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)

PRELIMINARY ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**17,638,370**	14,773,644
Profit from operations	**3,779,350**	1,980,514
Finance costs	**(778,320)**	(1,021,372)
Profit for the year	**2,168,847**	546,470

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Non-current assets	**20,214,657**	20,753,158
Non-current liabilities	**(3,258,193)**	(1,327,726)
Current assets	**5,858,056**	4,336,801
Current liabilities	**(13,228,184)**	(19,744,702)
Net assets and equity	**9,586,336**	4,017,531

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 2018, together with the comparative figures for the previous financial year.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	31.12.2018 RMB'000	31.12.2017 RMB'000
NON-CURRENT ASSETS			
Fixed assets			
– Property, plant and equipment		**15,922,070**	16,769,993
– Land lease prepayments		**2,208,691**	2,241,969
		18,130,761	19,011,962
Intangible assets		**894,663**	618,574
Goodwill		**14,223**	14,223
Other financial assets		**73,391**	69,360
Interests in associates		**315,063**	299,607
Deferred tax assets		**159,649**	159,335
Other long-term assets		**626,907**	580,097
		20,214,657	20,753,158
CURRENT ASSETS			
Inventories		**1,458,828**	1,506,993
Trade and bills receivables	10	**2,126,724**	1,805,752
Other receivables and prepayments		**692,050**	653,220
Derivative component of convertible bonds	15	**246,204**	–
Restricted bank deposits		**30,307**	62,841
Bank balances and cash		**1,303,943**	307,995
		5,858,056	4,336,801
CURRENT LIABILITIES			
Bank loans–amounts due within one year	12	**4,299,350**	4,790,599
Other borrowings	13	**281,159**	1,736,722
Current portion of long-term bonds	14	**1,338,000**	5,977,435
Trade payables	11	**3,240,134**	3,225,907
Other payables and accrued expenses		**3,686,964**	3,888,522
Taxation payable		**382,577**	125,517
		13,228,184	19,744,702
NET CURRENT LIABILITIES		**(7,370,128)**	(15,407,901)
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,844,529**	5,345,257

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Notes	**31.12.2018** **RMB'000**	31.12.2017 *RMB'000*
NON-CURRENT LIABILITIES			
Other borrowings	13	**496,727**	403,841
Long-term bonds	14	**1,371,500**	397,047
Defined benefit obligations		**136,640**	137,070
Deferred income		**248,303**	266,807
Long-term payables		**280,487**	20,347
Deferred tax liabilities		**91,436**	102,614
Convertible bonds	15	**633,100**	–
		3,258,193	1,327,726
NET ASSETS		**9,586,336**	4,017,531
CAPITAL AND RESERVES			
Share capital		**295,671**	227,848
Share premium		**8,235,037**	4,654,010
Share capital and Share premium		**8,530,708**	4,881,858
Other reserves		**991,540**	(966,531)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**9,522,248**	3,915,327
Non-controlling interests		**64,088**	102,204
TOTAL EQUITY		**9,586,336**	4,017,531

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. Trading in the shares of the Company on the Stock Exchange was resumed with effect from 9:00 a.m. on 31 October 2018.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(a) Matters arising from the change in directors

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

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

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

(b) Going concern

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

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

(i) The Group has been actively negotiating with a number of banks in the People's Republic of China (the "**PRC**") and financial institutions for renewal and extension of loans and banking facilities with extended repayment terms.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.1 IFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

Information about the Group's performance obligations resulting from application of IFRS 15 was disclosed in note 4.

Summary of effects arising from initial application of IFRS 15

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

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

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

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

3.2 IFRS 9 "Financial Instruments"

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

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

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

Summary of effects arising from initial application of IFRS 9

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

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

(a) From available-for-sale financial assets

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

(b) Impairment under ECL model

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

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

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

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

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

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

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

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 delivery services.

The performance obligation is a part of a contract that has an original expected duration of one year or less.

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

	2018	2017
	RMB'000	*RMB'000*
Sales of cement	**12,941,869**	11,173,989
Sales of clinker	**2,639,593**	2,175,092
Sales of concrete	**1,295,411**	1,175,130
Sales of other products	**748,226**	241,856
Rendering of services	**13,271**	7,577
	17,638,370	14,773,644

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 4(b).

(b) Segment reporting

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

The Group manages its businesses by geographical areas. Based on the manner in which information is reported internally to the executive directors of the Company, being the Group's chief operating decision maker ("**CODM**"), for the purposes of resource allocation and performance assessment, the Group has identified and presented the following four reportable segments based on the region in which the Group's business operates.

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

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

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

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

No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

(i) Segment results, assets and liabilities

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

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

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

– Segment results represents profits earned by each segment without allocation of head office administrative expenses, share of result of associates, waiver of interest expense, waiver of short-term financing bills and medium-term note principal, gain on fair value changes of financial assets at FVTPL, loss on extinguishment of convertible bonds, gain on fair value changes of derivative, directors' remuneration, auditor's remuneration and finance costs in relation to the unallocated bank loans and borrowings, long-term bonds and convertible bonds.

– 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.

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

	2018					2017				
	Shandong Province	**Northeastern China**	**Shanxi Province**	**Xinjiang Region**	**Total**	Shandong Province	Northeastern China	Shanxi Province	Xinjiang Region	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Disaggregated by timing of revenue										
Point in time	**12,383,043**	**3,127,601**	**1,641,488**	**477,408**	**17,629,540**	9,829,940	3,127,675	1,327,142	481,980	14,766,737
Over time	**6,518**	**783**	**1,529**	**–**	**8,830**	5,111	765	860	171	6,907
Revenue from external customers	**12,389,561**	**3,128,384**	**1,643,017**	**477,408**	**17,638,370**	9,835,051	3,128,440	1,328,002	482,151	14,773,644
Inter-segment revenue	**46,438**	**47,476**	**67,070**	**8**	**160,992**	31,422	13,254	17,503	–	62,179
Reportable segment revenue	**12,435,999**	**3,175,860**	**1,710,087**	**477,416**	**17,799,362**	9,866,473	3,141,694	1,345,505	482,151	14,835,823
Reportable segment profit (adjusted profit before taxation)	**3,415,361**	**2,495**	**217,609**	**154,692**	**3,790,157**	1,742,250	153,900	2,497	141,893	2,040,540
Included in arriving at segment results are:										
Interest income	**15,707**	**5,681**	**262**	**99**	**21,749**	3,148	980	81	40	4,249
Interest expense	**27,881**	**27,212**	**18**	**7,382**	**62,493**	36,703	27,110	22	9,820	73,655
Depreciation and amortisation for the year	**585,813**	**441,015**	**326,294**	**52,322**	**1,405,444**	591,597	523,596	287,550	48,452	1,451,195
Impairment loss (reversal of impairment) of property, plant and equipment	**222,465**	**432**	**7,414**	**–**	**230,311**	(8,328)	13,664	–	–	5,336
Impairment loss (reversal of impairment) of trade receivables, net	**11,151**	**25,087**	**(5,184)**	**1,673**	**32,727**	(48,498)	1,049	87	118	(47,244)
Impairment loss (reversal of impairment) of other receivables, net	**1,083**	**(34,326)**	**–**	**11**	**(33,232)**	33,630	(16,591)	–	–	17,039
Impairment loss of other financial assets	**–**	**–**	**–**	**–**	**–**	41,807	–	–	–	41,807
Additions to fixed assets and intangible assets during the year	**710,916**	**114,243**	**215,095**	**32,292**	**1,072,546**	425,906	139,478	78,622	6,913	650,919
Reportable segment assets	**10,536,958**	**8,129,952**	**5,336,846**	**1,095,822**	**25,099,578**	9,678,847	8,566,619	5,359,711	1,083,668	24,688,845
Reportable segment liabilities	**2,957,600**	**3,175,331**	**1,283,362**	**498,689**	**7,914,982**	3,732,180	2,143,616	667,620	322,140	6,865,556

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

	2018	2017
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**17,799,362**	14,835,823
Elimination of inter-segment revenue	**(160,992)**	(62,179)
Consolidated revenue	**17,638,370**	14,773,644
Profit		
Reportable segment profit	**3,790,157**	2,040,540
Elimination of inter-segment profit	**(69,720)**	(8,099)
Reportable segment profit derived from Group's external customers	**3,720,437**	2,032,441
Share of results of associates	**45,957**	8,198
Waiver of interest expenses	**259,743**	113,023
Waiver of short-term financing bills and medium-term note principal	**4,390**	3,983
Gain on fair value changes of financial assets at FVTPL	**9,595**	–
Loss on extinguishment of convertible bonds	**(149,297)**	–
Gain on fair value changes of derivative component of convertible bonds	**236,190**	–
Unallocated finance costs	**(726,809)**	(970,650)
Unallocated head office administrative expenses	**(353,219)**	(219,655)
Consolidated profit before taxation	**3,046,987**	967,340

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned or generated by each segment without allocation of head office administrative expenses, directors' salaries, waiver of interest expenses, waiver of short-term financing bills and medium-term note principal, share of results of associates, gain on fair value changes of financial assets at FVTPL, loss on extinguishment of convertible bonds, gain on fair value changes of derivative and unallocated finance costs. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

	2018	2017
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**25,099,578**	24,688,845
Elimination of inter-segment profit	**(697)**	(785)
Elimination of inter-segment receivables	**(703,711)**	(464,049)
	24,395,170	24,224,011
Deferred tax assets	**159,649**	159,335
Interests in associates	**315,063**	299,607
Derivative component of convertible bonds	**246,204**	–
Unallocated head office assets	**956,627**	407,006
Consolidated total assets	**26,072,713**	25,089,959
Liabilities		
Reportable segment liabilities	**7,914,982**	6,865,556
Elimination of inter-segment payables	**(703,711)**	(464,049)
	7,211,271	6,401,507
Deferred tax liabilities	**91,436**	102,614
Unallocated bank loans and other borrowings	**4,147,000**	6,374,481
Unallocated long-term bonds	**2,709,500**	6,252,262
Convertible bonds	**633,100**	–
Unallocated head office liabilities	**1,694,070**	1,941,564
Consolidated total liabilities	**16,486,377**	21,072,428

(iii) Geographical information

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

(iv) Information about major customers

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

5. OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Interest income	**25,012**	6,019
Government grants	**226,998**	166,290
Amortisation of deferred income	**18,504**	17,480
Waiver of interest expenses	**259,743**	113,023
Waiver of short-term financing bills and medium-term note principal	**4,390**	3,983
Others	**23,050**	29,630
	557,697	336,425

6. OTHER NET EXPENSES

	2018	2017
	RMB'000	*RMB'000*
Net foreign exchange gain	**452**	5,186
Net gain (loss) from disposal of fixed assets	**4,102**	(969)
Loss from write-off of intangible assets	**(1,826)**	–
Loss on extinguishment of convertible bonds	**(149,297)**	–
Gain on fair value changes of financial assets at FVTPL	**9,595**	–
Gain on fair value changes of derivative component of convertible bonds	**236,190**	–
(Impairment losses) reversal of impairment on:		
– fixed assets, net	**(230,311)**	(5,336)
– trade receivables, net	**(25,902)**	(51,788)
– other receivables, net	**(17,766)**	17,039
– other financial assets	**–**	(41,806)
Bad debt recovery	**56,733**	–
Penalties	**(10,794)**	(11,514)
Donations	**(9,998)**	(4,865)
Others	**(11,908)**	(13,968)
	(150,730)	(108,021)

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

Taxation in the consolidated statement of profit or loss:

	2018	2017
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**905,514**	403,813
(Over) under-provision in respect of prior years	**(15,882)**	6,063
Deferred tax		
Origination and reversal of temporary differences	**(11,492)**	10,994
	878,140	420,870

Notes:

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

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

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first Hong Kong dollars ("**HK$**" or "**HKD**")2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The Company and its subsidiaries incorporated in Hong Kong are subject to Hong Kong Profits Tax at the rate of 16.5% (2017: 16.5%). No provision for Hong Kong Profits Tax has been made as the Company and the subsidiaries incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax during the year ended 31 December 2018 (2017: nil).

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

Earnings figures are calculated as follows:	**2018** ***RMB'000***	2017 *RMB'000*
Profit for the year attributable to owners of the Company and earnings for the purposes of basic earnings per share	**2,196,657**	600,817
Effect of dilutive potential ordinary shares		
Effective interest expense on convertible bonds	**23,868**	N/A
Gain on fair value changes of derivative component of convertible bonds	**(149,340)**	N/A
Earnings for the purpose of diluted earnings per share	**2,071,185**	600,187
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**3,547,397,876**	3,379,140,240
Effect of dilutive potential ordinary shares on convertible bonds	**30,322,103**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per shares	**3,577,719,979**	3,379,140,240

9. DIVIDEND

The directors of the Company do not recommended the payment of a dividend for the year ended 31 December 2018 (2017: nil).

10. TRADE AND BILLS RECEIVABLES

	2018 ***RMB'000***	2017 *RMB'000*
Bills receivables	**1,144,877**	716,301
Trade receivables	**1,261,380**	1,343,726
Less: allowance for credit losses	**(279,533)**	(254,275)
	2,126,724	1,805,752

(a) Ageing analysis

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**816,824**	844,894
3 to 6 months	**514,055**	443,438
6 to 12 months	**414,501**	196,083
Over 12 months	**381,344**	321,337
	2,126,724	1,805,752

All of the trade and bills receivables (net of allowance for credit losses) are expected to be recovered within one year.

11. TRADE PAYABLES

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**1,800,360**	1,621,293
3 to 6 months	**479,353**	404,311
6 to 12 months	**203,713**	173,232
Over 12 months	**756,708**	1,027,071
	3,240,134	3,225,907

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

12. BANK LOANS

	2018	2017
	RMB'000	*RMB'000*
Bank loans – Secured (*)	**216,150**	241,600
Bank loans – Unsecured	**4,083,200**	4,548,999
	4,299,350	4,790,599

* These bank loans were pledged by certain land lease prepayments with an aggregate carrying amount of RMB4,318,000 (2017: RMB12,471,000) and plants and buildings with an aggregate carrying amount of RMB8,747,000 (2017: RMB2,539,000).

As at 31 December 2018, an unsecured bank loan of approximately RMB80,000,000 (2017: RMB569,049,000) was overdue and carried an interest rate of 10.1% per annum (2017: carried interest rates ranging from 6.9% to 10.1% per annum). Subsequent to the end of the reporting period and up to the date of approval of the consolidated financial statements, the Group repaid the defaulted bank loan totaling RMB80,000,000.

Bank loans amounting to approximately RMB3,513,150,000 (2017: RMB4,678,199,000) and RMB786,200,000 (2017: RMB112,400,000) due for repayment within one year and after one year respectively which contain a cross default clause that demands immediate repayment when there is default in any bank loans repayment or a clause which give the banks the right to recall the loans on demand at their sole discretion had become repayable on demand and hence are classified as current liabilities.

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

	2018	2017
	RMB'000	*RMB'000*
Within one year	**3,513,150**	4,678,199
After one year but within two years	**686,200**	65,200
After two years but within five years	**100,000**	47,200
	4,299,350	4,790,599

13. OTHER BORROWINGS

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

		2018	2017
	Notes	***RMB'000***	*RMB'000*
Loan from government – Unsecured	(i)	**3,636**	4,545
Short-term financing bills	(ii), (iii)	**774,250**	2,136,018
		777,886	2,140,563

Other borrowings due for repayable based on the extended repayment terms set out in the borrowing agreements are as follows:

	2018	2017
	RMB'000	*RMB'000*
Within one year or on demand	**281,159**	1,736,722
After one year but within two years	**164,909**	367,113
After two years but within five years	**331,818**	36,728
	496,727	403,841
	777,886	2,140,563

Notes:

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

(ii) All of the short-term financing bills are issued by Shandong Shanshui and in the PRC inter-bank market. As at 31 December 2018, the details of short-term financing bills were listed below:

Issuer	**Outstanding Principal** *(RMB'000)*	**Issue date**	**Maturity date**	**Original Interest rates** *(per annum)*	**Original interest payment term**	**Interest rates after restructuring plans** *(per annum)*
Shandong Shanshui	400,450 (2017: 1,454,418)	14/04/2015	22/11/2015	5.3%	settle at the maturity date	0%–7.67% (2017: 0%–7.67%)
Shandong Shanshui	373,800 (2017: 681,600)	14/05/2015	12/02/2016	4.5%	settle at the maturity date	0%–7.67% (2017: 0%–7.67%)

As at 31 December 2018 and 31 December 2017, all of the outstanding short-term financing bills issued by Shandong Shanshui are overdue.

(iii) Several banks and financial institutions have commenced legal proceedings against the Group to demand immediate repayment of the overdue principal of short term financing bills of RMB360,000,000, plus any interest, penalty interest and expenses incurred during the litigation. As at 31 December 2018, the status of these litigations so far as to relate to other borrowings is as follows:

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

– During the year ended 31 December 2017, the Group has negotiated with the holders of the short-term financing bills for extension of repayment of principal amounting to RMB1,331,767,000 and RMB314,250,000 to be repaid in 2018 and after 2018 respectively, including the principal amounting to RMB1,410,000,000 previously under legal proceedings. The Group has made repayment in accordance with the terms set out in the restructuring plan and principal amounting to RMB634,000,000 were repaid during the current year.

During the year ended 31 December 2018, the Group has negotiated with the financial institutions and PRC banks for restructuring plan in respect of short-term financing bills in the principal amount of RMB490,000,000, including the principal amount of RMB360,000,000 previously under legal proceedings. According to the restructuring plans, the outstanding short-term financing bills of RMB30,000,000 were repaid during the year ended 31 December 2018.

As at 31 December 2018, the Group has successfully reached agreements with all holders of short-term financing bills to restructure the repayment terms.

– The outstanding short-term financing bills of RMB280,250,000 and RMB494,000,000 will be repayable in 2019 and after 2019 respectively, of which, short-term financing bills with principal of RMB98,250,000 is interest-free and short-term financing bills with principal of RMB676,000,000 carries interest at 4.50%–7.67% per annum on the condition that the Group fully complies with the revised repayment plan.

  Besides, under the restructuring plans, the PRC banks and financial institutions have agreed to waive portion of the interest and penalty interest accrued on the principal amounts up to the date of the restructuring plan to the short term financing bills on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. The waived short-term financing bills principal and interest related to short term financing bills of RMB2,390,000 and RMB154,406,000 respectively has been recognised as other income in profit and loss in 2018.

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

(iv) Certain assets of the Group have been frozen by the PRC Courts in respect of the litigations relating to other borrowings, long-term bonds and certain sales or purchases contracts. As at 31 December 2018, RMB13,814,000 (2017: RMB43,589,000) of cash and cash equivalents, RMB5,664,792,000 (2017: RMB6,154,713,000) of investments in subsidiaries, RMB35,578,000 (2017: RMB31,136,000) of land use rights and RMB82,229,000 (2017: RMB62,144,000) of fixed assets have been frozen by the PRC Courts.

14. LONG-TERM BONDS

	2018	2017
	RMB'000	*RMB'000*
Medium-term notes and other notes	**2,709,500**	3,582,716
Less: Current portion of medium-term notes and other note	**(1,338,000)**	(3,185,669)
Senior notes	**–**	2,791,766
Less: Current portion of senior notes	**–**	(2,791,766)
Long-term bonds, less current portion	**1,371,500**	397,047

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

Issuer		Outstanding Principal (RMB'000/USD'000)	Issue date	Maturity date	Original Interest rates (per annum)	Original Interest payment term	Interest rates after restructuring plans (per annum)
(a)	**Medium-term notes issued in the PRC inter-bank market *(note (i))***						
	Shandong Shanshui	RMB1,138,000 (2017: RMB1,601,216)	18/01/2013	21/01/2016	5.44%	annually	0%–7.67% (2017: 0%–7.67%)
	Shandong Shanshui	RMB846,500 (2017: RMB965,000)	27/02/2014	27/02/2017	6.10%	annually	0%–7.67% (2017: 0%–7.67%)
	Shandong Shanshui	RMB725,000 (2017: RMB1,016,500)	09/05/2014	12/05/2017	6.20%	annually	0%–7.67% (2017: 0%–7.67%)
(b)	**Senior notes issued in the Stock Exchange of Hong Kong Limited *(note (iii))***						
	The Company	USD nil (2017: USD427,253)	11/03/2016	10/03/2020	7.50%	semi-annually	7.50% (2017: 7.50%)

As at 31 December 2018 and 31 December 2017, all of the medium-term notes issued by Shandong Shanshui are overdue.

Notes:

(i) Several financial institutions have commenced legal proceedings against the Group to demand immediate repayment of the overdue principal amounts of medium-term notes of approximately RMB1,300,000,000 plus any interest, penalty interest and expenses incurred during the litigation. As at 31 December 2018, the status of these litigations is as follows:

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

– During the year ended 31 December 2017, the Group has negotiated with the holders of medium-term notes for extension of repayment of principal amounting to RMB521,000,000 and RMB397,000,000 to be repaid in 2018 and after 2018 respectively, including the principal amounting to RMB800,000,000 previously under legal proceedings. The Group has made repayment in accordance with the terms set out in the restructuring plans and repaid principal of RMB347,000,000 during the year. Under the restructuring plans, the medium-term note holders have agreed to waive portion of the interest and penalty interest accrued on the principal amounts up to the date of the restructuring plan to the medium-term notes on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule.

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

– During the year ended 31 December 2018, the Group has negotiated with medium-term note holder for extension and restructuring plan in respect of notes in the principal amount of RMB2,665,000,000, including the principal amount of RMB1,300,000,000 which was previously under legal proceedings.

According to the restructuring plans, the Group was discharged from the liabilities of certain principal amounting to RMB8,373,000. The Group has made repayment in accordance with the terms set out in the restructuring plans and repaid principal of RMB873,000,000 during the year ended 31 December 2018. The remaining outstanding medium-term notes of RMB1,338,000,000 and RMB1,371,500,000 will be repayable in 2019 and after 2019 respectively of which, medium-term notes with principal of RMB200,000,000 is interest-free and medium-term notes with principal of RMB2,509,500,000 interest at 5.44%–7.67% per annum on the condition that the Group fully complies with the revised repayment plans.

Besides, under the restructuring plans, the PRC banks and financial institutions have agreed to waive portion of the interest and penalty interest accrued on the principal amounts up to date of the restructuring plan to the medium-term note on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. The waived medium-term notes principal and interest related to medium-term notes of RMB2,000,000 and RMB105,337,000 respectively has been recognised as other income in profit or loss in 2018.

(ii) Certain assets of the Group have been frozen by the PRC Courts in respect of the litigations of these medium-term notes (see note 13).

(iii) The Company issued senior notes with principal of USD500,000,000 (five-year period) to corporate investors in the Stock Exchange on 11 March 2015 (the "**2020 Notes**"). The 2020 Notes bear fixed interest of 7.5% per annum payable semi-annually.

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

During the year ended 31 December 2018, the Group fully repaid the senior notes by making payment of USD424,249,000 for distribution to the holder of the tendered notes. The payment represented 101% of the original principal and the accrued unpaid interests.

15. CONVERTIBLE BONDS

On 6 August 2018 and 30 August 2018, the Company and independent subscribers ("**CB Subscribers**") entered into agreements (the "**CB Agreements**"), pursuant to which the Company has conditionally agreed to issue, and the Subscribers have conditionally agreed to subscribe for, the convertible bonds ("**CB**") in the aggregate principal amounts of US$210,900,000 and US$320,700,000 (equivalent to RMB1,444,665,000 and RMB2,196,795,000). The CB Agreements were completed on 8 August 2018 and 3 September 2018 (the "**Issue Dates**"). The initial conversion price is HK$6.29 per share.

The CB, shall upon their issuance, constitute a direct, unconditional, unsecured and unsubordinated obligation of the Company and rank pari passu and rateably without preference (with the exception of obligations in respect of taxes and certain other statutory exceptions) with all other unsecured and unsubordinated obligations of the Company.

The CB holder has the right to convert the principal amount of the CB into fully-paid ordinary shares of the Company at any time during the period commencing upon (i) the grant of approval for the listing of and permission to deal in the conversion shares by the Listing Committee of the Stock Exchange, with such approval being unconditional or subject to conditions to which neither the CB issuer and CB Subscribers shall reasonably object; or (ii) the cancellation of listing; and ending on and including, the date falling on the seven business days prior to the Maturity Date.

Unless previously redeemed, converted or purchased and cancelled, the CB Holders shall have the right, to be exercised in its sole discretion, to require the Company to redeem all of the outstanding principal amount of the CB that it holds at the early redemption amount (which equals 110% of the outstanding principal amount of the CB) plus accrued interest in respect of the outstanding principal amount of the CB upon the occurrence of a triggering event (the change of control of the Company as defined under the Takeover Code or material change of the use of proved).

The Company has the right to convert the outstanding principal amount of the CB into fully-paid ordinary shares of the Company at any time during the period commencing from 19th month following the issue date and up to inclusive of 7 business days prior to the maturity date upon (i) the grant of approval for the listing of and permission to deal in the Conversion Shares by the Listing Committee of the Stock Exchange, with such approval being unconditional or subject to conditions to which neither the Company nor Subscriber shall reasonably object; or (ii) the cancellation of listing. In the event that the Company elects to exercise the conversion right, it shall pay to each Holder an amount equal to the interest that would have accrued on the CB of the Holder from the date on which the Company elects to exercise the conversion right (the "**Company Conversion Date**") to the next anniversary date after the Company Conversion Date.

The CB contains two components, debt component and derivatives (including conversion and early redemption options) component. The effective interest rate of the debt component is 13%. The derivative components are financial assets or financial liabilities because the early redemption option is non-closely related to the economic characteristics and risk of the host. Hence, the conversion option is not an equity component. These derivatives are measured at fair value with changes in fair value subsequent to the initial recognition recognised in profit or loss.

On 6 October 2018, the Company entered into deed of amendments with the CB Subscribers to amend the terms of CB to allow for early conversion of certain CB at the option of the issuer, during the period commencing on (and including) the date on which the listing of the shares issued upon early conversion has been approved by the Stock Exchange and the issuance of the early conversion shares has been approved by the Shareholders of the Company. US$456,000,000 in principal amount out of the total outstanding principal amount of the CB of US$531,600,000 was converted into fully paid ordinary shares on 30 October 2018.

The debt component of the convertible bonds are classified as non-current liabilities while the derivative component is classified as current assets in the consolidated financial statements as at 31 December 2018.

16. CONTINGENT LIABILITIES AND OTHER EVENTS

(a) Guarantee issued

(i) On 14 December 2016, the Company entered into a guarantee in favor of Bank of China Pingdingshan Branch as a security for the provision of the loan facility of RMB400,000,000 to Tianrui Group. The guarantee will expire in 2019.

(b) Litigation contingencies

(i) Shandong Shanshui and Pingyin Shanshui Cement Co., Ltd. have provided guarantees on behalf of Shanshui Heavy Industries Co., Ltd. ("**Shanshui Heavy Industries**"), an associate of the Group, for its bank loan with the principal of RMB300,000,000. The bank loan of Shanshui Heavy Industries bears an interest rate quoted by the People's Bank of China and is repayable within five years from 2015. The guarantees will expire two years after the agreed repayment date.

Certain land use right and properties of Shanshui Heavy Industries have been seized that by the court. The directors of the Company consider the fair values of the seized assets is in excess of RMB300,000,000. In the opinion of the directors of the Company, no provision for this claim is needed accordingly.

(ii) As at 31 December 2018, several litigation claims were initiated by the customers against the Group to demand immediate repayment of the outstanding balance in relation to certain cement and other products sales contracts with an aggregate amount of approximately RMB10,097,000 which have yet been concluded. No provision for these litigation claims was made in the consolidated financial statements for the year ended 31 December 2018 as in the opinion of the directors of the Company, the possibility of an outflow of economic resources is remote.

Other than the disclosure of above, as at 31 December 2018, the Group was not involved in any other material litigation or arbitration. As far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at 31 December 2018, the Group was the defendant of certain non-material litigations, and also a party to certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the directors of the Company believe that any possible legal liability which may be incurred from the aforesaid litigations will not have any material impact on the financial position of the Group.

DISCUSSION ON THE RESULTS AND FINANCIAL POSITIONS OF THE COMPANY

Financial Review

During the reporting period, the Group recorded sales revenue of RMB17,638 million, representing a year-on-year increase of 19.4%. The increase in profit was mainly attributable to the increase of gross profit margin from 29.9% to 33.6% as a result of the pickup of selling price.

Other income increased from RMB336 million to RMB558 million, mainly due to the increase of approximately RMB147 million in the waiver of interest expense resulting from debt restructuring as compared with the previous year as well as the increase of RMB61 million in government grants as compared with the previous year.

Other expenses increased from RMB108 million to RMB151 million, mainly due to the net effect of RMB274 million in impairment loss of assets recognised and RMB149 million in loss on extinguishment of convertible bonds recognised; otherwise RMB236 million in gain on fair value changes of derivative component of convertible bond recognised for the year.

Selling and marketing expenses fell to RMB528 million from RMB581 million, representing a year-on-year decrease of 9.1%, which was mainly due to (1) no more payment for the port berth fees as a result of the shutdown of the cement export business; and (2) decrease in transportation costs and handling charges resulting from the decrease in sales of products settled at delivered price.

Income tax expenses rose to RMB878 million from RMB421 million, representing a year-on-year increase of 108.6%, mainly due to the substantial increase in revenue for the year.

Exchange differences arising on the translation decreased by RMB435 million, mainly due to the impact of fluctuations in RMB exchange rate on US denominated bonds during the year.

Current liabilities decreased by RMB6,517 million and non-current liabilities increased by RMB1,930 million, mainly due to the repayment of borrowings in 2018, the negotiation of debt extensions with creditors and that the convertible bonds issued in 2018 have not been fully converted or redeemed by the end of 2018.

2019 Outlook

The year 2018 witnessed the most heartening and inspiring experience of China Shanshui Group in its development course. The Group made a series of uplifting achievements in respect of corporate governance, compliance operation, innovative management, green development and team building, and achieved record-high economic returns, which were mainly instantiated as follows: firstly, operating results grew substantially. Major KPIs and profit of the Group both enjoyed great year-on-year increase. Secondly, operating achievements shone in the industry. It fulfilled its social responsibility as a business conglomerate, promoted building of the regional platform management company and voluntarily shouldered the burden as a pacesetter of off-peak production, having thus exerted the leading role of an advanced mainstay enterprise and enhanced industrial self-discipline, which was of great significance to the stability of the cement market; thirdly, innovative transformation was carried ahead at a higher pace. It made new achievements in terms of technological transformation and management innovation and was awarded the First Prize for Modern Management and Innovation Achievements of National Building Materials Enterprises (全國建材企業管理現代化創新成果一等獎); development of aggregate business was accelerated and such new businesses as logistics industrial park, intelligent logistics, Internet + transaction platform were also carried forward stepwise; fourthly, internal management and control standards improved consistently. Thanks to the implementation of comprehensive cost management, certain cost management and control indicators were ahead of its peers in the industry and the coal consumption rate was also at a nationwide advantageous level; on-site management, quality management, goal management and production safety continued the positive trend and the corporate brand effect heightened on an ongoing basis; fifthly, risks arising from bonds were resolved effectively. Since the establishment of the New Board, the Group has been taking efforts to resolve domestic and overseas risks. After reaching compromises with domestic creditors and settling the offshore bonds in the amount of USD500 million, it regained the support of domestic financial institutions and the credibility in the Hong Kong capital market.

The year 2019 is the 70th anniversary of the founding of the PRC. It is also a crucial year for securing a decisive victory in building a moderately prosperous society in all respects and for opening up new prospects and making new achievements in the new era on the new journey. In this new year, the Group will observe the following general principle: centering around "one mainline, one center and three major strategies", it shall make through five key tasks with regard to acting on the requirement for full and rigorous Party self-governance, tightening specifications, shoring up weak points, innovative management and team building to facilitate the Group in pursuing high-quality development in 2019 and in turn to become a listed company under standard governance and with outstanding performance.

Particulars are as follows:

(I) Act on the "One Center"

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

(II) Implement the "Three Major Strategies" Attentively

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

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

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

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

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

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

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

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

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

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

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

FINANCIAL RESOURCES AND LIQUIDITY

For the year ended 31 December 2018, the Group maintained healthy financial positions. The total assets increased by approximately 4% to approximately RMB26,073 million (31 December 2017: approximately RMB25,090 million), while the total equity increased by approximately 139% to approximately RMB9,586 million (31 December 2017: approximately RMB4,017 million).

SUSPENSION OF TRADING AND PROGRESS UPDATE ON RESUMPTION OF TRADING

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

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

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

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

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

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

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

RECENT DEVELOPMENTS

On 30 August 2018 Tianrui (International) Holding Company Limited ("**Tianrui**") filed a winding-up petition (the "**Winding-up Petition**") against the Company in the Grand Court of the Cayman Islands (the "**Grand Court**"). The Winding-up Petition was struck out by order of the Grand Court on 19 October 2018 (the "**Grand Court's Order**"). On 13 November 2018, Tianrui filed a notice of appeal against the Grand Court's Order (the "**Cayman Appeal**").

On 16 January 2019, the Court of Appeal of the Cayman Islands (the "**Court of Appeal**") allowed the Cayman Appeal and the Winding-up Petition was reinstated and returned to the Grand Court.

The Company does not believe that there is any reasonable basis for the Winding-up Petition and will continue to vigorously defend its position. The Company has instructed its counsel to prepare an application for leave to appeal to the Privy Council of the United Kingdom, pending receipt of the reasons for the Court of Appeal's decision. Please refer to the Company's announcements dated 18 January 2019, 22 January 2019 and 15 February 2019 for further information.

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 2018 to 31 December 2018, other than 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.

Chairman and Chief Executive Officer

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

From 1 January 2018 to 18 March 2018, Mr. LIU Yiu Keung, Stephen served as the Chairman of the Company. From 19 March 2018 to 22 May 2018, Mr. LI Liufa served as the Chairman of the Company. Mr. CHANG Zhangli has served as the Chairman of the Company since 23 May 2018.

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

Since Mr. LI resigned as the Chief Executive Officer of the Company on 19 March 2018, the Company did not appoint any Chief Executive Officer and the Chairman undertakes the responsibilities of the Chief Executive Officer. In allowing the two positions to be occupied by the same person, the Company has considered that both positions require in-depth knowledge and considerable experience of the Group's business. Candidates with the requisite knowledge, experience and leadership are difficult to identify. If either of the positions is occupied by an unqualified person, the Group's performance could be gravely compromised. Besides, the Board believes that the balance of power and authority will not be impaired by such arrangement as it is adequately ensured by the Board which comprises experienced and high caliber individuals (including executive directors and independent non-executive directors).

Notice of 2018 Annual General Meeting

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

Composition of the Nomination Committee

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

Re-election of directors

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

Rules 3.10(1) and 3.21 of the Listing Rules

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

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

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

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 other comprehensive income and the related notes thereto for the year ended 31 December 2018 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 2018.

Qualified Opinion

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

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

Basis for Qualified Opinion

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

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

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

The Group recognised accumulated impairment loss on fixed assets of approximately RMB774.4 million as at 31 December 2016 and an impairment loss of approximately RMB5,336,000 for the year ended 31 December 2017. However, as we have not been provided with sufficient appropriate audit evidence to satisfy ourselves that the recoverable amounts, and hence the carrying amounts, of the fixed assets of the Group as at 31 December 2016 were free from material misstatements, we were unable to satisfy ourselves that the impairment loss on fixed assets recognised in consolidated profit or loss for the year ended 31 December 2017 were free from material misstatements.

*(ii) Unauthorised expenses for Shandong Shanshui Cement Group Co., Limited (“**Shandong Shanshui**”)*

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

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

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

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

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

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

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

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

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

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

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

Material Uncertainties Related to Going Concern

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

ANNUAL GENERAL MEETING

The Company's annual general meeting is to be held on 30 May 2019. The notice of the annual 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.

DIVIDEND

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

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting, the register of members will be closed from Monday, 27 May 2019 to Thursday, 30 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual 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 Friday, 24 May 2019.

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, 20 March 2019

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.