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## 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)**

### CLARIFICATION ANNOUNCEMENT

This announcement is made by the board (the “**Board**”) of directors (the “**Directors**”) of China Shanshui Cement Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong).

Reference is made to the announcements of the Company dated 29 January 2018 and 7 February 2018, which concern, inter alia, the letters to the shareholders of the Company (the “**Letters**”, and each an “**Letter**”).

The Company wishes to update the shareholders and potential investors of the Company that it came to the knowledge of the Board recently that KPMG, the auditor of the Company, sent a clarification letter dated 8 March 2018 (the “**Clarification**”) to the then Board and the audit committee of the then Board (the “**Audit Committee**”), indicated that there were discrepancies between the Letters and the report prepared by KPMG to the Audit Committee dated 29 December 2017 (the “**Report**”), details of which are set out as below:

#### **1. Discrepancy 1: KPMG did not make representation as referred to in the Letters in the meeting with the Audit Committee dated 29 December 2017**

1.1 The Letter dated 7 February 2018 stated that:

*“KPMG, the auditor of China Shanshui Cement Group Limited (the “**Company**”) made a report to the Audit Committee of the Company on major issues identified in the preliminary audit of the financial statements for 2017, which mentioned many circumstances of Mi Jingtian embezzling assets of the enterprise…”*

**KPMG’s Clarification stated that:**

*“As we stated in the report to the Audit Committee dated 29 December 2017 (the “**Report**”), in the process of our reporting to the Company of the major issues identified in the preliminary audit of the financial statements of the Company for the year 2017, we **did not mentioned** ‘Mi Jingtian embezzling assets of the enterprise’ or used any words to the effect.”*

1.2 The Letter dated 7 February 2018 stated that:

- “(5) Mi Jingtian instructed Shandong Shanshui to refuse payment of the audit fee for the year 2017 to KPMG, the auditor of the Company, with an attempt to delay the audit of the Company;*
- (6) Mi Jingtian instructed subordinates to halt several cement production lines of Shandong Shanshui and planned to sell them, without regard to the rights and interests of shareholders;*
- (7) Mi Jingtian instructed subordinates to equip the gate of Shandong Shanshui with police tear gas sprayers and arrange for companies to hand in their official seals, which were finally delivered to Zhao Yucai, member of the group office; and*
- (8) Mi Jingtian violated the laws, infringes rights and interests of shareholders of Shandong Shanshui. He released misleading information to the domestic media during the period that he participated in the activity of the ‘Top 10 Influential Person in the Cement Industry in 2017’. He violated the inside information provisions of the Securities and Futures Ordinance of Hong Kong. Moreover, he produced confusing market information. However, the Shanshui working team of Jinan Municipal Government has a particularly ambiguous attitude towards the illegal acts of Mi Jingtian.”*

**KPMG’s Clarification stated that:**

*“As stated in the minutes (of the Audit Committee meeting), the above matters are inconsistent with the Report to the Audit Committee. The discrepancies include:*

- We **have not** reported to the Audit Committee on 29 December 2017 in relation to the refusal of payment of audit fee for the year 2017;*
- In the report, we **have not** mentioned ‘Mi Jingtian instructed subordinates to halt several cement production lines of Shandong Shanshui and planned to sell them’ at all, or words to similar effect;*
- In the report, we **have not** mentioned ‘Mi Jingtian instructed subordinates to equip the gate of Shandong Shanshui with police tear gas sprayers and arrange for companies to hand in their official seals, which were finally delivered to Zhao Yucai, member of the group office’ at all, or words to similar effect;*

- *In the report, we **have not** mentioned ‘Mi Jingtian violates national laws, infringes rights and interests of shareholders of Shandong Shanshui. He even participated in the activity of the ‘Top 10 Influential Person in the Cement Industry in 2017’, and released misleading data to domestic media once again during the period’ at all, or words to similar effect.”*

## **2. Discrepancy 2: between the Letters and the Report**

2.1 The Letter dated 26 January 2018 stated that:

*“Mi Jingtian and his associates squander large quantities of funds of the enterprise and refuse to support audit work.”*

### **KPMG’s Clarification stated that:**

*“As mentioned in item 8 of the committee member Q&A session from the minutes of the Audit Committee meeting dated 29 December 2017, Mr. LAW Pui Cheung inquired whether the members of the subsidiary are cooperative with the preliminary audit and whether the auditing can be finished by late February [2018], with an annual report to be issued in March [2018]. [KPMG] Ms. WANG Ting replies that the **members of the subsidiary and Mr. ZHOU Li of the finance department of Shandong Shanshui are all cooperative with the preliminary audit. She is positive that the auditing can be finished by the end of February [2018].”***

*“As we mentioned to your Company and its subsidiary Shandong Shanshui in the issued list of major outstanding issues (information to be provided), as of 7 February 2018, **your Company and its subsidiaries’ 2017 on-site auditing (except Jinan area) has been completed, and the on-site auditing in Jinan area will be temporarily suspended, in accordance with the instructions of the Directors of your Company. There is an inconsistency between ‘refus[ing] to support audit work’ in the letter to Shareholders and our understanding of the facts.”***

2.2 The Letter dated 7 February 2018 stated that:

*“(1) The coal purchase price of Shandong Shanshui in 2017 exceeds the market selling prices in Shenmu and Fugu in Shaanxi (all coal in Shandong and Shanxi comes from Shenmu in Yulin and Fugu) by an unreasonably large amount.”*

### **KPMG’s Clarification stated that:**

*“As stated in item 4 part 5.1 on page 30 of the Report:*

***The price of the coal includes the price of the coal itself and transportation fee. The Shanshui Group practises one invoice system, such that the coal supplier is responsible for the transportation of the coal. The management states that the main reason for the difference between the actual procurement price and the market price of coal is due to the difference in price of coal and the transportation***

*fee, which are both respectively affected by various factors. The demand and supply in the coal market for the second half year was affected by macroeconomic policies like environmental regulations, and the 19th National Congress of the Communist Party of China, etc., leading to a shortage in supply of coal. In addition, the country's coal production capacity exceeded expectations, and the expected **increase in price** led to 'coal-robbing' behaviour, which then pushed up the actual price of coal and the transportation fee. In particular, before and after the 19th National Congress, **the Country enforced stricter regulations on overloading of transportation, which in turn pushes up even further the cost of transportation.** However, the management stated that that there are relevant personnel in each region's purchasing department to conduct research. They provide timely feedback on the price of the coal to the purchasing department, which then negotiates with the coal supplier, adjusting the purchase price. The purchasing department then indicates the reason for the change in market price on the approval form, and the determination of coal price is lastly decided by the regional management. The above described under item (1) of the Letter to shareholders is not mentioned in your Company's meeting minutes."*

2.3 The Letter dated 7 February 2018 stated that:

*"(2) In 2017, without approval of the Company, Mi Jingtian awarded bonuses to certain senior executives and planned to award other bonuses in addition to the aforesaid bonuses. The amounts of bonuses are huge, and the arrangement is abnormal..."*

**KPMG's Clarification stated that:**

*"As stated in part 5.2 on page 37 of the Report, **in accordance with the demand of the Director(s) of your Company, we only listed** the annual salary of the management of Shandong Shanshui 2017 (the management of Shandong Shanshui and its subsidiary), the salary of the senior executive (the management of Shandong Shanshui and the 6 major regions), and the end-of-year bonuses of Shandong Shanshui and its subsidiary in 2016, the 100-day bonus, and the 2017 half-year bonus. These amount to RMB245,973,000.*

*The above described under item (2) of the Letter to Shareholders is not mentioned in your Company's Minutes of the Meeting."*

2.4 The Letter dated 7 February 2018 stated that:

*"(3) Mi Jingtian instructed Shandong Shanshui and its subsidiaries to outsource the selling operations and enter into an agreement for outsourcing the selling operations, for the purpose of outsourcing all selling operations of Shandong Shanshui. Selling operations already outsourced cover Zibo Lianhe Cement Enterprise Management Co., Ltd., Zibo Banyang Limestone Enterprise Management Co., Ltd. in the western area of Shandong, Shandong Cement*

*Industry Association, Liaoning Chifeng Taiying Cement Management Co., Ltd., Ulanhot Jixing Cement Management Co., Ltd and Liaoning Yunding Cement Group Co., Ltd. Mi Jingtian declared that all selling operations would be outsourced in 2018. Selling operation is vital for an enterprise. Outsourcing all selling operations is putting an enterprise in a hopeless situation...”*

**KPMG’s Clarification stated that:**

*“As stated in part 5.7 ‘sales Platforms’ on page 46 of the Report, we reported to the Audit Committee the following:*

*With the advancement of supply-side structural reform policy in 2017, the overall sales strategy of the cement industry has changed. The leading enterprises of each region, through market-sharing policies, have formulated peak production policies. They controlled cement clinker production; divided up sales regions based on the current market shares; established platforms to monitor the sales price; and collaborated on the sale price. Shanshui Group has participated in forming different sales platforms in the major sales regions:*

*Established sales platforms (mainly in Shandong and Liaoning region)...*

*As mentioned in the Report, apart from Jixing Cement Management Co., Ltd and Yunding Cement Group Co., Ltd. (Yunding Group and Shandong Shanshui and its subsidiary’s sales business cooperation model is yet to be determined), **the sales platform is an organised platform for collaborating market prices, established jointly by Shandong Shanshui and its subsidiary and the entrepreneurs in the industry. The enterprises are responsible for their respective sales, which is inconsistent with the described ‘outsourcing all selling operations’ in your Company’s Letter to Shareholders dated 7 February 2018. Also, in the process of reporting, we have not mentioned ‘Mi Jingtian declared that all selling operations would be outsourced in 2018’ or used any words to that effect.”***

2.5 The Letter dated 7 February 2018 stated that:

*“(4) Mi Jingtian instructed Shandong Shanshui and its subsidiaries to withdraw a large sum of cash in January 2018, totally without regard to normal payment by all subsidiaries of salaries in the production suspension period and cash requirement for business operation, and to enter into a great number of settlement agreements with defaulting bondholders, which obviously damage the enterprise benefits, and to repay a large amount of money prematurely, leading to current serious imbalance in cash flow of Shandong Shanshui and its subsidiaries...”*

**KPMG’s Clarification stated that:**

*“As the meeting minutes shows, we **have not** reported any of the 2018 cash transactions or withdrawal transactions to the Audit Committee. In relation to the signed settlement agreement between Shandong Shanshui and its bondholders, in page 18 of the Report, we have explained that:*

*‘from July 2017 to 31 October 2017, Shandong Shanshui has already reached a settlement with multiple bondholders, involving an estimated amount of RMB2.5 billion, and among this, it is expected to repay RMB1.3 billion in 2018. The management is currently actively negotiating with various financial institutions to reach an extension repayment plan for the remaining amount.’*

*On page 18 of the Report, we have stated that the future repayment plan for settlement of the principal is to repay RMB735 million, RMB1.279 billion, and RMB506 million in 2017, 2018 and 2019 and subsequent years respectively. We **have not** mentioned ‘obviously damage the enterprise benefits, and to repay a large amount of money prematurely, leading to current serious imbalance in cash flow of Shandong Shanshui and its subsidiaries’ or used any words to that effect.”*

**CONTINUED SUSPENSION OF TRADING**

Trading of the shares of the Company will remain suspended until further notice.

**Shareholders of the Company and potential investors should exercise caution when dealing in the shares of the Company.**

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

Hong Kong, 11 July 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. LIN Shei-yuan and Mr. LI Jianwei.*