	Number of individuals	Number of individuals
HK$1,500,001 to HK$2,000,000	**–**	3
HK$2,000,001 to HK$2,500,000	**3**	–
HK$2,500,001 to HK$3,000,000	**1**	–
	4	3

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

Earnings figures are calculated as follows:	**2018** *RMB'000*	2017 *RMB'000*
Profit for the year attributable to owners of the Company and earnings for the purposes of basic earnings per share	**2,196,657**	600,817
Effect of dilutive potential ordinary shares		
Effective interest expense on convertible bonds	**23,868**	N/A
Gain on fair value changes of derivative component of convertible bonds	**(149,340)**	N/A
Earnings for the purpose of diluted earnings per share	**2,071,185**	600,187

Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**3,547,397,876**	3,379,140,240
Effect of dilutive potential ordinary shares on convertible bonds	**30,322,103**	N/A
Weighted average number of ordinary shares for purpose of diluted earnings per shares	**3,577,719,979**	3,379,140,240

As disclosed in note 32, the Company has granted two batches of share options to directors and employees, they are:

– On 25 May 2011, the Company granted 7,300,000 ordinary share options to certain directors and employees, which were vested immediately after being granted ("the 2011 Options"). The exercise price of the 2011 Options is HK$7.90.

– On 27 January 2015, the Company granted 207,300,000 ordinary share options to certain directors and employees, which were vested six months after being granted ("the 2015 Options"). The exercise price of the 2015 Options is HK$3.68.

13. EARNINGS PER SHARE (CONTINUED)

The Company's shares had been suspended for trading since 16 April 2015. The average share price of the Company for the period from 1 January 2015 to 15 April 2015 was HK$4.49. On 31 October 2018, trading in the shares of the Company on the Stock Exchange was resumed. The average share price of the Company for the period from 31 October 2018 to 31 December 2018 was HK$2.65.

The 2011 Options have not been included in the calculation of diluted earnings per share because they are assumed to have been anti-dilutive effect for the years ended 31 December 2017 and 31 December 2018, on the assumption that in the period from 16 April 2015 to 31 December 2017 and the period from 1 January 2018 to 30 October 2018, the fair value of the share of the Company will not have risen above its last quoted price on 15 April 2015. Besides, the exercise price of the 2011 Options was higher than the average market price of the shares during the period from 31 October 2018 to 31 December 2018 upon the resumption of trading of the shares of the Company.

The directors of the Company are also of the opinion that the 2015 Options are anti-dilutive for the years ended 31 December 2017 and 31 December 2018 as the directors believe that the exercise of the 2015 Options would not result in the issue of ordinary shares for less than the average market price of ordinary shares during 2017, in the absence of market price information from 16 April 2015 onward and taking into account the adverse nature of the events which have affected the affairs of the Group since that date. Besides, the exercise price of the 2015 Options was higher than the average market price of the shares during the period from 31 October 2018 to 31 December 2018 upon the resumption of trading of the shares of the Company.

14. FIXED ASSETS

	Plants and buildings *RMB'000*	Equipment *RMB'000*	Motor vehicles and others *RMB'000*	Construction in progress *RMB'000*	Sub-total *RMB'000*	Land lease prepayments *RMB'000*	Total fixed assets *RMB'000*
Cost:							
At 1 January 2017	12,769,391	13,909,327	457,622	262,357	27,398,697	2,722,749	30,121,446
Additions	27,054	98,016	46,412	276,633	448,115	6,614	454,729
Transfers	181,890	129,413	13,489	(324,792)	–	–	–
Disposals	(141,354)	(55,679)	(24,557)	–	(221,590)	–	(221,590)
At 31 December 2017	12,836,981	14,081,077	492,966	214,198	27,625,222	2,729,363	30,354,585
Additions	43,411	144,371	94,724	395,377	677,883	26,846	704,729
Transfers	208,780	115,375	6,840	(330,995)	–	–	–
Disposals	(49,982)	(167,862)	(47,201)	(377)	(265,422)	(933)	(266,355)
At 31 December 2018	**13,039,190**	**14,172,961**	**547,329**	**278,203**	**28,037,683**	**2,755,276**	**30,792,959**
Accumulated depreciation, amortisation and impairment:							
At 1 January 2017	(2,265,503)	(7,171,728)	(215,700)	(29,337)	(9,682,268)	(428,794)	(10,111,062)
Charge for the year	(298,591)	(969,720)	(38,042)	–	(1,306,353)	(58,600)	(1,364,953)
Reversal of impairment/ (impairment loss) for the year	9,799	(15,404)	269	–	(5,336)	–	(5,336)
Written back on disposals	72,785	45,121	20,822	–	138,728	–	138,728
At 31 December 2017	(2,481,510)	(8,111,731)	(232,651)	(29,337)	(10,855,229)	(487,394)	(11,342,623)
Charge for the year	(276,103)	(934,773)	(36,664)	–	(1,247,540)	(59,473)	(1,307,013)
Impairment losses for the year	(186,291)	(39,070)	(4,950)	–	(230,311)	–	(230,311)
Written back on disposals	40,957	134,910	41,600	–	217,467	282	217,749
At 31 December 2018	**(2,902,947)**	**(8,950,664)**	**(232,665)**	**(29,337)**	**(12,115,613)**	**(546,585)**	**(12,662,198)**
Net book value:							
At 31 December 2018	**10,136,243**	**5,222,297**	**314,664**	**248,866**	**15,922,070**	**2,208,691**	**18,130,761**
At 31 December 2017	10,355,471	5,969,346	260,315	184,861	16,769,993	2,241,969	19,011,962

14. FIXED ASSETS (CONTINUED)

(a) All plants and buildings and land are located in the PRC. The Group's land lease prepayments are amortised ranged from between 25 years and 70 years based on the lease term (2017: 25 years and 70 years).

(b) Construction in progress ("CIP") mainly relates to technical improvement projects of cement and clinker production lines.

(c) As at 31 December 2018, application for the registration of land use rights in relation to land lease prepayments with cost of approximately RMB154,626,000 (2017: RMB129,931,000) was still in progress. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the properties and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2018.

(d) As at 31 December 2018, the ownership certificates for certain plants and buildings with a carrying amount of RMB359,430,000 (2017: RMB374,588,000) have not been obtained. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the properties and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2018.

(e) As at the date of approval of the consolidated financial statements, the Group is in the process of obtaining construction permits for certain clinker and cement production lines. The carrying amounts of the plants and buildings and equipments transferred from construction in progress in respect of these clinker and cement production lines as at 31 December 2018 were RMB1,109,885,000 and RMB571,947,000 respectively (2017: RMB1,222,452,000 and RMB 708,253,000 respectively).

(f) Certain land lease prepayments with an aggregate carrying amount of RMB4,318,000 (31 December 2017: RMB12,471,000) and plants and buildings with an aggregate amount of RMB 8,747,000 (2017: RMB2,539,000) for the year ended 31 December 2018, are pledged to secure bank loans (see note 23) granted to the Group.

(g) As at 31 December 2018, land lease prepayments carried at RMB35,578,000 (2017: RMB31,136,000) and plants and buildings carried at RMB82,229,000 (2017: RMB62,144,000) have been frozen by the PRC Court pending the outcome of the legal proceedings initiated by the Group's creditors relating to overdue bank loans, other borrowings, long-term bonds and certain sales or purchases contracts. Further details of this litigation are set out in notes 24 to 26. Under the Court order, the Group may continue to use these assets in its business but is prohibited from selling or transferring the assets until the litigation is resolved.

14. FIXED ASSETS (CONTINUED)

(h) For the years ended 31 December 2018 and 2017, the management assessed the recoverable amounts of its property, plant and equipment by assessing the recoverable amounts of the cash-generating units ("CGUs") representing the respective subsidiaries acquired in previous acquisitions to which they belong with reference to the value in use calculations of the CGUs. The value in use calculations use cash flow projections based on the financial budgets approved by the management covering a one-year period with suitable growth rates for the following four years. The cash flows beyond the five-year period are extrapolated using suitable growth rates. The details of the CGUs, growth rates, discount rates and terminal growth rates used for value in use calculations are shown as follow:

Segment	**Number of subsidiaries**	**Ranges of growth rate***	**Discount rate**	**Terminal growth rate**
		(%)	*(%)*	*(%)*
Shandong Province	3	2–6	14.04	0
Northeastern China	16	2–16	11.78	0
Shanxi Province	8	5–20	12.45	0

* The growth rate is based on the industry growth rate forecast.

Other key assumptions for the value in use calculations include such estimation in the projected sales volume, selling prices, direct costs, gross margin and other related expenses for each of the related CGUs used in the cash flow forecasts based on the unit's historical performance, unit's projected production plan and management's expectations for the market development of each of the CGUs.

The management believed that any reasonable possible change in the key assumptions on which the recoverable amounts are based would not cause the carrying amounts of the fixed assets to exceed the aggregate of their recoverable amounts. Based on the cash flow projections and financial budgets of 2018 and 2017 approved by the management, the value in use calculated by the discounted cash flow analysis is higher than the carrying amount for the CGUs, and accordingly, no impairment loss of fixed assets was recognised for the year ended 31 December 2018 (2017: reversal of impairment of fixed assets of RMB86,619,000 was recognised).

In addition, the Group conducted a review of the Group's production assets and determined that the assets of certain subsidiaries were idle and/or obsolete and that it is expected that these assets will not generate future benefit to the Group. Accordingly, impairment loss of RMB230,311,000 (2017: RMB91,955,000) has been recognised in respect of those assets.

15. INTANGIBLE ASSETS

	Limestone mining rights	Customer relationships	Trademarks	Software and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:					
At 1 January 2017	897,518	48,181	92,522	77,284	1,115,505
Additions	196,802	–	–	3,267	200,069
Write off	–	–	–	(63)	(63)
At 31 December 2017	1,094,320	48,181	92,522	80,488	1,315,511
Additions	381,248	–	–	3,045	384,293
Write off	–	–	–	(4,330)	(4,330)
At 31 December 2018	**1,475,568**	**48,181**	**92,522**	**79,203**	**1,695,474**
Accumulated amortisation and impairment:					
At 1 January 2017	(431,235)	(48,181)	(63,031)	(60,493)	(602,940)
Amortisation for the year	(82,539)	–	(7,261)	(4,260)	(94,060)
Write off	–	–	–	63	63
At 31 December 2017	(513,774)	(48,181)	(70,292)	(64,690)	(696,937)
Amortisation for the year	(103,556)	–	–	(2,822)	(106,378)
Write off	–	–	–	2,504	2,504
At 31 December 2018	**(617,330)**	**(48,181)**	**(70,292)**	**(65,008)**	**(800,811)**
Net book value:					
At 31 December 2018	**858,238**	**–**	**22,230**	**14,195**	**894,663**
At 31 December 2017	580,546	–	22,230	15,798	618,574

15. INTANGIBLE ASSETS (CONTINUED)

(a) The limestone mining rights which are granted from the respective land resources bureaus are valid for a period of 1 to 50 years (2017: 1 to 50 years). The limestone mines are located in Shandong, Liaoning, Shanxi, Xinjiang and Inner Mongolia regions/provinces.

(b) As at 31 December 2018, the ownership certificates for certain limestone mining rights with a carrying amount of RMB30,889,000 (2017: RMB87,642,000) have not been obtained. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the properties and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2018.

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

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

The "遠航" brand has a remaining legal life of 4 years but is renewable every 10 years at minimal cost. The directors of the Company are of the opinion that the "遠航" brand is having good reputation in the local area and hence the Group would renew the trademark continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademark has no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group. As a result, the "遠航" brand is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. The carrying amount of "遠航" brand as at 31 December 2018 is RMB22,230,000 (2017: RMB22,230,000).

For the year ended 31 December 2018, the management assessed the recoverable amount of the CGU which the trademark forms part of the respective CGU (being a subsidiary located in Northeastern China) with reference to its value in use calculation. Based on the cash flow projections and financial budgets of 2018 and 2017 approved by the management, the value in use calculated by the discounted cash flow analysis is higher than the company amounts for the CGU and accordingly the management determined that there was no impairment on the trademark's CGU for the year ended 31 December 2018 (2017: nil). Particulars of the value in use calculation in relation to the CGU located in Northeastern China region are disclosed as per note 14(h).

16. GOODWILL

	RMB'000
Cost:	
At 1 January 2017, 31 December 2017 and 31 December 2018	2,345,857
Impairment losses:	
At 1 January 2017, 31 December 2017 and 31 December 2018	(2,331,634)
Net book value:	
At 31 December 2018	**14,223**
At 31 December 2017	14,223

Impairment tests for cash-generating units containing goodwill

As set out in IAS 36, cash generating units are the smallest identifiable groups of assets that generate cash inflows from continuing use that are largely independent of the cash flows from other assets. For the purpose of impairment testing of goodwill, goodwill is allocated to groups of CGUs (being subsidiaries acquired in each acquisition), which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. The carrying amount of goodwill is allocated to CGUs located in the Shandong Province and Northeast China amounting to RMB1,585,000 and RMB12,638,000 respectively.

The Group recognised accumulated impairment loss on goodwill amounting to approximately RMB2,331,634,000 as at 31 December 2017.

For the year ended 31 December 2018, the management assessed the recoverable amount of these CGUs located in Shangdong Province and Northeastern China with reference to their value in use calculations. Based on the cash flow projections and financial budgets of 2018 and 2017 approved by the management, the value in use calculated by the discounted cash flow analysis is higher than the carrying amounts for the CGUs and accordingly, the management determined that there is no impairment on the respective CGUs for the year ended 31 December 2018 (2017: nil). Particulars of the value in use calculations are disclosed as per note 14(h).

17. OTHER FINANCIAL ASSETS

	Notes	**At 31 December 2018** ***RMB'000***	**At 1 January 2018** ***RMB'000***	At 31 December 2017 *RMB'000*
Financial assets at FVTPL				
– Equity securities listed in the PRC	(a)	**7,428**	**7,968**	–
– Unquoted equity investments in PRC non-listed companies	(b)	**44,253**	**1,261**	–
Loans to an associate	(c)	**–**	**38,421**	38,421
Loan due from a third party	(d)	**21,710**	**21,710**	21,710
Available-for-sale financial assets				
– Equity securities listed in the PRC	(a)	**–**	**–**	7,968
– Unquoted equity investments in PRC non-listed companies	(b)	**–**	**–**	1,261
		73,391	**69,360**	69,360

Notes:

(a) Equity investments in securities listed in the PRC represent the Group's investments in equity shares listed on the Shanghai Stock Exchange and held by the Group as long term investment for the year ended 31 December 2017. The equity investments were reclassified to financial assets at FVTPL upon the initial application of IFRS 9 at 1 January 2018. The investments are valued with reference to the trading price of the securities at the end of the reporting period.

(b) Unquoted equity investments, representing equity investment in the PRC non-listed companies, were subsequently measured at cost less impairment loss as at 31 December 2017, because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. The unquoted equity investments were held by the Group as long term investment.

The unquoted equity investments in PRC non-listed companies were reclassified to financial assets at FVTPL upon the initial application of IFRS 9 at 1 January 2018.

During the year ended 31 December 2018, the Group acquired 0.38%, 14.29% and 5% of equity interest in Bank of Chaoyang Co., Ltd., Kashgar United and Huize Management Consulting Services Co., Ltd and Shandong Zhonglian Mining Co., Ltd. at considerations of RMB5,000,000, RMB2,857,000 and RMB25,000,000 respectively. The fair value gain of RMB10,135,000 was recognised in profit or loss during the year of 2018.

Included in unquoted equity instruments in PRC non-listed companies are investments in two (2017: three) PRC non-listed entities which are former subsidiaries of the Group. During the year ended 31 December 2018, the Group obtained control over Rushan Shanshui Cement Co., Ltd, ("Rushan Shanshui") and the Group has consolidated Rushan Shanshui into the consolidated financial statement, further details are set out in note 40.

Jinan Changqing Shanshui Micro Finance Co., Ltd. ("Shanshui Micro Finance"), was under the management of the ex-directors of the Company. During 2017, the Group can neither access any accounting books and records of Shanshui Micro Finance nor find the current place of business for Shanshui Micro Finance. Accordingly, the directors of the Company are of the opinion that the Group does not have the ability to direct the relevant activities which significantly affect Shanshui Micro Finance's returns since January 2016;

Before the 2015 New Board took over Shandong Shanshui on 30 January 2016, the ex-directors, on behalf of Shandong Shanshui, issued an escrow agreement to a third party on 29 January 2016 to let the third party take over Xinghao Cement Co., Ltd. ("Xinghao Cement", a subsidiary of Shandong Shanshui). The third party has taken over the official chop and the reserved signature chops of bank accounts of Xinghao Cement in February 2016 and dismissed all of the key management of Xinghao Cement previously appointed by Shandong Shanshui in May 2016. Since then, the Group can neither access any accounting books and records of Xinghao Cement nor have the ability to direct the relevant activities which significantly affect Xinghao Cement's returns since May 2017.

Since the directors of the Company did not have the ability to direct the relevant activities which significantly affect the above former subsidiaries' returns and could not obtain any accounting books and records from them during the years 2017, the directors are of the opinion that the Group lost control of the above entities. Accordingly, the Group recorded these investments as available-for-sale securities and has made full impairment provision for the carrying amount of these investments as at 31 December 2017.

During the year ended 31 December 2018, the directors of the Company continued to be unable to have the ability to direct relevant activities which significantly affect the above former subsidiaries' returns but the Group was able to obtain access to the financial information and books and records of Shanshui Micro Finance and Xinghao Cement as at 31 December 2018. Based on the management assessment, the fair value of Shanshui Micro Finance and Xinghao Cement are assessed to be nil as at 31 December 2018. Accordingly, no change in fair value on investments in Shanshui Micro Finance and Xinghao Cement was recognised during the year ended 31 December 2018.

17. OTHER FINANCIAL ASSETS (CONTINUED)

Notes: (Continued)

(c) The loans to an associate were unsecured, bore interest at interest rate of 5.4% (2017: 5.4%) and had no fixed repayment terms. The amounts were fully repaid during the year ended 31 December 2018.

(d) Loan due from a third party represents loan due from a minority shareholder of Bohai Cement (Huludao) Co., Ltd. ("Bohai Cement") with gross amount of RMB118,804,000. The minority shareholder held 30% interest in Bohai Cement as at 31 December 2018 and 2017. Since the minority shareholder was in financial difficulties, the Group assessed that only a portion of the loan balance was expected to be recovered. Accordingly, the Group has recognised accumulated impairment loss amounting to RMB97,094,000 at the end of reporting period.

18. INTERESTS IN ASSOCIATES

	2018	2017
	RMB'000	*RMB'000*
Cost	**738,754**	733,555
Less: share of post-acquisition profit and other comprehensive income, net of dividends received	**(15,981)**	(26,238)
Less: impairment losses	**(407,710)**	(407,710)
Share of net assets	**315,063**	299,607

As at 31 December 2018 and 31 December 2017, the Group held investments in the following associates:

Name of associate	Place and date of incorporation	Principal activities	Registered capital	Paid-in capital	**Proportion of ownership interest 31.12.2018**		Proportion of ownership interest 31.12.2017	
					Direct	**Indirect**	Direct	Indirect
Dong'e Shanshui Dongchang Cement Co., Ltd. ("Dong'e Shanshui") *(note (a))*	Shandong, PRC 1 March 2010	Production and sales of cement, clinker and related products	RMB100,000,000	RMB100,000,000	**–**	**51%**	–	51%
Dalian Cement Group Co., Ltd. ("Dashui Group")	Liaoning, PRC 11 June 1992	Production and sales of cement and related products	RMB888,980,000	RMB888,980,000	**–**	**22.04%**	–	22.04%
Qilu Property Co., Ltd. ("Qilu Property") *(note (b))*	Shandong, PRC 16 May 1994	Development of property	RMB83,529,200	RMB83,529,200	**–**	**30%**	–	30%
Shandong Shanshui Heavy Industries Co., Ltd. ("Shanshui Heavy Industries") *(note (c))*	Shandong, PRC 12 March 2002	Installation of equipment and spare parts of cement machines	RMB171,000,000	RMB171,000,000	**–**	**44.99%**	–	44.99%

18. INTERESTS IN ASSOCIATES (CONTINUED)

Name of associate	Place and date of incorporation	Principal activities	Registered capital	Paid-in capital	**Proportion of ownership interest 31.12.2018**		Proportion of ownership interest 31.12.2017	
					Direct	**Indirect**	Direct	Indirect
Chifeng Taiying Cement Management Co., Ltd. ("Taiying Cement") *(note (d))*	Inner Mongolia, PRC 23 January 2017	Sales of cement, clinker, limestone and other products	RMB1,020,000 (2017: RMB500,000)	RMB1,020,000 (2017: RMB500,000)	**–**	**16.67%**	–	34%
Zibo Lianhe Cement Enterprise Management Co., Ltd. ("Lianhe Cement") *(note (e))*	Shandong, PRC 27 February 2017	Provide cement management services including cement corporate marketing planning and business management consulting	RMB65,000,000	RMB52,000,000	**–**	**30.61%**	–	30.61%
Zibo Banyang Limestone Enterprise Management Co., Ltd ("Banyang Limestone") *(note (f))*	Shandong, PRC 23 December 2016	Provide corporate management service, general freight, sales of limestone and investment advisory services	RMB10,000,000	RMB4,900,000	**–**	**6.93%**	–	6.93%
Liaoning Yunding Cement Group Co., Ltd. ("Yunding Cement") *(note (g))*	Liaoning, PRC 21 August 2017	Sales and production of cement and provide business information consulting services	RMB32,170,000	RMB32,170,000	**–**	**43.36%**	–	43.36%
Xingan Mengjixing Cement Management Co., Ltd. ("Mengjixing Cement") *(note (h))*	Inner Mongolia, PRC 4 January 2017	Sales and production of cement and provide business information consulting services	RMB2,653,100	RMB1,300,000	**–**	**23.35%**	N/A	N/A
Yulin Zhongxin Cement Enterprise Management Co., Ltd. ("Zhongxin Cement") *(note (i))*	Shaanxi, PRC 23 July 2018	Provide cement management service, business information consulting services and sales of cement clinker, limestone and other products	RMB920,000	RMB460,000	**–**	**36.09%**	N/A	N/A

18. INTERESTS IN ASSOCIATES (CONTINUED)

Notes:

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

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

During the year ended 31 December 2018, the directors were able to access to books and records of the associate. Based on the assessment by the management of the Group, the recoverable amounts of the interest in the associate was nil and accordingly, the impairment provided in previous year was not reversed.

(c) After the 2015 New Board took over the management of Shandong Shanshui in January 2016, the 2015 New Board found that Shandong Shanshui sold 55% interest in Shanshui Heavy Industries to two suppliers of the Group with a total consideration of RMB94,050,000. After the disposal transaction, Shandong Shanshui's remaining interest in Shanshui Heavy Industries was 44.99%.

Since the directors were unable to access to any books and records of the associate, the Group fully impaired the carrying amount of the investment of RMB79,331,000 as at 31 December 2015. During the years ended 31 December 2016 and 2017, the directors continued to be unable to access any books and records of the associate.

During the year ended 31 December 2018, the directors were able to access to books and records of the associate. Based on the assessment by the management of the Group, the recoverable amounts of the interest in the associate was nil and accordingly, the impairment provided in previous year was not reversed.

(d) During the year ended 31 December 2017, Alu Kerqin Qi Sanshui Cement Co., Ltd, contributed cash of RMB200,000 for the establishment of Taiyang Cement with two independent third parties and obtained 40% equity interest in Taiyang Cement. The Group has 34% effective equity interest in Taiyang Cement. During the year ended 31 December 2018, after one new shareholder has made capital injection to Taiyang Cement, the Group's entity interest in Taiyang Cement was decreased to 16.67%. According to the articles of association of Taiyang Cement, the resolutions in relation to material financial and operating decisions have to be passed by more than half of directors. As the Group has a right to appoint one out of three directors of Taiyang, the directors of the Company is the opinion that Group has significant influence in Taiyang Cement.

(e) During the year ended 31 December 2017, the Company's 99% owned subsidiary, Zibo Shanshui Cement Co., Ltd., and wholly-owned subsidiary, Linyi Shanshui Cement Co., Ltd., contributed RMB20,000,000, settled by the transfer of bill receivable of RMB20,000,000 expiring in July 2017 for the establishment of Lianhe Cement with six independent third parties and obtained 30.76% equity interest in Lianhe Cement. The Group in aggregate has 30.61% effective equity interest in Lianhe Cement.

(f) During the year ended 31 December 2017, the Company's 99% owned subsidiary, Zibo Shanshui Cement Co., Ltd contributed cash of RMB700,000 for the establishment of Banyang Limestone with seven independent third parties. The directors of the Company is in the opinion that the Group has significant influence in Banyang Limestone even the Company owns less than 20% of equity interest in Banyang Limestone as each investor appoints 1 director out of 9 directors in Banyang Limestone and the resolution of the board requires 50% vote. The Group has 6.93% effective equity interest in Banyang Limestone.

(g) During the year ended 31 December 2017, the Company's wholly owned subsidiary, Liaoning Shanshui Gongyuan Cement Co., Ltd. contributed cash of RMB13,950,000 for the establishment of Yunding Cement for 39.64% equity interest with three independent third parties. During the year ended 31 December 2018, after one of the shareholders has withdrawn the shares from Yunding Cement, the Group's equity interest in Yunding Cement was increased to 43.36%.

(h) During the year ended 31 December 2018, certain non-wholly owned subsidiaries of the Company contributed cash of RMB700,000 in total for the establishment of Mengjixing Cement for 26.38% equity interest with three independent third parties. The Group in aggregate has 23.35% effective equity interest in Mengjixing Cement.

(i) During the year ended 31 December 2018, certain non-wholly owned subsidiaries of the Company contributed cash of RMB4,500,000 in total for the establishment of Zhongxin Cement for 48.91% equity interest with four independent third parties. The Group in aggregate has 36.09% effective equity interest in Zhongxin Cement.

18. INTERESTS IN ASSOCIATES (CONTINUED)

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

Summarised financial information of Qilu Property and Shanshui Heavy Industries are listed below:

Shanshui Heavy Industries

	2018	2017
	RMB'000	*RMB'000*
Current assets	**119,487**	162,950
Non-current assets	**376,563**	379,257
Current liabilities	**(196,179)**	(222,419)
Non-current liabilities	**(339,287)**	(315,951)

	2018	2017
	RMB'000	*RMB'000*
Revenue	**2,684**	13,832
Loss for the year	**(51,658)**	(28,498)
Loss and total comprehensive income for the year	**(51,658)**	(28,498)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2018	2017
	RMB'000	*RMB'000*
Net (liabilities) assets of Shanshui Heavy Industries	**(39,416)**	3,837
Proportion of the Group's ownership interest in Shanshui Heavy Industries	**44.99%**	44.99%
Net asset of the Group's interest of Shanshui Heavy Industries	**–**	1,726
Carrying amount of the Group's interest in Shanshui Heavy Industries	**–**	–

18. INTERESTS IN ASSOCIATES (CONTINUED)

Qilu Property

	2018	2017
	RMB'000	*RMB'000*
Current assets	**863,668**	837,518
Non-current assets	**36,403**	34,010
Current liabilities	**(987,672)**	(911,113)
Non-current liabilities	**(77,025)**	(72,950)
Non-controlling interests	**(1,663)**	(940)

	2018	2017
	RMB'000	*RMB'000*
Revenue	**41,318**	227,721
Loss for the year	**(49,505)**	(60,618)
Loss attributable to NCI	**(723)**	(1,817)
Loss and total comprehensive income for the year	**(48,782)**	(58,801)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2018	2017
	RMB'000	*RMB'000*
Net liabilities of Qilu Property	**(166,289)**	(113,475)
Proportion of the Group's ownership interest in Qilu Property	**30%**	30%
Carrying amount of the Group's interest in Qilu Property	**–**	–

Aggregate information of associates that are not individually material are listed below:

	2018	2017
	RMB'000	*RMB'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**315,063**	299,607
Aggregate amounts of the Group's share of those associates' profit and total comprehensive income for the year	**45,957**	8,198

19. INVENTORIES

	2018 *RMB'000*	2017 *RMB'000*
Raw materials	**462,392**	433,173
Semi-finished goods	**303,010**	393,579
Finished goods	**364,329**	337,792
Spare parts	**329,097**	342,449
	1,458,828	1,506,993

20. TRADE AND BILLS RECEIVABLES

	Note	2018 *RMB'000*	2017 *RMB'000*
Bills receivables		**1,144,877**	716,301
Trade receivables		**1,261,380**	1,343,726
Less: allowance for credit losses	(b)	**(279,533)**	(254,275)
		2,126,724	1,805,752

(a) Ageing analysis

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 credit losses, is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Within 3 months	**816,824**	844,894
3 to 6 months	**514,055**	443,438
6 to 12 months	**414,501**	196,083
Over 12 months	**381,344**	321,337
	2,126,724	1,805,752

All of the trade and bills receivables (net of allowance for credit losses) are expected to be recovered within one year. The detailed credit policy of bills receivables are set out in note 34(b).

20. TRADE AND BILLS RECEIVABLES (CONTINUED)

(b) Impairment of trade and bills receivables

Impairment loss in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

The movement in the allowance for doubtful debts during the year ended 31 December 2017 is as follows:

	2017
	RMB'000
At 1 January	202,487
Impairment loss recognised	83,424
Reversal of impairment for doubtful debt	(31,636)
	254,275

Details of impairment assessment of trade and bills receivables for the year ended 31 December 2018 are set out in note 34(b).

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

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB513,819,000 which are past due as at the reporting date. Out of the past due balances, RMB209,818,000 has been past due one year or more and is not considered as credit-impaired as the management believes that there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

The ageing analysis of trade and bills receivables that are past due but not impaired as at 31 December 2017 are as follows:

	2017
	RMB'000
Overdue within one year	289,240
Overdue over one year	236,572
	525,812

20. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

As at 31 December 2017, receivables that were past due but not impaired relate to a number of customers that have a good credit track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(d) Pledged trade receivables

No trade receivables are pledged to secure bank loans granted to the Group for the year ended 31 December 2018 (2017: RMB64,000,000) (see note 23).

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

(a) Other receivables and prepayments

	Notes	**2018** ***RMB'000***	2017 *RMB'000*
Deposit		**68,557**	83,246
Prepayments for raw materials		**137,839**	66,130
VAT recoverable		**87,522**	168,700
Amounts due from related parties	38(c)	**76,985**	40,774
Amounts due from third parties *(note (i))*		**233,547**	206,846
Others		**87,600**	87,524
		692,050	653,220

Note:

(i) Included in amounts due from third parties as at 31 December 2018 are advances payment to local government of RMB73,895,000 (2017: RMB66,299,000) and receivables from staffs of RMB27,357,000 (2017: RMB8,096,000).

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

(b) Other long-term assets

Other long-term assets mainly represented prepayment for purchase of property, plant and equipment of RMB162,816,000 (2017: RMB74,026,000), VAT recoverable of RMB33,742,000 (2017: RMB46,744,000) and deposit for environmental restoration of RMB392,998,000 (2017: RMB419,798,000).

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

22. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

Restricted bank deposits include RMB16,493,000 (2017: RMB19,252,000) as at 31 December 2018 of cash deposits pledged to banks for the performance guarantee in relation to certain contracts of sales or purchases of cement, and RMB13,814,000 (2017: RMB43,589,000) of bank balances which have been frozen by the PRC Court pending the outcome of the legal proceedings initiated by the Group's creditors relating to other borrowings, long-term bonds and certain sales or purchases contracts. Further details of this litigation are set out in notes 24 to 26. These restricted bank deposits included RMB604,000 (2017: RMB2,354,000) as at 31 December 2018 of cash deposits which has been frozen by the PRC Court pending the outcome of the legal proceedings initiated by Shanshui Heavy Industries' creditors relating to certain sales or purchases contracts which the Group had provided the guarantee. The frozen bank balances may not be used by the Group until the litigation is resolved.

The restricted bank deposits carry fixed interest rates ranged from 0.3% to 4.25% (2017: 0.3% to 4.25%). The effective interest rate on bank balances ranged from 0.3% to 3.05% (2017: 0.3% to 1.15%) per annum as at 31 December 2018.

For the year ended 31 December 2018, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided. Details of impairment assessment of restricted bank deposits for the year ended 31 December 2018 are set out in note 34(b).

23. BANK LOANS

	2018	2017
	RMB'000	*RMB'000*
Bank loans – Secured (*)	**216,150**	241,600
Bank loans – Unsecured	**4,083,200**	4,548,999
	4,299,350	4,790,599

* These bank loans were pledged by certain land lease prepayments with an aggregate carrying amount of RMB4,318,000 (2017: RMB12,471,000) and plants and buildings with an aggregate carrying amount of RMB8,747,000 (2016: RMB2,539,000) (see note 14).

As at 31 December 2018, an unsecured bank loan of approximately RMB80,000,000 (2017: RMB569,049,000) was overdue and carried an interest rate of 10.1% per annum (2017: carried interest rates ranging from 6.9% to 10.1% per annum). Subsequent to the end of the reporting period and up to the date of approval of the consolidated financial statements, the Group repaid the defaulted bank loan totaling RMB80,000,000.

Bank loans amounting to approximately RMB3,513,150,000 (2017: RMB4,678,199,000) and RMB786,200,000 (2017: RMB112,400,000) due for repayment within one year and after one year respectively which contain a cross default clause that demands immediate repayment when there is default in any bank loans repayment or a clause which give the banks the right to recall the loans on demand at their sole discretion had become repayable on demand and hence are classified as current liabilities.

Bank loans due for repayment, based on the extended 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:

	2018	2017
	RMB'000	*RMB'000*
Within one year	**3,513,150**	4,678,199
After one year but within two years	**686,200**	65,200
After two years but within five years	**100,000**	47,200
	4,299,350	4,790,599

24. OTHER BORROWINGS

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

	Notes	**2018** **RMB'000**	2017 RMB'000
Loan from government – Unsecured	(i)	**3,636**	4,545
Short-term financing bills	(ii), (iii)	**774,250**	2,136,018
		777,886	2,140,563

Other borrowings due for repayable based on the extended repayment terms set out in the borrowing agreements are as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year or on demand	**281,159**	1,736,722
After one year but within two years	**164,909**	367,113
After two years but within five years	**331,818**	36,728
	496,727	403,841
	777,886	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% (2017: 0.3%) and is repayable in equal instalments from 2012 to 2021.

24. OTHER BORROWINGS (CONTINUED)

Notes: (Continued)

(ii) All of the short-term financing bills are issued by Shandong Shanshui and in the PRC inter-bank market. As at 31 December 2018, the details of short-term financing bills were listed below:

Issuer	**Outstanding Principal** *(RMB'000)*	**Issue date**	**Maturity date**	**Original Interest rates** *(per annum)*	**Original interest payment term**	**Interest rates after restructuring plans** *(per annum)*
Shandong Shanshui	400,450 (2017: 1,454,418)	14/04/2015	22/11/2015	5.3%	settle at the maturity date	0%–7.67% (2017: 0%–7.67%)
Shandong Shanshui	373,800 (2017: 681,600)	14/05/2015	12/02/2016	4.5%	settle at the maturity date	0%–7.67% (2017: 0%–7.67%)

As at 31 December 2018 and 31 December 2017, all of the outstanding short-term financing bills issued by Shandong Shanshui are overdue.

(iii) Several banks and financial institutions have commenced legal proceedings against the Group to demand immediate repayment of the overdue principal of short term financing bills of RMB360,000,000, plus any interest, penalty interest and expenses incurred during the litigation. As at 31 December 2018, the status of these litigations so far as to relate to other borrowings is as follows:

– All of the above mentioned litigations have been judged by the PRC Court, with the Court ordering the Group to repay the overdue principal, the related interest, penalty interest and expenses incurred during the litigation.

– During the year ended 31 December 2017, the Group has negotiated with the holders of the short-term financing bills for extension of repayment of principal amounting to RMB1,331,767,000 and RMB314,250,000 to be repaid in 2018 and after 2018 respectively, including the principal amounting to RMB1,410,000,000 previously under legal proceedings. The Group has made repayment in accordance with the terms set out in the restructuring plan and principal amounting to RMB634,000,000 were repaid during the current year.

During the year ended 31 December 2018, the Group has negotiated with the financial institutions and PRC banks for restructuring plan in respect of short-term financing bills in the principal amount of RMB490,000,000, including the principal amount of RMB360,000,000 previously under legal proceedings. According to the restructuring plans, the outstanding short-term financing bills of RMB30,000,000 were repaid during the year ended 31 December 2018.

As at 31 December 2018, the Group has successfully reached agreements with all holders of short-term financing bills to restructure the repayment terms.

– The outstanding short-term financing bills of RMB280,250,000 and RMB494,000,000 will be repayable in 2019 and after 2019 respectively, of which, short-term financing bills with principal of RMB98,250,000 is interest-free and short-term financing bills with principal of RMB676,000,000 carries interest at 4.50%–7.67% per annum on the condition that the Group fully complies with the revised repayment plan.

Besides, under the restructuring plans, the PRC banks and financial institutions 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 short-term financing bills principal and interest related to short term financing bills of RMB2,390,000 and RMB154,406,000 respectively has been recognised as other income in profit and loss in 2018.

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

(iv) Certain assets of the Group have been frozen by the PRC Courts in respect of the litigations relating to other borrowings, long-term bonds and certain sales or purchases contracts. As at 31 December 2018, RMB13,814,000 (2017: RMB43,589,000) of cash and cash equivalents (see note 22), RMB5,664,792,000 (2017: RMB6,154,713,000) of investments in subsidiaries (see note 40), RMB35,578,000 (2017: RMB31,136,000) of land use rights (see note 14) and RMB82,229,000 (2017: RMB62,144,000) of fixed assets (see note 14) have been frozen by the PRC Courts.

25. LONG-TERM BONDS

	2018	2017
	RMB'000	*RMB'000*
Medium-term notes and other notes	**2,709,500**	3,582,716
Less: Current portion of medium-term notes and other note	**(1,338,000)**	(3,185,669)
Senior notes	**–**	2,791,766
Less: Current portion of senior notes	**–**	(2,791,766)
Long-term bonds, less current portion	**1,371,500**	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**	**Issue date**	**Maturity date**	**Original Interest rates**	**Original Interest payment term**	**Interest rates after restructuring plans**
	(RMB'000/USD'000)			*(per annum)*		*(per annum)*
(a) Medium-term notes issued in the PRC inter-bank market *(note (i))*						
Shandong Shanshui	RMB1,138,000 (2017: RMB1,601,216)	18/01/2013	21/01/2016	5.44%	annually	0%–7.67% (2017: 0%–7.67%)
Shandong Shanshui	RMB846,500 (2017: RMB965,000)	27/02/2014	27/02/2017	6.10%	annually	0%–7.67% (2017: 0%–7.67%)
Shandong Shanshui	RMB725,000 (2017: RMB1,016,500)	09/05/2014	12/05/2017	6.20%	annually	0%–7.67% (2017: 0%–7.67%)
(b) Senior notes issued in the Stock Exchange of Hong Kong Limited *(note (iii))*						
The Company	USD nil (2017: USD427,253)	11/03/2016	10/03/2020	7.50%	semi-annually	7.50% (2017: 7.50%)

As at 31 December 2018 and 31 December 2017, all of the medium-term notes issued by Shandong Shanshui are overdue.

25. LONG-TERM BONDS *(CONTINUED)*

Notes:

(i) Several financial institutions have commenced legal proceedings against the Group to demand immediate repayment of the overdue principal amounts of medium-term notes of approximately RMB1,300,000,000 plus any interest, penalty interest and expenses incurred during the litigation. As at 31 December 2018, the status of these litigations is as follows:

- All of the above mentioned litigations have been judged by the PRC Court, with the Court ordering the Group to repay the overdue principal, the related interest, penalty interest and expenses incurred during the litigation.

- During the year ended 31 December 2017, the Group has negotiated with the holders of medium-term notes for extension of repayment of principal amounting to RMB521,000,000 and RMB397,000,000 to be repaid in 2018 and after 2018 respectively, including the principal amounting to RMB800,000,000 previously under legal proceedings. The Group has made repayment in accordance with the terms set out in the restructuring plans and repaid principal of RMB347,000,000 during the year. Under the restructuring plans, the medium-term note holders have agreed to waive portion of the interest and penalty interest accrued on the principal amounts up to the date of the restructuring plan to the medium-term notes on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule.

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

- During the year ended 31 December 2018, the Group has negotiated with medium-term note holder for extension and restructuring plan in respect of notes in the principal amount of RMB2,665,000,000, including the principal amount of RMB1,300,000,000 which was previously under legal proceedings.

  According to the restructuring plans, the Group was discharged from the liabilities of certain principal amounting to RMB8,373,000. The Group has made repayment in accordance with the terms set out in the restructuring plans and repaid principal of RMB873,000,000 during the year ended 31 December 2018. The remaining outstanding medium-term notes of RMB1,338,000,000 and RMB1,371,500,000 will be repayable in 2019 and after 2019 respectively of which, medium-term notes with principal of RMB200,000,000 is interest-free and medium-term notes with principal of RMB2,509,500,000 interest at 5.44%–7.67% per annum on the condition that the Group fully complies with the revised repayment plans.

  Besides, under the restructuring plans, the PRC banks and financial institutions have agreed to waive portion of the interest and penalty interest accrued on the principal amounts up to date of the restructuring plan to the medium-term note on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. The waived medium-term notes principal and interest related to medium-term notes of RMB2,000,000 and RMB105,337,000 respectively has been recognised as other income in profit or loss in 2018.

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

(iii) The Company issued senior notes with principal of USD500,000,000 (five-year period) to corporate investors in the Stock Exchange on 11 March 2015 (the "2020 Notes"). The 2020 Notes bear fixed interest of 7.5% per annum payable semi-annually.

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

During the year ended 31 December 2018, the Group fully repaid the senior notes by making payment of USD424,249,000 for distribution to the holder of the tendered notes. The payment represented 101% of the original principal and the accrued unpaid interests.

26. TRADE PAYABLES

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**1,800,360**	1,621,293
3 to 6 months	**479,353**	404,311
6 to 12 months	**203,713**	173,232
Over 12 months	**756,708**	1,027,071
	3,240,134	3,225,907

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

As at 31 December 2018, certain suppliers and third parties have initiated lawsuits against the Group to demand immediately settlement of trade payables with carrying amount of RMB200,528,000 (2017: RMB326,059,000) as at 31 December 2018 plus interest for late payment, if any. As of the date of the approval of this consolidated financial statement, the status of these litigations is as follows:

Certain litigations with carrying amount of RMB158,508,000 (2017: RMB231,126,000) have been judged by the PRC Court, with the Court ordering the Group to settle the trade payables, the related interest, penalty interest and expenses incurred during the litigation. Certain litigations with carrying amount of RMB42,020,000 (2017: RMB94,933,000) are still in progress.

The management are continuing to negotiate with the suppliers to settle these amounts out of court. No adjustments have been made to the consolidated financial statements to accrue for any potential interest or other penalties that may arise through the Courts if the negotiations are not successful, as the directors of the Company consider that the eventual outcome of these litigations cannot presently be determined, given their preliminary status.

27. OTHER PAYABLES AND ACCRUED EXPENSES AND LONG TERM PAYABLES

(a) Other payables and accrued expenses

	Notes	**31 December 2018** ***RMB'000***	**1 January 2018 RMB'000**	31 December 2017 *RMB'000*
Customer deposits and receipts in advance		**–**	**–**	676,712
Contract liabilities *(note (iv))*		**644,759**	**676,712**	–
Accrued payroll and welfare		**324,062**	**314,268**	314,268
Taxes payable other than income tax		**114,277**	**77,678**	77,678
Staff compensation and termination provisions	28(b)	**163,996**	**185,116**	185,116
Amounts due to related parties	38(c)	**917,795**	**742,308**	742,308
Payable to ex-shareholders of acquired subsidiaries		**97,712**	**109,507**	109,507
Acquisition consideration payable *(note (i))*		**182,383**	**210,049**	210,049
Current portion of long-term payables		**1,266**	**1,944**	1,944
Acquisition of property, plants and equipment		**10,695**	**19,151**	19,151
Accrued expenses and other payables *(note (iii))*		**1,230,019**	**1,551,789**	1,551,789
		3,686,964	**3,888,522**	3,888,522

Notes:

(i) Included in the balance is amounts payable for the acquisition of Xinghao Cement, Dalian Heyuan Investment and Liaocheng Meijing Zhongyuan Cement amounting to RMB101,705,000, RMB50,000,000 and RMB30,678,000, respectively. The previous shareholder of Xinghao Cement and Liaocheng Meijing Zhongyuan Cement has sued the Group to settle the unpaid acquisition consideration payable 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 RMB33,000,000 as at 31 December 2017 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 was withdrawn by the Group during the current year and accordingly, the amount was fully settled during the year.

(ii) As at 31 December 2018, certain suppliers and third parties have lawsuits against the Group to demand immediately settlement of other payables with carrying amount of RMB368,311,000 (2017: RMB182,941,000) plus interest for late payment, if any. As of the date of the approval of this consolidated financial statement, certain litigations related to other payables with carrying amount of RMB240,304,000 (2017: RMB2,037,000) have been judged by the PRC Court, with the Court ordering the Group to settle the other payables, the related interest, penalty interest and expenses incurred during the litigation. Certain litigations related to other payables with carrying amount of RMB128,007,000 (2017: RMB180,904,000) are still in progress.

(iii) Included in accrued expenses and other payables are interest payables, payable for mine management, contract guarantee received of RMB664,618,000, RMB134,416,000, and RMB123,028,000 respectively (2017: RMB944,710,000, RMB126,146,000 and RMB83,421,000 respectively).

27. OTHER PAYABLES AND ACCRUED EXPENSES AND LONG TERM PAYABLES (CONTINUED)

(a) Other payables and accrued expenses (Continued)

Notes: (Continued)

(iv)

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Contract liabilities			
Sales of cement	534,917	582,276	
Sales of clinker	60,716	57,204	–
Sales of concrete	19,701	16,040	–
Sales of other products	29,425	21,192	–
	644,759	676,712	–

The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018. Upon the adoption of IFRS 15, amounts previously included as "Customer deposits and receipts in advance" were reclassified to contract liabilities. All contract liabilities are expected to be recognised as income within one year.

The Group typically received full payment from customers for sales of cement, clinker, concrete and other products before the customers obtain the control of the cement products which give rise to contract liabilities at the start of a contract, until the revenue recognised upon the pass of controls.

Movements in contract liabilities for the year ended 31 December 2018 are as follows:

	RMB'000
At 1 January 2018	676,712
Revenue recognised that was included in the contract liabilities at the beginning of the year	(676,712)
Forward sales deposits and instalments received during the year	644,759
At 31 December 2018	644,759

(b) Long term payables

Long term payables mainly represented reclamation cost for environmental restoration and payable to constructions in amount of RMB280,487,000 (2017: RMB20,347,000).

28. EMPLOYEE BENEFITS

(a) Defined contribution retirement plans

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial government authorities for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 20% to 24% of the salaries, wages and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date.

The Group has no other material obligation for the payment of pension benefits associated with these plans and other post-retirement beyond the annual contributions described above.

(b) Staff compensation and termination provision

	Note	**2018** **RMB'000**	2017 *RMB'000*
Staff compensation and termination provision	27	**163,996**	185,116

Note: Pursuant to relevant agreements with related local governments entered into when Shandong Shanshui changed from being a state-owned enterprise to being a privately-owned enterprise, certain employees of certain subsidiaries of the Group are entitled to receive compensation and termination pay relating to their past employment prior to the change in status. Such amounts are required to be paid to the employees as soon as they cease to be employed by the Group. These amounts are included in other payables and accrued expenses in the consolidated statement of financial position (see note 27).

(c) Defined benefit obligations

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

	2018 **RMB'000**	2017 *RMB'000*
Present value of the defined benefit obligations	**136,640**	137,070

The balance represents the provision for the post-employment benefits according to the non-cancellable staff relocation plans agreed in respect of Shandong Shanshui, Weifang Shanshui, Qianshan Cement (excluding the compensation stated in note 28(b)) and Liaoning Shanshui. The Group's obligations in respect of the defined benefit obligations at the end of the reporting period were reviewed by a qualified independent actuary, using the projected unit credit actuarial cost method.

28. EMPLOYEE BENEFITS (CONTINUED)

(c) Defined benefit obligations (Continued)

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

	2018	2017
	RMB'000	*RMB'000*
At 1 January	**137,070**	156,773
Remeasurements	**4,870**	(13,530)
Payments	**(11,290)**	(11,643)
Current service cost	**750**	940
Interest expense	**5,240**	4,530
At 31 December	**136,640**	137,070

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

	2018	2017
	RMB'000	*RMB'000*
Interest expense (recognised as finance cost)	**5,240**	4,530
Current service cost (recognised as administrative expenses)	**750**	940
Total amounts recognised in profit for the year	**5,990**	5,470
Actuarial loss/(gain) recognised in other comprehensive income for the year	**4,870**	(13,530)
Total defined benefit costs	**10,860**	(8,060)

28. EMPLOYEE BENEFITS (CONTINUED)

(c) Defined benefit obligations (Continued)

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

	2018	2017
Discount rate	**3.25%**	4.00%
Annual growth rate of cost of living	**3.00% – 10.00%**	3.00% – 10.00%
Social average salary increase rate	**10.00%**	10.00%
Average expected remaining working life of eligible employees	**7 years**	9 years

The below analysis shows how the defined benefit obligation as at 31 December 2018 would have (increase)/decrease as a result of 0.5% change in the significant actuarial assumptions:

Discount rate	**2018** ***RMB'000***	2017 *RMB'000*
Effect on defined benefit obligation		
– Increase in 0.5%	**(6,290)**	(6,010)
– Decrease in 0.5%	**6,880**	6,550

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

29. DEFERRED INCOME

	2018	2017
	RMB'000	*RMB'000*
At 1 January	**266,807**	273,298
Additions	**–**	10,989
Recognised in consolidated statement of profit or loss	**(18,504)**	(17,480)
At 31 December	**248,303**	266,807

Deferred income mainly represents the PRC local government grants received from relevant PRC authorities for fixed asset investments, such as cement and clinker plants and residual heat generation plants. The subsidies are recognised in the consolidated statement of profit or loss over the estimated useful lives of the respective fixed assets. There are no unfulfilled conditions and contingencies relating to the grants.

30. CONVERTIBLE BONDS

On 6 August 2018 and 30 August 2018, the Company and independent subscribers ("CB Subscribers") entered into agreements (the "CB Agreements"), pursuant to which the Company has conditionally agreed to issue, and the CB Subscribers have conditionally agreed to subscribe for the convertible bonds ("CB") in the aggregate principal amounts of US$210,900,000 and US$320,700,000 respectively (equivalent to approximately RMB1,444,665,000 and RMB2,196,795,000 respectively). The CB Agreements were completed on 8 August 2018 and 3 September 2018 (the "Issue Dates"). The initial conversion price is HK$6.29 per share.

30. CONVERTIBLE BOND (CONTINUED)

The CB, shall upon their issuance, constitute a direct, unconditional, unsecured and unsubordinated obligation of the Company and rank pari passu and rateably without preference (with the exception of obligations in respect of taxes and certain other statutory exceptions) with all other unsecured and unsubordinated obligations of the Company.

The CB holder has the right to convert the principal amount of the CB into fully-paid ordinary shares of the Company at any time during the period commencing upon (i) the grant of approval for the listing of and permission to deal in the conversion shares by the Listing Committee of the Stock Exchange, with such approval being unconditional or subject to conditions to which neither the CB issuer and CB Subscribers shall reasonably object; or (ii) the cancellation of listing; and ending on and including, the date falling on the seven business days prior to the maturity Date of the CB.

Unless previously redeemed, converted or purchased and cancelled, the CB holders shall have the right, to be exercised in its sole discretion, to require the Company to redeem all of the outstanding principal amount of the CB that it holds at the early redemption amount (which equals 110% of the outstanding principal amount of the CB) plus accrued interest in respect of the outstanding principal amount of the CB, upon the occurrence of a triggering event (the change of control of the Company as defined under the Takeover Code or material change of the use of proceed).

The Company has the right to convert the outstanding principal amount of the CB into fully-paid ordinary shares of the Company at any time during the period commencing from 19th month following the issue date and up to inclusive of 7 business days prior to the maturity date upon (i) the grant of approval for the listing of and permission to deal in the conversion shares by the Listing Committee of the Stock Exchange, with such approval being unconditional or subject to conditions to which neither the Company nor Subscriber shall reasonably object; or (ii) the cancellation of listing. In the event that the Company elects to exercise the conversion right, it shall pay to each CB holder an amount equal to the interest that would have accrued on the CB of the holder from the date on which the Company elects to exercise the conversion right (the "Company Conversion Date") to the next anniversary date after the Company Conversion Date.

The CB contains two components, debt component and derivatives (including conversion and early redemption options) component. The effective interest rate of the debt component is 13%. The derivative components are financial assets or financial liabilities because the early redemption options is non-closely related to the economic characteristics and risks of the host. Hence, the conversion option is not an equity component. These derivatives are measured at fair value with charges in fair value subsequent to the initial recognition recognised in profit or loss.

30. CONVERTIBLE BOND (CONTINUED)

On 6 October 2018, the Company entered into deed of amendments with the CB Subscribers to amend the terms of CB to allow for early conversion of certain CB at the option of the issuer, during the period commencing on (and including) the date on which the listing of the shares issued upon early conversion has been approved by the Stock Exchange and the issuance of the early conversion shares has been approved by the shareholders of the Company. US$456,000,000 in principal amount out of the total outstanding principal amount of the CB of US$531,600,000 was converted into fully paid ordinary shares on 30 October 2018.

The movement of the components of the convertible bonds for the year ended 31 December 2018 is set out below:

	Debt component *RMB$'000*	Derivative component *RMB$'000*	Total *RMB$'000*
Issuance of the convertible bond	**4,290,471**	**(649,011)**	**3,641,460**
Interest charge	**108,302**	**–**	**108,302**
Derecognition of original financial liability upon modification of terms	**(3,816,821)**	**655,100**	**(3,161,721)**
Fair value change	**–**	**(236,190)**	**(236,190)**
Exchange realignment	**51,148**	**(16,103)**	**35,045**
At 31 December 2018	**633,100**	**(246,204)**	**386,896**

The debt component convertible bonds are classified as non-current liabilities while the derivative component is classified as current assets in the consolidated financial statements as at 31 December 2018.

The fair values of the Group's derivative components at the date of grant of the convertible bonds, date of amendment of convertible bonds coming into effect and 31 December 2018 have been arrived at on the basis of a valuation carried out on the respective dates by an independent qualified professional valuer not connected to the Group. The fair value was determined based on Monte-Carlo model. The key input used in the model are disclosed in note 34(c).

31. DEFERRED TAXATION

(a) Deferred tax assets and liabilities recognised

Movements in deferred tax assets and liabilities for the years ended 31 December 2018 and 31 December 2017 are as follows:

	At 1 January 2017 *RMB'000*	Recognised in profit or loss *RMB'000* *(note 10(a))*	Recognised in other comprehensive income *RMB'000*	At 31 December 2017 *RMB'000*	**Recognised in profit or loss** ***RMB'000***	**At 31 December 2018** ***RMB'000***
Deferred tax assets						
Intra-group unrealised profits	47,976	2,024	–	50,000	**(4,402)**	**45,598**
Depreciation of property, plant and equipment	3,250	(604)	–	2,646	**5,757**	**8,403**
Tax loss *	6,693	(5,990)	–	703	**514**	**1,217**
Impairment losses for property, plant and equipment	6,879	6,047	–	12,926	**14,853**	**27,779**
Deferred income	35,778	(1,309)	–	34,469	**(1,058)**	**33,411**
Accrued bonus	22,226	(14,226)	–	8,000	**(8,000)**	**–**
Long-term payables	8,260	(464)	–	7,796	**28,115**	**35,911**
Accrued expenses	2,593	–	–	2,593	**(542)**	**2,051**
Impairment losses of trade and bills receivable	3,730	6,698	–	10,428	**(4,456)**	**5,972**
Intangible assets	–	4,807	–	4,807	**(2,974)**	**1,833**
	137,385	(3,017)	–	134,368	**27,807**	**162,175**
Deferred tax liabilities						
Change in fair value of available-for-sale securities	(1,600)	–	(142)	(1,742)	**1,742**	**–**
Fixed assets	(67,141)	(8,764)	–	(75,905)	**(18,057)**	**(93,962)**
Intangible assets	(787)	787	–	–	**–**	**–**
	(69,528)	(7,977)	(142)	(77,647)	**(16,315)**	**(93,962)**
Total	67,857	(10,994)	(142)	56,721	**11,492**	**68,213**

* Deferred tax assets in respect of unused tax losses are related to subsidiaries that were established in recent years. They are now processing to their normal producing stage and are creating profits. Accordingly, it is considered probable that sufficient taxable profits will be available in the future to utilise their unused tax losses before they expire.

31. DEFERRED TAXATION (CONTINUED)

(a) Deferred tax assets and liabilities recognised (Continued)

Reconciliation to the consolidated statement of financial position

	2018	2017
	RMB'000	*RMB'000*
Net deferred tax assets recognised in the consolidated statement of financial position	**159,649**	159,335
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(91,436)**	(102,614)
	68,213	56,721

(b) Tax losses and deductible temporary differences not recognised

As at 31 December 2018, the Group did not recognise deferred tax assets in respect of unused tax losses and deductible temporary differences of certain PRC subsidiaries of RMB2,586,699,000 and RMB151,684,000 (2017: RMB2,620,476,000 and RMB315,668,000) respectively, as it is not probable that future taxable profits which the losses and deductible temporary differences can be utilised will be available. Included in unrecognised tax losses as at 31 December 2018 are losses of RMB246,972,000, RMB763,939,000, RMB620,668,000, RMB524,340,000 and RMB430,780,000 that will be expired in 2019, 2020, 2021, 2022 and 2023, respectively (2017: RMB148,848,000, RMB359,581,000, RMB982,866,000, RMB694,376,000 and RMB434,805,000 that will be expired in 2018, 2019, 2020, 2021 and 2022, respectively). Unrecognised tax losses amounting to RMB96,769,000 (2017: RMB48,602,000) was expired as at 31 December 2018.

(c) Deferred tax liabilities not recognised

Under the prevailing PRC income tax law and its relevant regulations, foreign corporate investors are levied PRC dividend withholding tax at 10%, unless reduced by tax treaties/arrangements, on dividends declared by PRC-resident enterprises for profits earned subsequent to 1 January 2008.

As at 31 December 2018, temporary differences relating to the undistributed profits of the Company's PRC subsidiaries amounted to RMB9,953,925,000 (2017: RMB7,047,672,000). Deferred tax liabilities of RMB995,392,500 (2017: RMB704,767,200) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

32. EQUITY SETTLED SHARE-BASED TRANSACTIONS

Pursuant to the written resolutions of the Company's shareholders passed on 14 June 2008, the Company has adopted the share option scheme ("the Share Option Scheme") whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, and any customer or supplier or any persons who has contributed or will contribute to the Group, to take up options at HKD1 consideration to subscribe for shares of the Company.

Pursuant to the written resolutions of the Company's board of director passed on 27 January 2016, the director of the Company has granted certain directors and employees of the Group to take up options to subscribe for 207,300,000 ordinary shares of the Company under the Share Option Scheme. The exercise price of these options is HKD3.68, being the weighted average closing price of the Company's ordinary shares immediately before the grant.

The terms and conditions of the grants are as follows:

	Number of instruments	**Vesting conditions**	**Contractual life of options**
Options granted to directors and employees:			
– On 25 May 2011	7,300,000	Immediately after the date of grant	10 years
– On 27 January 2015 *	207,300,000	Six months after the date of grant	10 years
Total share options granted	214,600,000		

* Of the 207,300,000 options granted by the Company on 27 January 2015 to certain directors and employees of the Company, 43,600,000 options were granted to Mr. Zhang Caikui and Mr. Zhang Bin, the ex-directors of the Company. According to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Share Option Scheme of the Company, the options granted to Mr. Zhang Caikui and Mr. Zhang Bin need to be approved by the Extraordinary General Meeting of the Company. However, up until the date of the approval of this consolidated financial statement, the required Extraordinary General Meeting has not been held as all the options granted on 27 January 2015 are subject to the legal proceedings set out in note 35. As the required Extraordinary General Meeting has not been held, the directors consider that the options granted to Mr. Zhang Caikui and Mr. Zhang Bin are not legally valid.

No options were exercised during the years ended 31 December 2018 and 2017.

33. CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	2018 & 2017	
	Number of share	**RMB equivalent**
		RMB'000
Ordinary shares of the Company of USD0.01 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 31 December 2018	10,000,000,000	701,472
Issued and fully paid:		
At 1 January 2017 and 31 December 2017	3,379,140,240	227,848
Issue of new shares *(note i)*	85,845,636	5,973
Conversion of convertible bonds *(note ii)*	888,980,352	61,850
At 31 December 2018	**4,353,966,228**	**295,671**

(i) On 6 October 2018, arrangement were made to allot and issue 85,845,636 new ordinary shares of the Company to various independent private investors of HK$4.20 per ordinary share, representing a discount of approximately 33.23% to the closing price of HK$6.29 per ordinary share as quoted on the Stock Exchange on the day immediately prior to the trading suspension of the shares of the Company. The net proceeds would mainly be used for the redemption of senior notes issued in the Stock Exchange, repayment of borrowing of the Group and general working capital. These new shares were issued under the special mandate granted to the directors at the adjourned annual general meeting and extraordinary general meeting of the Company held on 30 October 2018 and rank pari passu with other shares in issue in all respects.

(ii) Pursuant to the special mandate granted at the extraordinary general meeting of the Company held on 30 October 2018, CB in an aggregate principal amount of US$456,000,000 and the compensation for early conversion equal to the aggregate of (a) an amount equal to any unpaid interest, accrued, or that would have accrued in respect of the CB subject to early conversion; and (b) an amount equal to 1% of the principal amount outstanding of the CB subject to early conversion were converted into shares of US$0.01 each in the Company at the conversion price of HK$4.20 per share. Accordingly, an aggregate of 888,980,352 ordinary shares of US$0.01 each were allotted and issued by conversion of the convertible bonds.

The newly issued shares rank pari passu with other shares in issue in all respects.

33. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

The Board of Directors do not recommend the payment of a dividend for the year ended 31 December 2018 and the year ended 31 December 2017.

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

	2018	2017
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, declared and paid during the year	**–**	–

Pursuant to the Corporate Income Tax Law and the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China" (the "Implementation Rules"), the Company is likely to be required to withhold and pay corporate income tax for its non-resident enterprise shareholders to whom the Company pays the dividends for the year ended 31 December 2008. The Company withheld 10% corporate income tax of HKD21,305,000 when it distributed the dividends for the year ended 31 December 2008 to its non-resident enterprise shareholders.

The Company is still in the process of negotiating with the relevant PRC tax authorities in respect of this matter. If the relevant PRC tax authorities finally determine that the Corporate Income Tax Law and the Implementation Rules are not applicable to the Company, and hence no enterprise income tax should have been withheld, the Company will procure such tax, amounting to HKD21,305,000 (equivalent to RMB19,057,000) as at 31 December 2018, to be refunded to the relevant non-resident enterprise shareholders whose tax had been withheld pursuant to the arrangement above.

33. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Nature and purpose of reserves

(i) Share premium

The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands.

(ii) Statutory reserves

Statutory reserves of the Group were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserves were approved by the respective boards of directors. The statutory reserve consist of statutory reserve funds and maintenance and production funds.

For the entity concerned, statutory reserves fund can be used to offset accumulated losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance after such conversion is not less than 25% of the registered capital.

According to relevant PRC regulations, the Group is required to transfer an amount to specific reserve for the maintenance and production funds and other related expenditures.

(iii) Other reserves

Other reserves of the Group include:

(a) the differences of consideration over the net assets of subsidiaries acquired under common control in 2005;

(b) the differences of consideration over the net assets of non-controlling interests acquired by Shandong Shanshui in 2005;

(c) the difference between the nominal value of the share capital of the Company and the nominal value of the share capital and share premium of Shanshui Cement Hong Kong on the Share Swap; and

(d) the difference between the considerations of acquisition or disposal of equity interests from/to non-controlling equity owners and the carrying amount of the proportionate net assets.

33. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Nature and purpose of reserves (Continued)

(iv) Exchange reserve

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(v) Fair value reserve

The fair value reserve of the Group comprises the cumulative net change in the fair value of available-for-sale securities held as at 31 December 2017.

(d) Distributability of reserves

Under the Companies Law of the Cayman Islands, the funds in the share premium account and the accumulated losses account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

The Company is unable to make any distributions for the year ended 31 December 2018 due to the influence of the winding up petitions as disclosed in note 2. The Company was also unable to make any distributions for the year ended 31 December 2017 due to the inability to comply with certain covenants from the indentures of the senior notes issued by the Company.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all loans and borrowings as well as long-term bonds, as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as total equity plus net debt.

33. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) Capital management (Continued)

The gearing ratio of the Group is as follows:

	Notes	**2018** **RMB'000**	2017 RMB'000
Current liabilities:			
Short-term bank loans	23	**4,299,350**	4,790,599
Current portion of other borrowings	24	**281,159**	1,736,722
Current portion of long-term bonds	25	**1,338,000**	5,977,435
		5,918,509	12,504,756
Non-current liabilities:			
Convertible bonds	30	**633,100**	–
Other borrowings less current portion	24	**496,727**	403,841
Long-term bonds less current portion	25	**1,371,500**	397,047
		2,501,327	800,888
Total debt		**8,419,836**	13,305,644
Less: Cash and cash equivalents	22	**(1,303,943)**	(307,995)
Net debt		**7,115,893**	12,997,649
Total equity		**9,586,336**	4,017,531
Total capital		**16,702,229**	17,015,180
Gearing ratio*		**42.6%**	76.4%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

* Gearing ratio = net liabilities/ (net liabilities + equity of the Company).

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 **RMB'000**	2017 RMB'000
Financial assets		
At FVTPL	**51,681**	–
At amortised cost	**4,379,722**	–
Derivative financial instruments	**246,204**	–
Available-for-sale financial assets	**–**	9,229
Loans and receivables (including bank balances and cash)	**–**	3,242,362
	4,677,607	3,251,591
Financial liabilities		
Amortised cost	**14,982,662**	19,763,708

(b) Financial risk management objectives and policies

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(i) Credit risk and impairment assessment

The Group's credit risk is primarily attributable to trade and bills receivable. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Generally, the Group requires full payment upon delivery of goods for sales of cement, clinker and bubble bricks. Credit sales with general credit period of 30 to 60 days are occasionally allowed to certain selected customers with good credit histories and significant transaction amount. Settlement with bank acceptance notes with maturity within three to six months is also acceptable. For sales of pipes and concrete, the Group allows a credit period ranging from 90 days to 180 days.

34. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(i) Credit risk and impairment assessment (Continued)

The Group generally does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In respect of trade and bills receivable for sales of cement, clinker and bubble bricks, individual credit evaluations are only performed when the customers required credit. In respect of trade and bills receivable for sales of pipes and concrete, individual credit evaluations are performed on all customers requiring credit over a certain amount. In order to minimise the credit risk, the management of the Group has delegated a team responsible for evaluations and determination of credit limits and credit approvals. These evaluations focus on the customer's construction project size, the customer's payment history take into account information specific to the customer, as well as pertaining to the economic environment in which the customer operates. For sales of pipes and concrete, debtors with balances that are more than six months past due are requested to settle all outstanding balances before any further credit is granted. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risks on bank balances are limited because the counterparties are banks/ financial institutions with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical location is mainly in the PRC as at 31 December 2018 and 2017. Other than that, the Group does not have any other significant concentration of credit risk.

34. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(i) Credit risk and impairment assessment (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade and bills receivables	Other financial assets
Low Risk	The aging of the exposure at default ("EAD") is less than 60 days. Based on Management's assessment of debtor's typical project and payment processes, aging of EAD of less than 60 days is considered current.	Lifetime ECL– not credit-impaired	12m ECL
Fair Risk	The aging of EAD is less than 1 year. Based on Management's assessment of debtor's typical payment process in the industry, aging of EAD of less than 1 year is considered reasonable.	Lifetime ECL– not credit-impaired	12m ECL
Substandard	The risk of non-payment increases as the time period is longer than normal expected process.	Lifetime ECL– not credit-impaired	Lifetime ECL– not credit-impaired
Doubtful	Indicates the aging of the debtor is within 2-3 years, the recovery of complete payments may be difficult.	Lifetime ECL– credit-impaired	Lifetime ECL– not credit-impaired
Loss	Indicates the aging of the debtor is more than 2 years, the recovery of complete payment becomes unlikely.	Lifetime ECL– credit-impaired	Lifetime ECL– not credit-impaired

34. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(i) Credit risk and impairment assessment (Continued)

Financial asset with credit risk exposure

Trade and bills receivables

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its business operation. The Group measures loss allowance for trade receivables at an amount equal to lifetime ECLS, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significant different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade and bills receivables and contracts asset as at 31 December 2018:

	Expected loss rate	Gross carrying amount *RMB'000*	Loss allowance *RMB'000*
Type 1: Customers within the Group expected that they will pay on time:			
Grade 1 – Low risk	0.00%	1,324,851	2
Grade 2 – Fair risk	2.92%	505,382	14,797
Grade 3 – Substandard	13.23%	239,451	31,680
		2,069,684	46,479
Type 2: Credit impaired customer:			
Grade 4 – Doubtful	35.32%	32,817	11,592
Grade 5 – Loss	50.00%	146,762	73,381
		179,579	84,973
Type 3: Other customers:			
Assessed individually	94.32%	156,994	148,081
		2,406,257	279,533

34. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(i) Credit risk and impairment assessment (Continued)

Financial asset with credit risk exposure (Continued)

Trade and bills receivables (Continued)

The estimated loss rates are estimated based on historical observed default rate over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtor is updated.

Movement in the loss allowance account in respect of trade and bills receivables during the year is as follows:

	RMB'000
As at 31 December 2017 under IAS 39 and 1 January 2018 under IFRS 9	254,275
Impairment losses recognised	81,841
Impairment losses reversed	(55,939)
Uncollectible amount written off	(644)
At 31 December 2018	279,533

34. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(i) Credit risk and impairment assessment (Continued)

Financial asset with credit risk exposure (Continued)

Other receivables

The Group measures the loss allowance equal to 12m ECL of other receivables. For those balances expected to have significant increase in credit risk since initial recognition, the Group apply lifetime ECL based on aging for classes with different credit risk characteristics and exposures.

The following table provides information about the Group's exposure to credit risk and ECL for other receivables as at 31 December 2018:

	Expected loss rate	Gross carrying amount *RMB'000*	Loss allowance *RMB'000*
Grade 1 – Low risk	**0.00%**	**357,328**	**3**
Grade 2 – Fair risk	**2.12%**	**22,432**	**477**
Grade 3 – Substandard	**20.32%**	**14,914**	**3,030**
Grade 4 – Doubtful	**32.87%**	**38,428**	**12,632**
Grade 5 – Loss	**100.00%**	**494,312**	**494,312**
		927,414	**510,454**

34. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(i) Credit risk and impairment assessment (Continued)

Financial asset with credit risk exposure (Continued)

Other receivables (Continued)

Movement in the loss allowance account in respect of other receivables during the year is as follows:

	RMB'000
As at 1 January 2018 under IFRS 9/IAS 39	492,688
Impairment losses recognised	64,487
Impairment losses reversed	(46,721)
At 31 December 2018	510,454

Financial guarantee contract

At the end of the reporting period, the directors of the Company have performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contract. Accordingly, the loss allowance for financial guarantee contracts issued by the Group is measured at an amount equal to 12m ECL. No loss allowance was recognised as at 31 December 2018 in accordance with IFRS 9 as the amount is immaterial. Details of the financial guarantee contract are set out in note 36.

(ii) Liquidity risk

The Group's objective is to ensure continuity of sufficient funding and flexibility by utilising a variety of bank and other borrowings with debt maturities spreading over a range of periods, so that the Group's outstanding borrowing obligation is not exposed to excessive repayment risk in any one year.

Shandong Shanshui and the Company are responsible for the Group's overall cash management and the raising of borrowings in the mainland China or overseas market to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Note 2 explains management's plans for managing the liquidity needs of the Group to enable it to continue to meet its obligations as they fall due.

34. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(ii) Liquidity risk (Continued)

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2018 Contractual undiscounted cash outflow						
	Within 3 months or on demand *RMB'000*	More than 3 months but less than 6 months *RMB'000*	More than 6 months but less than 1 year *RMB'000*	More than 1 year but less than 5 years *RMB'000*	More than 5 years *RMB'000*	Total *RMB'000*	Carrying amount *RMB'000*
Bank loans *(note 23)*	4,299,350	–	–	–	–	4,299,350	4,299,350
Other borrowings *(note 24)*	46,244	102,902	148,965	605,711	–	903,822	777,886
Long-term bonds *(note 25)*	143,485	474,336	873,208	1,627,900	21,110	3,140,039	2,709,500
Trade payable *(note 26)*	3,240,134	–	–	–	–	3,240,134	3,240,134
Other payables and accrued expenses *(note 27)*	3,042,205	–	–	–	–	3,042,205	3,042,205
Long-term payables	–	–	–	1,920	278,567	280,487	280,487
Convertible bonds *(note 30)*	19,553	–	58,660	818,038	–	896,251	633,100
	10,790,971	577,238	1,080,833	3,053,569	299,677	15,802,288	14,982,662

	2017 Contractual undiscounted cash outflow						
	Within 3 months or on demand *RMB'000*	More than 3 months but less than 6 months *RMB'000*	More than 6 months but less than 1 year *RMB'000*	More than 1 year but less than 5 years *RMB'000*	More than 5 years *RMB'000*	Total *RMB'000*	Carrying amount *RMB'000*
Bank loans *(note 23)*	4,790,599	–	–	–	–	4,790,599	4,790,599
Other borrowings *(note 24)*	657,428	428,792	682,932	428,586	–	2,197,738	2,140,563
Long-term bonds *(note 25)*	6,018,845	200,240	256,930	429,769	–	6,905,784	6,374,482
Trade payable *(note 26)*	3,225,907	–	–	–	–	3,225,907	3,225,907
Other payables and accrued expenses *(note 27)*	3,211,810	–	–	–	–	3,211,810	3,211,810
Long-term payables	–	–	–	8,677	11,670	20,347	20,347
	17,904,589	629,032	939,862	867,032	11,670	20,352,185	19,763,708

34. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(ii) Liquidity risk (Continued)

The table below summarises the maturity analysis of bank loans with a repayment on cross demand clause based on agreed scheduled repayments set out in the loan agreements. the amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis contained in the above table.

The directors of the Company do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment. the directors of the Company believe that such bank loans of the Group will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity analysis – Bank loans					
	Within 3 months or on demand	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2018						
Bank loans	**80,000**	**1,278,153**	**2,274,617**	**872,046**	**4,504,816**	**4,299,350**
At 31 December 2017						
Bank loans	1,090,740	2,291,249	1,393,812	123,116	4,898,917	4,790,599

(iii) Interest rate risk

Cash and cash equivalents, pledged bank deposits, bank loans, other borrowings, long-term bonds and convertible bonds are the major types of the Group's financial instruments subject to interest rate risk.

The Group is exposed to fair value interest rate risk in relation to fixed-rate loans to third parties, bank loans, other borrowings and long-term bonds. (see notes 23, 24 and 25 respectively for details of these borrowings). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 22 for details) and variable-rate bank loans (see note 23 for details). The Group cash flow interest rate risk is mainly concentrated on the fluctuation of base rate announced by the People's Bank of China or applicable market rates arising from the Group's Renminbi denominated borrowings. The management does not anticipate fluctuation of interest rate to have significant impact to cash and cash equivalents and pledged bank deposits because the interest rates of the bank deposits are not expected to change significantly. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

34. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(iii) Interest rate risk (Continued)

Interest rate profile

The following table details the interest rate profile of the Group's interest-bearing bank loans, other borrowings, long-term bonds and convertible bonds at the end of the reporting period.

	2018		2017	
	Effective interest rate		Effective interest rate	
	%	***RMB'000***	*%*	*RMB'000*
Fixed rate borrowings:				
Bank loans	**5.08%–7.00%**	**1,477,000**	5.5%–10.1%	1,390,948
Other borrowings	**0%–4.89%**	**774,250**	0%–7.67%	2,136,016
Long-term bonds	**0%–9.06%**	**2,709,500**	0%–7.67%	6,374,481
Convertible bonds	**13.00%**	**633,100**	–	–
		5,593,850		9,901,445
Variable rate borrowings:				
Bank loans	**4.22%–5.22%**	**2,822,350**	4.53%–7.83%	3,399,650
Other borrowings	**1.61%**	**3,636**	1.8%	4,545
		2,825,986		3,404,195
Total borrowings		**8,419,836**		13,305,640
Net fixed rate borrowings as a percentage of total borrowings		**66%**		74%

34. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(iii) Interest rate risk (Continued)

Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and accumulated losses by approximately RMB35,173,000 (2017: increase/decrease loss after tax by RMB36,992,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and accumulated losses) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and in respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2017.

(iv) Currency risk

The Group does not have significant currency risk.

The Group did not hedge its foreign currency exposure other than by retaining its foreign currency denominated earnings and receipts to the extent permitted by the State Administration of Foreign Exchange. However, the management monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

34. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(v) Equity price risk

The Group is exposed to equity price changes primarily arising from the investments in equity securities measured at FVTPL (2017: available-for-sale equity investments) (see note 17).

For equity securities measured at FVTPL (2017: available-for-sale investments) quoted in the Shanghai Stock Exchange, the investments have been chosen by the management based on its longer term growth potential and is monitored regularly by the management for performance against expectations.

At 31 December 2018, it is estimated that an increase/decrease of 50% (2017: 50%) in the relevant stock price (for listed investment), with all other variables held constant, would have increased/decreased the Group's profit after tax (and accumulated losses) and other components of equity as follows:

	2018			2017		
	Increase/ (decrease) in the relevant risk variable rates	**(Increase)/ decrease in accumulated losses** *RMB'000*	**(Increase)/ decrease in on other components of equity** *RMB'000*	Increase/ (decrease) in the relevant risk variable rates	(Increase)/ decrease in accumulated losses *RMB'000*	(Increase)/ decrease in on other components of equity *RMB'000*
Change in the stock price of the listed investment	**50%**	**–**	**2,786**	50%	–	2,988
	(50%)	**(2,786)**	**–**	(50%)	(2,988)	–

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and accumulated losses) that would arise assuming that the changes in the stock price had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock price, that none of the Group's available-for-sale securities would be considered impaired as a result of the decrease in the relevant stock price, and that all other variables remain constant. The analysis is performed on the same basis for 2017.

34. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and liabilities.

(i) Fair value measurement and valuation process

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. The management of the Group will determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

34. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurements of financial instruments (Continued)

(ii) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

	Financial assets	Fair value as at 31/12/2018 *RMB'000*	Fair value as at 31/12/2017 *RMB'000*	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to the fair value
1	Equity securities listed in the PRC classified as financial assets at FVTPL (2017: classified available-for-sale financial assets)	7,429	7,968	Level 1	Quoted bid prices in an active market	N/A	N/A
2	Unquoted equity investments in PRC non-listed companies classified as financial assets at FVTPL (2017: classified as available-for-sale financial assets)	44,252	N/A	Level 3	Adjusted net asset value	The fair value of net assets of the investee	The increase in net asset value would increase in fair value
3	Derivative component of convertible bonds	246,204	N/A	Level 3	Monte-Carlo method	Expected volatility: 38%-39%	The higher the expected volatility, the lower the fair value.
						Risk-free rate: 1.88%-2.72%	The higher the risk-free rate, the higher the fair value.

34. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurements of financial instruments (Continued)

(iii) Reconciliation of Level 3 fair value measurements

	Unlisted equity securities *RMB'000*	Derivative component of convertible bonds *RMB'000*
At 1 January 2018 under IFRS9	1,261	–
Payments for acquisitions	32,857	–
Issuance of convertible bonds	–	649,011
Derecognition of original financial liability upon modification of terms	–	(655,100)
Fair value gain (included in profit or loss)	10,134	236,190
Exchange realignment	–	16,103
At 31 December 2018	44,252	246,204

(iv) Fair values of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors of the Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their corresponding fair values.

35. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2018 not provided for in the consolidated financial statements were as follows:

	2018 *RMB'000*	2017 *RMB'000*
Capital expenditure in respect of the acquisitions of fixed assets authorised and contracted for but not provided for in the consolidated financial statements	**321,051**	270,497

35. COMMITMENTS (CONTINUED)

(b) At the end of the reporting period, the total future minimum lease payments under non-cancellable operating lease are payable as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Within 1 year	**9,561**	17,611
After 1 year but within 2 years	**7,367**	4,657
After 2 years but within 5 years	**14,348**	12,597
After 5 years	**67,531**	62,950
	98,807	97,815

The Group leases a number of pieces of land and port storage spaces under non-cancellable operating leases. The leases typically run without any contingent lease terms, nor do the lease agreements contain any terms that may require higher future rental payments, restrictions on dividends, additional liabilities, or other terms.

36. CONTINGENT LIABILITIES AND OTHER EVENTS

(a) Guarantee issued

(i) 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 RMB400,000,000 to Tianrui Group. The guarantee will expire in 2019.

36. CONTINGENT LIABILITIES AND OTHER EVENTS (CONTINUED)

(b) Litigation contingencies

(i) Shandong Shanshui and Pingyin Shanshui have provided guarantees on behalf of Shanshui Heavy Industries, an associate of the Group, for its bank loan with the principal of RMB300,000,000. The bank loan of Shanshui Heavy Industries bears an interest rate quoted by the People's Bank of China and is repayable within five years from 2015. The guarantees will expire two years after the agreed repayment date.

Certain land use rights and properties of Shanshui Heavy Industries have been seized by the court. The directors of the Company consider the fair values of the seized assets is in excess of RMB300,000,000. In the opinion of the directors of the Company, no provision for this claim is needed accordingly.

(ii) As at 31 December 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 RMB10,097,000 which have yet been concluded. No provision for these litigation claims was made in the consolidated financial statements for the year ended 31 December 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 31 December 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 31 December 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 litigations will not have any material impact on the financial position of the Group.

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Other payables *(note 27)* *RMB'000*	Bank loans *(note 23)* *RMB'000*	Other borrowings *(note 24)* *RMB'000*	Long-term bonds *(note 25)* *RMB'000*	Convertible bond *(note 30)* *RMB'000*	Total *RMB'000*
At 1 January 2017	482,033	5,074,250	2,775,455	7,193,863	–	15,525,601
Loans from shareholders	277,268	–	–	–	–	277,268
Repayment of loans to shareholders	(31,974)	–	–	–	–	(31,974)
Proceeds from new bank loans	–	284,700	–	–	–	284,700
Repayment of bank loans	–	(568,351)	–	–	–	(568,351)
Repayment of other borrowings	–	–	(633,159)	–	–	(633,159)
Repayment of long-term bonds	–	–	–	(645,034)	–	(645,034)
Total changes from financing cash flow	245,294	(283,651)	(633,159)	(645,034)	–	(1,316,550)
Waiver of principal	–	–	(1,733)	(2,250)	–	(3,983)
Exchange differences	(30,581)	–	–	(172,097)	–	(202,678)
At 31 December 2017	696,746	4,790,599	2,140,563	6,374,482	–	14,002,390

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (CONTINUED)

	Other payables *(note 27)* *RMB'000*	Bank loans *(note 23)* *RMB'000*	Other borrowings *(note 24)* *RMB'000*	Long-term bonds *(note 25)* *RMB'000*	Convertible bonds *(note 30)* *RMB'000*	Total *RMB'000*
At 1 January 2018	696,746	4,790,599	2,140,563	6,374,482	–	14,002,390
Loans from shareholders	150,541	–	–	–	–	150,541
Proceeds from new bank loans	–	1,381,950	–	–	–	1,381,950
Proceeds from issues of convertible bonds	–	–	–	–	3,641,460	3,641,460
Repayment of bank loans	–	(1,873,199)	–	–	–	(1,873,199)
Repayment of other borrowings	–	–	(1,360,287)	–	–	(1,360,287)
Repayment of long-term bonds	–	–	–	(3,579,788)	–	(3,579,788)
Total changes from financing cash flow	150,541	(491,249)	(1,360,287)	(3,579,788)	3,641,460	(1,639,323)
Waiver of principal	–	–	(2,390)	(2,000)	–	(4,390)
Recognition of derivative component on issuance of convertible bonds	–	–	–	–	649,011	649,011
Derecognition of original financial liability upon modification of terms	–	–	–	–	(3,816,821)	(3,816,821)
Interest expense	–	–	–	–	108,302	108,302
Exchange differences	36,062	–	–	(83,194)	51,148	4,016
At 31 December 2018	883,349	4,299,350	777,886	2,709,500	633,100	9,303,185

38. MATERIAL RELATED PARTY TRANSACTIONS

(a) During the years ended 31 December 2018 and 2017, transactions with the following parties are considered as related party transactions:

Name of party	Relationship
Tianrui Group	Non-controlling shareholder of the Company with significant influence
China Shanshui Investment	Non-controlling shareholder of the Company with significant influence
Dong'e Shanshui	Associate of the Group
Dashui Group	Associate of the Group
Shanshui Heavy Industries	Associate of the Group
Taiying Cement	Associate of the Group
Lianhe Cement	Associate of the Group
Banyang Limestone	Associate of the Group
Yunding Cement	Associate of the Group
Mengjixing Cement	Associate of the Group
Zhongxin Cement	Associate of the Group
Lianhe Huize	Associate of the Group

38. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties of the Group

	Notes	2018 RMB'000	2017 RMB'000
Recurring transactions			
Sales:			
– Dong'e Shanshui	(i)	**424**	2,097
– Dashui Group	(ii)	**–**	28,634
– Shanshui Heavy Industries		**–**	171
– Yunding Cement		**422,390**	444
– Chifeng Taiying Cement		**10,490**	–
– Zibo Lianhe Cement		**10,894**	–
– Mengjixing Cement		**5,810**	–
		450,008	31,346
Purchase:			
– Chifeng Taiying Cement		**1,981**	–
– Shanshui Heavy Industries		**6,000**	1,514
		7,981	1,514
Service and management fee paid:			
– Taiying Cement		**–**	1,756
– Lianhe Cement		**5,824**	11,500
– Banyang Limestone		**6,525**	21,680
– Yunding Cement		**8,118**	5,271
– Chifeng Taiying Cement		**300**	–
– Zhongxin Cement		**518**	–
– Lianhe Huize		**880**	–
– Mengjixing Cement		**661**	–
		22,826	40,207
Non-recurring transactions			
Loans to an associate and relevant interest income:			
– Dong'e Shanshui	(iii)	**315**	2,039

38. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties of the Group (Continued)

	Notes	2018 RMB'000	2017 RMB'000
Loans advanced from related parties and relevant interest expenses:			
– Tianrui Group	(iii)	**150,541**	277,268
Repayment of loans from related parties and related interests:			
– Tianrui Group		**–**	31,974
Interest and principal paid on behalf of related parties:			
– Shanshui Heavy Industries		**46,203**	18,188

Notes:

(i) These represent sales of coal and clinker to Dong'e Shanshui and purchases of clinker from Dong'e Shanshui. The directors of the Company are of the opinion that these transactions were conducted on normal commercial terms and in the ordinary course of business of the Group.

(ii) These represent sales of clinker to Dashui Group. The directors of the Company are of the opinion that these transactions were conducted on normal commercial terms and in the ordinary course of business of the Group.

(iii) These relate to loans and related interests from Tianrui Group. As at 31 December 2018, the outstanding loans with total principal of RMB883,349,000 (2017: RMB696,746,000) are interest free.

38. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties of the Group

	2018	2017
	RMB'000	*RMB'000*
Accounts receivable due from:		
– Dong'e Shanshui	**21**	–
– Shanshui Heavy Industries	**14,936**	18,764
	14,957	18,764
Advances to suppliers:		
– Dong'e Shanshui	**9**	9
– Shanshui Heavy Industries	**6,528**	6,526
– Chifeng Taiying Cement	**9**	–
	6,546	6,535
Other receivables due from:		
– China Shanshui Investment	**764**	729
– Chifeng Taiying Cement	**151**	–
– Shanshui Heavy Industries	**62,430**	23,483
– Mengjixing Cement	**39**	–
– Zhongxin Cement	**47**	–
– Dong'e Shanshui	**8**	5
– Lianhe Cement	**4,000**	4,000
– Banyang Limestone	**3,000**	3,000
– Dashui Group	**–**	3,000
– Yunding Cement	**–**	22
	70,439	34,239
	76,985	40,774

38. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties of the Group (Continued)

	2018	2017
	RMB'000	*RMB'000*
Other financial asset due from:		
– Dong'e Shanshui	**–**	38,421
Accounts payable due to:		
– Shanshui Heavy Industries	**52,700**	86,365
Other payable due to:		
– Tianrui Group	**883,349**	696,746
– Shanshui Heavy Industries	**34,446**	45,532
– Dong'e Shanshui	**–**	30
	917,795	742,308
Advances from customers:		
– Dong'e Shanshui	**–**	27

(d) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in note 11, is as follows:

	2018	2017
	RMB'000	*RMB'000*
Salary, allowances and other benefits	**34,007**	39,985
Contributions to defined contribution retirement plans	**1,130**	394
	35,137	40,379

38. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Key management personnel remuneration (Continued)

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

	Note	**2018** *RMB'000*	2017 *RMB'000*
Directors and supervisors	11	**7,243**	12,795
Senior management		**29,363**	29,227
		36,606	42,022

The emoluments of senior management were within the following bands:

	2018 Number of individuals	2017 Number of individuals
HKD1 to HKD500,000	**–**	3
HKD500,001 to HKD1,000,000	**3**	10
HKD1,000,001 to HKD2,000,000	**15**	14
HKD2,000,001 to HKD3,000,000	**2**	1
HKD3,000,001 to HKD4,000,000	**–**	1
	20	29

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018	2017
	RMB'000	*RMB'000*
Non-current assets		
Fixed assets	**13**	18
Investments in a subsidiary	**680,381**	680,380
Amounts due from subsidiaries	**4,983,664**	4,787,242
	5,664,058	5,467,640
Current assets		
Other receivables	**210**	13,356
Derivative component of convertible bonds	**246,204**	–
Cash and cash equivalents	**837,170**	18,644
	1,083,584	32,000
Current liabilities		
Current portion of long-term bonds	**–**	2,791,765
Amount due to a subsidiary	**1,352,341**	1,288,378
Other payables and accrued expenses	**952,864**	834,557
	2,305,205	4,914,700
Net current liabilities	**(1,221,621)**	(4,882,700)
Total assets less net current liabilities	**4,442,437**	584,940
Non-current liabilities		
Convertible bonds	**633,100**	–
Net assets	**3,809,337**	584,940
Capital and reserves		
Share capital	**295,671**	227,848
Reserves	**3,513,666**	357,092
Total equity	**3,809,337**	584,940

The Company's statement of financial position was approved and authorised for issue by the board of directors on 20 March 2019.

CHANG, Zhangli
Director

WU, Ling-ling
Director

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Movements in the Company's reserves

	Share premium *RMB'000*	Other reserves *RMB'000*	Exchange reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2017	4,654,010	435,164	(288,151)	(4,159,282)	641,741
Total comprehensive expenses for the year	–	–	(18,996)	(265,653)	(284,649)
At 31 December 2017	4,654,010	435,164	(307,147)	(4,424,935)	357,092
Total comprehensive expenses for the year	–	–	(45,308)	(379,145)	(424,453)
Issue of shares	**332,606**	**–**	**–**	**–**	**332,606**
Issue of shares upon conversion of convertible bonds	**3,249,168**	**–**	**–**	**–**	**3,249,168**
Transaction costs attributable to issue of new shares	**(747)**	**–**	**–**	**–**	**(747)**
At 31 December 2018	**8,235,037**	**435,164**	**(352,455)**	**(4,804,080)**	**3,513,666**

40. INVESTMENTS IN SUBSIDIARIES

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

			Proportion of ownership interest			
Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
(a) Enterprise established in Hong Kong						
China Shanshui Cement Group (Hong Kong) Company Limited ("Shanshui Cement Hong Kong") 中國山水水泥集團(香港)有限公司	Hong Kong, PRC 25 January 2005	HKD10,000	100.00	100.00	-	Investment holding
China Pioneer Cement (Hong Kong) Company Limited 中國先鋒水泥(香港)有限公司	Hong Kong, PRC 25 January 2005	HKD0.01	100.00	–	100.00	Investment holding
(b) Enterprise established outside the PRC						
Continental Cement Corporation 康達水泥有限公司	British Virgin Islands 30 May 2000	USD100	100.00	–	100.00	Investment holding
American Shanshui Development INC. 美國山水發展公司	Delaware, U.S.A. 28 June 2012	Paid-in capital USD1,000,000	100.00	–	100.00	Selling agent of cement product and building materials
(c) Wholly foreign-owned enterprises established in the PRC						
Shandong Shanshui 山東山水水泥集團有限公司	Shandong, PRC 10 August 2001	Registered capital of RMB3,633,000,000 and paid-in capital RMB3,623,028,752	100.00	–	100.00	Investment holding
Continental (Shandong) Cement Corporation 康達(山東)水泥有限公司	Shandong, PRC 6 April 2002	USD39,565,500	100.00	–	100.00	Production and sales of clinker
Shandong Shanshui Financial Leasing Co., Ltd. 山東山水融資租賃有限公司	Shandong, PRC 18 July 2014	RMB230,000,000	100.00	–	100.00	Offering financial leasing service

40. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
(d) Sino-foreign equity joint venture enterprises established in the PRC						
Pingyin Shanshui Cement Co., Ltd. ("Pingyin Shanshui") 平陰山水水泥有限公司	Shandong, PRC 1 August 2003	RMB178,000,000	98.97	–	99.65	Production and sales of cement and clinker
Anqiu Shanshui Cement Co., Ltd. 安丘山水水泥有限公司	Shandong, PRC 4 August 2003	RMB226,500,000	99.00	–	99.70	Production and sales of cement and clinker
Weihai Shanshui Cement Co., Ltd. 威海山水水泥有限公司	Shandong, PRC 25 March 2008	USD24,000,000	100.00	–	100.00	Production and sales of cement and concrete
Dandong Shanshui Gongyuan Cement Co., Ltd. 丹東山水工源水泥有限公司	Liaoning, PRC 31 March 2008	USD12,000,000	100.00	–	100.00	Production and sales of cement
Qingdao Shanshui Chuangxin Cement Co., Ltd. 青島山水創新水泥有限公司	Shandong, PRC 25 April 2008	USD28,000,000	100.00	–	100.00	Production and sales of cement
Shenyang Shanshui Gongyuan Cement Co., Ltd. 瀋陽山水工源水泥有限公司	Liaoning, PRC 9 July 2008	USD16,587,400	100.00	–	100.00	Production and sales of cement
Linqu Shanshui Cement Co., Ltd. 臨朐山水水泥有限公司	Shandong, PRC 18 July 2008	Registered capital of USD25,000,000 and paid-in capital USD24,990,700	100.00	–	100.00	Production and sales of cement and clinker
Zaozhuang Chuangxin Shanshui Cement Co., Ltd. 棗莊創新山水水泥有限公司	Shandong, PRC 5 September 2008	USD30,000,000	100.00	–	100.00	Production and sales of cement and clinker
Linqu Shanshui Building Material Aggregate Co., Ltd. 臨朐山水建材骨料有限公司	Shandong, PRC 27 December 2012	USD5,060,000	100.00	–	100.00	Production and sales of concrete aggregate

40. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC						
Owned by Shandong Shanshui						
Qianshan Cement 遼陽千山水泥有限責任公司	Liaoning, PRC 5 June 1989	Registered capital of RMB100,000,000 and paid in capital RMB34,935,000	72.15	–	72.15	Production and sales of cement and clinker
Shandong Cement Factory Co., Ltd. 山東水泥廠有限公司	Shandong, PRC 3 April 1990	RMB182,000,000	99.00	–	99. 00	Production and sales of cement and concrete; production of limestone
Guangrao Shanshui Cement Co., Ltd. 廣饒山水水泥有限公司	Shandong, PRC 8 May 1998	RMB18,760,000	70.00	–	70.00	Production and sales of cement
Liaoning Shanshui 遼寧山水工源水泥有限公司	Liaoning, PRC 13 July 1998	RMB2,000,000,000	100.00	–	100.00	Production and sales of cement and related products
Feicheng City Mashan Cement Co., Ltd. 肥城山水水泥有限公司	Shandong, PRC 16 June 1999	RMB30,000,000	90.00	–	90.00	Production and sales of cement
Chifeng Yuanhang 赤峰山水遠航水泥有限公司	Inner Mongolia, PRC 5 August 2000	RMB200,000,000	100.00	–	100.00	Production and sales of cement and related products
Jinan Shi-ji Chuang-xin Cement Co., Ltd. 濟南世紀創新水泥有限公司	Shandong, PRC 17 January 2002	RMB41,460,000	95.18	–	95.18	Production and sales of cement and related products
Tianjin City Tianhui Cement Co., Ltd. 天津市天輝水泥有限公司	Tianjin, PRC 22 July 2002	RMB16,000,000	100.00	–	100.00	Production and sales of cement and related products

40. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

40. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC (continued)						
Owned by Shandong Shanshui (continued)						
Liaocheng Meijing Zhongyuan Cement Co., Ltd. 聊城美景中原水泥有限公司	Shandong, PRC 5 August 2003	RMB20,000,000	100.00	–	100.00	Production and sales of cement and clinker
Weifang Shanshui Cement Co., Ltd. ("Weifang Shanshui") 濰坊山水水泥有限公司	Shandong, PRC 29 December 2003	RMB150,000,000	100.00	–	100.00	Production and sales of cement, limestone and concrete
Qingdao Shanshui Hengtai Cement Co., Ltd. 青島山水恒泰水泥有限公司	Shandong, PRC 10 June 2004	RMB50,000,000	100.00	–	100.00	Production and sales of cement and related products
Zibo Shuangfeng Shanshui Cement Co., Ltd. 淄博雙鳳山水水泥有限公司	Shandong, PRC 1 July 2004	RMB150,000,000	99. 93	–	99. 93	Production and sales of cement
Zaozhuang Shanshui Cement Co., Ltd. 棗莊山水水泥有限公司	Shandong, PRC 28 July 2004	RMB70,000,000	100.00	–	100.00	Production and sales of cement and clinker
Jining Shanshui Cement Co., Ltd. 濟寧山水水泥有限公司	Shandong, PRC 21 January 2005	RMB100,000,000	100.00	–	100.00	Production and sales of cement, clinker,
Juye Shanshui Cement Co., Ltd. 巨野山水水泥有限公司	Shandong, PRC 17 May 2006	RMB10,000,000	99. 96	–	100.00	Production and sales of cement
Yishui Shanshui Cement Co., Ltd. 沂水山水水泥有限公司	Shandong, PRC 28 September 2007	RMB128,700,000	99. 38	–	99. 38	Production and sales of clinker and limestone
Kenli Shanshui Cement Co., Ltd. 墾利山水水泥有限公司	Shandong, PRC 21 December 2007	RMB12,000,000	90.00	–	90.00	Production and sales of cement
Qingdao Huading Building Material Co., Ltd. 青島華鼎建材有限公司	Shandong, PRC 24 January 2008	RMB20,000,000	100.00	–	100.00	Production and sales of concrete

40. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC (continued)						
Owned by Shandong Shanshui (continued)						
Weifang Ningshi Shanshui Cement Co., Ltd. 濰坊凝石山水水泥有限公司	Shandong, PRC 16 May 2008	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Yishui Chuangxin Shanshui Cement Co., Ltd. 沂水創新山水水泥有限公司	Shandong, PRC 2 June 2009	RMB10,000,000	100.00	–	100.00	Production and sales of cement
Qingdao Shanshui Jianxin Cement Co., Ltd. 青島山水建新水泥有限公司	Shandong, PRC 18 June 2009	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Weifang Binhai Shanshui Cement Co., Ltd. 濰坊濱海山水水泥有限公司	Shandong, PRC 4 August 2009	RMB42,000,000	100.00	–	100.00	Production and sales of cement
Tianjin Shanshui Cement Co., Ltd. 天津山水水泥有限公司	Tianjin, PRC 26 August 2009	RMB100,000,000	100.00	–	100.00	Production and sales of cement
Shanxian Shanshui Cement Co., Ltd. 單縣山水水泥有限公司	Shandong, PRC 27 August 2009	RMB60,000,000	100.00	–	100.00	Production and sales of cement
Caoxian Shanshui Cement Co. , Ltd. 曹縣山水水泥有限公司	Shandong, PRC 28 August 2009	RMB22,000,000	100.00	–	100.00	Production and sales of cement
Bozhou Shanshui Cement Co., Ltd. 亳州山水水泥有限公司	Anhui, PRC 3 September 2009	RMB40,000,000	100.00	–	100.00	Establishment of cement production line
Bengbu Shanshui Cement Co., Ltd. 蚌埠山水水泥有限公司	Anhui, PRC 4 September 2009	RMB30,000,000	100.00	–	100.00	Establishment of cement production line
Weishan Shanshui Cement Co., Ltd. 微山山水水泥有限公司	Shandong, PRC 28 September 2009	RMB100,000,000	100.00	–	100.00	Production and sales of cement and clinker
Shanxi Shanshui Cement Co., Ltd. ("Shanxi Shanshui") 山西山水水泥有限公司	Shanxi, PRC 25 December 2009	RMB1,716,500,000	100.00	–	100.00	Sales of cement and cement related products

40. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC (continued)						
Owned by Shandong Shanshui (continued)						
Laoling Shanshui Cement Co., Ltd. 樂陵山水水泥有限公司	Shandong, PRC 9 February 2010	RMB30,000,000	100.00	–	100.00	Production and sales of cement and related products
Qingdao Huading New Building Material Co., Ltd. 青島華鼎建築新材料有限公司	Shandong, PRC 10 February 2010	RMB16,103,200	100.00	–	100.00	Production and sales of concrete
Dezhou Zhucheng Concrete Co., Ltd. 德州築城商品混凝土有限公司	Shandong, PRC 2 March 2010	RMB10,000,000	100.00	–	100.00	Production and sales of concrete
Weifang Wanda Building Materials Co., Ltd. 濰坊萬達建材有限公司	Shandong, PRC 17 March 2010	RMB10,000,000	100.00	–	100.00	Production and sales of concrete
Kashi Shanshui Cement Co., Ltd. ("Kashi Shanshui") 喀什山水水泥有限公司	Xinjiang, PRC 17 August 2010	RMB500,000,000	100.00	–	100.00	Production and sales of cement
Dezhou Tianqi Concrete Co., Ltd. 德州天祺商品混凝土有限公司	Shandong, PRC 31 August 2010	RMB10,000,000	60.00	–	60.00	Production and sales of concrete
Shenxian Shanshui Cement Co., Ltd. 莘縣山水水泥有限公司	Shandong, PRC 22 October 2010	RMB10,000,000	100.00	–	100.00	Production and sales of cement and cement related products
Shandong Shanshui Building Materials Co., Ltd. 山東山水建築材料有限公司	Shandong, PRC 2 March 2011	RMB300,000,000	100.00	–	100.00	Production and sales of building materials and related products
Huixian City Shanshui Cement Co., Ltd. 輝縣市山水水泥有限公司	Henan, PRC 30 June 2011	RMB100,000,000	100.00	–	100.00	Establishment of clinker production line
Shandong Runshenyuan Water Co., Ltd. 山東潤生源山泉水有限公司	Shandong, PRC 24 April 2018	RMB5,000,000	90.00	–	90.00	Production and sales of mineral water

40. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC (continued)						
Owned by Shandong Shanshui (continued)						
Weifang City Leixin Concrete Co., Ltd. 濰坊市磊鑫混凝土有限公司	Shandong, PRC 16 August 2011	RMB10,000,000	100.00	–	100.00	Production and sales of concrete
Zhoukou Shanshui Pipeline Co., Ltd. 周口山水管道有限公司	Henan, PRC 22 August 2011	RMB30,000,000	100.00	–	100.00	Production and sales of cement and cement related products
Dongming Shanshui Cement Co., Ltd. 東明山水水泥有限公司	Shandong, PRC 20 March 2012	RMB35,000,000	100.00	–	100.00	Production and sales of cement
Jiaxiang Shanshui Aggregate Co., Ltd. 嘉祥山水骨料有限公司	Shandong, PRC 10 October 2012	RMB10,000,000	100.00	–	100.00	Production and sales of concrete aggregate
Shandong Shanshui Cement Group International Trading Co., Ltd. 山東山水水泥集團國際貿易有限責任公司	Shandong, PRC 5 March 2013	RMB10,000,000	100.00	–	100.00	Import and export of cement, clinker and related products
Feicheng Shanshui Concrete Co., Ltd. 肥城山水商砼有限公司	Shandong, PRC 5 September 2013	RMB30,000,000	100.00	–	100.00	Production and sales of concrete
Qingdao Ji'an Concrete Co., Ltd. 青島基安混凝土有限公司	Shandong, PRC 29 January 2010	RMB10,200,000	70.00	–	70.00	Production and sales of concrete
Heze Fuyu Concrete Co., Ltd. 菏澤福余混凝土有限公司	Shandong, PRC 12 March 2013	RMB15,000,000	100.00	–	100.00	Production and sales of concrete
Rushan Shanshui Cement Co., Ltd. 乳山山水水泥有限公司	Shandong, PRC 17 November 2005	RMB5,000,000	100.00	–	100.00	Production and sales of cement and cement related products

40. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC (continued)						
Owned by Liaoning Shanshui						
Huludao Bohai Railway Co., Ltd. 葫蘆島渤海鐵路股份有限公司	Liaoning, PRC 17 July 1993	RMB52,000,000	60.60	–	86.57	Development and maintenance of special railway-lines
Tongliao Shanshui Gongyuan Cement Co., Ltd. 通遼山水工源水泥有限公司	Inner Mongolia, PRC 2 April 2004	RMB25,000,000	100.00	–	100.00	Production and sales of cement
Chaoyang Shanshui Dongxin Cement Co., Ltd. 朝陽山水東鑫水泥有限公司	Liaoning, PRC 22 March 2005	RMB200,000,000	80.00	–	80.00	Production and sales of cement
Bohai Cement 渤海水泥(葫蘆島)有限公司	Liaoning, PRC 29 August 2005	RMB100,000,000	70.00	–	70.00	Production and sales of cement, clinker and related products
Zhalaite Qi Shanshui Cement Co., Ltd. 紮賚特旗山水水泥有限公司	Inner Mongolia, PRC 17 January 2006	RMB120,000,000	90.00	–	90.00	Production and sales of cement
Yingkou Shanshui Cement Co., Ltd. 營口山水水泥有限公司	Liaoning, PRC 5 December 2006	RMB30,000,000	100.00	–	100.00	Production and sales of cement
Dalian Shanshui Cement Co., Ltd. 大連山水水泥有限公司	Liaoning, PRC 17 August 2007	RMB180,000,000	100.00	–	100.00	Production and sales of cement, clinker and related products
Benxi Shanshui Mining Co., Ltd. 本溪山水礦業有限公司	Liaoning, PRC 18 February 2009	RMB500,000	100.00	–	100.00	Mining and sales of limestone
Kazuo Congyuanhao Cement Co., Ltd. 喀左叢元號水泥有限責任公司	Liaoning, PRC 2 April 2009	RMB110,000,000	80.00	–	100.00	Production and sales of cement and clinker
Panjin Shanshui Cement Co., Ltd. 盤錦山水水泥有限公司	Liaoning, PRC 1 September 2009	RMB20,000,000	100.00	–	100.00	Production and sales of cement

40. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC (continued)						
Owned by Liaoning Shanshui (continued)						
Wulanhaote Shanshui Cement Co., Ltd. 烏蘭浩特山水水泥有限公司	Inner Mongolia, PRC 13 November 2009	RMB5,000,000	90.00	–	90.00	Production and sales of cement
Alu Kerqin Qi Shanshui Cement Co., Ltd. 阿魯科爾沁旗山水水泥有限公司	Inner Mongolia, PRC 23 December 2009	RMB76,470,000	85.00	–	85.00	Production and sales of cement and clinker
Balinyou Qi Shanshui Cement Co., Ltd. 巴林右旗山水水泥有限公司	Inner Mongolia, PRC 19 March 2010	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Huolin Guole Shanshui Cement Co., Ltd. 霍林郭勒山水水泥有限公司	Inner Mongolia, PRC 19 April 2010	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Bohai Cement (Jinzhou) Co., Ltd. 渤海水泥(錦州)有限公司	Liaoning, PRC 5 July 2010	RMB20,000,000	45. 50	–	65.00	Production and sales of cement, concrete and related products
Keyouzhong Qi Shanshui Cement Co., Ltd. 科右中旗山水水泥有限公司	Inner Mongolia, PRC 7 April 2011	RMB30,000,000	100.00	–	100.00	Production and sales of cement
Benxi Shanshui Shiye Co., Ltd. 本溪山水實業有限公司	Liaoning, PRC 2 June 2011	Registered capital of RMB20,000,000 and paid in capital RMB 6,000,000	100.00	–	100.00	Installation and maintenance of equipment and spare parts of cement machines
Baishan Shanshui Cement Co., Ltd. 白山山水水泥有限責任公司	Jilin, PRC 11 November 2011	RMB100,000,000	70.00	–	70.00	Production and sales of cement and related products
Aohan Qi Shanshui Cement Co., Ltd. 敖漢旗山水水泥有限公司	Inner Mongolia, PRC 4 January 2012	RMB16,000,000	80.00	–	80.00	Production and sales of cement and related products
Dalian Heyuan 大連合源投資管理有限公司	Liaoning, PRC 8 August 2013	RMB62,230,000	100.00	–	100.00	Investment and management; consulting; import of goods and technology

40. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC (continued)						
Owned by Shanxi Shanshui						
Taiyuan Shanshui Cement Co., Ltd. 太原山水水泥有限公司	Shanxi, PRC 27 October 1999	Registered capital of RMB100,000,000 and paid in RMB 60,000,000	60.00	–	60.00	Production and sales of cement
Jincheng Shanshui Heju Cement Co., Ltd. 晉城山水合聚水泥有限公司	Shanxi, PRC 25 July 2006	RMB240,000,000	90.00	–	90.00	Production and sales of cement and clinker
Lvliang Yilong Cement Co., Ltd. 呂梁億龍水泥有限公司	Shanxi, PRC 16 November 2007	RMB170,000,000	90.00	–	90.00	Production and sales of cement and clinker
Yulin Shanshui Cement Co., Ltd. 榆林山水水泥有限公司	Shaanxi, PRC 7 August 2008	RMB60,000,000	62.00	–	62.00	Production and sales of cement and related products
Hequ Zhongtianlong Cement Co., Ltd. 河曲縣中天隆水泥有限公司	Shanxi, PRC 31 August 2009	RMB80,000,000	68.00	–	68.00	Production and sales of cement and clinker
Wuxiang Shanshui Cement Co., Ltd. 武鄉山水水泥有限公司	Shanxi, PRC 4 November 2009	RMB75,490,000	55.00	–	55.00	Production and sales of cement and clinker
Jincheng Shanshui Cement Co., Ltd. 晉城山水水泥有限公司	Shanxi, PRC 22 January 2010	RMB150,000,000	85.00	–	85.00	Production and sales of cement and clinker
Yulin Shanshui environmental Building Materials Co., Ltd. 榆林山水環保建材有限公司	Shaanxi, PRC 18 February 2011	RMB80,400,000	85.00	–	85.00	Production and sales of cement and related products
Linfen Shanshui Cement Co., Ltd. 臨汾山水水泥有限公司	Shanxi, PRC 13 May 2011	RMB200,000,000	90.00	–	90.00	Establishment of cement production line
Shuozhou Shanshui New Era Cement Co., Ltd. 朔州山水新時代水泥有限公司	Shanxi, PRC 10 June 2011	RMB160,000,000	75.00	–	75.00	Establishment of cement and related products production line

40. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC (continued)						
Owned by Shanxi Shanshui (continued)						
Jingbian Xian Shanshui Cement Co., Ltd. 靖邊縣山水水泥有限公司	Shaanxi, PRC 15 November 2011	RMB30,000,000	80.00	–	80.00	Production and sales of cement
Shenmu Xian Meijian Cement Co., Ltd. 神木縣煤建水泥有限公司	Shaanxi, PRC 4 April 1994	RMB60,000,000	70.00	–	70.00	Production and sales of cement
Shanxi Yongzhongsheng Environmental Building Material Co., Ltd. 山西永中晟環保建材有限公司	Shanxi, PRC 30 August 2012	RMB40,000,000	70.00	–	70.00	Production and sales of cement
Yangqu County Zhongyu Building Material Co., Ltd. 陽曲縣中宇建材有限公司	Shaanxi, PRC 7 November 2012	RMB1,000,000	100.00	100.00	–	Production and sales of cement
Taiyuan Guangsha Cement Co., Ltd. 太原廣廈水泥有限公司	Shaanxi, PRC 29 December 2015	RMB200,000	100.00	100.00	–	Production and sales of cement
Owned by Kashi Shanshui						
Shule Shanshui 疏勒山水水泥有限公司	Xinjiang, PRC 24 August 2010	RMB20,000,000	100.00	–	100.00	Production and sales of cement and concrete
Yingjisha Shanshui 英吉沙山水水泥有限公司	Xinjiang, PRC 24 August 2010	RMB232,000,000	100.00	–	100.00	Production and sales of cement, concrete and clinker

40. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Shache Shanshui 莎車山水水泥有限公司	Xinjiang, PRC 14 October 2010	RMB20,000,000	100.00	–	100.00	Production and sales of cement and concrete
Kezhou Shanshui Materials Trading Co., Ltd. 克州山水物貿有限公司	Xinjiang, PRC 17 April 2013	RMB20,000,000	100.00	–	100.00	Logistic service and sales of cement and materials

Shandong Shanshui acquired 67% interests in Rushan Shanshui in January 2012. Pursuant to the articles of association of Rushan Shanshui, if Rushan Shanshui continuously make a loss for three years, Shandong Shanshui should acquire the remaining 33% interests in Rushan Shanshui from the minority shareholders. Rushan Shanshui made loss for three years from year 2013 to year 2015. The minority shareholders of Rushan Shanshui has taken over the management of Rushan Shanshui in April 2016 and appealed Shandong Shanshui to the court for asking Shandong Shanshui to acquire the remaining 33% interests in Rushan Shanshui. The trial of first instance judged that Shandong Shanshui should acquire the remaining 33% interests in Rushan Shanshui by RMB33,000,000. In accordance with the judgement, the Group had accrued a provision of RMB33,000,000 as at 31 December 2016 and 2017 which is included in other payable. During the year, the Group withdrew the Lawsuit and accordingly, such litigation claim was release. The payable for acquisition of remaining 33% interests in Rushan Shanshui was settled during the year. As a result, the Group obtained control over Rushan Shanshui as at 31 December 2018 and the group has the ability to direct the relevant activities which significantly affect Rushan Shanshui's returns.

Investments in subsidiaries with carrying amount of RMB5,664,792,000 (2017: RMB6,154,173,000) in the Shandong Shanshui's statement of financial position and with total assets as at 31 December 2018 of RMB21,141,927,000 and liabilities of RMB6,914,302,000 in the consolidated financial statements of the Group have been frozen by the PRC Courts pending the outcome of the legal proceedings initiated by the Group's creditors relating to overdue other borrowings, long-term bonds and trade payables. Further details of this litigation are set out in notes 24 to 26. Shandong Shanshui is prohibited from selling or transferring these investments until the litigation is resolved.

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