SUNNSY

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)

US$500,000,000 7.5% SENIOR NOTES DUE 2020

(Stock Code: 5880)

PRELIMINARY ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Revenue	**14,765,328**	11,284,193
Profit from operations	**1,980,514**	238,161
Finance costs	**(1,021,372)**	(1,030,649)
Profit/(loss) for the year	**546,470**	(978,861)

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Non-current assets	**20,753,158**	21,652,679
Non-current liabilities	**(1,327,726)**	(521,533)
Current assets	**4,336,801**	4,267,477
Current liabilities	**(19,744,702)**	(22,142,384)
Net assets and equity	**4,017,531**	3,256,239

The Board of Directors (the "**Board**") of China Shanshui Cement Group Limited (the "**Company**") hereby announces the consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017, together with the comparative figures for the previous financial year. The annual results have been reviewed by the Audit Committee. The auditors conducted the audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants and issued a disclaimer of opinion on the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows and a qualified opinion on the consolidated statement of financial position for the Group's consolidated financial statements for the year ended 31 December 2017. Please refer to the Section of "Extract of Independent Auditor's Report".

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	4(a)	**14,765,328**	11,284,193
Cost of sales		**(10,361,241)**	(8,808,192)
Gross profit		**4,404,087**	2,476,001
Other income	5	**336,425**	182,300
Other net expenses	6	**(108,021)**	(518,304)
Selling and marketing expenses		**(580,786)**	(486,954)
Administrative expenses		**(2,071,191)**	(1,414,882)
Profit from operations		**1,980,514**	238,161
Finance costs		**(1,021,372)**	(1,030,649)
Share of results of associates		**8,198**	(36,807)
Profit/(loss) before taxation		**967,340**	(829,295)
Income tax expense	7	**(420,870)**	(149,566)
Profit/(loss) for the year		**546,470**	(978,861)
Attributable to:			
Equity shareholders of the Company		**600,817**	(738,281)
Non-controlling interests		**(54,347)**	(240,580)
Profit/(loss) for the year		**546,470**	(978,861)
Earnings/(loss) per share	8		
Basic *(RMB)*		**0.18**	(0.22)
Diluted *(RMB)*		**0.18**	(0.22)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	Notes	31.12.2017 RMB'000	31.12.2016 RMB'000
NON-CURRENT ASSETS			
Fixed assets			
– Property, plant and equipment		**16,769,993**	17,716,429
– Land lease prepayments		**2,241,969**	2,293,955
		19,011,962	20,010,384
Intangible assets		**618,574**	512,565
Goodwill		**14,223**	14,223
Other financial assets		**489,158**	474,065
Interests in associates		**299,607**	256,559
Deferred tax assets		**159,335**	134,329
Other long-term assets		**160,299**	250,554
		20,753,158	21,652,679
CURRENT ASSETS			
Inventories		**1,506,993**	1,452,355
Trade and bills receivables	10	**1,805,752**	1,533,881
Other receivables and prepayments		**653,220**	916,738
Restricted bank deposits		**62,841**	88,003
Bank balances and cash		**307,995**	276,500
		4,336,801	4,267,477
CURRENT LIABILITIES			
Bank loans–amounts due within one year	12	**4,790,599**	5,074,250
Other borrowings	13	**1,736,722**	2,770,909
Current portion of long-term bonds	14	**5,977,435**	7,193,863
Trade payables	11	**3,225,907**	3,726,792
Other payables and accrued expenses		**3,888,522**	3,298,938
Taxation payable		**125,517**	77,632
		19,744,702	22,142,384
NET CURRENT LIABILITIES		**(15,407,901)**	(17,874,907)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,345,257**	3,777,772

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	Notes	31.12.2017 RMB'000	31.12.2016 RMB'000
NON-CURRENT LIABILITIES			
Other borrowings	13	**403,841**	4,546
Long-term bonds	14	**397,047**	–
Defined benefit obligations		**137,070**	156,773
Deferred income		**266,807**	273,298
Long-term payables		**20,347**	20,444
Deferred tax liabilities		**102,614**	66,472
		1,327,726	521,533
NET ASSETS		**4,017,531**	3,256,239
CAPITAL AND RESERVES			
Share capital		**227,848**	227,848
Share premium		**4,654,010**	4,654,010
Share capital and Share premium		**4,881,858**	4,881,858
Other reserves		**(966,531)**	(1,783,170)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**3,915,327**	3,098,688
Non-controlling interests		**102,204**	157,551
TOTAL EQUITY		**4,017,531**	3,256,239

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(a) Matters arising from the change in directors

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

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

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

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

(i) A former subsidiary, Jinan Changqing Shanshui Micro Finance Co., Ltd. ("**Shanshui Micro Finance**"), is under the management of the Mr. Zhangs. During the years of 2016 and 2017 and up to the date of approval of the consolidated financial statements, the Group can neither access any accounting books and records of Shanshui Micro Finance nor find the current place of business for Shanshui Micro Finance. Accordingly, the Directors of the Company are of the opinion that the Group does not have the ability to direct the relevant activities which significantly affect Shanshui Micro Finance's returns since January 2016;

(ii) Before the 2015 New Board took over Shandong Shanshui on 30 January 2016, the ex-directors, on behalf of Shandong Shanshui, issued an escrow agreement to a third party on 29 January 2016 to let the third party take over Xinghao Cement Co., Ltd. ("**Xinghao Cement**", a subsidiary of Shandong Shanshui). The third party has taken over the official chop and the reserved signature chops of bank accounts of Xinghao Cement in February 2016 and dismissed all of the key management of Xinghao Cement previously appointed by Shandong Shanshui in May 2016. Since then, the Group can neither access any accounting books and records of Xinghao Cement nor have the ability to direct the relevant activities which significantly affect Xinghao Cement's returns since May 2016; and

(iii) Shandong Shanshui acquired 67% interests in Rushan Shanshui Cement Co., Ltd. ("**Rushan Shanshui**") in January 2012. Pursuant to the articles of association of Rushan Shanshui, if Rushan Shanshui continuously make a loss for three years, Shandong Shanshui should acquire the remaining 33% interests in Rushan Shanshui from the minority shareholders. Rushan Shanshui made loss for three years from year 2013 to year 2015. The minority shareholders of Rushan Shanshui has taken over the management of Rushan Shanshui in April 2016 and appealed Shandong Shanshui to the court for asking Shandong Shanshui to acquire the remaining 33% interests in Rushan Shanshui. The trial of first instance judged that Shandong Shanshui should acquire the remaining 33% interests in Rushan Shanshui by RMB33 million. In accordance with the judgement, the Group had accrued a provision of RMB33 million as at 31 December 2016 and 2017 which is included in other payable. The Group appealed to the trial of second instance which is still in the progress. Since the minority shareholders took over the management of Rushan Shanshui, the Group can neither access any accounting books and records of Rushan Shanshui nor have the ability to direct the relevant activities which significantly affect Rushan Shanshui's returns.

Since the Directors of the Company did not have the ability to direct the relevant activities which significantly affect the above three former subsidiaries' returns and could not obtain any accounting books and records from them during the years ended 31 December 2016 and 2017 and up to the date of approval of the consolidated financial statements, the Directors are of the opinion that the Group lost control of the above three entities. Accordingly, the Group recorded these investments as available-for-sale securities and has made full impairment provision for the carrying amount of these investments as at 31 December 2016.

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

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

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

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

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

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

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

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

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

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

(i) During 2017, the Group has been actively negotiating with a number of PRC banks for renewal and extension of loans and banking facilities with extended repayment terms.

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

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

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

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

   Up to the date of approval of the consolidated financial statements, the Group repaid medium-term notes of RMB572 million and entered into agreements with other medium-term notes holders with principal amounts of RMB1,205 million.

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

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

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

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

(vii) The Group is also maximizing its sales effort, including speeding up sales of its existing inventories, seeking new orders and implementing comprehensive policies to improve operating cash flows.

The Directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2017 on a going concern basis.

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

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the consolidated financial statements for the year ended 31 December 2017.

(c) Significant accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board ("**IASB**"). 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 are presented in Renminbi ("**RMB**") (the "**presentation currency**"), rounded to the nearest thousand. The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value:

– ***available-for-sale securities***

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

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

3. CHANGES IN ACCOUNTING POLICIES

Amendments to IFRSs that are mandatorily effective for the current year

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

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

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

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities. Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. A reconciliation between the opening and closing balances of these items is provided in the consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not early applied any new and revised IFRSs that have been issued but are not yet effective.

4. REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

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

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

(b) Segment reporting

As the Group operates in a single business, the manufacturing and sales of cement, clinker and concrete in the People's Republic of China (the "**PRC**"), the Group's risk and rates of return are affected predominantly by differences in the areas it operates.

The Group manages its businesses by geographical areas. Based on the manner in which information is reported internally to the executive directors of the Company, being the Group's chief operating decision maker ("**CODM**"), for the purposes of resource allocation and performance assessment, the Group has identified and presented the following four reportable segments based on the region in which the Group's business operates. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

- Shandong Province – subsidiaries operating and located in the Shandong Province of the PRC.
- Northeastern China – subsidiaries operating and located in the Liaoning Province and Inner – Mongolia Autonomous Region of the PRC.
- Shanxi Province – subsidiaries operating and located in the Shanxi Province and Shaanxi Province of the PRC.
- Xinjiang Region – subsidiaries operating and located in the Kashi area of Xinjiang Uygur Autonomous Region of the PRC.

(i) Segment results, assets and liabilities

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

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

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

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

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

Information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

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

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

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

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

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

(iii) Geographical information

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

(iv) Information about major customers

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

5. OTHER INCOME

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

6. OTHER NET EXPENSES

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

Note:

Shandong Shanshui accrued an amount of RMB131 million as the bonus for year 2016 to be paid to the senior management of Shandong Shanshui and its subsidiaries. The amount was subsequently fully paid out during January 2017. This bonus and the payment thereof were not approved by the Directors of the Company at the material point in time. As the amount was disbursed in relation to operations in 2016, the Directors of the Company are of the opinion that RMB131 million should be recorded as an expense for year 2016 and therefore the amount had been accrued in the 2016 consolidated financial statements.

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

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

Notes:

(i) The Group's PRC subsidiaries are subject to PRC income tax at the statutory rate of 25% (2016: 25%) unless otherwise specified.

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

(iii) The Company and its subsidiaries incorporated in Hong Kong are subject to Hong Kong Profits Tax at the rate of 16.5% (2016: 16.5%). No provision for Hong Kong Profits Tax has been made as the Company and the subsidiaries incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax during the year ended 31 December 2017 (2016: nil).

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

(v) 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.

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

8. EARNINGS/(LOSS) PER SHARE

(i) Basic earnings/(loss) per share

The calculation of basic earnings per share for the year ended 31 December 2017 is based on the profit (2016: loss) attributable to ordinary equity shareholders of the Company of RMB601 million (2016: RMB738 million) and the weighted average number of ordinary shares of 3,379,140,240 (2016: 3,379,140,240) shares in issue during the year.

(ii) Diluted earnings/(loss) per share

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

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

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

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

The 2011 Options have not been included in the calculation of diluted earnings/(loss) per share because they are assumed to have been anti-dilutive for the years ended 31 December 2016 and 2017, on the assumption that in the period from 16 April 2015 to 31 December 2016 and the year ended 31 December 2017, the fair value of the share of the Company will not have risen above its last quoted price on 15 April 2015 and therefore the average market price of the Company's shares for the years ended 31 December 2016 and 2017 is assumed to be less than the exercise price of the 2011 Options.

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

9. DIVIDEND

The Directors of the Company do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: Nil).

10. TRADE AND BILLS RECEIVABLES

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

Ageing analysis

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

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

11. TRADE PAYABLES

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

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

Ageing analysis

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

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

12. BANK LOANS

The bank loans were secured as follows:

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

* Bank loans were pledged by certain land lease prepayments with an aggregate carrying amount of RMB12 million (2016: RMB4 million) and plants and buildings with an aggregate carrying amount of RMB3 million (2016: nil), trade receivables with an aggregate carrying amount of RMB64 million (2016: nil).

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

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

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

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

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

13. OTHER BORROWINGS

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

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

Other borrowings were repayable as follows:

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

Notes:

(i) The government loan was received by Liaoning Shanshui 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% (2016: 0.3%) and is repayable in equal instalments from 2012 to 2021.

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

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

As at 31 December 2016 and 31 December 2017, all of the short-term financing bills issued by Shandong Shanshui are overdue.

(iii) Several banks and financial institutions have commenced legal proceedings against the Group to demand immediate repayment of the overdue principal of short term financing bills of RMB1,440 million, plus any interest, penalty interest and expenses incurred during the litigation. As at 31 December 2017, the status of these litigations so far as to relate to other borrowings is as follows:

– All of the above mentioned litigations has been judged by the PRC court, with the court ordering the Group to repay the overdue principal, the related interest, penalty interest and expenses incurred during the litigation.

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

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

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

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

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

Certain assets of the Group have been frozen by the PRC Courts in respect of the litigations relating to other borrowings, long-term bonds and certain sales or purchases contracts. As at 31 December 2017, RMB44 million (2016: RMB55 million) of cash and cash equivalents, RMB6,165 million (2016: RMB4,713 million) of investments in subsidiaries, RMB31 million (2016: RMB38 million) of land use rights and RMB62 million (2016: RMB123 million) of fixed assets have been frozen by the PRC Courts.

14. LONG-TERM BONDS

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

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

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

Notes:

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

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

– Certain litigations with overdue principal of RMB1,230 million have been judged by the PRC Court, with the Court ordering the Group to repay the overdue principal, the related interest, penalty interest and expenses incurred during the litigation.

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

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

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

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

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

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

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

(iii) The Company issued senior notes with principal of USD500 million (five-year period) to corporate investors in The Stock Exchange of Hong Kong Limited on 11 March 2015 (the "**2020 Notes**"). The 2020 Notes bears fixed interest of 7.5% per annum payable semi-annually.

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

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

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

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

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

15. CONTINGENT LIABILITIES AND OTHER EVENTS

(a) Guarantees issued

On 14 December 2016, the Company entered into a guarantee in favor of Bank of China Pingdingshan Branch as a security for the provision of the loan facility of RMB400 million to Tianrui Group. The guarantee will expire in 2018. As at the reporting date, the Directors consider that the fair value of the guarantee is minimal and do not consider it probable that a claim will be made against the Group under the guarantee.

(b) Litigation contingencies

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

As at the reporting date, the Directors consider that the fair value of the guarantee is minimal. Certain land use right and properties of Shanshui Heavy Industries have been seized by the court. The director of the Company consider that the fair value of seized assets was more than RMB300 million. In the opinion of the Directors of the Company, no provision for this claim is needed accordingly.

(ii) As at 31 December 2017, several litigation claims were initiated by the customers against the Group to demand immediate repayment of the outstanding balance in relation to certain cement and other products sales contracts with an aggregate amount of approximately RMB38 million which have yet been concluded. No provision for these litigation claims was made in the consolidated financial statements for the year ended 31 December 2017 as in the opinion of the Directors of the Company, the possibility of an outflow of economic resources is remote.

(iii) As at 31 December 2017, several litigation claims were initiated by the lessor and lessee of certain rental agreements entered into by the Group to demand remedies for alleged breach of contract with an aggregate amount of approximately RMB5 million which have yet been concluded. No provision for these litigation claims was made in the consolidated financial statements for the year ended 31 December 2017 as in the opinion of the Directors of the Company, the possibility of an outflow of economic resources is remote.

Other than the disclosure of above, as at 31 December 2017, the Group was not involved in any other material litigation or arbitration. As far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at 31 December 2017, the Group was the defendant of certain non-material litigations, and also a party to certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the Directors of the Company believe that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position of the Group.

16. EVENTS AFTER THE REPORTING PERIOD

In addition to the events disclosed in note 2 and notes 12 to 14, the following non-adjusting events have occurred after the end of the reporting period:

(a) On 8 August 2018, the Company issued convertible bonds in an aggregate principal amount of US$210,900,000 to an independent subscriber maturing on 7 August 2021. The issue price was 100% of the aggregate principal amount of the convertible bonds. Until the convertible bonds are fully converted or redeemed and cancelled, the convertible bonds shall bear interest at the rate of 20% per annum, which shall be payable by the Company semi-annually in arrears.

On 3 September 2018, the Company has issued additional convertible bonds in an aggregate principal amount of US$320,700,000 to six independent subscribers maturing on 7 August 2021. The issue price was 100% of the aggregate principal amount of the convertible bonds. Until the convertible bonds are fully converted or redeemed and cancelled, the convertible bonds shall bear interest at the rate of 20% per annum, which shall be payable by the Company in cash in arrears on 7 February and 7 August of each calendar year after issuing the convertible bond.

The details of which are set out in the Company's announcements dated 8 August 2018 and 3 September 2018.

(b) On 30 August 2018, a winding-up petition had been filed against the Company by Tianrui, one of the shareholders of the Company with significant influence over the Company, in the Grand Court of the Cayman Islands. On 31 August 2018, a winding-up petition had been filed against the Company in the Court of First Instance of the High Court of the Hong Kong Special Administrative Region to commence an ancillary liquidation in Hong Kong. Details of which are set out in the Company's announcement dated 4 September 2018.

(c) On 20 September 2018, the Company has entered into a restructuring support agreement ("**RSA**") to complete the Tender Offer of its 7.5% 2020 Notes with multiple holders of the 2020 Notes. Details of which are set out in the Company's announcement dated 20 September 2018.

17. COMPARATIVE FIGURES

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

Reclassification for the consolidated statement of financial position as at 31 December 2016:

(i) Bank loans with cross default clauses of RMB1,589 million are reclassified as current liabilities on the consolidated statement of financial position.

(ii) Prepayment for fixed assets amounting to RMB52 million are reclassified from other receivables and prepayments under current assets to other long-term assets under non-current assets on the consolidated statement of financial position.

Reclassification for the consolidated statement of profit or loss for the year ended 31 December 2016:

(i) Impairment loss on other financial assets of RMB97 million has been reclassified from administrative expenses to other net expenses.

(ii) Reversal of impairment on trade receivables and impairment loss on other receivables of RMB11 million and RMB91 million respectively have been reclassified from administrative expenses to other net expenses.

DISCUSSION ON THE RESULTS AND FINANCIAL POSITIONS OF THE COMPANY

Financial Review

During the Reporting Period, the Group recorded sales revenue of RMB14,765 million, representing a YOY increase of 30.9%. The increase in profit was mainly due to the pickup of selling price and the increase of gross profit margin for the period from 21.9% to 29.8%.

Other income increased from RMB182 million to RMB336 million, mainly due to the debt restructuring interest of approximately RMB117 million as a result of the settlement agreements entered into with creditors during the year.

Other expenses decreased from RMB518 million to RMB108 million, mainly due to the decrease of RMB220 million in the amount of impairment of other financial assets during the year as compared with the previous year.

Administrative expenses increased from RMB1,415 million to RMB2,071 million, representing a YOY increase of 46.3%, mainly due to the significant increase in overhaul expenses as compared with 2016 in the prolonged period of production suspension of enterprises in Shandong Province in response to the environmental protection policy, as well as the increase in security expenses and remuneration costs.

Gains from the translation of foreign currency financial statements of overseas subsidiaries increased by RMB202 million, mainly due to the impact of fluctuations in RMB exchange rate on US$-denominated bonds during the year.

Current liabilities decreased by RMB2,397 million and non-current liabilities increased by RMB806 million, mainly due to the repayment of borrowings in 2017 and the negotiation of debt extensions with creditors

2018 Outlook

In light of the Group's diverse geographic coverage in China coupled with the strongly regionalized business nature of the cement sector to adopt a more flexible management structure, the Group is expected to continue to deepen its integrated management in 2018.

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

(I) Level up the integrated management

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

(II) Promote high-quality market development

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

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

(III) Maintain steady development of the Group

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

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

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

Financial Resources and Liquidity

For the year ended 31 December 2017, the Group maintained healthy financial positions. The total assets decreased by approximately 3% to RMB25,090 million (31 December 2016:approximately RMB25,920 million), while the total equity increased by approximately 23% to RMB4,018 million (31 December 2016:approximately RMB3,256 million).

SUSPENSION OF TRADING AND PROGRESS UPDATE ON RESUMPTION OF TRADING

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

For details of the above matters, please refer to the announcements published by the Company on 16 April 2015, 22 May 2015, 14 January 2016, 19 February 2016, 23 March 2016, 26 April 2016, 3 June 2016, 8 August 2017, 27 October 2017, 29 December 2017, 17 May 2018, 29 May 2018, 1 August 2018 and 20 September 2018.

PURCHASE, SALE AND REDEMPTION OF LISTED SHARES

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance.

For the period from 1 January to 31 December 2017, other then disclosed below, 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.

Notice of Annual General Meeting

Code provision E.1.3 of the CG Code stipulates that issuer should arrange for the notice to shareholders to be sent for annual general meeting at least 20 clear business days before the meeting. The annual general meeting of the Company was held on 2 June 2017 while the notice of annual general meeting was sent to shareholders on 11 May 2017. The Company deviates from this code provision with less than 20-clear-business-day notice period. The deviation is caused by the unexpected long time spent in the coordination work between the Company and different parties.

REVIEW OF THE PRELIMINARY ANNOUNCEMENT BY THE AUDIT COMMITTEE

This announcement has been reviewed by the Audit Committee with discussions with the existing management.

SCOPE OF WORK OF MOORE STEPHENS CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Moore Stephens CPA Limited ("Moore Stephens"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Moore Stephens in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Moore Stephens on the preliminary announcement.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2017.

Disclaimer of Opinion on the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows

We do not express an opinion on the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year ended 31 December 2017. Because of the significance of the matters described in the "Basis for Disclaimer of Opinion on the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows and for Qualified Opinion on the consolidated Statement of Financial Position" section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2017. Accordingly, we do not express an opinion on the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2017.

Qualified Opinion on the consolidated statement of financial position

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

Basis for Disclaimer of Opinion on the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows and for Qualified Opinion on the consolidated statement of financial position

(a) Opening balances and comparative information

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

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

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

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

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

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

As disclosed in note 8 to the consolidated financial statements, Shandong Shanshui accrued an amount of RMB130.6 million as the bonus (the "**Accrued Bonus**") for year 2016 to the then senior management of Shandong Shanshui and its subsidiaries. The management of Shandong Shanshui asserted that the amount was subsequently fully paid out during January 2017 but they did not provide any evidence for the payment. The then directors of the Company advised the Predecessor Auditor that the so-called bonus and the payment was not approved by the ex-directors of the Company, but the ex-directors of the Company were still of the opinion that RMB130.6 million should be recorded as an expense for year 2016 since it was allegedly disbursed in relation to operations in 2016. Neither the management of Shandong Shanshui nor the board of the Company have provided the Predecessor Auditor with any evidence of the payment in January 2017. In the absence of sufficient audit evidence as to support the existence and payment of the expense, the Predecessor Auditor was unable to satisfy themselves as to whether the expense accrued in the consolidated financial statements for the year ended 31 December 2016 was fairly stated and that the personnel expenses and the information relating to individuals with highest emoluments and the emoluments for key management personnel have been accurately presented/disclosed.

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

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

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

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

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

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

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

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

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

Shanshui Micro Finance, Xinghao Cement and Rushan Shanshui were subsidiaries of the Group as at 31 December 2015. As disclosed in notes 2(a) and 17 to the consolidated financial statements, as a result of the continuing difficulties and events described in note 2(a), the board of the Company at the material time had been unable to access any accounting books and records of these three companies nor had it had the ability to direct the relevant activities which significantly affect these companies' returns. Accordingly, the Group reclassified the investments in each of these three companies as available-for-sale investments and made a full impairment provision of RMB165 million as at 31 December 2016.

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

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

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

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

Material Uncertainties Related to Going Concern

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

Other Matters

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

"Scope limitation on the board's representation

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

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

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

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

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

DIVIDEND

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

ADJOURNED ANNUAL GENERAL MEETING AND EXTRAORDINARY GENERAL MEETING

The Company's adjourned general meeting is to be held on 30 October 2018, and an extraordinary general meeting will also be held on the same day. The notices of the adjourned annual general meeting and the extraordinary general meeting will be published on the website of the Company (www.sdsunnsygroup.com) and of the Stock Exchange (www.hkexnews.hk) as and when appropriate.

Closure of the Register of Members

The register of shareholders will be closed from Thursday, 25 October 2018 to Tuesday, 30 October 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the the adjourned annual general meeting and the extraordinary general meeting, all completed transfer forms, accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Wednesday, 24 October 2018.

APPRECIATION

On behalf of the Directors, I would like to express my sincere gratitude to our creditors, shareholders, customers and business partners for their great support, and all our employees for their dedication and hard work.

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

Hong Kong, 6 October 2018

As at the date of this announcement, the board comprises two executive directors, namely Mr. Chang Zhangli and Ms. Wu Ling-ling; and three independent non-executive directors, namely, Mr. Chang Ming-cheng, Mr. Li Jianwei and Mr. Hsu You-yuan.