



# 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

## 2017 Summary Financial Report

This summary financial report 2017 only gives a summary of the information and the particulars of China Shanshui Cement Group Limited's annual report 2017 released in due course from which the summary financial report is derived. Shareholders may obtain a printed copy of the annual report free of charge by writing to the Company's share registrars after the publication of the annual report, or read the above two copies on the Company's website at [www.sdsunnsygroup.com](http://www.sdsunnsygroup.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk).



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## (I) Definitions

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

“Company” or “China Shanshui” or “Shanshui Cement”	China Shanshui Cement Group Limited
“Group” or “China Shanshui Group”	the Company and its subsidiaries
“Reporting Period”	the period from 1 January 2017 to 31 December 2017
“Board”	the Board of Directors of the Company
“Director(s)”	the Directors of the Company
“China Shanshui (HK)”	China Shanshui Cement Group (Hong Kong) Company Limited
“Pioneer Cement”	China Pioneer Cement (Hong Kong) Company Limited
“Continental Cement”	Continental Cement Corporation
“American Shanshui”	American Shanshui Development Inc.
“Shandong Shanshui”	Shandong Shanshui Cement Group Company Limited
“ACC”	Asia Cement Corporation
“CNBM”	China National Building Material Company Limited
“CSI”	China Shanshui Investment Company Limited
“Tianrui Group”	Tianrui Group Company Limited
“Shandong Region”	business covered by Eastern Shandong Operating Region, Western Shandong Operating Region and Southern Shandong Operating Region
“Eastern Shandong Operating Region”	business located at the Eastern Shandong Province, including Weifang, Qingdao, Yantai and Weihai, etc
“Western Shandong Operating Region”	business located at the Central and Western Shandong Province, including Zibo, Jinan and Hebei Province and Tianjin, etc
“Southern Shandong Operating Region”	business located at the Southern Shandong Province, including Zaozhuang, Jining, Heze and Henan Province, etc

## (I) Definitions (Continued)

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

## (II) Corporate Information

### 1. BOARD OF DIRECTORS

#### Executive Directors

Mr. CHANG Zhangli (*Chairman*)

Ms. WU Ling-ling

*Note:* Mr. LI Liufa was appointed as an executive Director, the chairman of the Board, the chairman of the Nomination Committee and the chairman of the Executive Committee on 1 December 2015. Mr. LI Heping, Mr. LIU Yiu Keung, Stephen and Mr. CHONG Cha Hwa were appointed as executive Directors and members of the Executive Committee on 1 December 2015, and Mr. LIU Yiu Keung, Stephen was nominated as a member of the Nomination Committee. Mr. CHEUNG Yuk Ming was appointed as an independent non-executive Director of the Company on 1 December 2015 and was re-designated from independent non-executive Director to executive Director with effect from 2 February 2016. Mr. CHEUNG Yuk Ming retired by rotation on 17 June 2016 and was not re-appointed as Director by the shareholders at the annual general meeting, and he ceased to be a member of the Executive Committee and an authorized representative of the Company. Mr. LI Liufa resigned as an executive Director, the chairman of the Board, and the chairman of both the Nomination Committee and the Executive Committee of the Company with effect from 31 May 2016. Mr. LIU Yiu Keung, Stephen was appointed as chairman of the Board, the chairman of the Nomination Committee and the chairman of the Executive Committee of the Company on 2 June 2016. Mr. HWA Guo Wai, Godwin was appointed as an executive Director of the Company on 1 December 2015, re-designated from an executive Director to a non-executive Director with effect from 2 February 2016 and re-designated from a non-executive Director to an executive Director with effect from 5 July 2016. Mr. LI Zhiqiang was appointed as an executive Director and the vice chairman of the Board of the Company on 3 November 2017. On 19 March 2018, Mr. LIU Yiu Keung, Stephen resigned as the chairman of the Board, an executive Director and the authorized representative, the chairman of the Executive Committee and the chairman of the Nomination Committee of the Board of the Company. Mr. YEN Ching Wai, David ceased to act as an alternate director of Mr. LIU Yiu Keung, Stephen. Mr. LI Zhiqiang resigned as the vice chairman of the Board, an executive Director, and a member of the Executive Committee of the Company. Mr. LI Heping resigned as an executive Director of the Company. On 19 March 2018, Mr. LI Liufa was appointed as the chairman of the Board and an executive Director, chairman of the Nomination Committee and chairman of the Executive Committee of the Board of the Company. Mr. ZHU Linhai was appointed as an executive Director, a member of the Executive Committee of the Board of the Company. Mr. HWA Guo Wai, Godwin was appointed as an authorized representative of the Company. On 23 May 2018, Mr. LI Liufa was removed as the chairman of the Board, an executive Director and the chairman of the Executive Committee. Mr. ZHU Linhai and Mr. HWA Guo Wai, Godwin were removed as executive Directors and members of the Executive Committee; and HWA Guo Wai, Godwin was removed as the authorized representative of the Company. On 23 May 2018, Mr. CHANG Zhangli was appointed as an executive Director and chairman of the Board, and Mr. WU Ling-ling was appointed as an executive Director of the Company.

#### Non-Executive Director

*Note:* Mr. CHONG Cha Hwa was appointed as an executive Director of the Company on 1 December 2015 and had been re-designated from executive Director to non-executive Director with effect from 2 February 2016, and he ceased to be an authorized representative and a member of the Executive Committee of the Company and resigned as a non-executive Director of the Company with effect from 8 May 2017. Mr. NG Qing Hai was appointed as a non-executive Director of the Company on 1 December 2015 and resigned as a non-executive Director of the Company with effect from 2 February 2016.

#### Independent Non-Executive Directors

Mr. CHANG Ming-cheng

Mr. LI Jianwei

Mr. HSU You-yuan

*Note:* Ms. HO Man Kay Angela, Mr. LAW Pui Cheung, Stephen and Mr. CHEUNG Yuk Ming were appointed as independent non-executive Directors of the Company on 1 December 2015, Mr. CHEUNG Yuk Ming had been re-designated from independent non-executive Director to executive Director with effect from 2 February 2016, and Mr. WONG Chi Keung was appointed as an independent non-executive Director of the Company on 2 February 2016. Dr. CHING Siu Ming and Mr. LO Chung Hing were appointed as independent non-executive Directors of the Company on 5 July 2016. On 23 May 2018, Ms. HO Man Kay Angela, Mr. LAW Pui Cheung, Stephen, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed as independent non-executive Directors, and Mr. CHANG Ming-cheng, Mr. LIN Shei-yuan and Mr. LI Jianwei were appointed as independent non-executive Directors of the Company. On 20 July 2018, Mr. LIN Shei-yuan resigned as an independent non-executive Director of the Company; and on 4 September 2018, Mr. HSU You-yuan was appointed as an independent non-executive Director of the Company.

## (II) Corporate Information (Continued)

### Audit Committee

Mr. CHANG Ming-cheng (*Chairman*)

Mr. LI Jianwei

Mr. HSU You-yuan

*Note:* Mr. CHEUNG Yuk Ming was appointed as the chairman of the Audit Committee of the Company on 1 December 2015 and resigned as the chairman of the Audit Committee of the Company with effect from 2 February 2016; Ms. HO Man Kay Angela and Mr. LAW Pui Cheung were appointed as members of the Audit Committee of the Company on 1 December 2015 and was appointed as the chairman of the Audit Committee on 2 February 2016. Mr. WONG Chi Keung was appointed as a member of the Audit Committee of the Company on 2 February 2016. Dr. CHING Siu Ming and Mr. LO Chung Hing were appointed as members of the Audit Committee of the Company on 5 July 2016. On 23 May 2018, Mr. LAW Pui Cheung was removed as the chairman of the Audit Committee of the Company, Ms. HO Man Kay Angela, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed as members of the Audit Committee of the Company; Mr. CHANG Ming-cheng was appointed as the chairman of the Audit Committee of the Company; Mr. LIN Shei-yuan and Mr. LI Jianwei were appointed as members of the Audit Committee of the Company; on 20 July 2018, Mr. LIN Shei-yuan resigned as a member of the Audit Committee of the Company; and on 4 September 2018, Mr. HSU You-yuan was appointed as a member of the Audit Committee of the Company.

### Remuneration Committee

Mr. LI Jianwei (*Chairman*)

Mr. CHANG Ming-cheng

Mr. HSU You-yuan

*Note:* Mr. CHEUNG Yuk Ming was appointed as a member of the Remuneration Committee of the Company on 1 December 2015 and had resigned as a member of the Remuneration Committee of the Company with effect from 2 February 2016. Mr. LAW Pui Cheung was appointed as a member of the Remuneration Committee of the Company on 1 December 2015; Ms. HO Man Kay Angela was appointed as the chairman of the Remuneration Committee of the Company on 1 December 2015; Mr. WONG Chi Keung was appointed as a member of the Remuneration Committee of the Company on 2 February 2016. Dr. CHING Siu Ming and Mr. LO Chung Hing were appointed as members of the Remuneration Committee of the Company on 5 July 2016. On 23 May 2018, Ms. HO Man Kay Angela was removed as the chairman of the Remuneration Committee of the Company, Mr. LAW Pui Cheung, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed as members of the Remuneration Committee of the Company; Mr. LI Jianwei was appointed as the chairman of the Remuneration Committee of the Company; Mr. CHANG Ming-cheng and Mr. LIN Shei-yuan were appointed as members of the Remuneration Committee of the Company; on 20 July 2018, Mr. LIN Shei-yuan resigned as a member of the Remuneration Committee of the Company; and on 4 September 2018, Mr. HSU You-yuan was appointed as a member of the Remuneration Committee of the Company.

### Executive Committee

Mr. CHANG Zhangli (*Chairman*)

Ms. WU Ling-ling

*Note:* Mr. LI Liufa was appointed as the chairman of the Executive Committee on 1 December 2015, Mr. CHONG Cha Hwa, Mr. LIU Yiu Keung, Stephen and Mr. LI Heping were appointed as members of the Executive Committee on 1 December 2015 and Mr. CHONG Cha Hwa resigned as a member of the Executive Committee with effect from 2 February 2016. Mr. CHEUNG Yuk Ming was appointed as a member of the Executive Committee of the Company on 2 February 2016 and ceased to be a member of the Executive Committee of the Company due to his resignation of Director on 17 June 2016. Mr. LI Liufa resigned as the chairman of the Executive Committee of the Company on 31 May 2016. Mr. LIU Yiu Keung, Stephen was appointed as the chairman of the Executive Committee of the Company on 2 June 2016. Mr. HWA Guo Wai, Godwin was appointed as a member of the Executive Committee of the Company on 5 July 2016. Mr. LI Zhiqiang was appointed as a member of the Executive Committee of the Company on 3 November 2017; on 19 March 2018, Mr. LIU Yiu Keung, Stephen resigned as the chairman of the Executive Committee of the Company, Mr. LI Zhiqiang and Mr. LI Heping resigned as members of the Executive Committee, Mr. LI Liufa was appointed as the chairman of the Executive Committee of the Board; Mr. ZHU Linhai was appointed as a member of the Executive Committee of the Board; on 23 May 2018, Mr. LI Liufa was removed as the chairman of the Executive Committee of the Company, Mr. ZHU Linhai and Mr. HWA Guo Wai, Godwin were removed as members of the Executive Committee of the Company; Mr. CHANG Zhangli was appointed as the chairman of the Executive Committee of the Company; Ms. WU Ling-ling, Mr. CHANG Ming-cheng, Mr. LIN Shei-yuan and Mr. LI Jianwei were appointed as members of the Executive Committee of the Company; on 20 July 2018, Mr. LIN Shei-yuan resigned as a member of the Executive Committee; and on 4 September 2018, Mr. CHANG Ming-cheng and Mr. LI Jianwei were removed as members of the Executive Committee of the Board.

## (II) Corporate Information (Continued)

### Nomination Committee

Mr. CHANG Zhangli (*Chairman*)

Ms. WU Ling-ling

Mr. CHANG Ming-cheng

Mr. LI Jianwei

Mr. HSU You-yuan

*Note:* Mr. CHEUNG Yuk Ming, Mr. LIU Yiu Keung, Stephen, Ms. HO Man Kay Angela and Mr. LAW Pui Cheung were appointed as members of the Nomination Committee of the Company on 1 December 2015, Mr. LI Liufa was appointed as the chairman of the Nomination Committee of the Company on 1 December 2015; Mr. CHEUNG Yuk Ming had resigned as a member of the Nomination Committee of the Company with effect from 2 February 2016; Mr. WONG Chi Keung was appointed as a member of the Nomination Committee of the Company on 2 February 2016; Mr. LI Liufa resigned as the chairman of the Nomination Committee of the Company on 31 May 2016; Mr. LIU Yiu Keung, Stephen was appointed as the chairman of the Nomination Committee on 2 June 2016; Dr. CHING Siu Ming and Mr. LO Chung Hing were appointed as members of the Nomination Committee on 5 July 2016; on 19 March 2018, Mr. LIU Yiu Keung, Stephen resigned as the chairman of the Nomination Committee of the Board, Mr. LI Liufa was appointed as the chairman of the Nomination Committee of the Board; on 23 May 2018, Mr. LI Liufa was removed as the chairman of the Nomination Committee of the Company; Ms. HO Man Kay Angela, Mr. LAW Pui Cheung, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed as members of the Nomination Committee of the Company; Mr. LIN Shei-yuan was appointed as the chairman of the Nomination Committee of the Company, Mr. CHANG Zhangli, Ms. WU Ling-ling, Mr. CHANG Ming-cheng and Mr. LI Jianwei were appointed as members of the Nomination Committee of the Company; on 20 July 2018, Mr. LIN Shei-yuan resigned as the chairman of the Nomination Committee of the Board; on 4 September 2018, Mr. CHANG Zhangli was appointed as the chairman of the Nomination Committee of the Board; on 6 October 2018, Mr. HSU You-yuan was appointed as a member of the Nomination Committee of the Company.

### Investigation Committee

*Note:* Mr. CHEUNG Yuk Ming, Ms. HO Man Kay Angela and Mr. LAW Pui Cheung were appointed as members of the Investigation Committee of the Company on 1 December 2015 and Mr. CHEUNG Yuk Ming has resigned as a member of the Investigation Committee of the Company with effect from 2 February 2016. Mr. WONG Chi Keung was appointed as a member of the Investigation Committee of the Company on 2 February 2016. Dr. CHING Siu Ming was appointed as the chairman of the Investigation Committee on 5 July 2016. Mr. LO Chung Hing was appointed as a member of the Investigation Committee of the Company on 5 July 2016; on 23 May 2018, Dr. CHING Siu Ming was removed as the chairman of the Investigation Committee, Ms. HO Man Kay Angela, Mr. LAW Pui Cheung, Mr. WONG Chi Keung and Mr. LO Chung Hing were removed as members of the Investigation Committee.

On 23 May 2018, the Board dissolved the Investigation Committee.

## (II) Corporate Information (Continued)

### 2. BASIC CORPORATE INFORMATION

- |      |  |   |   |
|------|--|---|---|
| (1)  | Official Chinese name of the Company                 | : | 中國山水水泥集團有限公司  |
|      | Official English name of the Company                 | : | China Shanshui Cement Group Limited   |
|      | Abbreviation in English                              | : | CSC   |
| (2)  | Registered Office                                    | : | P.O. Box 10008, Willow House, Cricket Square,<br>Grand Cayman KY1-1001, Cayman Islands  |
| (3)  | Principal Place of Business in China                 | : | Sunnsy Industrial Park, Gushan Town,<br>Changqing District, Jinan, Shandong, PRC  |
|      | Principal Place of Business in Hong Kong             | : | 54/F, Hopewell Centre, 183 Queen's Road East,<br>Hong Kong  |
| (4)  | Website  | : | <a href="http://www.sdsunnsygroup.com">www.sdsunnsygroup.com</a>  |
| (5)  | Authorised Representatives                           | : | CHANG Zhangli and WU Ling-ling  |
| (6)  | Company Secretary                                    | : | LO Yee Har Susan  |
| (7)  | Listing Date   | : | 4 July 2008   |
| (8)  | Exchange on which the Company's<br>shares are listed | : | The Stock Exchange  |
| (9)  | Stock code   | : | 00691   |
| (10) | Stock Short Name                                     | : | Shanshui Cement   |
| (11) | Hong Kong Share Registrar and<br>Transfer Office     | : | Computershare Hong Kong Investor<br>Services Limited<br>Shops 1712-1716, 17/F, Hopewell Centre,<br>183 Queen's Road East, Wan Chai, Hong Kong |
| (12) | Legal Adviser as to Hong Kong law                    | : | Freshfields Bruckhaus Deringer  |
| (13) | Auditor  | : | Moore Stephens CPA Limited  |



## (III) Financial and Business Data Summary

### 1. CONSOLIDATED INCOME STATEMENT

(Unit: RMB'000)

	For the 12 months ended 31 December				
	2017	2016	2015	2014	2013
Revenue	<b>14,765,328</b>	11,284,193	11,166,212	15,596,440	16,535,204
Gross profit	<b>4,404,087</b>	2,476,001	1,228,285	3,346,865	3,829,237
Gross profit margin	<b>29.8%</b>	21.9%	11.0%	21.5%	23.2%
Profit/(Loss) from operations	<b>1,980,514</b>	238,161	(4,869,076)	1,812,813	2,557,206
Profit/(Loss) margin from operations	<b>13.4%</b>	2.1%	(43.6%)	11.6%	15.5%
EBITDA	<b>3,447,725</b>	1,683,883	(3,430,464)	3,172,359	3,798,678
EBITDA margin	<b>23.4%</b>	14.9%	(30.7%)	20.3%	23.0%
Net profit/(loss)	<b>546,470</b>	(978,861)	(6,693,655)	308,578	1,074,712
Attributable to:					
Equity shareholders of the Company	<b>600,817</b>	(738,281)	(6,387,259)	347,650	1,016,707
Minority interests	<b>(54,347)</b>	(240,580)	(306,396)	(39,072)	58,005
Basic earnings/(loss) per share (RMB)	<b>0.18</b>	(0.22)	(1.89)	0.12	0.36
Diluted earnings/(loss) per share (RMB)	<b>0.18</b>	(0.22)	(1.89)	0.12	0.36

### 2. CONSOLIDATED BALANCE SHEET

(Unit: RMB'000)

	As at 31 December				
	2017	2016	2015	2014	2013
Non-current assets	<b>20,753,158</b>	21,652,679	23,109,951	26,645,735	24,992,311
Current assets	<b>4,336,801</b>	4,267,477	3,903,749	7,049,762	7,244,085
Total assets	<b>25,089,959</b>	25,920,156	27,013,700	33,695,497	32,236,396
Total liabilities	<b>21,072,428</b>	22,663,917	22,520,535	22,329,171	22,269,670
Equity attributable to equity shareholders of the Company	<b>3,915,327</b>	3,098,688	4,030,252	10,597,967	9,245,952
Non-controlling interests	<b>102,204</b>	157,551	462,913	768,359	720,774
Non-current liabilities	<b>1,327,726</b>	521,533	772,186	12,484,072	10,222,513
Current liabilities	<b>19,744,702</b>	22,142,384	21,748,349	9,845,099	12,047,157
Total equity and liabilities	<b>25,089,959</b>	25,920,156	27,013,700	33,695,497	32,236,396
Net gearing ratio	<b>76.4%</b>	81.9%	77.6%	56.9%	60.4%

## (III) Financial and Business Data Summary (Continued)

### 3. CONSOLIDATED CASH FLOW STATEMENT

(Unit: RMB'000)

	For the 12 months ended 31 December				
	2017	2016	2015	2014	2013
Net cash generated from/(used in) operating activities	<b>1,975,202</b>	978,342	(342,913)	1,375,826	1,924,751
Net cash used in investing activities	<b>(646,184)</b>	(418,809)	(1,591,087)	(2,184,284)	(4,395,283)
Net cash (used in)/generated from financing activities	<b>(1,294,090)</b>	(509,959)	1,002,770	682,207	2,665,505
Net increase/(decrease) in cash and cash equivalents	<b>34,928</b>	49,574	(931,230)	(126,251)	194,973

### 4. KEY BUSINESS DATA

	2017	2016	2015	2014	2013
Sales volume of cement ('000 tonnes)	<b>41,131</b>	43,959	45,821	53,146	53,422
Sales volume of clinker ('000 tonnes)	<b>9,232</b>	10,544	8,421	9,818	9,218
Sales volume of concrete ('000 m <sup>3</sup> )	<b>3,420</b>	2,680	2,370	3,471	2,864
Unit selling price of cement (RMB/tonne)	<b>276.3</b>	199.0	198.8	235.4	249.9
Unit selling price of clinker (RMB/tonne)	<b>239.8</b>	164.6	154.3	191.6	195.3
Unit selling price of concrete (RMB/m <sup>3</sup> )	<b>349.8</b>	252.8	267.6	298.6	296.7

## (IV) Corporate Profile

### (1) COMPANY BACKGROUND

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

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

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

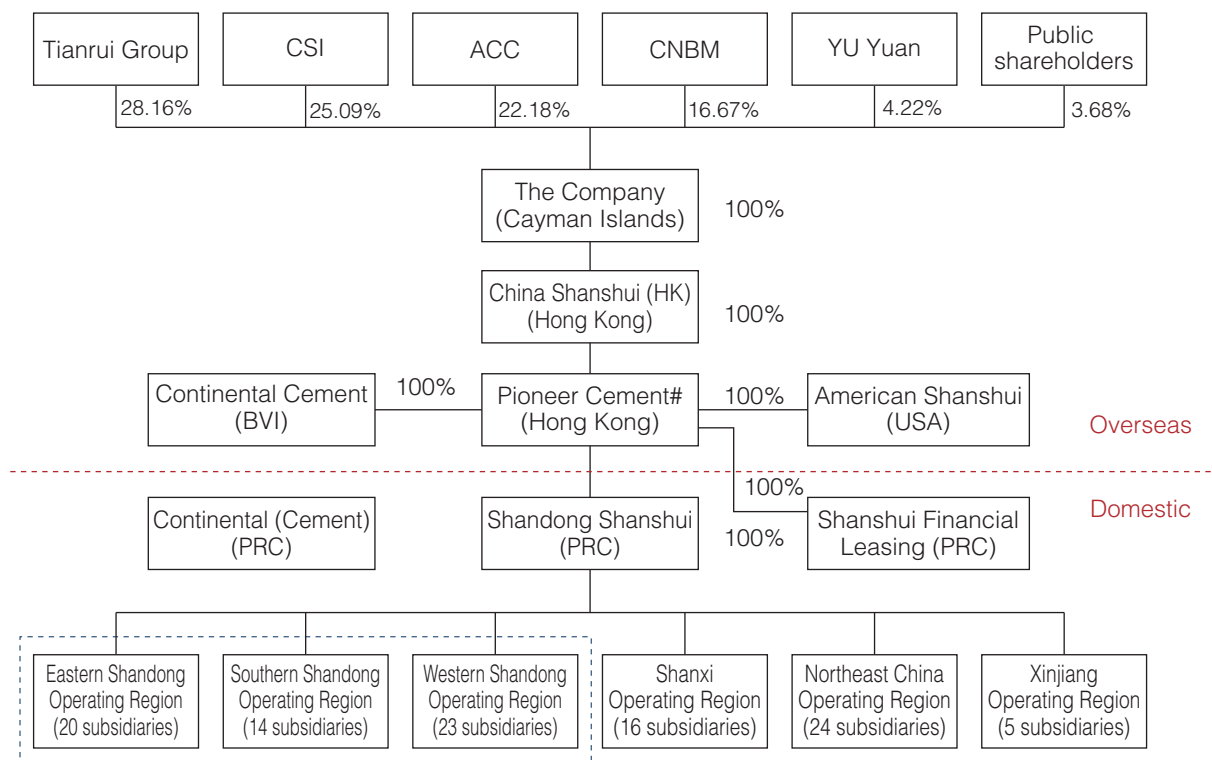
Shandong Shanshui is one of the 12 national large-scale cement enterprises with national key support. At present, Shandong Shanshui has 105 subsidiaries spreading across more than ten provinces including Shandong, Liaoning, Shanxi, Inner Mongolia and Xinjiang.

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

All subsidiaries of the Group in the PRC have acquired the Certification of ISO9001, ISO14001, OHSAS18001 and ISO10012. “Shanshui Dong Yue” is rated as Shandong Famous Brand, and National Certified Quality Credit AAA Gold Medal. It is widely used in national key projects, railways, highways, airports, real estates and other infrastructure construction.

## (IV) Corporate Profile (Continued)

### (2) SHAREHOLDING STRUCTURE OF THE GROUP



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

## (IV) Corporate Profile (Continued)

### (3) DISTRIBUTION OF PRODUCTION FACILITIES AND CAPACITY

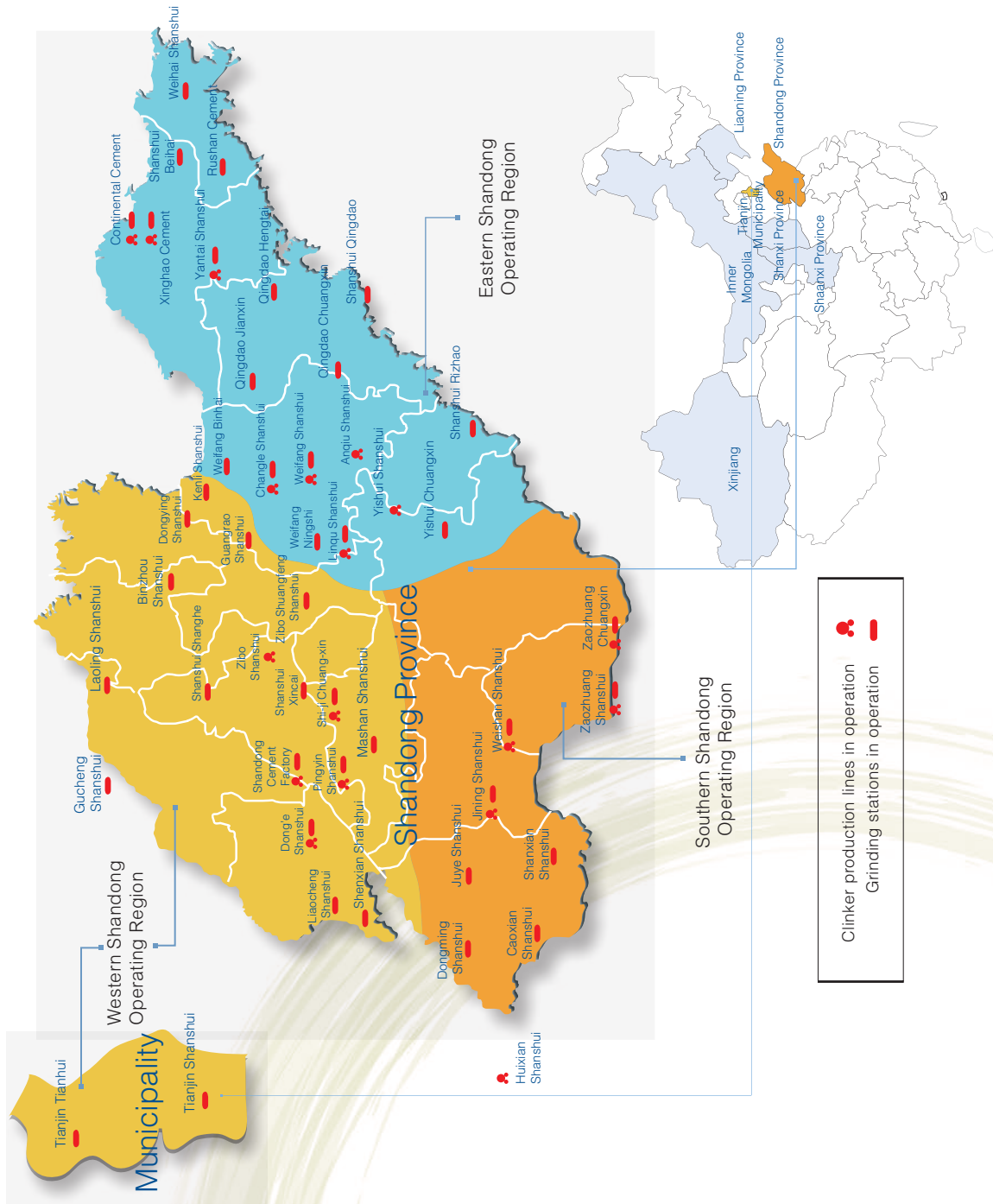
The Group's production facilities are principally located in Shandong Province, Liaoning Province, the Eastern Inner Mongolia, Shanxi Province, Shaanxi Province and Kashi region in Xinjiang Province. Its clinker production facilities are located near limestone mines serving cement grinding stations that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

As of 31 December 2017, the total capacity of cement and clinker of the Group is listed below:

	<b>Cement Capacity</b> <i>(million tonnes)</i>	<b>Clinker Capacity</b> <i>(million tonnes)</i>
Shandong Region	53.77	25.73
Eastern Shandong Operating Region	22.99	10.75
Western Shandong Operating Region	21.58	8.74
Southern Shandong Operating Region	9.20	6.24
Shanxi Operating Region	15.60	8.64
Northeast China Operating Region	27.11	15.10
Xinjiang Operating Region	4.00	1.60
Total	100.48	51.07

# (IV) Corporate Profile (Continued)

Locations of major production facilities in Shandong Region as of 31 December 2017:



## (IV) Corporate Profile (Continued)

### Eastern Shandong Operating Region

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

## (IV) Corporate Profile (Continued)

### Southern Shandong Operating Region

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



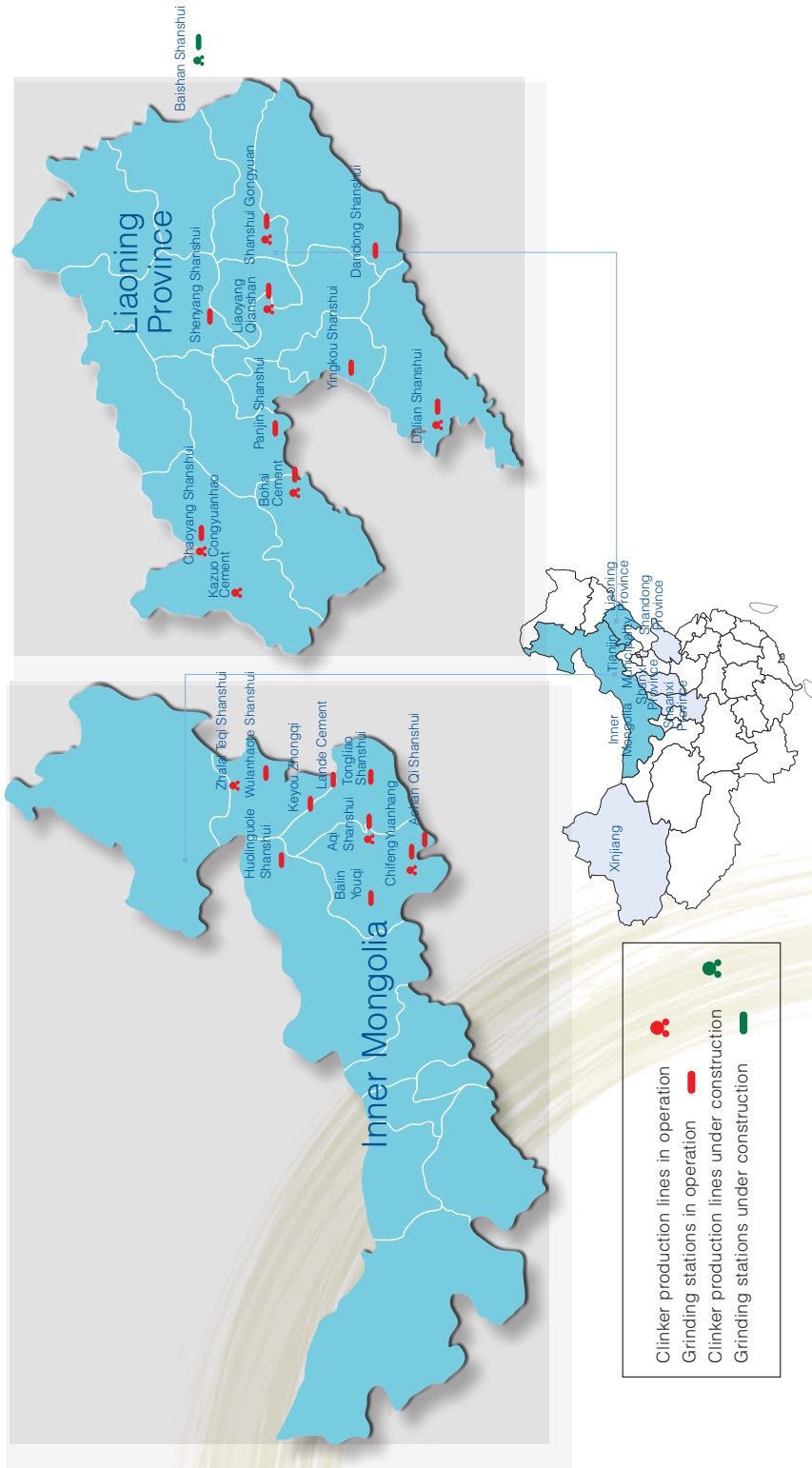
## (IV) Corporate Profile (Continued)

### Western Shandong Operating Region

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

# (IV) Corporate Profile (Continued)

Locations of major production facilities in Northeast China Operating Region as of 31 December 2017:



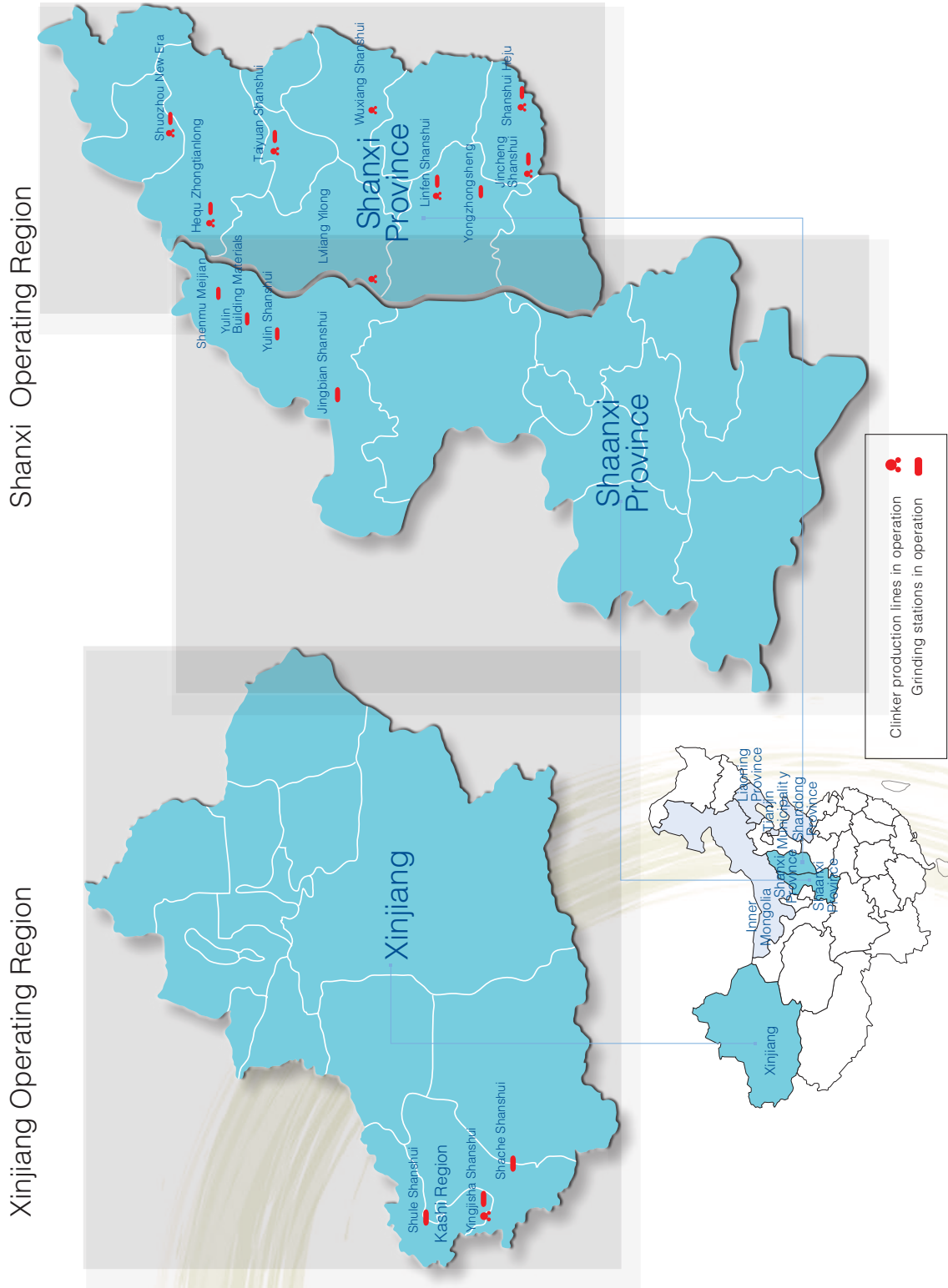
## (IV) Corporate Profile (Continued)

### Northeast China Operating Region

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

## (IV) Corporate Profile (Continued)

Locations of major production facilities in Shanxi and Xinjiang Operating Regions as of 31 December 2017:



## (IV) Corporate Profile (Continued)

### Shanxi Operating Region

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

### Xinjiang Operating Region

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

# (V) Management Discussion and Analysis

## 1. OPERATING ENVIRONMENT OF THE CEMENT INDUSTRY

In 2017, China's GDP was RMB82,712.2 billion, representing a YOY increase of 6.9%. The investment on national real estate development was RMB10,979.9 billion, representing a YOY increase of 7.0%. The total social fixed asset investment (excluding peasant households) was RMB63,168.4 billion, representing a YOY increase of 7.2%, and the growth rate fell by 0.9 percentage point from last year. The national large-scale industrial added-value increased by 6.6% than the actual value of last year and the growth rate increased by 0.6 percentage point over last year. The growth of industrial production accelerated and the profit of enterprises increased rapidly. (Data source: National Bureau of Statistics)

The year 2017 was an important year for implementation of the "13th Five-year Plan" and also a year for deepening the supply-side structural reform. As the fixed asset investment and consumption growth continued to decline in 2017, the national cement output decreased slightly. However, the contribution from the supply side was significant. As affected by factors including air pollution control, environmental protection, mine management, coal and off-peak transportation, the costs were increased in many regions. Accordingly, the industry did not witness sluggish performance in the traditional slack season and recorded much better performance in the peak season. The industry's overall inventory was low and the cement price continued to pick up, giving rise to the second highest profit in history. Especially in November, due to the tight supply and strong demand in Southern China, enterprises' inventories were generally low and the cement prices in Southern China rose sharply, driving the recovery of the entire cement industry.

According to the statistics of National Bureau of Statistics, the national cement output was 2.3224 billion tonnes in 2017, representing a YOY decrease of 0.2%; the overall economic performance of the cement industry increased significantly over the last year and realized total revenue of RMB914.9 billion, representing a YOY increase of 17.89%, and total profit of RMB87.7 billion, representing a YOY increase of 94.41%. The total profit ranked only second to the highest point recorded in 2011. (Data source: Digital Cement Network)

## (V) Management Discussion and Analysis (Continued)

### 2. OPERATIONS OVERVIEW

In 2017, the Group was committed to refining fundamental internal management to enhance the quality of existing production and operation and to sustain the Company's profitability. As at 31 December 2017, the Group had a total production capacity of 100.48 million tonnes of cement, 51.07 million tonnes of clinker and 19.30 million cubic meters of concrete. During the Reporting Period, the Group's sales volume of cement was 41.131 million tonnes, representing a YOY decrease of 6.43%; sales volume of clinker was 9.232 million tonnes, representing a YOY decrease of 12.44%; sales volume of concrete was 3,420,000 cubic meters, representing a YOY increase of 27.61%; sales revenue was RMB14,765 million, representing a YOY increase of 30.85%; and the profit for the period was RMB546 million.

During the Reporting Period, the Group's total production capacity has following changes:

	<b>Increase/(decrease) in cement capacity</b> <i>(10,000 tonnes)</i>	<b>Increase/(decrease) in clinker capacity</b> <i>(10,000 tonnes)</i>
Dongge Dongchang	–	80
Changle Shanshui	(42)	–
Pingyin Shanshui	(16)	–
Chifeng Yuanhang	(40)	–
Liaoning Gongyuan	–	(42)
Liaoyang Qianshan	–	(32)
Shenmu Meijian	(30)	–
Total production capacity changes	(128)	6

## (V) Management Discussion and Analysis (Continued)

### 2. OPERATIONS OVERVIEW (CONTINUED)

#### (I) Business review

##### (a) Sales revenue analysis and the respective YOY changes

(Unit: RMB million)

Product	2017		2016		Change in sales revenue
	Sales revenue	Sales proportion	Sales revenue	Sales proportion	
Cement	11,166	75.62%	8,746	77.5%	27.67%
Clinker	2,175	14.73%	1,735	15.4%	25.36%
Concrete	1,175	7.96%	677	6.0%	73.56%
Others	249	1.69%	126	1.1%	97.62%
<b>Total</b>	<b>14,765</b>	<b>100%</b>	<b>11,284</b>	<b>100%</b>	<b>30.85%</b>

During the Reporting Period, the Company's revenue increased by 30.85% to RMB14,765 million. Revenue from cement amounted to RMB11,166 million, representing a YOY increase of 27.67%. Revenue from clinker amounted to RMB2,175 million, representing a YOY increase of 25.36%. Revenue from concrete amounted to RMB1,175 million, representing a YOY increase of 73.56%. The revenue of the Company has substantially improved due to the increase of sales price.

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

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

Product	2017	2016	Sales volume change	2017	2016	Sales volume change
	Sales volume ('000 tonnes)	Sales volume ('000 tonnes)		Unit selling price (RMB/tonne)	Unit selling price (RMB/tonne)	
Cement	41,131	43,959	-6.43%	276.3	199.0	38.84%
Clinker	9,232	10,544	-12.44%	239.8	164.6	45.69%
Concrete	3,420	2,680	27.61%	349.8	252.8	38.37%



## (V) Management Discussion and Analysis (Continued)

### 2. OPERATIONS OVERVIEW (CONTINUED)

#### (I) Business review (Continued)

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

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

During the Reporting Period, the sales volume of cement of the Company amounted to 41,131,000 tonnes, representing a YOY decline of 6.43%, while the sales volume of commercial clinker decreased to 9,232,000 tonnes, representing a YOY decrease of 12.44%. The unit selling price of cement increased by 38.84% to RMB276.3 per tonne, while the unit selling price of clinker increased by 45.69% to RMB239.8 per tonne. The sales volume of concrete increased to 3,420,000 cubic meters, representing a YOY increase of 27.61%. The unit selling price of concrete increased by 38.37% to RMB349.8/m<sup>3</sup>.

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

Operating regions	Average unit selling price in 2017 (RMB/tonne)	Average unit selling price in 2016 (RMB/tonne)	Change in selling price
Shandong Region	<b>288.9</b>	194.6	48.46%
Eastern Shandong Operating Region	<b>290.3</b>	198.2	46.47%
Western Shandong Operating Region	<b>294.0</b>	191.3	53.69%
Southern Shandong Operating Region	<b>276.2</b>	192.2	43.70%
Northeast China Operating Region	<b>256.7</b>	208.0	23.41%
Shanxi Operating Region	<b>227.0</b>	161.4	40.64%
Xinjiang Operating Region	<b>309.5</b>	271.3	14.08%

# (V) Management Discussion and Analysis (Continued)

## 2. OPERATIONS OVERVIEW (CONTINUED)

### (I) Business review (Continued)

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

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

During the Reporting Period, the average unit selling price of cement in Shandong Region was RMB288.9 per tonne, representing a YOY increase of 48.46%; the average unit selling price of cement in Eastern Shandong Operating Region was RMB290.3 per tonne, representing a YOY increase of 46.47%; the average unit selling price of cement in Western Shandong Operating Region was RMB294.0 per tonne, representing a YOY increase of 53.69%; the average unit selling price of cement in Southern Shandong Operating Region was RMB276.2 per tonne, representing a YOY increase of 43.7%; the average unit selling price of cement in Northeast China Operating Region was RMB256.7 per tonne, representing a YOY increase of 23.41%; the average unit selling price of cement in Shanxi Operating Region was RMB227.0 per tonne, representing a YOY increase of 40.64%; the average unit selling price of cement in Xinjiang Operating Region was RMB309.5 per tonne, representing a YOY increase of 14.08%.

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

Product	2017		2016		Change in sales volume
	Sales volume ( <i>'000 tonnes</i> )	Sales proportion	Sales volume ( <i>'000 tonnes</i> )	Sales proportion	
High grade cement	29,920	72.7%	28,336	64.5%	5.59%
Low grade cement	11,211	27.3%	15,623	35.5%	-28.24%

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

During the Reporting Period, sales volume of high grade cement was 29,920,000 tonnes, representing a YOY increase of 5.59%, and sales volume of low grade cement was 11,211,000 tonnes, representing a YOY decrease of 28.24%.

## (V) Management Discussion and Analysis (Continued)

### 2. OPERATIONS OVERVIEW (CONTINUED)

#### (I) Business review (Continued)

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

(Unit: RMB'000)

Operating region	2017		2016		Change in sales revenue
	Sales revenue	Sales proportion	Sales revenue	Sales proportion	
Shandong Region	<b>9,826,735</b>	<b>66.5%</b>	6,922,365	61.3%	42.0%
Eastern Shandong Operating Region	<b>4,044,915</b>	<b>27.4%</b>	2,904,502	25.7%	39.3%
Western Shandong Operating Region	<b>3,813,285</b>	<b>25.8%</b>	2,639,377	23.4%	44.5%
Southern Shandong Operating Region	<b>1,968,535</b>	<b>13.3%</b>	1,378,486	12.2%	42.8%
Northeast China Operating Region	<b>3,128,440</b>	<b>21.2%</b>	3,108,620	27.6%	0.6%
Shanxi Operating Region	<b>1,328,002</b>	<b>9.0%</b>	825,094	7.3%	61.0%
Xinjiang Operating Region	<b>482,151</b>	<b>3.3%</b>	428,114	3.8%	12.6%
<b>Total</b>	<b>14,765,328</b>	<b>100%</b>	11,284,193	100%	30.8%

During the Reporting Period, the sales revenue in Shandong Region was RMB9,827 million, accounting for 66.5% of the Group's total sales revenue and representing a YOY increase of 42.0%; the sales revenue in Eastern Shandong Operating Region was RMB4,045 million, accounting for 27.4% of the Group's total sales revenue and representing a YOY increase of 39.3%; the sales revenue in Western Shandong Operating Region was RMB3,813 million, accounting for 25.8% of the Group's total sales revenue and representing a YOY increase of 44.5%; the sales revenue in Southern Shandong Operating Region was RMB1,969 million, accounting for 13.3% of the Group's total sales revenue and representing a YOY increase of 42.8%; the sales revenue in Northeast China Operating Region was RMB3,128 million, accounting for 21.2% of the Group's total sales revenue and representing a YOY increase of 0.6%; the sales revenue in Shanxi Operating Region was RMB1,328 million, accounting for 9.0% of the Group's total sales revenue and representing a YOY increase of 61.0%; the sales revenue in Xinjiang Operating Region was RMB482 million, accounting for 3.3% of the Group's total sales revenue and representing a YOY increase of 12.6%.

## (V) Management Discussion and Analysis (Continued)

### 2. OPERATIONS OVERVIEW (CONTINUED)

#### (II) Profit analysis

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

(Unit: RMB'000)

	2017	2016	Change
Revenue	<b>14,765,328</b>	11,284,193	30.85%
Gross profit	<b>4,404,087</b>	2,476,001	77.87%
EBITDA	<b>3,447,725</b>	1,683,883	104.75%
Profit from operations	<b>1,980,514</b>	238,161	731.59%
Profit/(loss) before taxation	<b>967,340</b>	(829,295)	216.65%
Net profit/(loss) for the year	<b>546,470</b>	(978,861)	155.83%
Profit/(loss) attributable to equity holders of the Company	<b>600,817</b>	(738,281)	181.38%

During the Reporting Period, the Group recorded sales revenue of RMB14,765 million, representing a YOY increase of 30.85%; profit from operations was RMB1,981 million; net profit for the year was RMB546 million, represent a YOY increase of 155.83%; profit attributable to equity shareholders of the Company was RMB601 million. The increase in profit was mainly due to the pickup of selling price and the increase of gross profit margin for the period from 21.9% to 29.8%.

## (V) Management Discussion and Analysis (Continued)

### 2. OPERATIONS OVERVIEW (CONTINUED)

#### (II) Profit analysis (Continued)

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

(Unit: RMB'000)

Cost of sales	2017		2016		Change of proportion to revenue
	Amount	Proportion to revenue	Amount	Proportion to revenue	
Raw materials	<b>3,420,862</b>	<b>23.2%</b>	2,675,355	23.7%	-0.5 P.Pt.
Coal	<b>2,862,089</b>	<b>19.4%</b>	2,185,061	19.4%	- P.Pt.
Power	<b>1,119,881</b>	<b>7.6%</b>	1,390,936	12.3%	-4.7 P.Pt.
Depreciation and amortisation	<b>1,004,085</b>	<b>6.8%</b>	1,037,650	9.2%	-2.4 P.Pt.
Others	<b>1,954,324</b>	<b>13.2%</b>	1,520,190	13.5%	-0.3 P.Pt.
Total cost of sales	<b>10,361,241</b>	<b>70.2%</b>	8,809,192	78.1%	-7.9 P.Pt.

During the Reporting Period, the proportion of the Group's total cost of sales to revenue was 70.2%, representing a YOY decrease of 7.9 percentage points. Of which, the proportion of raw materials costs, power costs, depreciation and amortisation, and others decreased by 0.5 percentage points, 4.7 percentage points, 2.4 percentage points and 0.3 percentage point, respectively.

## (V) Management Discussion and Analysis (Continued)

### 3. FINANCIAL REVIEW

#### (a) Expenses during the period

(Unit: RMB'000)

	2017		2016		Proportion
	Amount	Proportion to sales revenue	Amount	Proportion to sales revenue	to sales revenue change
Selling and marketing expenses	<b>580,786</b>	<b>3.93%</b>	486,954	4.32%	-0.39 P.Pt.
Administrative expenses	<b>2,071,191</b>	<b>14.03%</b>	1,414,882	12.54%	1.49 P.Pt.
Finance costs	<b>1,021,372</b>	<b>6.92%</b>	1,030,649	9.13%	-2.21 P.Pt.
Total	<b>3,673,349</b>	<b>24.88%</b>	2,932,485	25.99%	-1.11 P.Pt.

During the Reporting Period, the proportion of selling and marketing expenses to sales revenue has a YOY decrease of 0.39 percentage points; the proportion of administrative expenses to sales revenue has a YOY increase of 1.49 percentage points; the proportion of finance costs to sales revenue has a decrease of 2.21 percentage points compared with that of 2016.

## (V) Management Discussion and Analysis (Continued)

### 3. FINANCIAL REVIEW (CONTINUED)

#### (b) Changes in balance sheet items

(Unit: RMB'000)

	<b>31 December 2017</b>	31 December 2016	Change
Non-current assets	<b>20,753,158</b>	21,652,679	-4.2%
Current assets	<b>4,336,801</b>	4,267,477	1.6%
<b>Total assets</b>	<b>25,089,959</b>	25,920,156	-3.2%
Current liabilities	<b>19,744,702</b>	22,142,384	-10.8%
Non-current liabilities	<b>1,327,726</b>	521,533	154.6%
<b>Total liabilities</b>	<b>21,072,428</b>	22,663,917	-7.0%
Non-controlling interest	<b>102,204</b>	157,551	-35.1%
Equity attributable to equity shareholders of the Company	<b>3,915,327</b>	3,098,688	26.4%
<b>Total liabilities and equity</b>	<b>25,089,959</b>	25,920,156	3.2%
<b>Net gearing ratio</b>	<b>76.4%</b>	81.9%	-5.5 P.Pt.

As at 31 December 2017, the Group's total assets were RMB25,090 million, total liabilities were RMB21,072 million and its net assets were RMB4,018 million. The net gearing ratio (net liabilities/ (net liabilities + equity of the Company)) was 76.4%, representing a decrease of 5.5 percentage points as compared with the end of the previous year. The Group's total current assets were RMB4,337 million, its total current liabilities were RMB19,745 million, and its net current liabilities were RMB15,408 million. Since 31 December 2017, the Group has negotiated and reached reconciliation with creditors in tandem. For details, please refer to Notes 2(b) and 9-11 to the Financial Statements.

## (V) Management Discussion and Analysis (Continued)

### 3. FINANCIAL REVIEW (CONTINUED)

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

(Unit: RMB'000)

Term of borrowings	31 December 2017	31 December 2016
Short-term borrowings (including long-term borrowings with maturity within one year)	<b>12,504,756</b>	15,039,022
Long-term borrowings	<b>800,888</b>	4,546
<b>Total</b>	<b>13,305,644</b>	15,043,568

All borrowings of the Group were denominated in Renminbi and USD. As at 31 December 2017, the Company's total borrowings were RMB13,306 million (including USD427 million of borrowings (approximately RMB2.792 billion) and RMB10.514 billion of borrowings), representing a decrease of RMB1,738 million as compared with the end of 2016. In particular, short-term borrowings amounted to RMB12,500 million and accounted for 94.0% of the Group's total borrowings.

#### (d) Capital expenditures

During the Reporting Period, capital expenditures were approximately RMB663 million, which were mainly used as investment in the cement and clinker production lines.

Outstanding capital commitments under production facility construction contracts and the equipment purchase contracts not provided for in the financial statements as at 31 December 2017 were:

(Unit: RMB'000)

	31 December 2017	31 December 2016
Authorised and contracted for — plant and equipment	<b>270,497</b>	272,630
Authorised but not contracted for — plant and equipment	<b>67,186</b>	65,166
<b>Total</b>	<b>337,683</b>	337,796

As at 31 December 2017, the capital commitments authorised and contracted for by the Group amounted to RMB270 million, which represents a decrease of RMB2 million or 0.8% as compared with the end of 2016. Capital commitments authorised but not contracted for amounted to RMB70 million.



## (V) Management Discussion and Analysis (Continued)

### 3. FINANCIAL REVIEW (CONTINUED)

#### (e) Net cash flow analysis

(Unit: RMB'000)

	2017	2016
Net cash flow generated from operating activities	<b>1,975,202</b>	978,342
Net cash flow used in investing activities	<b>(646,184)</b>	(418,809)
Net cash flow used in financing activities	<b>(1,294,090)</b>	(509,959)
Net changes in cash and cash equivalents	<b>34,928</b>	49,574
Balance of cash and cash equivalents at 1 January	<b>276,500</b>	222,907
Effect of foreign exchange rate changes	<b>(3,433)</b>	4,019
Balance of cash and cash equivalents at 31 December	<b>307,995</b>	276,500

Cash and cash equivalent of the Group is mainly denominated in Renminbi. During the Reporting Period, the Group's net cash flow generated in operating activities was RMB1,980 million, representing a YOY increase of RMB1 billion. The net negative cash flow used in investing activities was RMB650 million, representing a YOY increase of RMB230 million. The net negative cash flow used in financing activities increased by RMB780 million to RMB1,290 million.

#### (f) Material acquisition and disposal

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

#### (g) Pledge of assets

Details in relation to pledge of assets of the Group as at 31 December 2017 are set out in Note 9 to the Financial Statements.

#### (h) Contingent liabilities

Details in relation to contingent liabilities of the Group as at 31 December 2017 are set out in Note 12 to the Financial Statements.

## (V) Management Discussion and Analysis (Continued)

### 3. FINANCIAL REVIEW (CONTINUED)

#### (i) Management of foreign exchange exposure

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

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

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

### 4. FINANCIAL REPORTING AND CORPORATE ACCOUNTING POLICY

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

## (V) Management Discussion and Analysis (Continued)

### 5. 2018 OUTLOOK

#### (a) Operating environment outlook

##### **Macro environment: slowdown in infrastructure investment and generally stable momentum in real estate investment**

The year 2018 marks the first year for the full implementation of the tenet of the 19th National Congress of the Communist Party of China and the 40th anniversary of Reform and Opening-up. It's also a crucial year for alleviating poverty, building a moderately prosperous society and implementing the "13th Five-Year" plan. The Central Economic Work Conference put forward that China will adhere to the general keynote of making progress while maintaining stability, and the new development concept. The economy will continue its steady and favorable development momentum, with expected GDP growth of 6.7%.

**Infrastructure:** Investment in infrastructure plays an important part in supporting the stable growth of the economy and will continue to grow at high level. Since the Central Economic Work Conference has pinpointed targeted poverty alleviation as the second most important uphill battle to conquer, greater effort is expected to be exerted on the infrastructure construction in the Midwest and poverty-stricken areas in the forthcoming three years.

**Real estate:** in the real estate sector, the regulating policy has been transformed from short-term demand-side regulations to the supply-side structural reform. The simultaneous implementation of "hire-purchase" housing system is established in the supply side while administrative policy is complemented with the credit policy in the demand side, which enables the houses to retrieve the living attribute. In view of the foregoing, investment in real estate is expected to increase at a steady rate on the whole.

##### **In terms of demand: the general trend remains at a plateau and the demand remains relatively stable.**

**National demand landscape:** from the demand perspective, investments in real estate and infrastructure continue to be the major factors that affect the demands for cement.

From the perspective of real estate investment, following the targeted implementation of regulating policy, investment in shantytowns will continue to stabilize, and the real estate investment is expected to maintain a generally stable momentum. From the perspective of infrastructure investment, the Central Economic Work Conference has pinpointed targeted poverty alleviation as the second most important uphill battle to conquer, infrastructure construction is expected to be driven up rapidly in the Midwest and poverty-stricken areas in the forthcoming three years, and the infrastructure investment in 2018 is expected to carry on the high standard in 2017. Given the foregoing, cement demands in China in 2018 will manifest a generally and relatively stable momentum.

## (V) Management Discussion and Analysis (Continued)

### 5. 2018 OUTLOOK (CONTINUED)

#### (a) Operating environment outlook (Continued)

**In terms of demand: the general trend remains at a plateau and the demand remains relatively stable. (Continued)**

**Regional demand landscape:** demands for cement will continue the polarized trend. In general, demands in Northeast China proceed with the downturn momentum and almost hit the bottom; demands in North China are very likely to recover and the strategy of synergetic development in Beijing-Tianjin-Heibei region and the construction of Xiongan New District will also boost the demands for cement; considering the resource-weighted economic structure in Shanxi and Inner Mongolia, demands therein might hardly pick up in a short run; demands in the Northwest regions demonstrate a differentiated structure. In particular, investment is intensifying in Xinjiang, projects are being rolled out at a higher pace in Gansu, while demands are declining in Shaanxi and Qinghai; East China and the central and southern regions take up a substantial proportion of gross cement demands and roughly represent the development of the entire industry. As such, demands are not expected to fluctuate violently; demands in the southwestern regions are expected to increase in a mild manner on the whole. To be specific, with the leapfrog development in Tibet, demands will carry forward the rapid growth momentum therein, and demands in Yunnan and Guizhou will show an upward trend while maintaining stability.

**In terms of supply: strict control is imposed on new capacity projects and resolving overcapacity still takes precedence**

**Capacity of clinker:** in spite of the strict control over new capacity projects in the aspect of clinker, newly ignited clinker capacity will continue to be commissioned. Nonetheless, the total new capacity will keep declining sharply and is expected to be approximately 10 million tonnes per annum. Following the more stringent policies and measures in respect of environmental protection, safety, quality, etc., uncompetitive capacities with outdated technical equipment are expected to be phased out at a higher rate. Notably, resurgence of incompetent capacity shall be carefully averted in the course of capacity replacement.

In 2018, decapacity remains an important part of the supply-side structural reform in the cement industry. As instructed by the tenet of the Central Economic Work Conference, the cement industry shall transform from growth at high speed to growth with high quality, eliminate ineffective supply vigorously and proceed mainly from the disposal of “zombie enterprises” to resolve surplus capacity. In 2017, China Cement Association set up the decapacity leading group and published the “2018–2020 Decapacity Action Plan in Cement Industry”, which has made specific arrangements for the promotion and implementation of decapacity and put forward policy recommendations. Meanwhile, innovative pilot work on decapacity was carried forward and Zibo Lianhe Cement and Enterprise Management Company Limited (淄博聯和水泥企業管理有限公司) and Liaoning Yunding Cement Group Corporation Limited (遼寧雲鼎水泥集團股份有限公司) were elected as pilot enterprises. In 2018, decapacity in the cement industry will continued to be accelerated, promoted and implemented. However, as substantial progress is probably to be made in a lengthy process due to lack of policy and capital support capacity reduction will be a long-lasting and arduous task.

## (V) Management Discussion and Analysis (Continued)

### 5. 2018 OUTLOOK (CONTINUED)

#### (a) Operating environment outlook (Continued)

##### **In terms of supply: strict control is imposed on new capacity projects and resolving overcapacity still takes precedence (Continued)**

The Group is the sixth largest cement and clinker manufacturer in China in terms of capacity. The PRC government's implementation of stricter decapacity measures will facilitate us in cementing our market position and enhancing the enterprise's economic performance.

**Price trend and industry performance:** according to a principal of the Ministry of Environmental Protection, the working plan for the blue sky protection campaign will be initiated in an all-rounded way in 2018 and the air pollution control will be carried out in key regions and fields and supervision in relation thereto will be intensified. Off-peak production has been institutionalized and become a long-acting mechanism. As multiple provinces have had plans on off-peak production of cement for the coming three years in place, production restrictions for the purpose of environmental protection and off-peak production are expected to have continuous impact on the cement supply. In addition, in view of the increasingly intensive efforts thereon, the industry is expected to operate with medium or low inventory and will continue to encounter imbalanced supply and demand. In the meantime, with the gradual improvement of industrial self-discipline, business conglomerates have developed strong control capacity in the market. The historically high price standard at the beginning of 2018 has also effectively bolstered up the price and economic performance for the entire year of 2018. As such, the average cement price in 2018 is expected to rise up to another height compared to that in 2017 and the economic performance of the industry is expected to set a new historical record.

#### (b) Business outlook of the Company

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

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

##### (I) Level up the integrated management

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

## (V) Management Discussion and Analysis (Continued)

### 5. 2018 OUTLOOK (CONTINUED)

#### (b) Business outlook of the Company (Continued)

##### (II) Promote high-quality market development

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

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

##### (III) Maintain steady development of the Group

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

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

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

## (VI) Report of the Directors

The Directors hereby present the annual audited financial statements of the Group for the year ended 31 December 2017:

### 1. MAJOR INVESTMENT DURING THE REPORTING PERIOD

#### (1) The major investments were:

Serial No.	Name of Project	Status	Amounts invested during the Reporting Period (RMB'000)
1	2.7-million-tonne cement grinding capacity displacement project of Jinan Shi-ji Chuang-xin Cement Co., Ltd.	Under construction	18,872

#### (2) Capital increase in subsidiaries during the Reporting Period

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

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

During the Reporting Period, no major subsidiary of the Group has been disposed or de-registered.

### 2. MAJOR SUBSIDIARIES WITH CONTROLLING INTERESTS

The Company is an investment holding company. As at 31 December 2017, the Company had controlling interests in 110 subsidiaries. For details, please refer to "(IV) Corporate Profile" of this report. There were no significant changes in the nature of the Group's principal businesses in 2017.

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

Name of company	Revenue (RMB'000)	Profit from operations (RMB'000)	Net profit (RMB'000)
Pingyin Shanshui	632,768	165,463	125,040
Zibo Shanshui	610,975	142,154	101,576
Linqu Shanshui	641,671	112,319	85,420
Anqiu Shanshui	523,574	102,131	77,887
Zaozhuang Chuangxin	439,368	92,741	73,084

## (VI) Report of the Directors (Continued)

### 3. DIVIDEND FOR 2017

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

### 4. TAX REDUCTION AND EXEMPTION

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

### 5. MAJOR CUSTOMERS AND SUPPLIERS

For 2017, total sales attributable to the top five customers of the Group were less than 30% of total sales of the Group, and total purchases attributable to the top five suppliers of the Group were less than 30% of total purchases of the Group.

None of the Directors, supervisors nor their respective close associates (as defined in the Listing Rules) nor, to the knowledge of the Board, shareholders holding 5% or more of the issued shares of the Company has interests in any of the five largest customers or five largest suppliers of the Group for the year ended 31 December 2017.

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

### 6. TOTAL ASSETS

As at 31 December 2017, the total assets of the Group were RMB25,090 million, representing a decrease of RMB830 million compared to the previous year due to continuous amortization of or provision for depreciation of major fixed assets.

### 7. DISTRIBUTABLE RESERVES

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the contributed surplus account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. At 31 December 2017, the Company does not have any of distributable reserves (2016: RMB206,577,000).

### 8. LOANS AND BORROWINGS

Details of the Company's loans and borrowings for the year ended 31 December 2017 are set out in Notes 9, 10 and 11 of the Financial Statements.



## (VI) Report of the Directors (Continued)

### 9. BUSINESS REVIEW, OUTLOOK AND MAJOR RISK FACTORS

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

### 10. DIRECTORS

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

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

Name	Position	Gender	Age	Term of office
LIU Yiu Keung, Stephen (廖耀強)	Chairman and Executive Director	M	58	1 December 2015 – 19 March 2018
LI Zhiqiang (李志強)	Vice chairman and Executive Director	M	55	3 November 2017 – 19 March 2018
CHONG Cha Hwa (張家華)	Non-Executive Director	M	52	2 February 2016 – 8 May 2017
LI Heping (李和平)	Chief Executive Officer and Executive Director	M	61	1 December 2015 – 19 March 2018
HWA Guo Wai, Godwin (華國威)	Executive Director	M	56	5 July 2016 – 23 May 2018
HO Man Kay Angela (何文琪)	Independent Non-Executive Director	F	55	1 December 2015 – 23 May 2018
LAW Pui Cheung (羅沛昌)	Independent Non-Executive Director	M	62	1 December 2015 – 23 May 2018
WONG Chi Keung (黃之強)	Independent Non-Executive Director	M	63	2 February 2016 – 23 May 2018
CHING Siu Ming (程少明)	Independent Non-Executive Director	M	58	5 July 2016 – 23 May 2018
LO Chung Hing (盧重興)	Independent Non-Executive Director	M	66	5 July 2016 – 23 May 2018

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

## (VI) Report of the Directors (Continued)

### 10. DIRECTORS (CONTINUED)

**(2) After the Reporting Period to the date of this Report, the members of the Board of the Company are set out below:**

Name	Position	Gender	Age	Term of office
LIU Yiu Keung, Stephen (廖耀強)	Chairman and Executive Director	M	58	1 December 2015 – 19 March 2018
LI Zhiqiang (李志強)	Vice chairman and Executive Director	M	55	3 November 2017 – 19 March 2018
LI Heping (李和平)	Chief Executive Officer and Executive Director	M	61	1 December 2015 – 19 March 2018
HWA Guo Wai, Godwin (華國威)	Executive Director	M	56	5 July 2016 – 23 May 2018
HO Man Kay Angela (何文琪)	Independent Non-Executive Director	F	55	1 December 2015 – 23 May 2018
LAW Pui Cheung (羅沛昌)	Independent Non-Executive Director	M	62	1 December 2015 – 23 May 2018
WONG Chi Keung (黃之強)	Independent Non-Executive Director	M	63	2 February 2016 – 23 May 2018
CHING Siu Ming (程少明)	Independent Non-Executive Director	M	58	5 July 2016 – 23 May 2018
LO Chung Hing (盧重興)	Independent Non-Executive Director	M	66	5 July 2016 – 23 May 2018
LI Liufa (李留法)	Chairman and Executive Director	M	60	19 March 2018 – 23 May 2018
ZHU Linhai (朱林海)	Executive Director	M	46	19 March 2018 – 23 May 2018
LIN Shei-yuan (林學淵)	Independent Non-Executive Director	M	55	23 May 2018 – 20 July 2018
CHANG Zhangli (常張利)	Chairman and Executive Director	M	48	23 May 2018 – Now
WU Ling-ling (吳玲綾)	Executive Director	F	52	23 May 2018 – Now
CHANG Ming-cheng (張銘政)	Independent Non-Executive Director	M	63	23 May 2018 – Now
LI Jianwei (李建偉)	Independent Non-Executive Director	M	44	23 May 2018 – Now
HSU You-yuan (許祐淵)	Independent Non-Executive Director	M	63	4 September 2018 – Now

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

## **(VI) Report of the Directors (Continued)**

### **11. PERMITTED INDEMNITY**

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

### **12. AUDITOR**

On 17 July 2018, KPMG resigned as the auditor of the Company. On 10 August 2018, the Company appointed Moore Stephens CPA Limited as the auditors of the Company for the year ended 31 December 2017 until the conclusion of the next annual general meeting of the Company. Such appointment has been approved at the annual general meeting held on 31 August 2018.

### **13. DONATIONS**

For the year ended 31 December 2017, the Group made no charitable and other donations.

### **14. MANAGEMENT CONTRACTS**

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

### **15. SUBSTANTIAL RELATIONSHIP WITH EMPLOYEES**

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

### **16. DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES OF THE COMPANY AND OTHER CORPORATION**

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

### **17. EQUITY-LINKED AGREEMENT**

No share options were granted during the Reporting Period.

## (VI) Report of the Directors (Continued)

### 18. CHANGE IN INFORMATION ON DIRECTORS

Pursuant to the disclosure requirement of Rule 13.51B(1) of the Listing Rules, the change in information on Directors is set out below:

Mr. CHANG Zhangli, the Chairman and executive Director of the Company has been re-designated to act as a non-executive director of CNBM since 13 June 2018 and ceased to act as a secretary to the board of directors of and the joint company secretary of CNBM since 13 June 2018.

### 19. ISSUE OF SHARES AND DEBENTURES

The Company did not issue any new shares and debentures during the Reporting Period.

### 20. MAJOR EVENTS

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

### 21. ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company is preparing an environment, social and governance report (the “ESG Report”) in accordance with the Environmental, Social and Governance Reporting Guide published by the Stock Exchange and is expected to be published on or before 31 December 2018.

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

6 October 2018

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

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

As of 31 December 2017, the Company's authorised share capital was US\$100,000,000 divided into 10,000,000,000 Shares of par value of US\$0.01 each. There was no change during the Reporting Period.

The Company had not issued new share during the Reporting Period.

As of 31 December 2017, the Company has a total issued capital of 3,379,140,240 Shares.

### 2. SUSPENSION OF TRADING

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

For details of the above matters, please refer to the announcements published by the Company on 16 April 2015, 22 May 2015, 15 January 2016, 19 February 2016, 23 March 2016, 26 April 2016, 3 June 2016, 8 August 2017, 27 October 2017, 29 December 2017, 17 May 2018, 29 May 2018, 1 August 2018 and 20 September 2018.

### 3. SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS AND DIRECTORS

#### (1) Shareholdings of substantial shareholders

As of 31 December 2017, the interests or short positions of persons, other than the Directors and Chief Executive of the Company, in the Shares and underlying shares of the Company, which would be required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register maintained under section 336 of the SFO, were as follows:

Name of shareholder	Number of Ordinary Shares interested <sup>(1)</sup>	Nature of interests	Percentage of Shares in issue
LI Liufa <sup>(2a)</sup>	951,462,000 (L)	Interests of corporations controlled by substantial shareholder	28.16%

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

### 3. SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS AND DIRECTORS (CONTINUED)

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

Name of shareholder	Number of Ordinary Shares interested <sup>(1)</sup>	Nature of interests	Percentage of Shares in issue
LI Fengluan <sup>(2a)</sup>	951,462,000 (L)	Interests of corporations controlled by substantial shareholder	28.16%
Tianrui Group Company Limited <sup>(2a)</sup>	951,462,000 (L)	Interests of corporations controlled by substantial shareholder	28.16%
Tianrui (International) Holding Company Limited <sup>(2a)</sup>	951,462,000 (L)	Beneficial owner	28.16%
China Bohai Bank Co., Ltd. Dalian Branch <sup>(2b)</sup>	791,000,000 (L)	Security interest in shares	23.41%
China Shanshui Investment Company Limited <sup>(3)</sup>	847,908,316 (L)	Beneficial owner	25.09%
Asia Cement Corporation <sup>(4)</sup>	428,393,000 (L)	Interests of corporations controlled by substantial shareholder	12.68%
	320,932,647 (L)	Beneficial owner	9.50%
	142,643,000 (L)	Interests of any parties to an agreement to acquire interests in the Company required to be disclosed under s.317(1)(a) and s.318 of the SFO	4.22%

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

### 3. SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS AND DIRECTORS (CONTINUED)

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

Name of shareholder	Number of Ordinary Shares interested <sup>(1)</sup>	Nature of interests	Percentage of Shares in issue
YU Yuan Investment Corporation Limited	142,643,000 (L) 749,325,647 (L) <sup>(5)</sup>	Beneficial owner Interests of any parties to an agreement to acquire interests in the Company required to be disclosed under s.317(1)(a) and s.318 of the SFO	4.22% 22.18%
China National Building Material Group Corporation <sup>(6)</sup>	563,190,040 (L)	Interests of corporations controlled by substantial shareholder	16.67%
China National Building Material Company Limited <sup>(6)</sup>	563,190,040 (L)	Interests of corporations controlled by substantial shareholder	16.67%
China National Building Material Holdings Co., Limited <sup>(6)</sup>	563,190,040 (L)	Beneficial owner	16.67%

*Notes:*

- (1) The letter "L" denotes a long position in such Shares.
- (2a) LI Liufa and LI Fengluan (spouse of LI Liufa) owned 70% and 30% respectively of Tianrui Group Company Limited, which owned 100% of Tianrui (International) Holding Company Limited.
- (2b) On 22 March 2016, Tianrui Group Company Limited, the Company's substantial shareholder, notified the Company that it has pledged 791,000,000 shares of the Company in favor of China Bohai Bank for a bank loan.
- (3) According to the Form 2 filed on 18 Nov 2014, ZHANG Caikui is the person in accordance with whose directions China Shanshui Investment Company Limited or its directors are accustomed to act.
- (4) The interest in 320,932,647 shares of the Company was held by several direct or indirect subsidiaries of Asia Cement Corporation. The interest in 142,643,000 shares of the Company was held by YU Yuan Investment Corporation Limited, which is the party to the agreement under Section 317.
- (5) Asia Cement Corporation is the party to the agreement under Section 317.

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

### 3. SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS AND DIRECTORS (CONTINUED)

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

*Notes: (Continued)*

(6) China National Building Material Company Limited was a controlled corporation of China National Building Material Group Corporation (now known as China National Building Material Group Co., Ltd.中國建材集團有限公司), which owned 100% of China National Building Material Holdings Co., Limited

(7) The number of issued shares of the Company as at 31 December 2017 is 3,379,140,240.

Save as disclosed above, and so far as the Directors are aware, as of 31 December 2017, no person, other than Directors or the Chief Executive of the Company, had an interest or short position in the Shares or underlying shares of the Company which would need to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register maintained pursuant to Section 336 of the SFO.

#### (2) Directors' and chief executives' interests in the shares, underlying shares and debentures

As of 31 December 2017, none of the Directors or the chief executives of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations, which would be required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

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

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



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

### 5. SHARE OPTION

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

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

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

By virtue of the High Court Miscellaneous Proceedings No. 593 of 2015 ("**HCMP 593 of 2015**"), CSI has commenced an Injunction Application to apply to set aside the grant of the 207,300,000 Share Options in early 2015. A Consent Summons with Wong & Lawyers (for CSI in its capacity as minority shareholders) and Mayor Brown JSM (for CSI in its corporate capacity) was signed on 6 January 2016 in which the Company gave an undertaking to the Court that it will not take step to implement the share options offered as described in its public announcement dated 27 January 2015 until 28 days from the handing down of the judgment in relation to the substantive hearing of the Petitioner's Summons dated 17 August 2015 or until further Order of the Court.

Since no extraordinary general meeting of the Company was held for the approval of the grant of 43,600,000 options in aggregate conditionally granted to ZHANG Bin and ZHANG Caikui, such options have not become unconditional and may not be exercised.

Out of the options to subscribe for 7,400,000 Shares granted on 25 May 2011, 100,000 Shares were lapsed in accordance with the terms of the Share Option Scheme and therefore will not be counted for the purpose of the Existing Scheme Mandate Limit pursuant to Note 1 to Rule 17.03(3) of the Listing Rules.

Save for the above, none of the options granted on 25 May 2011 and 27 January 2015 have been exercised or cancelled or lapsed.

Accordingly, taking into account all the options granted and conditionally granted, the outstanding Existing Scheme Mandate Limit as of the Latest Practicable Date is 45,736,000 Shares, representing approximately 17.57% of the Existing Scheme Mandate Limit.

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

### 5. SHARE OPTION (CONTINUED)

Details of the options are set out as follows:

Type of grantee	Date of grant	Granted	Vesting period	Exercise price	Exercised during the reporting period	Lapsed during the reporting period	Cancelled during the reporting period	Expired during the reporting period	Not yet exercised during the reporting period
ZHANG Bin, <i>Executive Director removed</i>	25 May 2011	Option for subscription of 5,000,000 Shares	Nil	HK\$7.90	-	-	-	-	Option for subscription of 5,000,000 Shares
	27 January 2015	Option for subscription of 20,000,000 Shares	Six months after the date of grant	HK\$3.68	-	-	-	-	Option for subscription of 20,000,000 Shares
ZHANG Caikui, <i>Executive Director removed</i>	27 January 2015	Option for subscription of 23,600,000 Shares	Six months after the date of grant	HK\$3.68	-	-	-	-	Option for subscription of 23,600,000 Shares
LI Cheung Hung, <i>Executive Director removed</i>	25 May 2011	Option for subscription of 200,000 Shares	Nil	HK\$7.90	-	-	-	-	Option for subscription of 200,000 Shares
	27 January 2015	Option for subscription of 9,000,000 Shares	Six months after the date of grant	HK\$3.68	-	-	-	-	Option for subscription of 9,000,000 Shares
XIAO YU, <i>Non-Executive Director resigned</i>	25 May 2011	Option for subscription of 100,000 Shares	Nil	HK\$7.90	-	-	-	-	Option for subscription of 100,000 Shares
Employees	25 May 2011	Option for subscription of 2,000,000 Shares	Nil	HK\$7.90	-	-	-	-	Option for subscription of 2,000,000 Shares
	27 January 2015	Option for subscription of 154,700,000 Shares	Nil	HK\$3.68	-	-	-	-	Option for subscription of 154,700,000 Shares
	Total number of options granted and accepted	Option for subscription of 214,600,000 Shares			-	-	-	-	Option for subscription of 214,600,000 Shares

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

### 5. SHARE OPTION (CONTINUED)

#### Summary of the principal terms of the share option scheme

The purpose of the Share Option Scheme is to provide an incentive for the Qualified Participants (as defined below) to work with commitment towards enhancing the value of the Company and the Shares for the benefit of the Shareholders, and to retain and attract talents and working partners whose contributions are or may be beneficial to the growth and development of the Group.

Subject to the terms of the Share Option Scheme, the Board may at its discretion grant options to (i) any executive director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest (“**Invested Entity**”); (ii) any non-executive director (including independent non-executive director) of the Company, any member of the Group or any Invested Entity; (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any such person (including but not limited to consultant, adviser, contractor, business partner or service provider of the Company or any member of the Group or any Invested Entity) who in the absolute discretion of the Board has contributed or will contribute to the Group (collectively “**Qualified Participants**”).

The Shares that will be issued upon full exercise of the options currently granted under the Share Option Scheme are 214,600,000 Shares, representing approximately 6.35% of the share capital in issue (3,379,140,240 Shares) as of 31 December 2017.

Unless approved by the Shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that grantee on exercise of his options during any 12-month period exceeding 1% of the total Shares then in issue.

The validity of the options granted by the Board on 25 May 2011 shall be ten years from 25 May 2011. The validity of the options granted by the Board on 27 January 2015 shall be ten years from 27 January 2015.

The price at which the Shares may be subscribed upon exercise of an option granted shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets on the date of grant (and which must be a business day); (ii) the average of the closing prices of the Shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Shares.

### 6. PRE-EMPTIVE RIGHTS

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

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

### 1. PARTICULARS AS OF 31 DECEMBER 2017

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

Name	Position	Gender	Age	Term of office (term of contract)
LIU Yiu Keung, Stephen (廖耀強)	Chairman and Executive Director	M	58	–
LI Zhiqiang (李志強)	Vice chairman and Executive Director	M	55	3 November 2017 – 19 March 2018
CHONG Cha Hwa (張家華)	Non-Executive Director	M	52	2 February 2016 – 8 May 2017
LI Heping (李和平)	Chief Executive Officer and Executive Director	M	61	–
HWA Guo Wai, Godwin (華國威)	Executive Director	M	56	3 February 2017 – 23 May 2018
HO Man Kay Angela (何文琪)	Independent Non-Executive Director	F	55	3 February 2017 – 23 May 2018
LAW Pui Cheung (羅沛昌)	Independent Non-Executive Director	M	62	3 February 2017 – 23 May 2018
WONG Chi Keung (黃之強)	Independent Non-Executive Director	M	63	3 February 2017 – 23 May 2018
CHING Siu Ming (程少明)	Independent Non-Executive Director	M	58	3 February 2017 – 23 May 2018
LO Chung Hing (盧重興)	Independent Non-Executive Director	M	66	3 February 2017 – 23 May 2018

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

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

##### (a) Executive Directors

Mr. LIU Yiu Keung, Stephen (廖耀強), aged 58, was as an executive Director of the Company from 1 December 2015 to 19 March 2018 and the Chairman of the Board and a Director of the Company from 2 June 2016 to 19 March 2018. Mr. LIU has been working with Ernst & Young for over 30 years since 1983. Mr. LIU was admitted as an associate member of the Institute of Chartered Secretaries and Administrators in 1987 and as an associate member of The Hong Kong Institute of Chartered Secretaries in 1994. Mr. LIU is a director of CSI, one of the substantial shareholders of the Company. Mr. LIU has been appointed as directors of various subsidiaries in the Group, including China Shanshui (HK), Pioneer Cement, Continental Cement and American Shanshui from 1 December 2015 to 19 March 2018. Mr. LIU has been appointed as a director of Shandong Shanshui, a subsidiary of the Group from 13 March 2017 to 19 March 2018.

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

### 1. PARTICULARS AS OF 31 DECEMBER 2017 (CONTINUED)

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

##### (a) Executive Directors (Continued)

Mr. LI Zhiqiang (李志強), aged 55, was as an executive Director and vice chairman of the Company from 3 November 2017 to 19 March 2018. He was appointed as an independent non-executive director of China First Capital Group Limited (stock code: 1269), a company listed on the Main Board of Stock Exchange, on 19 October 2011. He has been the legal advisor of the General Office of the Central Military Commission of the PRC and an executive editor-in-charge of China Military Law Magazine (《中國軍法》) since 1994, a responsible person (chairman) of China Insurance Regulatory Commission letters and visits reporting centre since July 2003 and an executive director and the president of Shougang Holdings Limited (首鋼控股有限公司) since December 2004. In 2006, he was a director of Sino Life Insurance Co., Ltd. (中國生命人壽保險股份有限公司) and vice chairman in 2008, and chairman of China International Cultural Media Co., Ltd. (中國國際文化交流傳媒有限公司) since 2006. He was also appointed as the chairman and secretary to the Communist Party Committee of Shougang Yili Steel Co., Ltd. (首鋼伊犁鋼鐵有限公司) in 2010 and a director of Tonghua Steel Holdings Co. Ltd. (通化鋼鐵集團股份有限公司). Mr. LI was elected as China's Top Ten Wealthy and Intelligent Figures (中華十大財智人物) in 2010. He was honored with China's Top Ten Economic Figures of the Year (中國十大年度經濟人物大獎), Excellent Worker of Beijing Municipal (北京市勞動模範) and Beijing Municipal Best Entrepreneur (北京市優秀企業家) in 2012. Mr. LI was honored by the United Nations Educational, Scientific and Cultural Organization, Ministry of Education and Ministry of Culture of the PRC with the Confucius Business Prize and was the honorary chairman of China Confucius Business Club (中國孔子儒商俱樂部) in 2015. Mr. LI was an executive director of Seamless Green China (Holdings) Ltd. (stock code: 8150) (無縫綠色中國集團) 有限公司) from 22 June 2016 to 31 May 2017. Mr. LI graduated from University of Science and Technology of China with a master of management and Euromed Marseille Ecole de Management with a doctor of management and is currently the academican of the World Academy of Productivity (世界生產力科學院).

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

### 1. PARTICULARS AS OF 31 DECEMBER 2017 (CONTINUED)

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

##### (a) Executive Directors (Continued)

Mr. LI Heping (李和平), aged 61, was as an executive Director of the Company from 1 December 2015 to 19 March 2018 and the Chief Executive Officer of the Company from 16 December 2015 to 19 March 2018. Mr. LI graduated from Henan University of Science & Technology (formerly known as Luoyang Institute of Agricultural Machinery) with a bachelor's degree in mechanic engineering in 1982 and Tsinghua University with a master's degree in engineering in 1988 and a Ph.D. degree from Huazhong University of Science and Technology. He holds qualifications of "Senior Engineer" and "Senior Accountant". Mr. LI had been the chief accountant of Luoyang Mining Machinery Factory, the deputy head of the Commission for Restructuring the Economic System of Henan Province and the general manager of Zhongxin Heavy Machinery Company, the non-executive director and the chairman of the board of Sanmenxia Tianyuan Aluminum Company Limited, the chief executive officer of China Tianrui Group Cement Company Limited and directors and senior management of Tianrui Group Company Limited. Mr. LI has been appointed as directors of various subsidiaries in the Group, including China Shanshui (HK), Pioneer Cement, Shandong Shanshui, Continental Cement and American Shanshui from 1 December 2015 to 19 March 2018. Mr. LI is the non-executive director of China Tianrui Group Cement Company Limited, a listed company on the Main Board of the Stock Exchange. Mr. LI is also the Chairman, Legal Representative of Shandong Shanshui.

Mr. HWA Guo Wai, Godwin (華國威), aged 56, was an executive Director of the Company from 1 December 2015 to 1 February 2016, a non-executive Director of the Company from 2 February 2016 to 4 July 2016 and an executive Director of the Company from 5 July 2016 to 23 May 2018. Mr. HWA holds a Master Degree in Business Administration from McGill University, Montreal, Canada and Master Degree in Engineering from Cornell University, Ithaca, New York, USA. Mr. HWA gained more than 25 years of experience in the corporate finance sector, servicing private and publicly listed companies in Hong Kong and the Southern Asia region. Mr. HWA devotes a fair amount of his time involving in various non-profit organizations in Hong Kong and currently, he is the chairman of the board of an independent international school. Mr. HWA is a director of CSI, one of the substantial shareholders of the Company. Mr. HWA has been appointed as directors of various subsidiaries in the Group, including China Shanshui (HK), Pioneer Cement, Continental Cement and American Shanshui from 1 December 2015 to 23 May 2018.

Mr. YEN Ching Wai, David (閻正為), aged 47, was an alternate Director to Mr. LIU Yiu Keung, Stephen from 16 December 2015 to 19 March 2018. Mr. YEN has been working with Ernst & Young for over 20 years. Mr. YEN was admitted as a member of the American Institute of Certified Public Accountants in 2003, as a member of the HKICPA in 2003 and as a fellow member of the HKICPA in 2011. Mr. YEN had been appointed as a director and General Manager (External Affairs) of Shandong Shanshui, a subsidiary of the Group from 13 March 2017 to 5 January 2018.

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

### 1. PARTICULARS AS OF 31 DECEMBER 2017 (CONTINUED)

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

##### (b) Independent non-executive Directors

Ms. HO Man Kay Angela (何文琪), age 55, was an independent non-executive Director of the Company from 1 December 2015 to 23 May 2018. Ms. HO is a founding partner of Angela Ho & Associates. Prior to founding Angela Ho & Associates, she was a partner of the Messrs. P.C. Woo & Co. Solicitors & Notaries. She has been a practicing lawyer in Hong Kong since 1989, specializing in corporate commercial law and is also admitted as a solicitor in England, the Australian Capital Territory, Queensland, New South Wales, Victoria of Australia and Singapore. Ms. HO was the president of the Hong Kong Federation of Women Lawyers from 2002 to 2005. Ms. HO has been appointed as an independent non-executive director of Jiashili Group Limited, a company listed on the Main Board of Stock Exchange, the chairman of its remuneration committee, and a member of each of its nomination committee and audit committee from August 2014 up to present.

Mr. LAW Pui Cheung (羅沛昌), aged 62, was an independent non-executive Director of the Company from 1 December 2015 to 23 May 2018. Mr. LAW was admitted as a fellow member of the HKICPA in 1993, a fellow member of The Chartered Association of Certified Accountants in 1990, a fellow member of the Hong Kong Institute of Directors in 2011, an associate member of the Institute of Chartered Accountants in England & Wales (the "ICAEW") in 2005 and subsequently as a fellow member of the ICAEW in March 2015, a member of Macau Society of Certified Practising Accountants in 1995 and a fellow member of the Hong Kong Securities and Investment Institute in 2015. Mr. LAW is currently a holder of practicing certificate issued by the HKICPA. Mr. LAW had been a senior audit executive in Ernst and Whinney (the predecessor firm of Ernst & Young, Hong Kong) specializing in listed companies and financial services audit and restructuring services. During 1991 to 2016, Mr. LAW was a partner of LI, Tang, Chen & Co., a fully-fledged and well-established practicing certified public accountants firm which has been operated for over 50 years in Hong Kong. Currently, Mr. LAW is a director of Yong Zheng CPA Limited. Mr. LAW was an independent non-executive director of Birmingham International Holdings Limited, a company listed on the Main Board of the Stock Exchange from 9 March 2015 to 15 October 2016. Mr. LAW has been appointed as an independent non-executive director of Kwong Man Kee Group Limited, a company listed on the Growth Enterprise Market of Stock Exchange and the chairman of its audit committee since September 2016. Mr. LAW is currently a member of the Disciplinary Panel of the HKICPA.

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

### 1. PARTICULARS AS OF 31 DECEMBER 2017 (CONTINUED)

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

##### (b) Independent non-executive Directors (Continued)

Mr. WONG Chi Keung (黃之強), aged 63, was an independent non-executive Director the Company from 2 February 2016 to 23 May 2018. Mr. WONG holds a master's degree in business administration from the University of Adelaide in Australia. He is a fellow member of HKICPA, The Association of Chartered Certified Accountants and CPA Australia; an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. Mr. WONG has over 38 years of experience in finance, accounting and management. Mr. WONG is a Responsible Officer for asset management and advising on SFO for CASDAQ International Capital Market (HK) Company Limited under the Securities. Mr. WONG was an executive director, the deputy general manager, group financial controller and company secretary of Yuexiu Property Company Limited (formerly known as Guangzhou Investment Company Limited) and an independent non-executive director of PacRay International Holdings Limited, companies listed on the Main Board of the Stock Exchange, for a number of years. He is also an independent non-executive director and a member of the audit committee of Asia Orient Holdings Limited, Asia Standard International Group Limited, Century City International Holdings Limited, China Ting Group Holdings Limited, ENM Holdings Limited, Fortunet e-Commerce Group Limited, Golden Eagle Retail Group Limited, Heng Xin China Holdings Limited, Nickel Resources International Holdings Company Limited, Paliburg Holdings Limited, Regal Hotels International Holdings Limited, TPV Technology Limited, Yuan Heng Gas Holdings Limited and Zhuguang Holdings Group Company Limited, all of these companies are listed on the Stock Exchange.

Dr. CHING Siu Ming (程少明), aged 58, was an independent non-executive Director of the Company from 5 July 2016 to 23 May 2018. Dr. CHING is a teaching fellow of the Hong Kong Polytechnic University. Dr. CHING is a fellow member of the Hong Kong Institute of Certified Public Accountants. Dr. CHING holds a Doctorate degree in Business Administration from The Hong Kong Polytechnic University, Master of Business Administration, Master of Social Work and Bachelor of Industrial Engineering from the University of Hong Kong. Dr. CHING has gained more than 20 years of experience in the accounting and finance area before he joined The Hong Kong Polytechnic University in 2008. Dr. CHING was a chief financial officer or group financial controller of three companies listed on the Stock Exchange before.



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

### 1. PARTICULARS AS OF 31 DECEMBER 2017 (CONTINUED)

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

##### (b) Independent non-executive Directors (Continued)

Mr. LO Chung Hing (Silver Bauhinia Star), aged 66, was an independent non-executive Director of the Company from 5 July 2016 to 23 May 2018. Mr. LO is currently an independent non-executive director of PICC Property and Casualty Company Limited, a company listed on the Main Board of the Stock Exchange. Mr. LO is the chairman of the Hospital Governing Committee of Hong Kong Kowloon Hospital and Hong Kong Eye Hospital. Mr. LO was a member of the 9th National People's Congress of China. Mr. LO was previously an independent non-executive director and the vice chairman of the Airport Authority of Hong Kong, an independent non-executive director of Mass Transit Railway Corporation Limited (Now known as "MTR Corporation Limited"), a member of the Hospital Authority of Hong Kong, an independent non-executive director of the Urban Renewal Authority of Hong Kong. Mr. LO was also a deputy general manager of the Hong Kong Branch of Bank of China (now known as "Bank of China (Hong Kong) Limited", a major operating subsidiary of and wholly owned by BOC Hong Kong (Holdings) Limited) and his last position in Bank of China (Hong Kong) Limited was the chief adviser of the Operation Committee. During his employment in these two banks, he was a rotating alternate chairman of the Hong Kong Association of Banks. Mr. LO holds an MBA degree from The University of Hong Kong and has extensive experience in public management and financial industry.

##### (c) Senior management

Mr. YANG Yongzheng (楊勇正), aged 49, was a director and General Manager (Chief Executive) of Shandong Shanshui from December 2015 to 5 January 2018. He is primarily responsible for managing the overall business of Shandong Shanshui. Mr. YANG obtained his bachelor degree in Petroleum and Engineering from Henan University in 1991 and obtained his EMBA from Peking University in 2012. In June 2012, Mr. YANG was awarded "Advanced Worker in the Mining Industry and Building Material Industry of Small and Medium Enterprises in Liaoning Province". In 2013, Mr. YANG was awarded the title of senior economist. Mr. YANG has extensive experience in the cement industry. He joined the Tianrui Group in 2004 and held positions as the deputy general manager of Shangqiu Tianrui Cement Company Limited and Dalian Tianrui Cement Company Limited; the general manager of Yingkou Tianrui Cement Company Limited and the chairman and general manager of Liaoyang Tianrui Cement Company Limited. He was appointed as the general manager of Tianrui Cement from January 2012 to December 2015.

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

### 1. PARTICULARS AS OF 31 DECEMBER 2017 (CONTINUED)

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

##### (c) Senior management (Continued)

Mr. ZHAO Yongkui (趙永魁), aged 53, was a director and Deputy General Manager (Finance) of Shandong Shanshui from December 2015 to 5 January 2018. He is primarily responsible for overseeing the accounting and finance functions of the Group. Mr. ZHAO graduated from the Shanghai Institute of Building Materials in July 1984 and qualified as a Senior Accountant in 2003. Mr. ZHAO has over 30 years of experience in accounting and has extensive experience in managing the finance of cement corporations. Mr. ZHAO joined Shandong Cement Plant as an accountant in July 1984. He was the Deputy General Accountant and Assistant to the Head of the Shandong Cement Plant in December 1990. In December 2001, he was appointed as Assistant to the General Manager and the Head of the finance department of the Group. Mr. ZHAO was appointed Deputy General Manager and Chief Financial Officer of the Group during November 2005 to 2013.

Mr. GAO Yong (高勇), aged 44, was a director of Shandong Shanshui from December 2015 to 5 January 2018. He is primarily responsible for production and operation management. Mr. GAO graduated from the Shandong Building Material Industrial School in July 1994 and has 23 years of experience in the cement industry. Mr. GAO joined Shandong Cement Plant in August 1994 and had been appointed as deputy manager of workshop and deputy manager of the factory. Mr. GAO has been served as General Manager of Jinan Shiji Chuangxin Cement Company Limited, Zaozhuang Shanshui Cement Co., Ltd and Zaozhuang Chuangxin Shanshui Cement Co., Ltd. and Deputy General Manager of Shanxi Shanshui Cement Co., Ltd since March 2004. Mr. GAO was appointed as the Deputy Manager of CNBM Construction Co., Ltd in March 2013. Mr. GAO was appointed as the Deputy Manager of Shandong Shanshui in December 2015.

Mr. LIU Dequan (劉德權), aged 43, was a director of Shandong Shanshui from March 2017 to 5 January 2018. Mr. LIU graduated from Shandong Economics University with a Bachelor's degree in international business administration in July 1999. In July 1999, Mr. LIU joined Shandong Cement Plant as Monitor and Statistical Monitor. Mr. LIU has served as Director, Deputy Manager of Department of Finance and Manager of Department of Internal Audit since June 2001. Mr. LIU was the Chief Financial Officer of Zhongrun Real Estate Group Co., Ltd from January to November 2009 and was the General Manager of Audit Department of China United Cement Corporation from December 2009 to December 2015. Mr. LIU was appointed as the Deputy Manager of Shandong Shanshui in January 2016.

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

### 1. PARTICULARS AS OF 31 DECEMBER 2017 (CONTINUED)

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

##### (d) Joint company secretaries

Mr. TSANG Wing Tai (曾永泰), aged 37, was one of the Joint Company Secretaries of the Company from 16 December 2015 to 23 April 2018, and served as the company secretary of the Company from 24 April 2018 to 6 September 2018. Mr. TSANG obtained a bachelor's degree in science (majoring in biochemistry) with honours and a master of philosophy degree in medical sciences at the Chinese University of Hong Kong. Mr. TSANG has over 11 years of experience in audit, financial operations and enterprise management. He is a fellow member of the Association of Chartered Certified Accountants since 2014, an associate member of HKICPA since 2010, a certified fraud examiner of the Association of Certified Fraud Examiners since 2011. Mr. TSANG was admitted as an associate member of each of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in 2015 and as a member of Hong Kong Securities and Investment Institute in 2016.

Mr. YU Chun Liang (喻春良), aged 48, was one of the Joint Company Secretaries of the Company from 2 February 2016 to 23 April 2018. Mr. YU obtained his bachelor's degree in arts from Xinyang Normal University in 1992 and his postgraduate degree in economic management from the Party School of CPC of Henan province in 2007. Mr. YU holds the qualifications of "Ideological and political work of senior professional title" and "National Second Level Corporate Human Resources Manager". Mr. YU has been appointed as one of the joint company secretaries of China Tianrui Group Cement Company Limited since 9 December 2011. Mr. YU has served as the secretary of the disciplinary committee of Pingdingshan Xingfeng Group Cement Co., Ltd. After he joined Tianrui Cement, he has served as deputy head of the general office, deputy head of the human resources department, head of the administrative office and head of the board office.

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

### 2. AS OF THE DATE OF PUBLICATION OF THIS REPORT

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

Name	Position	Gender	Age	Term of office (Term of contract)
CHANG Zhangli (常張利)	Chairman and Executive Director	M	48	23 May 2018 – 22 May 2021
WU Ling-ling (吳玲綾)	Executive Director	F	52	23 May 2018 – 22 May 2021
CHANG Ming-cheng (張銘政)	Independent Non-Executive Director	M	63	23 May 2018 – 22 May 2021
LI Jianwei (李建偉)	Independent Non-Executive Director	M	44	23 May 2018 – 22 May 2021
HSU You-yuan (許祐淵)	Independent Non-Executive Director	M	63	4 September 2018 – 3 September 2021

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

##### (a) Executive Directors

Mr. CHANG Zhangli, aged 48, is the Chairman of the Board, the chairman of both the Executive Committee and the Nomination Committee of the Company. Mr. CHANG is currently the vice president of China National Building Material Group Co., Ltd., and an non-executive director of CNBM, whose shares are listed on the Main Board of the Stock Exchange (stock code: 3323). Mr. CHANG Zhangli has approximately 30 years of experience in handling listing-related matters for listed companies, with participation in all major matters of CNBM relating to the global offering of the shares, listing of shares on the Stock Exchange, additional issue of shares as well as merger through absorption. Mr. CHANG Zhangli has served as directors and other key positions in many important subsidiaries of CNBM since 2005. Mr. CHANG Zhangli is an engineer who received a bachelor's degree in engineering from Wuhan Polytechnic University (now Wuhan University of Technology) in July 1994 and received an MBA degree from Tsinghua University in July 2005. Currently, Mr. CHANG Zhangli concurrently serves as the vice president of China Cement Association, the vice president of the Listed Companies Association of Beijing, the vice president of China Association for Public Companies and the vice president of China Building Materials Enterprise Management Association. Mr. CHANG Zhangli was awarded the first prize of National Corporate Management Modernization and Innovation Achievements (國家級企業管理現代化創新成果).

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

### 2. AS OF THE DATE OF PUBLICATION OF THIS REPORT (CONTINUED)

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

##### (a) Executive Directors (Continued)

Ms. WU Ling-ling, aged 52, is an executive Director and a member of the Executive Committee and the Nomination Committee of the Board of the Company. Ms. WU is a financial executive with more than 30 years of experience in working with international public accounting, manufacturing, telecommunications and internet service provider firms. Since July 2007, Ms. WU Ling-ling has served as the chief financial officer and executive vice president of Asia Cement Corporation, a limited liability company incorporated in Taiwan with its shares listed on the Taiwan Stock Exchange Corporation (stock code:1102), and its affiliate, Far Eastern Group of Taiwan. Ms. WU Ling-ling serves as a director and supervisor for more than 30 companies including being a supervisor and former member of the board of directors of Oriental Union Chemical Corporation, a company listed on the Taiwan Stock Exchange Corporation, a supervisor of Chia Hui Power Corporation, a subsidiary of Asia Cement and a joint venture with J Power. Ms. WU Ling-ling was an executive Director of the Company from 14 October 2015 to 1 December 2015. Ms. WU Ling-ling serves as an executive director of f Asia Cement (China) Holdings Corporation (whose shares are listed on the Main Board of the Stock Exchange (stock code:743)) since 1 April 2016. From July 2004, Ms. WU Ling-ling served as the vice president of Internal Audit Department and Corporate Controller of Far EastOne Telecommunications Co., Ltd., also a listed affiliate of FEG. She had served in diverse positions since joining the firm in June 2001. Ms. WU Ling-ling has financial expertise in mergers and acquisitions, working capital management, process control, and regulatory accounting and reporting. She specializes in supporting corporate strategy including streamlining, controllership, and growth initiatives. She has been successful in leading both corporate turnarounds and rapid growth expansion through two initial public equity offerings and multiple acquisitions. Ms. WU Ling-ling is a Certified Public Accountant registered in the United States and the Republic of China. She received a master of business administration degree having majored in accounting from the California State University, Los Angeles and a master of business administration degree from National Chengchi University in Taipei.

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

### 2. AS OF THE DATE OF PUBLICATION OF THIS REPORT (CONTINUED)

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

##### (b) Independent non-executive Directors

Mr. CHANG Ming-cheng, aged 63, is an independent non-executive Director, the chairman of the Audit Committee, a member of both the Remuneration Committee and the Nomination Committee of the Company. Mr. CHANG received a bachelor degree in mechanical engineering from Taiwan University in 1976 and a master degree in business administration from the University of Michigan in 1978. He passed the U.S. Uniform Certified Public Accountant Examination in May 1978. After working in the United States for one year, he returned to Taiwan in 1979 and joined Deloitte & Touche Taiwan, and became an audit partner in 1990. Between September 1994 and August 1996, he was seconded to Shanghai and involved in the B share listing of Huangshan Tourism and Gujinggong Liquor. As an experienced auditor, he had a high level of participation in merger and acquisition activities in the PRC and Taiwan. Since June 2007, he assumed the role of reputation and risk leader at Deloitte & Touche Taiwan and was responsible for its overall quality of services and risk management till his retirement in October 2014. Mr. CHANG Ming-cheng has been the chairman of the Auditing Standards Committee of Taiwan since April 2011 and his term will expire in March 2020. He also serves as independent director for three Taiwanese public companies, namely Medigen Vaccine Biologics Corporation (高端疫苗生物製劑股份有限公司), Alexander Marine Co., Ltd. (東哥企業股份有限公司) and United AlloyTech Company Ltd. (精確實業股份有限公司).

Mr. LI Jianwei, aged 44, is an independent non-executive Director, the chairman of the Remuneration Committee, a member of both the Nomination Committee and the Audit Committee of the Company. Mr. LI is a Juris Doctor, a professor of Commercial Law at China University of Political Science and Law and a supervisor of doctoral students. He also serves as the director of Department of Law and Commerce of Business School, deputy chairman of Academic Committee of Business School, as well as the deputy director of the Institute of Commercial Law. His main research areas include, among others, civil and commercial law, corporate law, securities law, corporate governance etc. He is a well-known young and middle-aged company law expert in China who has made outstanding achievements in the research of a broad range of commercial laws including company law, securities law, insurance law, investment fund law and trust law etc. He worked as a post-doctoral researcher at the Business School of the Renmin University of China from 2002 to 2004, a senior visiting scholar at the Law School of University of The New South Wales, Australia from 2008 to 2009 and a visiting professor at the Law School of The Aoyama Gakuin University in Japan from 2013 to 2015. His past positions also include the executive director and secretary general of the Commercial Law Research Society of China Law Society, executive director of China Association of Business Law, member of the 1st and 2nd Hong Kong and Macau Law Committee of Zhuhai Hengqin New Area, member of Expert Advisory Committee of courts such as Guangzhou Intermediate People's Court, instructor of judges in courts such as Bao'an District People's Court of Shenzhen,

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

### 2. AS OF THE DATE OF PUBLICATION OF THIS REPORT (CONTINUED)

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

##### (b) Independent non-executive Directors (Continued)

and arbitrator of arbitration committees in Beijing, Fuzhou, Changsha and Zhuhai etc. He has been in charge of more than 10 national and provincial level projects under the National Social Science Fund of China, Humanities and Social Science Fund of the Ministry of Education, rule of law theory projects of the Ministry of Justice and social science projects under Beijing Social Science Fund. He has been in charge of the Youth Research Innovation Team Project of Commercial Law in China University of Political Science and Law for 6 years from 2012 to 2018. He has published more than 100 academic papers in publications such as China Legal Science, Chinese Journal of Law and Xinhua Digest, and published more than 10 books and translated works including “A Study of Independent Directors”, “Corporate Mechanism, Corporate Management and Corporate Governance” and “Company Law”. He has won many awards for research excellence such as the second prize in Dong Biwu Youth Law Achievement Award and the third prize in the 4th China Law Outstanding Achievement Award. As a legal expert, he has successively participated in expert argumentation of a number of legislative and judicial interpretation documents, including, among others, General Principles of Civil Law, Civil Code – Contracts, Company Law, Electronic Commerce Law and Company Law Interpretation (3) (4). He has won the Outstanding Teacher Award of 2011 and Excellent Teacher Award of 2007, 2009, 2010, 2016 of the China University of Political Science and Law. He has been awarded as one of the Ten Teachers Most Welcomed by Undergraduates in 2006, 2008 and 2010. In 2015, he obtained the qualification of independent director from the Shanghai Stock Exchange and is currently the independent director of Hanwang Technology Co., Ltd. (漢王科技股份有限公司), whose shares have been listed on the Shenzhen Stock Exchange (Stock Code: 002362) since April 2018, and Linksus Digiwork Marketing Communication Co., Ltd. (靈思雲途營銷顧問股份有限公司) whose shares have been listed on the National Equities Exchange and Quotations (Stock Code: 838290) since May 2017, and serves as the chairman of the board of Beijing Fangyuan Zhonghe Culture Communication Co., Ltd. (北京方圓眾合教育科技有限公司).

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

### 2. AS OF THE DATE OF PUBLICATION OF THIS REPORT (CONTINUED)

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

##### (b) Independent non-executive Directors (Continued)

Mr. HSU You-yuan, aged 63, is an independent non-executive Director and a member of both the Remuneration Committee and the Audit Committee of the Company. Mr. HSU has been the chairman and president of DCH Solargiga GmbH since February 2018 and a non-executive director of Solargiga Energy Holdings Limited (Stock Code: 757) ("Solargiga") since June 2016. He was the CEO of Solargiga from February 2007 to September 2015 and an executive director of Solargiga from February 2007 to June 2016. Mr. HSU was the managing director of Wafer Works Corp. ("WWX") from February 1998 to June 2003 and later became the vice-chairman of the board of WWX in June 2003. WWX is a manufacturer of silicon wafer for the semiconductor industry and is listed on the Gre Tai Securities Market in Taiwan with stock code 6182 since May 2002. He was the managing director of Silicon Technology Investment (Cayman) Corp. and was appointed as the chief executive officer of Solar Technology Investment (Cayman) Corp., responsible for overseeing, amongst others, WWX's investment in the solar energy industry. In March 2006, he was appointed as a director and he was subsequently appointed as the chairman of the board of Jinzhou Youhua Silicon Materials Co., Ltd. in September 2006. Mr. HSU's previous work credentials also include acting as deputy general manager of Mosel Vitelic Inc., a company listed on the Taiwan Stock Exchange with stock code 2342 and as a member of the board of directors and executive vice-president of Mosel Vitelic (Hong Kong) Limited, a subsidiary of Mosel Vitelic Inc. Mr. HSU had also made contributions to non-commercial sectors in the past. He served as a researcher, a deputy director, and the director of business department of the Executive Yuan Development Fund of Taiwan (Executive Yuan Development Fund is now known as National Development Fund, Executive Yuan). He was also a lecturer of Statistics and Managerial Mathematics for the business administration department at the Chinese Culture University. Mr. HSU obtained his bachelor's degree in Statistics from National Cheng Kung University in 1978 and his master's degree in International Business Administration from Chinese Culture University in 1980.



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

### 2. AS OF THE DATE OF PUBLICATION OF THIS REPORT (CONTINUED)

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

##### (c) Senior management

Mr. WANG Mingbo, aged 55, was appointed as a director and vice president of Shandong Shanshui in July 2018, mainly responsible for managing the daily affairs of Shandong Shanshui. Mr. WANG graduated from Jinan Textile Industry School (濟南紡織工業學校) and successively studied industrial enterprise management and economic management at Shandong University of Technology (山東工業大學) and Shandong Provincial School of the Communist Party of China (山東省委黨校) as a part-time student. He is a member of the Communist Party of China. Mr. WANG has 29 years of experience in governments and over 30 years of experience in economy management. Mr. WANG served the Technology Development Company of Jinan Economic Committee from August 1987 to October 1990, responsible for the management of enterprises. From October 1990 to April 2010, he successively served as a deputy-senior staff, a senior staff of the production department, a senior staff of the production department, a deputy director and director of the safety and environment protection department, the head of the office of the petroleum zone and the director of the industrial restructuring and adjustment division con the head of the supervision office of key technological projects of Jinan Economic Committee. He was the director of the planning and technological transformation department of Jinan Economic and Information Technology Committee from April 2010 to June 2012; the deputy head of Jinan Economic and Information Technology Committee from June 2012 to July 2018. Mr. WANG has been the chairman and a deputy general manager of Jinan Industrial Development and Investment Group Company Limited (濟南產業發展投資集團有限公司) since July 2018.

##### (d) Company secretary

Ms. LO Yee Har Susan, aged 60, was appointed as the company secretary of the Company in 6 September 2018. Ms. LO is an executive director of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Her practice focuses on corporate and fiduciary services, in the areas of corporate governance and administration, regulatory compliance, and the setting up of family trusts and employee share incentive plans and their ongoing administration. Ms. LO has over 30 years of experience in the corporate secretarial field. She is a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies.

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

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

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

On 12 January 2017, Pioneer Cement, being a wholly-owned subsidiary of the Company and the sole shareholder of Shandong Shanshui, resolved to appoint Ms. SU Aizhen as a director of Shandong Shanshui, with effect from 25 January 2017. Ms. SU is subject to approval from China Cinda Asset Management Company Limited to perform her duties as a director of Shandong Shanshui.

On 13 March 2017, Pioneer Cement has resolved and issued the following shareholder resolutions to the board of directors of Shandong Shanshui:

- (1) To remove Mr. LI Maohuan, Mr. YU Yuchuan, Mr. ZHAO Liping and Mr. CHEN Zhongsheng from office as director of Shandong Shanshui.
- (2) To terminate Mr. YU Yuchuan, Mr. ZHAO Liping and Mr. CHEN Zhongsheng from all their duties, powers functions and authorities in Shandong Shanshui and all of its subsidiaries, and terminate all of their employment relationship with the Company, its subsidiaries and related companies.
- (3) To remove Mr. LIU Xianliang from office as supervisor of Shandong Shanshui.
- (4) To terminate Mr. LIU Xianliang from all his duties, powers functions and authorities in Shandong Shanshui and all of its subsidiaries, and terminate all his employment relationship with the Company, its subsidiaries and related companies.
- (5) To appoint Mr. LIU Yiu Keung, Stephen, Mr. YEN Ching Wai, David, Mr. CHONG Cha Hwa and Mr. LIU Dequan as directors of Shandong Shanshui.
- (6) To appoint Mr. YEN Ching Wai, David as the general manager (External Affairs) of Shandong Shanshui.

On 8 May 2017, Mr. CHONG Cha Hwa resigned as a non-executive director of the Company and directorships of all relevant subsidiaries of the Company due to the physical trauma suffered by Mr. CHONG during the Repossession Action and that Mr. CHONG considered the Illegal Occupation in Shandong Shanshui has impeded him from carrying out his duties as a non-executive director of the Company and as a director of all relevant subsidiaries of the Company.

On 2 June 2017, the Company held the 2016 annual general meeting, at which LI Heping, HWA Guo Wai, Godwin and HO Man Kay, Angela retired as Directors by rotation, and CHING Siu Ming and LO Chung Hing was elected as directors of the Company.

On 3 November 2017, Mr. LI Zhiqiang was appointed as a vice chairman of the Board and an executive Director of the Company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### As of the date of publication of this report

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

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

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

### 5. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT FOR THE YEAR

Please refer to Note 4, 5 and 6 to the financial statements on details of the remuneration of Directors and senior management of the Group during the Reporting Period.

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

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

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

### 6. HIGHEST PAID INDIVIDUALS

Please refer to Note 5 to the financial statements in this annual report for details of the remuneration of the five highest paid individuals of the Group during the Reporting Period.

### 7. EMPLOYEES

As at 31 December 2017, the Group had 18,780 employees (264 in Shandong Shanshui Headquarters; 4,295 in Eastern Shandong Operating Region; 4,788 in Western Shandong Operating Region; 1,582 in Southern Shandong Operating Region; 5,466 in Northeast China Operating Region; 1,905 in Shanxi Operating Region; 480 in Xinjiang Operating Region), including 10,571 in production, 1,289 in sales, 2,229 in technical areas, 666 in finance, 1,375 in the administrative and management areas, and 2,650 in other areas. 9,602 of the employees had secondary and higher education, of which 4,926 received a tertiary or above education. The aggregate remuneration of the employees of the Group for the year amounted to RMB1,645.30 million. For expenses related to employees who have resigned or retired, please refer to Note 7 to the financial statements in this annual report. The Group will review the remuneration policy of employees in a timely manner.

### 8. PENSION INSURANCE

Details of the pension insurance are set out in Note 7 to the financial statements. Pension booked in the income statement of the Group for the Reporting Period amounted to RMB157.15 million.

### 9. STAFF HOUSING

Pursuant to the relevant regulations of the PRC government, the Group makes contributions to the housing provident fund for employees based on a certain percentage of their salaries. The Group has no other obligation nor plans to provide housing benefits to the employees. For the Reporting Period, the total contributions made by the Group to the housing provident fund amounted to approximately RMB62.86 million.

# (IX) Report on Corporate Governance

## 1. CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining good corporate governance standards

The Company has applied the principles as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 of the Listing Rules.

During the Reporting Period, the Board was not aware of any information which would indicate that the Company did not comply with the code provisions of the CG Code unless otherwise indicated.

### Notice of the Annual General Meeting

Pursuant to Code E.1.3 of the CG Code, the issuer should arrange the notice to shareholders to be sent at least 20 clear business days before the annual general meeting. The annual general meeting of the Company was held on 2 June 2017 while the notice thereof was sent to the shareholders on 11 May 2017. Thus, the Company failed to comply with the requirement of the clear 20-business-day notice period and deviated from such code provision, mainly due to the time taken for coordination between the Company and the related parties exceeding the expected time.

## 2. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a set of Code of Conduct for Securities Transactions by Directors (“**Code of Conduct**”), the terms of which are not less exacting than the Model Code. Having made specific inquiries to all Directors, all Directors confirmed that they have complied with the Code of Conduct throughout 2017.

## 3. THE BOARD

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

### Composition of the Board

The composition of the Board is set out in the section headed “(VIII) Basic Information on Directors, Senior Management and Employees” of this report.

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



## (IX) Report on Corporate Governance (Continued)

### 3. THE BOARD (CONTINUED)

#### Composition of the Board (Continued)

The Board currently comprises 2 executive Directors, and 3 independent non-executive Directors. The brief biographical details of the Directors are set out in the section headed “1. Basic Information on Directors” of “(VIII) Basic Information on Directors, Senior Management and Employees” of this report. The executive Directors of the Company are responsible for the day to day operations of the Company whereas the independent non-executive Directors of the Company are responsible for ensuring a high standard of financial and management reporting to the Board and Shareholders as well as to provide a balanced composition in the Board so that there is a strong independent element on the Board.

During the Reporting Period, the Board held 21 meetings, and passed 4 resolutions by way of written resolutions which exceeded the minimum number of board meetings required under Code Provision A.1.1., the attendance records of individual Directors are as follows:

<b>Name of Directors</b>	<b>Attendance/ Number of meetings within the term of office during the Reporting Period</b>
<b>Executive Directors :</b>	
CHANG Zhangli <i>(appointed on 23 May 2018 as Chairman)</i>	N/A
WU Ling-ling <i>(appointed on 23 May 2018 as an Executive Director)</i>	N/A
LI Liufa <i>(appointed on 19 March 2018 as former Chairman) (removed on 23 May 2018)</i>	N/A
LIU Yiu Keung, Stephen <i>(resigned on 19 March 2018)</i>	21/21
LI Heping <i>(resigned on 19 March 2018)</i>	13/21
HWA Guo Wai, Godwin <i>(removed on 23 May 2018)</i>	18/21
LI Zhiqiang <i>(appointed on 3 November 2017 as former Vice Chairman) (resigned on 19 March 2018)</i>	3/3
ZHU Linhai <i>(appointed on 19 March 2018 as Executive Director) (removed on 23 May 2018)</i>	N/A

## (IX) Report on Corporate Governance (Continued)

### 3. THE BOARD (CONTINUED)

#### Composition of the Board (Continued)

Name of Directors	Attendance/ Number of meetings within the term of office during the Reporting Period
<b>Non-executive Director:</b>	
CHONG Cha Hwa <i>(resigned on 8 May 2017)</i>	7/21
<b>Independent Non-executive Directors :</b>	
CHANG Ming-cheng <i>(appointed on 23 May 2018)</i>	N/A
LIN Shei-yuan <i>(appointed on 23 May 2018)</i> <i>(resigned on 20 July 2018)</i>	N/A
LI Jianwei <i>(appointed on 23 May 2018)</i>	N/A
HSU You-yuan <i>(appointed on 4 September 2018)</i>	N/A
HO Man Kay, Angela <i>(removed on 23 May 2018)</i>	14/21
LAW Pui Cheung <i>(removed on 23 May 2018)</i>	15/21
WONG Chi Keung <i>(removed on 23 May 2018)</i>	16/21
CHING Siu Ming <i>(removed on 23 May 2018)</i>	16/21
LO Chung Hing <i>(removed on 23 May 2018)</i>	15/21

## (IX) Report on Corporate Governance (Continued)

### 3. THE BOARD (CONTINUED)

#### Composition of the Board (Continued)

Directors who are considered having conflict of interest or material interests in the proposed transactions or issues to be discussed, would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution.

There is no financial, business or other material relationship between members of the Board.

The Board has not less than one-third of its membership comprising independent non-executive Directors, in compliance with Rule 3.10A of the Listing Rules. One of the three independent non-executive Directors possesses appropriate professional experience and related financial management expertise.

During the Reporting Period, the Company has fulfilled the relevant requirements.

After the Reporting Period, there was a period where the number of independent non-executive Directors fell below the minimum requirement under Rule 3.10(1) of the Listing Rules. 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.

The Board considers that all the independent non-executive Directors of the Company are independent in accordance with Rule 3.13 of the Listing Rules.

Code Provision A.4.1 specifies that non-executive Directors should be appointed for a specific term, subject to re-election.

The independent non-executive Directors of the Company are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Articles of Association.

## (IX) Report on Corporate Governance (Continued)

### 4. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

From 1 January 2017 to 18 March 2018, Mr. Stephen LIU Yiu Keung served as the Chairman of the Company.

From 19 March 2018 to 22 May 2018, Mr. LI Liufa served as the Chairman of the Company. Mr. CHANG Zhangli has served as the Chairman of the Company since 23 May 2018.

From 1 January 2017 to 19 March 2018, Mr. LI Heping served as the Chief Executive Officer of the Company.

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

## (IX) Report on Corporate Governance (Continued)

### 5. REMUNERATION COMMITTEE

Pursuant to the Listing Rules, the Board has established the Remuneration Committee (the “**Remuneration Committee**”) under the Board. It makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management and is principally responsible for formulating the remuneration policy for the executive directors and senior management of the Company and make recommendations to the Board of the Company. The Remuneration Committee is a standing committee of the Board.

During the Reporting Period, members of the Remuneration Committee are Ms. HO Man Kay Angela, Mr. LAW Pui Cheung, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing, of whom Ms. HO Man Kay Angela acts as the chairman. Ms. HO Man Kay Angela, Mr. LAW Pui Cheung, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed on 23 May 2018. On 23 May 2018, Mr. LI Jianwei was appointed as the chairman of the Remuneration Committee of the Company; Mr. CHANG Ming-cheng and Mr. LIN Shei-yuan were appointed as members of the Remuneration Committee of the Company; Mr. LIN Shei-yuan resigned as a member of the Remuneration Committee on 20 July 2018; Mr. HSU You-yuan was appointed as a member of the Remuneration Committee on 4 September 2018.

As at the date of this report, members of the Remuneration Committee are all independent non-executive Directors including Mr. LI Jianwei, Mr. CHANG Ming-cheng and Mr. HSU You-yuan, with Mr. LI Jianwei as the chairman.

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

## (IX) Report on Corporate Governance (Continued)

### 5. REMUNERATION COMMITTEE (CONTINUED)

A total of 5 meetings have been held for the Reporting Period. The individual attendance of members is as follows:

<b>Name of Members (all being independent non-executive Directors)</b>	<b>Attendance/ Number of meetings during within the term of office during the Reporting Period</b>
CHANG Ming-cheng <i>(appointed on 23 May 2018)</i>	N/A
LIN Shei-yuan <i>(appointed on 23 May 2018)</i> <i>(resigned on 20 July 2018)</i>	N/A
LI Jianwei <i>(appointed on 23 May 2018)</i>	N/A
HSU You-yuan <i>(appointed on 4 September 2018)</i>	N/A
HO Man Kay, Angela <i>(removed on 23 May 2018)</i>	5/5
LAW Pui Cheung <i>(removed on 23 May 2018)</i>	4/5
WONG Chi Keung <i>(removed on 23 May 2018)</i>	5/5
CHING Siu Ming <i>(removed on 23 May 2018)</i>	4/5
LO Chung Hing <i>(removed on 23 May 2018)</i>	5/5

## (IX) Report on Corporate Governance (Continued)

### 6. AUDIT COMMITTEE

The Board of the Company has established the Audit Committee (the “**Audit Committee**”) pursuant to the Listing Rules.

The principal duties of the committee include:

- to monitor the independence of external auditors, the financial reporting process and effectiveness of the risk management and internal control system; and
- to perform the following tasks as set out in Code Provision D.3.1 of the Corporate Governance:
  - (1) to develop and review the Company’s policies and practices on corporate governance;
  - (2) to review and monitor the training and continuous professional development of directors and senior management;
  - (3) to review and monitor the Company’s policies and practices in compliance with legal and regulatory requirements;
  - (4) to review and monitor the code of conduct and compliance manual of employees and directors; and
  - (5) to review the Company’s compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

The Audit Committee is a standing committee of the Board.

Mr. LAW Pui Cheung was appointed as a member of the Audit Committee on 1 December 2015 and was appointed as the chairman of the Audit Committee on 2 February 2016. Ms. HO Man Kay Angela and Mr. CHEUNG Yuk Ming were appointed as members of the Audit Committee on 1 December 2015. Mr. CHEUNG Yuk Ming was no longer a member of the Audit Committee since 2 February 2016. Mr. WONG Chi Keung was appointed as a member of the Audit Committee on 2 February 2016. Dr. CHING Siu Ming and Mr. LO Chung Hing were appointed as a member of the Audit Committee on 5 July 2016. Mr. LAW Pui Cheung, Ms. HO Man Kay Angela, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed on 23 May 2018. On 23 May 2018, Mr. CHANG Ming-cheng was appointed as the chairman of the Audit Committee of the Company; Mr. LI Jianwei and Mr. LIN Shei-yuan were appointed as members of the Audit Committee of the Company; Mr. LIN Shei-yuan resigned as a member of the Audit Committee on 20 July 2018; and Mr. HSU You-yuan was appointed as a member of the Audit Committee on 4 September 2018.

As at the date of this report, the members of the Audit Committee are independent non-executive Directors, including Mr. CHANG Ming-cheng, Mr. LI Jianwei and Mr. HSU You-yuan, with Mr. CHANG Ming-cheng as the chairman.

## (IX) Report on Corporate Governance (Continued)

### 6. AUDIT COMMITTEE (CONTINUED)

A total of 3 meetings have been held for the Reporting Period. The individual attendance of members is as follows:

Name of Members (all being independent non-executive Directors)	Attendance/ Number of meetings within the term of office during the Reporting Period
CHANG Ming-cheng <i>(appointed on 23 May 2018)</i>	N/A
LIN Shei-yuan <i>(appointed on 23 May 2018)</i> <i>(resigned on 20 July 2018)</i>	N/A
LI Jianwei <i>(appointed on 23 May 2018)</i>	N/A
HSU You-yuan <i>(appointed on 4 September 2018)</i>	N/A
HO Man Kay, Angela <i>(removed on 23 May 2018)</i>	3/3
LAW Pui Cheung <i>(removed on 23 May 2018)</i>	3/3
WONG Chi Keung <i>(removed on 23 May 2018)</i>	3/3
CHING Siu Ming <i>(removed on 23 May 2018)</i>	3/3
LO Chung Hing <i>(removed on 23 May 2018)</i>	3/3

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

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

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

The results of the Group for the Reporting Period were reviewed by the Audit Committee at the meeting held on 6 October 2018. At such meeting, the Audit Committee considered and approved the audited financial statements of the Company for the Reporting Period prepared in accordance with IFRS and the internal audit report.



## (IX) Report on Corporate Governance (Continued)

### 7. EXECUTIVE COMMITTEE

The Company established an executive committee under the Board (the “**Executive Committee**”) to manage the overall business and to assist the Board in performing its duties. The Executive Committee is a standing committee of the Board and accountable to it.

Mr. LI Liufa was appointed as the chairman of the Executive Committee on 1 December 2015. Mr. LI Heping and Mr. LIU Yiu Keung, Stephen and Mr. CHONG Cha Hwa were appointed as members of the Executive Committee on 1 December 2015. Mr. CHONG Cha Hwa was no longer a member of the Executive Committee since 2 February 2016. Mr. CHEUNG Yuk Ming was appointed as a member of the Executive Committee on 2 February 2016 and was no longer a member of the Executive Committee since 17 June 2016. Mr. LI Liufa was no longer the chairman of the Executive Committee since 31 May 2016. Mr. LIU Yiu Keung, Stephen was appointed as the chairman of the Executive Committee on 2 June 2016. Mr. HWA Guo Wai, Godwin was appointed as a member of the Executive Committee on 5 July 2016. Mr. LI Zhiqiang was appointed as a member of the Executive Committee on 3 November 2017. On 19 March 2018, Mr. LIU Yiu Keung resigned as the Chairman and an executive Director of the Company; Mr. LI Zhiqiang and Mr. LI Heping resigned as executive Directors of the Company; Mr. LI Liufa was appointed as the chairman of the Board and an executive Director; and Mr. ZHU Linhai was appointed as an executive Director of the Company. On 23 May 2018, Mr. LI Liufa was removed as Chairman of the Board and an executive Director; Mr. ZHU Linhai and Mr. HWA Guo Wai, Godwin were removed as executive Directors; Mr. CHANG Zhangli was appointed as an executive Director and the Chairman of the Board; Ms. WU Ling-ling was appointed as an executive Director; Mr. CHANG Zhangli was appointed as the chairman of the Executive Committee; and Ms. WU Ling-ling, Mr. CHANG Ming-cheng, Mr. LIN Shei-yuan and Mr. LI Jianwei were appointed as members of the Executive Committee of the Company. Mr. LIN Shei-yuan resigned as a member of the Executive Committee on 20 July 2018 and Mr. CHANG Ming-cheng and Mr. LI Jianwei were removed as members of the Executive Committee of the Board on 4 September 2018.

As at the date of this report, the members of the Executive Committee are Mr. CHANG Zhangli and Ms. WU Ling-ling, with Mr. CHANG Zhangli as the chairman.

## (IX) Report on Corporate Governance (Continued)

### 8. NOMINATION COMMITTEE

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

Mr. LI Liufa was appointed as the chairman of the Nomination Committee on 1 December 2015, Mr. LIU Yiu Keung, Stephen, Ms. HO Man Kay Angela, Mr. CHEUNG Yuk Ming and Mr. LAW Pui Cheung were appointed as members of the Nomination Committee on 1 December 2015. Mr. CHEUNG Yuk Ming was no longer a member of the Nomination Committee since 2 February 2016, Mr. WONG Chi Keung was appointed as a member of the Nomination Committee on 2 February 2016. Mr. LI Liufa was no longer the chairman of the Nomination Committee since 31 May 2016. Mr. LIU Yiu Keung was appointed as the chairman of the Nomination Committee on 2 June 2016. Dr. CHING Siu Ming and Mr. LO Chung Hing were appointed as members of the Nomination Committee on 5 July 2016. On 19 March 2018, Mr. LIU Yiu Keung resigned as the chairman of the Nomination Committee of the Board and Mr. LI Liufa was appointed as the chairman of the Nomination Committee of the Board. On 23 May 2018, Mr. LI Liufa was removed as the chairman of the Nomination Committee; Ms. HO Man Kay, Angela, Mr. LAW Pui Cheung, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed as members of the nomination committee of the Company; and Mr. CHANG Zhangli, Ms. WU Ling-ling, Mr. CHANG Ming-cheng and Mr. LI Jianwei were appointed as members of the Nomination Committee of the Company. Mr. CHANG Zhangli was appointed as the chairman of the Nomination Committee of the Board on 4 September 2018. Mr. HSU You-yuan was appointed as a member of the Nomination Committee on 6 October 2018.

As at the date of this report, the members of the Nomination Committee are Mr. CHANG Zhangli, Ms. WU Ling-ling (both being executive Directors), Mr. CHANG Ming-cheng, Mr. LI Jianwei and Mr. HSU You-yuan (all being independent non-executive Directors), with Mr. CHANG Zhangli as the chairman.

## (IX) Report on Corporate Governance (Continued)

### 8. NOMINATION COMMITTEE (CONTINUED)

A total of 2 meetings have been held for the Reporting Period. The individual attendance of members is as follows:

Name of Members (* represents independent non-executive Directors, others represent executive Directors)	Attendance/ Number of meetings within the term of office during the Reporting Period
CHANG Zhangli <i>(appointed as a member on 23 May 2018)</i> <i>(appointed as the chairman on 4 September 2018)</i>	N/A
WU Ling-ling <i>(appointed on 23 May 2018)</i>	N/A
*CHANG Ming-cheng <i>(appointed on 23 May 2018)</i>	N/A
*LI Jianwei <i>(appointed on 23 May 2018)</i>	N/A
LI Liufa <i>(appointed on 19 March 2018)</i> <i>(removed on 23 May 2018)</i>	N/A
LIU Yiu Keung <i>(resigned on 19 March 2018)</i>	2/2
*HO Man Kay, Angela <i>(removed on 23 May 2018)</i>	2/2
*LAW Pui Cheung <i>(removed on 23 May 2018)</i>	1/2
*WONG Chi Keung <i>(removed on 23 May 2018)</i>	2/2
*CHING Siu Ming <i>(removed on 23 May 2018)</i>	2/2
*LO Chung Hing <i>(removed on 23 May 2018)</i>	2/2
*LIN Shei-yuan <i>(appointed on 23 May 2018)</i> <i>(resigned on 20 July 2018)</i>	N/A
*HSU You-yuan <i>(appointed on 6 October 2018)</i>	N/A

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

## (IX) Report on Corporate Governance (Continued)

### 9. INVESTIGATION COMMITTEE

The Board established the Investigation Committee (the “**Investigation Committee**”). The responsibility of the Investigation Committee is to investigate certain events in the past. The Investigation Committee is a temporary committee under the Board of the Company and is accountable to the Board.

Members of the Investigation Committee are independent non-executive Directors, namely, Ms. HO Man Kay Angela, Mr. LAW Pui Cheung, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing, with Dr. CHING Siu Ming as the chairman.

Ms. HO Man Kay Angela, Mr. CHEUNG Yuk Ming and Mr. LAW Pui Cheung were appointed as members of the Investigation Committee on 1 December 2015. Mr. CHEUNG Yuk Ming was no longer a member of the Investigation Committee since 2 February 2016. Mr. WONG Chi Keung was appointed as a member of the Investigation Committee on 2 February 2016. Mr. LO Chung Hing was appointed as a member of the Investigation Committee on 5 July 2016. Dr. CHING Siu Ming was appointed as the chairman of the Investigation Committee on 5 July 2016. On 23 May 2018, Dr. CHING Siu Ming was removed as the chairman of the Investigation Committee, and Ms. HO Man Kay Angela, Mr. LAW Pui Cheung, Mr. WONG Chi Keung and Mr. LO Chung Hing were removed as members of the Investigation Committee.

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

A total of 2 meetings have been held for the Reporting Period. The individual attendance of members is as follows:

<b>Name of Members</b>	<b>Attendance/ Number of meetings during within the term of office during the Reporting Period</b>
HO Man Kay, Angela <i>(removed on 23 May 2018)</i>	2/2
LAW Pui Cheung <i>(removed on 23 May 2018)</i>	1/2
WONG Chi Keung <i>(removed on 23 May 2018)</i>	2/2
CHING Siu Ming <i>(removed on 23 May 2018)</i>	2/2
LO Chung Hing <i>(removed on 23 May 2018)</i>	2/2

## (IX) Report on Corporate Governance (Continued)

### 10. DIRECTOR TRAINING

The Directors participated in continuing development and training in their respective fields.

All Directors have been given the “Guidelines on Directors’ Duties”. The Company Secretary will continuously update and refresh Directors on the latest laws, rules and regulations regarding their duties and responsibilities. All Directors are required to disclose to the Company their offices held in public companies or organizations and other significant commitments.

The Company has arranged appropriate insurance cover on Directors’ and senior managements’ liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Directors’ training is an ongoing process, in order to ensure that their contribution to the Board remains informed and relevant. The Company encourages all Directors to participate in appropriate training programs. Their trainings included attending seminars and discussion forums and reading briefings and up-to-date materials.

### 11. COMPANY SECRETARIES

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

Ms. LO Yee Har Susan from Tricor Services Limited, an external service provider, was appointed as the Company Secretary on 6 September 2018. The Company’s primary contact with Ms. LO Yee Har Susan is Ms. WU Ling-ling, an executive Director.

### 12. DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for overseeing the preparation of the financial statements of the Group for the Reporting Period.

The Directors ensure timely publication of the Group financial statements and aim to present a clear, balanced and understandable assessment of the Group’s performance and position through all its publications and communications to the public and is aware of the requirements under the applicable rules and regulations about timely disclosure of inside information.

The report from the auditor of the Company regarding their responsibilities and opinion on the financial statements of the Group for the Reporting Period is set out in the “Independent Auditor’s Report” to this annual report.

## (IX) Report on Corporate Governance (Continued)

### 13. AUDITORS AND REMUNERATION

The Company appointed Moore Stephens CPA Limited as the auditors of the Company for the year ended 31 December 2017 with effect from 10 August 2018 to fill the casual vacancy following the resignation of KPMG on 20 July 2018. The remuneration payable to KPMG and Moore Stephens CPA Limited by the Company for the year ended 31 December 2017 amounted to RMB13.22 million and RMB6 million, respectively. During the year ended 31 December 2017, the Company has not engaged KPMG or Moore Stephens CPA Limited for any non-audit services.

### 14. SHAREHOLDERS AND GENERAL MEETING

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

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

#### **Procedures for Shareholders to put forward proposals at Shareholders' meetings**

1. To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written notice of his/her proposal ("**Proposal**") with his/her detailed contact information at the Company's principal place of business in Hong Kong at Level 54, Hopewell centre, 183 Queen's Road East, Hong Kong.
2. The request will be verified with the Company's Hong Kong Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited, and upon their confirmation that the request is proper and in order, the Board will be asked to include the Proposal in the agenda for the general meeting.

## (IX) Report on Corporate Governance (Continued)

### 14. SHAREHOLDERS AND GENERAL MEETING (CONTINUED)

#### Procedures for Shareholders to put forward proposals at Shareholders' meetings (Continued)

3. The notice period to be given to all the Shareholders for consideration of the Proposal raised by the Shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:
  - (a) At least 14 clear days' and 10 clear business days' notice in writing if the Proposal constitutes an ordinary resolution in an extraordinary general meeting of the Company;
  - (b) At least 21 clear days' and 10 clear business days' notice in writing if the Proposal constitutes a special resolution of the Company in an extraordinary general meeting of the Company or an ordinary resolution of the Company in an annual general meeting of the Company

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

On 17 February 2017, the Company convened an extraordinary general meeting, at which the ordinary resolution on adjournment of the extraordinary general meeting was approved. Details of which were disclosed in the announcement of the Company dated 17 February 2017 in relation to the poll results of extraordinary general meeting, adjournment of extraordinary general meeting and updates on mareva injunction against the Zhangs.

On 8 March 2017, the Company convened an extraordinary general meeting, at which four ordinary resolutions were approved, including the resolution on the appointment of an independent financial advisor to advise the Company in respect of the proposed transactions, resolution on directing the Board not to convene or adjourn any general meeting and etc., and one ordinary resolution was not passed, namely the resolution on publishing the financial information and providing the Board with the latest grounds prior to any general meeting to be held to consider the proposed transactions, Details of which were disclosed in the announcement of the Company dated 8 March 2017 in relation to the poll results of the extraordinary general meeting.

The AGM of the Company for 2016 was held on 2 June 2017. Seven ordinary resolutions (including the adoption of the audited consolidated financial statements for 2016, re-election of directors and granting general mandates to the Board) were approved and adopted, details of which were disclosed in the AGM poll results announcement dated 2 June 2017.

## (IX) Report on Corporate Governance (Continued)

### 14. SHAREHOLDERS AND GENERAL MEETING (CONTINUED)

#### Procedures for Shareholders to put forward proposals at Shareholders' meetings (Continued)

During the Reporting Period, 1 AGM and 2 extraordinary general meetings were held by the Company. For the AGM, Mr. LIU Yiu Keung, Mr. LI Heping, Mr. HWA Guo Wai, Mr. LAW Pui Cheung, Mr. WONG Chi Keung and Mr. CHING Siu Ming, all being the then incumbent Directors, and representatives from the auditor attended the meeting. For the extraordinary general meeting held on 17 February 2017, Mr. LIU Yiu Keung, Mr. LI Heping, Mr. HWA Guo Wai, Mr. CHONG Cha Hwa, Ms. HO Man Kay, Mr. LAW Pui Cheung, Mr. CHING Siu Ming and Mr. LO Chung Hing, all being the then incumbent Directors, attended the meeting. For the extraordinary general meeting held on 8 March 2017, Mr. LIU Yiu Keung, Mr. LI Heping, Mr. HWA Guo Wai, Mr. CHONG Cha Hwa, Ms. HO Man Kay, Mr. LAW Pui Cheung, Mr. CHING Siu Ming and Mr. LO Chung Hing, all being the then incumbent Directors, attended the meeting.

#### Articles of Association

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

### 15. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM ON OPERATIONS

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

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

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



## (IX) Report on Corporate Governance (Continued)

### 15. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM ON OPERATIONS (CONTINUED)

- (2) Equipment management: The Group has established an equipment examination and process overhaul system. The overhaul of small equipment of subsidiaries is carried out by themselves after approval. The overhaul of large equipment is carried out by the Technical Department of the Group. Strict acceptance procedures are implemented. The Technical Department monitors data on the operation of equipment to prevent equipment breakdown and accident.
- (3) Quality control: The Group enforces national quality standards and implements real-time quality control. The Quality Control Department inspects samples of the subsidiaries and new product research and development to ensure products of the Group attain national standards.
- (4) Financial management: The Group maintains a budgetary system, formulates a set of unified financial management procedures and supervises the financial manager appointment procedures to ensure their independence. It also implements a centralized funding management system. All financing activities are approved by the Group's headquarters and financing sources are arranged on unified channels. The Group implements a strict funding approval procedure. The Group's Treasury Department supervises the use of fund through the funding settlement centre to prevent funding risks.
- (5) Material procurement management: The Group has established a set of material procurement procedures to implement unified bidding procedures and to make purchases by comparing quality and prices for coal, spare parts, supplies and equipment. The Group and its subsidiaries control material procurement risks by monitoring quality, price, inventory and payment through the "one vehicle one inspection, one vehicle one settlement" system for raw materials, and the intelligent storage management system for spare parts.
- (6) Sales management: The Company implements unified policies for regional market development, pricing and product sales, and has been carrying out a "cash before delivery" selling a policy to non-major ordinary customers. The Sales and Marketing Department of the Group monitors invoicing, goods delivery and pricing of its subsidiaries through the intelligent sales system, and collects market information and customer feedbacks to the Group for improvement of product quality and sales service.
- (7) Project investment management: The Group formulates medium-to-long-term development strategic plans and submits results for approval by the Board before implementation. For construction projects, the Engineer Department at the Group's headquarters carries out project design. The Strategic Department is responsible for project construction management and production debugging. The Audit Department performs an audit of project budgets and final accounts.

## (IX) Report on Corporate Governance (Continued)

### 15. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM ON OPERATIONS (CONTINUED)

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

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

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

### 16 INSIDE INFORMATION

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

## (X) Major Events

### 1. MATERIAL LITIGATION IN THE CAYMAN ISLANDS

#### Cause No FSD 161 of 2018 (IMJ)

On 30 August 2018, Tianrui (International) Holding Company Limited (“**Tianrui**”), a Shareholder of the Company, presented a petition seeking to wind up the Company before the Grand Court of the Cayman Islands (the “**Cayman Petition**”). The Cayman Petition asks the court to appoint official liquidators to take over management of the Company.

Tianrui filed a further application on 6 September 2018 for the appointment of joint provisional liquidators (“**JPLs**”) over the Company.

The Company believes that the Cayman Petition and application for appointment of JPLs are without basis and an abuse of process, and has accordingly made an application for the Cayman Petition to be struck out; the Company will similarly request that the application for appointment of JPLs be refused. The substantive hearing of these matters will be heard in the Grand Court of the Cayman Islands on 10 and 11 October 2018.

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

### 2. MATERIAL LITIGATION IN HONG KONG

#### HCCW 248 of 2018

On 31 August 2018, Tianrui issued a winding-up petition against the Company in the Hong Kong High Court to commence an ancillary liquidation in respect of the Cayman Petition (the “**Hong Kong Petition**”).

As with the Cayman Petition, the Company believes that the Hong Kong Petition is without basis and an abuse of process, and has accordingly made an application for the Hong Kong Petition to be struck out. The initial hearing of the Hong Kong Petition will be held on 11 October 2018.

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

#### HCA 2880 of 2015

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

## (X) Major Events (Continued)

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

#### HCA 2880 of 2015 (Continued)

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

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

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

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

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

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

Following the amendments to the Amended Statement of Claim, the parties have filed a second round of pleadings (Re-Amended Defence or Amended Defence followed by the Amended Reply) except for the Zhangs (who only filed the acknowledgment of service indicating an intention to defend on 13 June 2017 and their defence on 18 September 2017).

All parties have filed and exchanged their List of Documents and the Company has filed a supplemental list of documents on 29 September 2017. The parties have also exchanged witness statements.

## (X) Major Events (Continued)

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

#### HCA 2880 of 2015 (Continued)

The first case management conference took place on 19 April 2018 and all of the parties agreed for the action to be referred to a Listing Judge for the assignment of a Trial Judge.

There are currently two outstanding interlocutory applications in this action:

- (1) The Company has issued a Summons on 27 March 2018 to (inter alia) appoint receivership over the 1st Defendant's shares in China Shanshui Investment Company ("**the Receivership Summons**"). Pursuant to the Order of Deputy High Court Judge Keith Yeung SC dated 3 May 2018, the hearing of the Receivership Summons is adjourned to a date to be fixed. No hearing date has yet been fixed yet. On 17 May 2018, the Company has issued another Summons seeking to amend the Receivership Summons (the "**Amendment Summons**"). Hearing of the Amendment Summons will be held on 23 October 2018.
- (2) The Company has, pursuant to the Order of the Honourable Madam Justice Au-Yeung dated 13 July 2018, issued a Summons on 20 July 2018 for the continuation of the December Injunction Order and the January Injunction Order against the 2nd Defendant ("**Continuation Summons**"). Parties will file their respective affirmations and the hearing the Continuation Summons is adjourned to a date to be fixed with one day reserved. No hearing date has been fixed yet.

#### HCMP 1574 of 2016

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

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

## (X) Major Events (Continued)

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

#### HCA 1103 of 2017

On 10 May 2017, MI Jingtian commenced a defamation action against LIU Yiu Keung, Stephen (in his capacity as a former Director of the Company and a Director of the Company during litigation) and the Company by way of a writ of summons with an Indorsement of Claim, claiming against LIU Yiu Keung, Stephen and the Company for (inter alia) (1) an injunction restraining LIU Yiu Keung, Stephen and the Company from publishing the defamatory words of and concerning MI Jingtian contained in the Company's announcements dated 10 and 27 April 2017 respectively, (2) an injunction restraining LIU Yiu Keung, Stephen and the Company from publishing the defamatory words of and concerning MI Jingtian suggesting that he was engaged or involved in any criminal wrongdoing or activities, (3) an order requiring LIU Yiu Keung, Stephen and the Company to render a written apology to MI Jingtian and (4) Damages.

MI Jingtian filed a Statement of Claim on 30 June 2017 and LIU Yiu Keung, Stephen and the Company filed a Defence on 28 July 2017.

On 10 August 2017, MI Jingtian filed a Notice of Discontinuance to discontinue the action.

#### HCMP 1268 of 2017

On 1 June 2017, ACC and its subsidiaries issued a petition in the High Court of Hong Kong against Tianrui Group, the Company, CSI and certain former directors of the Company. The basis for this action was unfair prejudice in favour of Tianrui Group at the expense of the other shareholders of the Company including ACC (the "**Hong Kong Petition**").

On 6 September 2017, the Company received a writ of summons filed in the Grand Court of the Cayman Islands in which ACC (and its eleven wholly-owned subsidiaries) commenced a derivative claim (the "**Derivative Claim**") against the Company.

For details, please refer to the announcements published by the Company on 2 June 2017 and 11 September 2017, respectively.

## (X) Major Events (Continued)

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

#### HCA 762 of 2017

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

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

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

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

## (X) Major Events (Continued)

### 3. MATERIAL LITIGATION IN PRC

#### **Progress of litigations against the former directors of Shandong Shanshui for illegal detention of official seal of Shandong Shanshui**

On 16 May 2016, the Company's PRC legal advisers initiated proceedings at the Beijing Haidian District People's Court on behalf of Shandong Shanshui, with the defendants being ZHANG Caikui, ZHANG Bin, CHEN Xueshi, and Pioneer Cement as the third party, the case being the dispute of the company license return, Case No. (2016) Jing 0108 Min Chu No. 16825. On the same day, the Company's PRC legal advisers submitted an "Application for Preservation of Conduct" to the Beijing Haidian District People's Court on behalf of Shandong Shanshui, applying to prohibit ZHANG Caikui, ZHANG Bin and CHEN Xueshi from using or authorizing the use of the official seal of Shandong Shanshui.

On 20 June 2016, Beijing Haidian District People's Court issued the (2016) Jing 0108 Min Chu No. 16825 Civil Ruling, prohibiting ZHANG Caikui, ZHANG Bin and CHEN Xueshi from using or authorizing the use of the official seal of Shandong Shanshui that Shandong Shanshui has made a statement on China Economic Times and Hong Kong Wen Wei Po as missing and forfeited.

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

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

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

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



## (X) Major Events (Continued)

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

#### **Progress of litigations with Jinan Municipal Bureau of Commerce**

On 25 January 2016, the Company's PRC legal advisers filed an administrative lawsuit on behalf of Pioneer Cement with the Jinan City District People's Court, the defendant being the Jinan Municipal Bureau of Commerce, Case No. (2016) Lu 0102 Xing Chu No. 45. On 1 April 2016, Jinan City Lixia District People's Court heard this case.

On 6 June 2016, Jinan City Lixia District People's Court issued "Notice of Third Party Participation in Proceedings" (2016) Lu 0102 Xing Chu No. 45 to Shandong Shanshui, notifying Shandong Shanshui that since Jinan City Lixia District People's Court have discovered that there exists a legal interest in Shandong Shanshui involving in the handling of this case, therefore it has requested that Shandong Shanshui participate in the proceedings in the case as a third party.

On 27 July 2016, Jinan Lixia District People's Court heard this case once more, and on that day, the lawyer appointed by ZHANG Bin, representing himself as the legal representative of Shandong Shanshui, and the lawyer appointed by LI Heping, the legal representative of Shandong Shanshui at the time, both appeared in court at the same time. The representatives of LI Heping and ZHANG Bin made representations to the Court regarding to "Who is the legal representative of Shandong Shanshui" respectively. The legal representatives of Shandong Shanshui appointed by LI Heping submitted "Shareholders resolutions of Shandong Shanshui", "Hong Kong High Court Orders and Injunction Orders", "The Corrective Amendment to the articles of association of Shangdong Shanshui signed on behalf of the Registrar of Hong Kong High Court, pursuant to an Injunction Order granted by the Court", "Declaration of loss of official seal of Shandong Shanshui", "Acknowledgement of acceptance" for case of illegal detention of official seal of Shandong Shanshui and "Civil Ruling" for prohibition of the use of the official seal of Shandong Shanshui, "Supreme People's final Decree (2016) No. 393-398" recognized LI Heping as the legal representative of Shandong Shanshui and evidences such as the "Court Summons" sent by Jinan City Lixia District People's Court to the registered and actual business address of Shandong Shanshui. Jinan City Lixia District People's Court has not proceed to confirm the actual lawyer representative of Shandong Shanshui, and trial could not be continued.

On 10 September 2016, Jinan City Lixia District People's Court issued "Administrative Ruling" (2016) Lu 0102 Xing Chu No. 45, ordering the suspension of the proceedings of this case.

## (X) Major Events (Continued)

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

#### Progress of litigations with Jinan Municipal Bureau of Commerce (Continued)

Since the reasoning for the Jinan City Lixia District People's Court suspending the proceedings being that it must wait for the trial results of the Beijing Haidian District People's Court (2016) Jing 0108 Min Chu No. 16825 to confirm the legal representative of Shandong Shanshui, therefore the timeline for resuming the trial of this case depends on the progress of the trial of the Beijing Haidian District People's Court (2016) Jing 0108 Min Chu 16825.

On 12 January 2017, Pioneer Cement and Shandong Shanshui received a "Court Summon" of the case. On 14 February 2017, Jinan City Lixia District People's Court held a third trial to restore the hearing of the case, the trial court said the record of legal representative of the Company registered in the Registrar of Companies shall prevail, Jinan City Lixia District People's Court has granted the representative of ZHANG Bin to participate in litigation. The court proceedings have been completed. After the successful takeover of Shandong Shanshui so far, in the court case involving Shandong Shanshui, courts including the Supreme People's court, the Shandong Provincial Higher People's court, the Supreme People's Court of Shanghai, Shanghai first intermediate people's court, the Shanghai second intermediate people's court, Shanghai City People's Court of Pudong New Area, Shenzhen City Intermediate People's court and Jinan City Changqing District People's court recognized LI Heping as the legal representative of the Shandong Shanshui, court case like this recognized ZHANG Bin as legal representative of the Shandong Shanshui is extremely rare.

On 24 March 2017, the Company's PRC legal advisors received the "Administrative Ruling" (2016) Lu 0102 Xing Chu No. 45, dismissing the request for action of the Company.

On 6 April 2017, the Company's PRC legal advisor appealed to the Jinan City Intermediate People's Court.

On 14 July 2017, the Company's PRC legal advisors received the "Administrative Ruling" (2017) Lu 01 Xing Zhong No. 347 serviced by Jinan City Intermediate People's Court, dismissing the request for action and affirming the original judgment.

## (X) Major Events (Continued)

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

#### **Progress of litigation with former directors of Shandong Shanshui related to damages to Shareholders' interests**

On 19 January 2016, the Company's PRC legal advisors filed a lawsuit on behalf of Pioneer Cement with the Shandong Provincial Higher People's Court, the defendants being ZHANG Caikui, ZHANG Bin, CHEN Xueshi, with Shandong Shanshui being the third party, the case being the liability dispute of damages to shareholders' interests, Case No. (2016) Lu Min Chu No. 15.

On 4 March 2016, ZHANG Bin submitted an "Application for Jurisdiction Objection" to the Shandong Provincial Higher People's Court, requesting that this case be transferred to a People's Court in Beijing with jurisdiction over the trial. The Shandong Provincial Higher People's Court was unable to issue a decision on the jurisdiction objection within the period stipulated in "Certain Provisions from the Supreme People's Court regarding the strict implementation of the "Civil Procedure Law of the People's Republic of China" during Economic Trials".

On 10 March 2016, the Company's PRC legal advisors first submitted the "Application for Litigation Preservation" to the Shandong Provincial Higher People's Court on behalf of Pioneer Cement, to apply for freezing RMB100 million bank deposits of ZHANG Caikui, ZHANG Bin and CHEN Xueshi or a seizure of their equivalent property, as well as requesting a seizure of the equity and assets under the name of Shandong Shanshui.

On 15 March 2016, Shandong Provincial Higher People's Court issued the "Civil Ruling" (2016) Lu Min Chu No. 15, for freezing RMB100 million bank deposits of ZHANG Caikui, ZHANG Bin and CHEN Xueshi or a seizure of their equivalent property.

On 3 August 2016, the Company's PRC legal advisors submitted a reply to the jurisdiction objection with the Shandong Provincial Higher People's Court, recognizing the jurisdiction objection from ZHANG Bin and agreeing to transfer the case to the Beijing No.1 Intermediate People's Court for trial.

On 24 August 2016, the Shandong Provincial Higher People's Court issued the "Civil Ruling" (2016) Lu Min Chu No. 15, dismissing ZHANG Bin's jurisdiction objection submitted regarding this case.

## (X) Major Events (Continued)

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

#### **Progress of litigation with former directors of Shandong Shanshui related to damages to Shareholders' interests (Continued)**

On 27 September 2016, Shandong Provincial Higher People's Court published a notice in "People's Court Daily" to deliver the Civil Ruling (2016) Lu Min Chu No. 15 to ZHANG Caikui. According to the provisions of the "Civil Procedure Law of the People's Republic of China", it was treated as served on 28 November 2016. During the term for answer, ZHANG Bin has not filed an appeal against the jurisdiction objection.

On 10 March 2017, the Company's PRC legal advisers received "Notification of Court Summon" of the case, informing that the trial will be held on 5 June 2017.

On 20 June 2017, Shandong Provincial Higher People's Court published a notice in "People's Court Daily" to change the time for the trial to 7 September 2017. On 7 September 2017, when the trial was held, the court investigated and conducted cross-examination on the identity of the legal representative of Shandong Shanshui and the trial was adjourned subsequently.

On 2 October 2018, the Company received the "Notification of Court Summon" of the case, informing that the trial will be held on 16 October 2018. (Not received yet)

#### **Litigation with former senior management of Shandong Shanshui in respect of damages to the Company' interests**

On 6 April 2017, legal advisors filed a lawsuit on behalf of Shandong Shanshui with Shandong Provincial Higher People's Court, the defendants being MI Jingtian, LI Maohuan, YU Yuchuan, ZHAO Liping, CHEN Zhongsheng and LIU Xianliang. The case involved the liability dispute of damages to the Company' interests, Case No. (2017) Lu Min Chu No. 22.

On 16 May 2017, the legal advisers appointed by Shandong Shanshui received Application for Jurisdiction Objection delivered by the Shandong Provincial Higher People's Court. CHEN Zhongsheng, YU Yuchuan, LI Maohuan, MI Jingtian, all being defendants, submitted jurisdiction objection respectively, requesting Shandong Provincial Higher People's Court to place this case under the Jinan Municipal People's Court of Changqing District.

On 12 June 2017, the legal advisers appointed by Shandong Shanshui submitted an Application for Property Preservation, Application for Preservation of Conduct, Application for Advanced Execution and Application for an Additional Party to Shandong Provincial Higher People's Court on behalf of Shandong Shanshui.

## (X) Major Events (Continued)

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

#### **Litigation with former senior management of Shandong Shanshui in respect of damages to the Company' interests (Continued)**

On 27 June 2017, Shandong Provincial Higher People's Court unofficially responded to the legal advisers appointed by Shandong Shanshui, turning down the application for preservation of conduct and the application for advanced execution filed by Shandong Shanshui.

On 22 June 2017, Shandong Provincial Higher People's Court delivered the (2017) Lu Min Chu No.22 Civil Ruling to the legal advisers appointed by Shandong Shanshui, transferring the case to Intermediate People's Court of Jinan City.

On 9 July 2017, the legal advisers appointed by Shandong Shanshui appealed to the Supreme People's Court in relation to the ruling of jurisdiction objection.

On 24 January 2018, legal advisers appointed by Shandong Shanshui received the (2017) Min Xia Zhong No. 330 Civil Ruling issued to the Company by the Supreme People's Court, which ruled to rescind the (2017) Lu Min Chu No. 22 Civil Ruling, and also ruled to place the case under the jurisdiction of Shandong Provincial Higher People's Court.

Since there is no evidence to confirm the loss claimed in this case, Shandong Shanshui has applied for a withdrawal of its claim in Shandong Provincial Higher People's Court on 23 August 2018. On 4 September 2018, the Shandong Provincial Higher People's Court has approved the rescission of Civil Ruling.

## (X) Major Events (Continued)

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

#### Other litigations in the PRC

As of the date of this report, there are 61 cases in which Shandong Shanshui has received the notice of the People's Court but has yet to close the case; using a litigation status of plaintiff, defendant or third party as standard, unsettled litigations of Shandong Shanshui can be divided into two categories.

#### (1) Unsettled litigations with Shandong Shanshui as defendants

There are 60 unsettled litigations with Shandong Shanshui as defendants, with the subject matter of the litigations approximately RMB1,227 million. Categorised by causes, there are 10 categories of unsettled litigations and 9 categories of unsettled litigations with Shandong Shanshui as defendants, with 13 cases of sales and purchase contract and transportation contract dispute, 7 cases of equity dispute, 3 cases of financial loan dispute, 7 cases of construction and supervision dispute, 3 cases of corporate bond transactions dispute, 1 case of dispute over agreement on contracted management of enterprise, 19 cases of labour dispute, 1 case of damages to shareholders' interests dispute, and 6 cases of corporate resolution effectiveness dispute. There are a total of 42 cases in the first instance, a total of 7 cases in the second instance, and 11 cases in the enforcement phase.

#### (2) Unsettled litigations with Shandong Shanshui as third Party

There is 1 unsettled litigation with Shandong Shanshui as third party. Categorised by cases, there is 1 unsettled litigation with Shandong Shanshui as third party and 1 case of administrative handling dispute, of which 1 case is in the first instance.

### 4. MAJOR TRANSACTIONS

#### Issue of Convertible Bonds

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

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

## (X) Major Events (Continued)

### 5. PUBLIC FLOAT

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

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

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

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

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

On 18 November 2016, the Company entered into an engagement letter with each of the Manager and FCSL, pursuant to which the Manager and FCSL agreed to act as placing agents of the Company in addition of SHKIS and ABCI for the Placing.

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

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

## (X) Major Events (Continued)

### 5. PUBLIC FLOAT (CONTINUED)

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

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

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

On 13 March 2017, the Company issued a letter to the Previous Manager and the Previous Placing Agents to terminate the Amended and Restated Placing Agreement with immediate effect pursuant to the Amended and Restated Placing Agreement. All rights, obligations and liabilities of the parties under the Amended and Restated Placing Agreement have ceased and terminated immediately after the termination of the Amended and Restated Placing Agreement and no party shall have any claim against the other in relation thereto save for antecedent breaches of the provisions of the Amended and Restated Placing Agreement.



## (X) Major Events (Continued)

### 5. PUBLIC FLOAT (CONTINUED)

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

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

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

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

## (X) Major Events (Continued)

### 5. PUBLIC FLOAT (CONTINUED)

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

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

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

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

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

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

For details of the abovementioned matters, please refer to the announcements which the Company made on 16 April 2015, 22 May 2015, 14 January 2016, 19 February 2016, 23 March 2016 and 26 April 2016 (“**Public Float Announcements**”), the announcement made on 3 June 2016 (“**Announcement regarding proposal for restoration of public float**”), the circulars made on 12 September 2016, 6 October 2016, 18 November 2016, 28 November 2016, 30 December 2016, 16 February 2017, the announcements made on 27 February 2017 and 13 March 2017 (“**Entering into of placing agreement relating to placing of new shares under specific mandate**”), the announcement on updates on the Group dated 8 August 2017, and the announcements dated 27 October 2017, 29 December 2017, 17 May 2018, 29 May 2018, 1 August 2018, 22 September 2018 and 7 October 2018 in relation to, among other things, the proposed cancellation of listing and plan on resumption of trading.

## (X) Major Events (Continued)

### 6. CONNECTED TRANSACTIONS

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

#### Provision of Corporate Guarantee

On 14 December 2016, the Company entered into the corporate guarantee in favour of Bank of China Limited (Pingdingshan Branch) as a guarantee for the provision of the loan facility of RMB400 million by the Bank to Tianrui Group under a facility agreement. The facility agreement and the corporate guarantee were approved by the bank on 26 December 2016. Tianrui Group is a substantial Shareholder holding 951,462,000 Shares (representing approximately 28.16% issued share capital of the Company) as at the date of entering into the corporate guarantee and a connected person of the Company.

#### Granting of Unsecured Loan

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

- (1) Tianrui Group undertakes to settle the Loan Facility and the interest thereof pursuant to the Facility Agreement;
- (2) Tianrui Group undertakes it will not request the repayment of the unsecured loan by the Company, in full or in part, prior to the settlement of the loan facility and the interest thereof by Tianrui Group; and
- (3) In the event that there is any default in payment of the loan facility and the interest thereof, the Company agrees to settle such amount under the corporate guarantee and Tianrui Group undertakes to waive the payment obligation of the Company in full under the unsecured loan.

As of 31 December 2017, the Group in aggregate borrowed RMB1.396 billion on an interest-free basis from Tianrui Group which was mainly used to settle certain debts, including:

- (1) Interest from 7.50% senior notes due 2020 amounted to US\$71.16 million.
- (2) Principal amount of and interest from any and all outstanding 8.50% senior notes due 2016 amounted to US\$31.345 million.
- (3) Purchase price of US\$73.473 million paid in cash for purchasing 7.50% senior notes due 2020 issued overseas, representing 15% of the total amount of notes (US\$484.971 million).
- (4) Interest from ultra short term debenture amounted to RMB91.22 million.
- (5) A borrowing amounted to RMB28.92 million for settling litigation costs.

As of 31 December 2017, outstanding borrowings of the Company from Tianrui Group was RMB697 million.

# (XI) Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	<i>Notes</i>	<b>2017</b> <b>RMB'000</b>	2016 <i>RMB'000</i>
<b>Revenue</b>	3(a)	<b>14,765,328</b>	11,284,193
Cost of sales		<b>(10,361,241)</b>	(8,808,192)
<b>Gross profit</b>		<b>4,404,087</b>	2,476,001
Other income		<b>336,425</b>	182,300
Other net expenses		<b>(108,021)</b>	(518,304)
Selling and marketing expenses		<b>(580,786)</b>	(486,954)
Administrative expenses		<b>(2,071,191)</b>	(1,414,882)
<b>Profit from operations</b>		<b>1,980,514</b>	238,161
Finance costs		<b>(1,021,372)</b>	(1,030,649)
Share of results of associates		<b>8,198</b>	(36,807)
<b>Profit/(loss) before taxation</b>		<b>967,340</b>	(829,295)
Income tax expense		<b>(420,870)</b>	(149,566)
<b>Profit/(loss) for the year</b>		<b>546,470</b>	(978,861)
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>600,817</b>	(738,281)
Non-controlling interests		<b>(54,347)</b>	(240,580)
<b>Profit/(loss) for the year</b>		<b>546,470</b>	(978,861)
<b>Earnings/(loss) per share</b>	8		
Basic ( <i>RMB</i> )		<b>0.18</b>	(0.22)
Diluted ( <i>RMB</i> )		<b>0.18</b>	(0.22)

The notes on pages 112 to 138 are an integral part of these Summary Financial Statements.

## (XII) Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

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

The notes on pages 112 to 138 are an integral part of these Summary Financial Statements.

# (XIII) Consolidated Statement of Financial Position

At 31 December 2017

Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
<b>Non-current assets</b>		
Fixed assets		
– Property, plant and equipment	16,769,993	17,716,429
– Land lease prepayments	2,241,969	2,293,955
	<b>19,011,962</b>	20,010,384
Intangible assets	618,574	512,565
Goodwill	14,223	14,223
Other financial assets	489,158	474,065
Interests in associates	299,607	256,559
Deferred tax assets	159,335	134,329
Other long-term assets	160,299	250,554
	<b>20,753,158</b>	21,652,679
<b>Current assets</b>		
Inventories	1,506,993	1,452,355
Trade and bills receivables	1,805,752	1,533,881
Other receivables and prepayments	653,220	916,738
Restricted bank deposits	62,841	88,003
Bank balances and cash	307,995	276,500
	<b>4,336,801</b>	4,267,477
<b>Current liabilities</b>		
Bank loans – amount due within one year	9	4,790,599
Other borrowings	10	1,736,722
Current portion of long-term bonds	11	5,977,435
Trade payables		3,225,907
Other payables and accrued expenses		3,888,522
Taxation payable		125,517
		<b>19,744,702</b>
		22,142,384
<b>Net current liabilities</b>	<b>(15,407,901)</b>	(17,874,907)
<b>Total assets less current liabilities</b>	<b>5,345,257</b>	3,777,772

## (XIII) Consolidated Statement of Financial Position (Continued)

At 31 December 2017

	<i>Notes</i>	<b>31 December 2017 RMB'000</b>	31 December 2016 RMB'000
<b>Non-current liabilities</b>			
Other borrowings	10	<b>403,841</b>	4,546
Long-term bonds	11	<b>397,047</b>	–
Defined benefit obligations	7(c)	<b>137,070</b>	156,773
Deferred income		<b>266,807</b>	273,298
Long-term payables		<b>20,347</b>	20,444
Deferred tax liabilities		<b>102,614</b>	66,472
		<b>1,327,726</b>	521,533
<b>Net assets</b>			
		<b>4,017,531</b>	3,256,239
<b>Capital and reserves</b>			
Share capital		<b>227,848</b>	227,848
Share premium		<b>4,654,010</b>	4,654,010
Share capital and Share premium		<b>4,881,858</b>	4,881,858
Other reserves		<b>(966,531)</b>	(1,783,170)
<b>Total equity attributable to equity shareholders of the Company</b>			
		<b>3,915,327</b>	3,098,688
<b>Non-controlling interests</b>			
		<b>102,204</b>	157,551
<b>Total equity</b>			
		<b>4,017,531</b>	3,256,239

The notes on pages 112 to 138 are an integral part of these Summary Financial Statements.

Approved and authorised for issue by the Board of Directors on 6 October 2018.

**CHANG, Zhangli**  
*Director*

**WU, Ling-ling**  
*Director*

# (XIV) Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserves	Other reserves	Exchange reserve	Fair value reserve	Accumulated losses	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
<b>At 1 January 2016</b>	227,848	4,654,010	1,153,394	263,161	(134,227)	5,447	(2,139,381)	4,030,252	462,913	4,493,165
Loss for the year	-	-	-	-	-	-	(738,281)	(738,281)	(240,580)	(978,861)
Other comprehensive expenses	-	-	-	-	(214,974)	(645)	18,400	(197,219)	-	(197,219)
Total comprehensive expenses for the year	-	-	-	-	(214,974)	(645)	(719,881)	(935,500)	(240,580)	(1,176,080)
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(9,620)	(9,620)
De-recognition of subsidiaries	-	-	(1,824)	-	-	-	-	(1,824)	(55,162)	(56,986)
Transfer between reserves	-	-	41,998	-	-	-	(41,998)	-	-	-
Acquisition of non-controlling interests	-	-	-	5,760	-	-	-	5,760	-	5,760
<b>At 31 December 2016 and 1 January 2017</b>	<b>227,848</b>	<b>4,654,010</b>	<b>1,193,568</b>	<b>268,921</b>	<b>(349,201)</b>	<b>4,802</b>	<b>(2,901,260)</b>	<b>3,098,688</b>	<b>157,551</b>	<b>3,256,239</b>
Profit for the year	-	-	-	-	-	-	600,817	600,817	(54,347)	546,470
Other comprehensive income	-	-	-	-	201,814	423	13,530	215,767	-	215,767
Total comprehensive income for the year	-	-	-	-	201,814	423	614,347	816,584	(54,347)	762,237
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(747)	(747)
Transfer between reserves	-	-	89,233	-	-	-	(89,233)	-	-	-
Acquisition of non-controlling interests	-	-	-	55	-	-	-	55	(253)	(198)
<b>Balance at 31 December 2017</b>	<b>227,848</b>	<b>4,654,010</b>	<b>1,282,801</b>	<b>268,976</b>	<b>(147,387)</b>	<b>5,225</b>	<b>(2,376,146)</b>	<b>3,915,327</b>	<b>102,204</b>	<b>4,017,531</b>

The notes on pages 112 to 138 are an integral part of these Summary Financial Statements.



# (XV) Notes to the Financial Statements

For the year ended 31 December 2017

## 1. GENERAL

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

## 2. BASIS OF PREPARATION

These summary financial statements have been prepared from the annual consolidated financial statements of the Company (“Annual Financial Statement”) for the year ended 31 December 2017. These summary financial statements are not the Company’s statutory financial statements and they do not contain sufficient information to allow as full an understanding of the financial performance and financial position of the Company and its subsidiaries (the “Group”) would be provided by the Annual Report.

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

The measurement basis used in the preparation of the Annual Financial Statements is the historical cost basis except that available-for-sale securities are stated at their fair value.

### (a) Matters arising from the change in directors

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

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

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 2. BASIS OF PREPARATION (CONTINUED)

### (a) Matters arising from the change in directors (Continued)

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

As at the date of approval of the Annual Financial Statements, the 2018 New Board took over the management of the Group, with the following exceptions:

- (i) A former subsidiary, Jinan Changqing Shanshui Micro Finance Co., Ltd. (“Shanshui Micro Finance”), is under the management of the Mr. Zhangs. During the years of 2016 and 2017 and up to the date of the approval of the Annual Financial Statements, the Group can neither access any accounting books and records of Shanshui Micro Finance nor find the current place of business for Shanshui Micro Finance. Accordingly, the directors of the Company are of the opinion that the Group does not have the ability to direct the relevant activities which significantly affect Shanshui Micro Finance’s returns since January 2016;
- (ii) Before the 2015 New Board took over Shandong Shanshui on 30 January 2016, the ex-directors, on behalf of Shandong Shanshui, issued an escrow agreement to a third party on 29 January 2016 to let the third party take over Xinghao Cement Co., Ltd. (“Xinghao Cement”, a subsidiary of Shandong Shanshui). The third party has taken over the official chop and the reserved signature chops of bank accounts of Xinghao Cement in February 2016 and dismissed all of the key management of Xinghao Cement previously appointed by Shandong Shanshui in May 2016. Since then, the Group can neither access any accounting books and records of Xinghao Cement nor have the ability to direct the relevant activities which significantly affect Xinghao Cement’s returns since May 2016; and

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 2. BASIS OF PREPARATION (CONTINUED)

### (a) Matters arising from the change in directors (Continued)

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

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

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

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

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

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

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 2. BASIS OF PREPARATION (CONTINUED)

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

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

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

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

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

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

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 2. BASIS OF PREPARATION (CONTINUED)

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

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

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

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

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

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

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

Up to the date of approval of the Annual Financial Statements, the Group repaid medium-term notes of RMB572 million and entered into agreements with other medium-term notes holders with principal amounts of RMB1,205 million. According to the agreements, the Group was discharged from the liabilities of certain principal amounting to RMB4 million, the remaining outstanding medium-term notes of RMB308 million, RMB305 million, RMB489 million and RMB100 million will be repayable in 2018, 2019, 2020, and 2021 respectively of which, medium-term notes with principal of RMB81 million is interest-free and medium-term notes with principal of RMB1,120 million interest at 5.5% – 8.9% on the condition that the Group fully complies with the revised repayment plans.

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 2. BASIS OF PREPARATION (CONTINUED)

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

- (iv) On 8 August 2018 and 3 September 2018, the Company issued convertible bonds in principal amounts of US\$210,900,000 and US\$320,700,000 respectively. The issue price was 100% of the aggregate principal amount of the convertible bonds.
- (v) On 20 September 2018, the Company has entered into a restructuring support agreement ("RSA") to complete the Tender Offer with multiple holders of the 2020 Notes (the "Consenting Noteholders"). Pursuant to the terms of the RSA, the Company and the Consenting Noteholders agree to oppose the Petitions and the JPL Application, the Company agrees to complete the Tender Offer at 101% of par plus accrued interest through the date of payment, and the Consenting Noteholders agree not to enforce their rights under the indenture governing the 2020 Notes unless and until the RSA is terminated.
- (vi) The Company has appointed lawyers to represent it in respect of the opposition of the Petitions and based on the advice from the lawyers, the directors of the Company are of the opinion that the Company has reasonable prospects of success with its application to strike out the Petitions.
- (vii) The Group is also maximizing its sales effort, including speeding up sales of its existing inventories, seeking new orders and implementing comprehensive policies to improve operating cash flows.

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

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

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

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 3. REVENUE AND SEGMENT REPORTING

### (a) Revenue

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

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

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

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

### (b) Segment reporting

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

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

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

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 3. REVENUE AND SEGMENT REPORTING (CONTINUED)

### (b) Segment reporting (Continued)

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

#### (i) Segment results, assets and liabilities

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

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

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

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

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

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



# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 3. REVENUE AND SEGMENT REPORTING (CONTINUED)

### (b) Segment reporting (Continued)

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

	2017					2016				
	Shandong Province RMB'000	Northeastern China RMB'000	Shanxi Province RMB'000	Xinjiang Region RMB'000	Total RMB'000	Shandong Province RMB'000	Northeastern China RMB'000	Shanxi Province RMB'000	Xinjiang Region RMB'000	Total RMB'000
Revenue from external customers	9,826,735	3,128,440	1,328,002	482,151	14,765,328	6,922,365	3,108,620	825,094	428,114	11,284,193
Inter-segment revenue	31,422	13,254	17,503	–	62,179	6,028	–	–	–	6,028
<b>Reportable segment revenue</b>	<b>9,858,157</b>	<b>3,141,694</b>	<b>1,345,505</b>	<b>482,151</b>	<b>14,827,507</b>	<b>6,928,393</b>	<b>3,108,620</b>	<b>825,094</b>	<b>428,114</b>	<b>11,290,221</b>
<b>Reportable segment profit/(loss) (adjusted profit/(loss) before taxation)</b>	<b>1,742,250</b>	<b>153,900</b>	<b>2,497</b>	<b>141,893</b>	<b>2,040,540</b>	<b>689,322</b>	<b>(71,968)</b>	<b>(149,837)</b>	<b>82,956</b>	<b>550,473</b>
<b>Included in arriving at segment results are:</b>										
Interest income	3,148	980	81	40	4,249	1,828	2,077	43	39	3,987
Interest expense	36,703	27,110	22	9,820	73,655	83,195	30,815	394	12,132	126,536
Depreciation and amortisation for the year	591,597	523,596	287,550	48,452	1,451,195	638,740	549,074	244,775	46,744	1,479,333
Impairment of property, plant and machinery	(8,328)	13,664	–	–	5,336	18,161	–	(2,503)	–	15,658
<b>Reportable segment assets</b>	<b>9,678,847</b>	<b>8,566,619</b>	<b>5,359,711</b>	<b>1,083,668</b>	<b>24,688,845</b>	<b>11,139,381</b>	<b>8,064,643</b>	<b>5,065,669</b>	<b>912,495</b>	<b>25,182,188</b>
Additions to fixed assets and intangible assets during the year	425,906	139,478	78,622	6,913	650,919	234,453	209,099	105,009	11,008	559,569
<b>Reportable segment liabilities</b>	<b>3,732,180</b>	<b>2,143,616</b>	<b>667,620</b>	<b>322,140</b>	<b>6,865,556</b>	<b>3,453,208</b>	<b>1,956,815</b>	<b>803,376</b>	<b>345,546</b>	<b>6,558,945</b>

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 3. REVENUE AND SEGMENT REPORTING (CONTINUED)

### (b) Segment reporting (Continued)

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

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

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

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 3. REVENUE AND SEGMENT REPORTING (CONTINUED)

### (b) Segment reporting (Continued)

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

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

#### (iii) Geographical information

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

#### (iv) Information about major customers

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

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 4. DIRECTORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

For the year ended 31 December 2017

	Directors' fees	Salaries, allowances and other benefits	Bonuses	Contributions to defined contribution retirement plans	Subtotal	Share-based payment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Chairman, Executive director</b>							
LIU Yiu Keung (note(i) and (ii))	-	-	-	-	-	-	-
<b>Executive directors</b>							
LI Heping (note (v))	3,028	-	-	-	3,028	-	3,028
HWA Guo Wai (note (vi))	3,650	675	-	-	4,325	-	4,325
LI Zhiqiang (note (iv))	-	-	-	-	-	-	-
<b>Non-executive director</b>							
CHONG Cha Hwa (note(iii))	639	-	-	-	639	-	639
<b>Independent non-executive directors</b>							
HO Man Kay (note (vii))	580	-	52	-	632	-	632
LAW Pui Cheung (note (vii))	580	-	52	-	632	-	632
WONG Chi Keung (note (vii))	580	-	52	-	632	-	632
CHING Siu Ming (note (vii))	580	-	52	-	632	-	632
LO Chung Hing (note (vii))	580	-	52	-	632	-	632
<b>Total</b>	<b>10,217</b>	<b>675</b>	<b>260</b>	<b>-</b>	<b>11,152</b>	<b>-</b>	<b>11,152</b>

## (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

### 4. DIRECTORS' REMUNERATION (CONTINUED)

For the year ended 31 December 2016

	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Bonuses RMB'000	Contributions to defined contribution retirement plans RMB'000	Subtotal RMB'000	Share-based payment RMB'000	Total RMB'000
<b>Chairman, Executive directors</b>							
LI Liufa (resigned on 31 May 2016) (note(i))	–	–	–	–	–	–	–
LIU Yiu Keung (appointed ON 2 June 2016) (note(i) and (ii))	–	–	–	–	–	–	–
<b>Executive directors</b>							
LI Heping (note(v))	–	–	4,282	–	4,282	–	4,282
CHEUNG Yuk Ming (retired on 17 June 2016)	1,893	–	–	–	1,893	–	1,893
HWA Guo Wai (note(vi))	1,011	–	137	–	1,148	–	1,148
<b>Non-executive directors</b>							
CHONG Cha Hwa (note(iii))	1,096	–	69	–	1,165	–	1,165
NG Qing Hai (resigned on 2 February 2016)	46	–	–	–	46	–	46
<b>Independent non-executive directors</b>							
HO Man Kay (note(vii))	557	–	–	–	557	–	557
LAW Pui Cheung	557	–	–	–	557	–	557
WONG Chi Keung (appointed on 2 February 2016) (note(vii))	514	–	–	–	514	–	514
CHING Siu Ming (appointed on 5 July 2016) (note(vii))	269	–	–	–	269	–	269
LO Chung Hing (appointed on 5 July 2016) (note(vii))	269	–	–	–	269	–	269
<b>Total</b>	<b>6,212</b>	<b>–</b>	<b>4,488</b>	<b>–</b>	<b>10,700</b>	<b>–</b>	<b>10,700</b>

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 4. DIRECTORS' REMUNERATION (CONTINUED)

Notes:

- (i) Mr. LI Liufa tendered his resignation as an executive director and the chairman of the Board with effect from 31 May 2016. Mr. LIU Yiu Keung ("Mr. LIU") has been appointed as the chairman of the Board with effect from 2 June 2016. Mr. LIU has resigned as the chairman of the Board and the executive director of the Company on 19 March 2018.
- (ii) Mr. YEN Ching Wai has been appointed as an alternate director to Mr. LIU on 16 December 2015 and has ceased to act as the alternative director to Mr. LIU on 19 March 2018.
- (iii) Mr. CHONG Cha Hwa has been re-designated from an executive director to a non-executive director on 2 February 2016 and has resigned on 8 May 2017.
- (iv) Mr. LI Zhiqiang has been appointed as an executive director on 3 November 2017 and has resigned as the vice chairman of the Board and executive director of the Company on 19 March 2018.
- (v) Mr. LI Heping has resigned as an executive director on 19 March 2018.
- (vi) Mr. HWA Guo Wai was removed as an executive director on 23 May 2018.
- (vii) Ms. HO Man Kay, Mr. LAW Pui Cheung, Mr. WONG Chi Keung, Dr. CHING Siu Ming and Mr. LO Chung Hing were removed as independent non-executive director on 23 May 2018.

## 5. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals with the highest emoluments, included two directors whose emoluments are disclosed in note 4 for the year ended 31 December 2017 (2016: Four).

The aggregate of the remuneration in respect of the other three (2016: One) individuals is as follows:

	<b>2017</b> <i>RMB'000</i>	2016 <i>RMB'000</i>
Salaries, allowances and other benefits	<b>5,424</b>	1,028
Bonuses	–	–
Contributions to defined contribution retirement plans	<b>58</b>	–
Share-based payment	–	–
	<b>5,482</b>	1,028

The emoluments of the three (2016: one) individuals with the highest remuneration is within the following bands:

	<b>2017</b> <b>Number of</b> <b>individuals</b>	2016 Number of individuals
HKD1,000,001 to HKD1,500,000	–	1
HKD1,500,001 to HKD2,000,000	<b>3</b>	–
	<b>3</b>	1

## (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

### 6. KEY MANAGEMENT PERSONNEL REMUNERATION

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in note 4, is as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Salary, allowances and other benefits	39,985	17,557
Contributions to defined contribution retirement plans	394	366
	<b>40,379</b>	17,923

The breakdown of emoluments for key management personnel are as follows:

	<i>Note</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Directors and supervisors	4	11,152	10,700
Senior management		29,227	7,223
		<b>40,379</b>	17,923

### 7. EMPLOYEE BENEFITS

#### (a) Defined contribution retirement plans

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial government authorities for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 20% to 24% of the salaries, wages and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date.

The Group has no other material obligation for the payment of pension benefits associated with these plans and other post-retirement beyond the annual contributions described above.

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 7. EMPLOYEE BENEFITS (CONTINUED)

### (b) Staff compensation and termination provision

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Staff compensation and termination provision	<b>185,116</b>	186,874

*Note:* Pursuant to relevant agreements with related local governments entered into when Shandong Shanshui changed from being a state-owned enterprise to being a privately-owned enterprise, certain employees of certain subsidiaries of the Group are entitled to receive compensation and termination pay relating to their past employment prior to the change in status. Such amounts are required to be paid to the employees as soon as they cease to be employed by the Group. These amounts are included in other payables and accrued expenses in the consolidated statement of financial position.

### (c) Defined benefit obligations

The liabilities recognised in the consolidated statement of financial position represent:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Present value of the defined benefit obligations	<b>137,070</b>	156,773

The balance represents the provision for the post-employment benefits according to the non-cancellable staff relocation plans agreed in respect of Shandong Shanshui, Weifang Shanshui, Qianshan Cement (excluding the compensation stated in note 7(b)) and Liaoning Shanshui Gongyuan Cement Co., Ltd ("Liaoning Shanshui"). The Group's obligations in respect of the defined benefit obligations at the end of the reporting period were reviewed by a qualified independent actuary, using the projected unit credit actuarial cost method.

(i) Movements in the defined benefit obligations are set out as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
At 1 January	<b>156,773</b>	174,660
Remeasurements	<b>(13,530)</b>	(18,400)
Payments	<b>(11,643)</b>	(8,627)
Current service cost	<b>940</b>	4,090
Interest expense	<b>4,530</b>	5,050
At 31 December	<b>137,070</b>	156,773



## (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

### 7. EMPLOYEE BENEFITS (CONTINUED)

#### (c) Defined benefit obligations (continued)

- (ii) Expenses recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Interest expense	4,530	5,050
Current service cost	940	4,090
Total amounts recognised in profit or loss	5,470	9,140
Actuarial gain recognised in other comprehensive income	(13,530)	(18,400)
Total defined benefit costs	(8,060)	(9,260)

- (iii) The current service cost and the net interest on net defined benefit liability are recognised in the following line items in the consolidated statement of profit or loss:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Finance costs	4,530	5,050
Administrative expenses	940	4,090
	5,470	9,140

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 7. EMPLOYEE BENEFITS (CONTINUED)

### (c) Defined benefit obligations (continued)

- (iv) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:

	2017	2016
Discount rate	4.00%	3.00%
Annual growth rate of cost of living	3.00% – 10.00%	3.00% – 10.00%
Social average salary increase rate	10.00%	10.00%
Average expected remaining working life of eligible employees	9 years	9 years

The below analysis shows how the defined benefit obligation as at 31 December 2017 would have (increase)/decrease as a result of 0.5% change in the significant actuarial assumptions:

Discount rate	2017 RMB'000	2016 RMB'000
Effect on defined benefit obligation		
– Increase in 0.5%	(6,010)	(7,540)
– Decrease in 0.5%	6,550	8,260

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

## 8. EARNINGS/(LOSS) PER SHARE

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

The calculation of basic earnings per share for the year ended 31 December 2017 is based on the profit (2016: loss) attributable to ordinary equity shareholders of the Company of RMB600,817,000 (2016: RMB738,281,000) and the weighted average number of ordinary shares of 3,379,140,240 (2016: 3,379,140,240) shares in issue during the year.

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 8. EARNINGS/(LOSS) PER SHARE (CONTINUED)

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

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

- On 25 May 2011, the Company granted 7,300,000 ordinary share options to certain directors and employees, which were vested immediately after being granted (“the 2011 Options”). The exercise price of the 2011 Options is HKD7.90.
- On 27 January 2015, the Company granted 207,300,000 ordinary share options to certain directors and employees, which vested six months after being granted (“the 2015 Options”). The exercise price of the 2015 Options is HKD3.68.

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

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

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

## (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

### 9. BANK LOANS

The bank loans were secured as follows:

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

\* These bank loans were pledged by certain land lease prepayments with an aggregate carrying amount of RMB12,471,000 (2016: RMB4,478,000) and plants and buildings with an aggregate carrying amount of RMB2,539,000 (2016: nil), trade receivables with an aggregate carrying amount of RMB64,000,000 (2016: nil)

As at 31 December 2017, unsecured bank loans of approximately RMB569,049,000 were overdue and carried interest rates ranging from 6.9% to 10.1% per annum. As at 31 December 2016, no bank loan was overdue. Up to the date of approval of the Annual Financial Statements, the Group has reached agreements with PRC banks to renew bank loans of RMB414,000,000 that was overdue on 31 December 2017.

Bank loans amounting to approximately RMB4,678,199,000 (2016: RMB3,485,050,000) and RMB112,400,000 (2016: RMB1,589,200,000) 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 scheduled repayment terms set out in the loan agreements and without taking into account the effect of any repayment on cross default clause or clauses which give the banks the right to recall the loans on demand at their sole discretion are as follows:

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

Up to the date of approval of the Annual Financial Statements for the year ended 31 December 2017, bank loans of RMB3,585,200,000 became matured, of which, the Group has reached agreements with PRC banks to extend the repayment of loans amounting to RMB2,502,000,000 and the Group has repaid RMB266,200,000. The Group is still negotiating with the PRC banks on the extension of the remaining overdue bank loans.

## (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

### 10. OTHER BORROWINGS

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

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

Other borrowings were repayable as follows:

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

*Notes:*

- (i) The government loan was received by Liaoning Shanshui for constructing an environmental friendly production line. The loan is unsecured, bears interest at one-year PRC deposit interest rate plus 0.3% (2016: 0.3%) and is repayable in equal instalments from 2012 to 2021.

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 10. OTHER BORROWINGS (CONTINUED)

Note: (continued)

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

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

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

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

- All of the above mentioned litigations has been judged by the PRC Court, with the Court ordering the Group to repay the overdue principal, the related interest, penalty interest and expenses incurred during the litigation.
- During the year ended 31 December 2017, the Group has negotiated with the holders of the short-term financing bills for extension of repayment of principal amounting to RMB1,246 million and RMB400 million to be repaid in 2018 and after 2018 respectively, including the principal amounting to RMB1,410 million previously under legal proceedings. The Group has made repayment in accordance with the terms set out in the restructuring plan and repaid principal of RMB634 million during the year. Under the restructuring plans, the PRC banks have agreed to waive portion of the interest and penalty interest accrued on the principal amounts up to the date of the restructuring plan to the short term financing bills on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. The financing bills related waived interest of RMB82 million has been recognised as other income in profit or loss.
- The repayment schedule in accordance with the revised terms is disclosed above.
- Subsequent to year end and up to the date of the approval of these Annual financial statements, the Group has completed negotiation with the financial institutions and PRC banks for restructuring plan in respect of short term financing bills in the principal amount of RMB360 million, including the principal amount of RMB30 million previously under legal proceedings.

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

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

- (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 2017, RMB44 million (2016: RMB55 million) of cash and cash equivalents, RMB6,165 million (2016: RMB4,713 million) of investments in subsidiaries, RMB31 millions (2016: RMB38 million) of land use rights and RMB62 million (2016: RMB123 million) of fixed assets have been frozen by the PRC Courts.

## (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

### 11. LONG-TERM BONDS

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

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

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

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 11. LONG-TERM BONDS (CONTINUED)

Notes:

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

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

- Certain litigations with overdue principal of RMB 1,230 million have been judged by the PRC Court, with the Court ordering the Group to repay the overdue principal, the related interest, penalty interest and expenses incurred during the litigation immediately.
- During the year ended 31 December 2017, the Group has negotiated with the holders of medium-term notes for extension of repayment of principal amounting to RMB521 million and RMB397 million to be repaid in 2018 and after 2018 respectively, including the principal amounting to RMB800 million previously under legal proceedings. The Group has made repayment in accordance with the terms set out in the restructuring plans and repaid principal of RMB347 million during the year. Under the restructuring plans, the medium-term note holders have agreed to waive portion of the interest and penalty interest accrued on the principal amounts up to the date of the restructuring plan to the medium-term notes on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. The related waived interest of RMB35 million has been recognised as other income in profit or loss.
- The repayment schedule in accordance with the revised terms is disclosed above.
- Subsequent to year end and up to the date of approval of the consolidated financial statements, the Group has completed negotiation with medium-term holder for extension and restructuring plan in respect of notes in the principal amount of RMB1,205 million, including the principal amount of RMB40 million which was previously under legal proceedings and RMB50 million which is still under legal proceedings as at 31 December 2017.

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

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

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

- (ii) Certain assets of the Group have been frozen by the PRC Court in respect of the litigations of these medium-term notes.
- (iii) The Company issued senior notes with principal of USD500 million (five-year period) to corporate investors in The Stock Exchange of Hong Kong Limited on 11 March 2015 (the "2020 Notes"). The 2020 Notes bears fixed interest of 7.5% per annum payable semi-annually.

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

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

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

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

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



# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 12. CONTINGENT LIABILITIES AND OTHER EVENTS

### (a) Guarantees issued

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

### (b) Litigation contingencies

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

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

- (ii) As at 31 December 2017, several litigation claims were initiated by the customers against the Group to demand immediate repayment of the outstanding balance in relation to certain cement and other products sales contracts with an aggregate amount of approximately RMB37,665,000 which have yet been concluded. No provision for these litigation claims was made in the Annual Financial Statements for the year ended 31 December 2017 as in the opinion of the directors of the Company, the possibility of an outflow of economic resources is remote.

# (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

## 12. CONTINGENT LIABILITIES AND OTHER EVENTS (CONTINUED)

### (b) Litigation contingencies (Continued)

- (iii) As at 31 December 2017, several litigation claims were initiated by the lessor and lessee of certain rental agreements entered into by the Group to demand remedies for alleged breach of contract with an aggregate amount of approximately RMB4,672,000 which have yet been concluded. No provision for these litigation claims was made in the Annual Financial Statements for the year ended 31 December 2017, as in the opinion of the directors of the Company, the possibility of an outflow of economic resources is remote.

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

## 13. COMPARATIVE FIGURES

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

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

- (i) Bank loans with cross default clauses of RMB1,589,200,000 are reclassified as current liabilities on the consolidated statement of financial position.
- (ii) Prepayment for fixed assets amounting to RMB52,212,000 are reclassified from other receivables and prepayments under current assets to other long-term assets under non-current assets on the consolidated statement of financial position.

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

- (i) Impairment loss on other financial assets of RMB97,094,000 has been reclassified from administrative expenses to other net expenses.
- (ii) Reversal of impairment on trade receivables and impairment loss on other receivables of RMB10,629,000 and RMB91,299,000 respectively have been reclassified from administrative expenses to other net expenses.

## (XV) Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

### 14. NON-ADJUSTING EVENTS AFTER THE END OF THE REPORTING PERIOD

The following non-adjusting events has occurred after the end of the reporting period:

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

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

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

- (b) On 30 August 2018, a winding-up petition had been filed against the Company by Tianrui, one of the shareholders of the Company with significant influence over the Company, in the Grand Court of the Cayman Islands. On 31 August 2018, a winding-up petition had been filed against the Company in the Court of First Instance of the High Court of the Hong Kong Special Administrative Region to commence an ancillary liquidation in Hong Kong. Details of which are set out in the Company's announcement dated 4 September 2018.
- (c) On 20 September 2018, the Company has entered into a restructuring support agreement ("RSA") to complete the Tender Offer of its 7.5% 2020 Notes with multiple holders of the 2020 Notes. Details of which are set out in the Company's announcement dated 20 September 2018.

# (XVI) Copy of Independent Auditor's Report to the Annual Financial Statements

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大華馬施雲  
會計師事務所有限公司

## To the Shareholders of China Shanshui Cement Group Limited

(Incorporated in Cayman Islands with limited liability)

### **DISCLAIMER OF OPINION ON THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS, PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, CHANGES IN EQUITY AND CASH FLOWS**

We were engaged to audit the consolidated financial statements of China Shanshui Cement Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss 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.

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

# (XVI) Copy of Independent Auditor's Report to the Annual Financial Statements (Continued)

## QUALIFIED OPINION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

We have audited the consolidated statement of financial position as at 31 December 2017, and the notes thereon.

In our opinion, except for the possible effects of the matters described in paragraphs (e) and (f) of the "Basis for Disclaimer of Opinion on the Consolidated Statements of Profit or Loss, Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows and for Qualified Opinion on the Consolidated Statement of Financial Position" section of our report, the consolidated statement of financial position gives a true and fair view of the Group's financial position as at 31 December 2017 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.

### Key Audit Matters

Except for the matters which led to our inability to determine whether the net assets of the Group as at 31 December 2017 and 2016 and the matters described in the paragraphs (e) and (f) of the "Basis for Disclaimer of Opinion on the Consolidated Statements of Profit or Loss, Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows and Qualified Opinion on the Consolidated Statement of Financial Position" section or Material Uncertainty Related to Going Concern section below, we have determined that there are no other key audit matters to communicate in our report which relate to our qualified opinion on the consolidated statement of financial position.

## BASIS FOR DISCLAIMER OF OPINION ON THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS, PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, CHANGES IN EQUITY AND CASH FLOWS AND FOR QUALIFIED OPINION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### (a) Opening balances and comparative information

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

## (XVI) Copy of Independent Auditor's Report to the Annual Financial Statements (Continued)

### **BASIS FOR DISCLAIMER OF OPINION ON THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS, PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, CHANGES IN EQUITY AND CASH FLOWS AND FOR QUALIFIED OPINION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**

#### **(a) Opening balances and comparative information (Continued)**

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

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

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

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

## (XVI) Copy of Independent Auditor's Report to the Annual Financial Statements (Continued)

### **BASIS FOR DISCLAIMER OF OPINION ON THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS, PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, CHANGES IN EQUITY AND CASH FLOWS AND FOR QUALIFIED OPINION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**

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

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

As stated above, the Accrued Bonus has been recorded as settled during the year ended 31 December 2017. However, in the absence of sufficient appropriate audit evidence to support the 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 the nature and purpose of the recorded payment and as to whether the payment resulted in an expense or loss which should be recognised in consolidated profit or loss for the year ended 31 December 2017.

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

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

## (XVI) Copy of Independent Auditor's Report to the Annual Financial Statements (Continued)

### **BASIS FOR DISCLAIMER OF OPINION ON THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS, PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, CHANGES IN EQUITY AND CASH FLOWS AND FOR QUALIFIED OPINION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**

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

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

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

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

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



## (XVI) Copy of Independent Auditor's Report to the Annual Financial Statements (Continued)

### **BASIS FOR DISCLAIMER OF OPINION ON THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS, PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, CHANGES IN EQUITY AND CASH FLOWS AND FOR QUALIFIED OPINION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**

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

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

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

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

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

## (XVI) Copy of Independent Auditor's Report to the Annual Financial Statements (Continued)

### **BASIS FOR DISCLAIMER OF OPINION ON THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS, PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, CHANGES IN EQUITY AND CASH FLOWS AND FOR QUALIFIED OPINION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**

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

### **MATERIAL UNCERTAINTIES RELATED TO GOING CONCERN**

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

### **OTHER MATTERS**

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

# (XVI) Copy of Independent Auditor's Report to the Annual Financial Statements (Continued)

## OTHER MATTERS (CONTINUED)

### *"Scope limitation on the board's representation"*

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

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

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

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

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

# (XVI) Copy of Independent Auditor's Report to the Annual Financial Statements (Continued)

## OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the "Basis for Disclaimer of Opinion on the Consolidated Statements of Profit or Loss, Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows and for Qualified Opinion on the Consolidated Statement of Financial Position" section above, we were unable to obtain sufficient appropriate evidence about the matters described in paragraphs (a) to (f) therein. Accordingly, we are unable to conclude whether or not the other information in the directors' report is materially misstated with respect to this matter.

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

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

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

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

## (XVI) Copy of Independent Auditor's Report to the Annual Financial Statements (Continued)

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

## (XVI) Copy of Independent Auditor's Report to the Annual Financial Statements (Continued)

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

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

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

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

However, because of the matters described in the "Basis for Disclaimer of Opinion on the Consolidated Statements of Profit or Loss, Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows and for Qualified Opinion on the Consolidated Statement of Financial Position" section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2017.

#### **Moore Stephens CPA Limited**

Certified Public Accountants

#### **Cheung Sai Kit**

Practising Certificate Number: P05544

Hong Kong, 6 October 2018

# (XVII) Independent Auditor's Report on the Summary Financial Report

## MOORE STEPHENS

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大華馬施雲  
會計師事務所有限公司

### To the Shareholders of China Shanshui Cement Group Limited

(Incorporated in Cayman Islands with limited liability)

## OPINION

The summary financial report of China Shanshui Cement Group Limited (the "Company") set out on pages 1 to 152, includes the summary financial statements of the Company for the year ended 31 December 2017. The summary financial statements of the Company set out on pages 107 to 138 which comprise the summary statement of financial position as at 31 December 2017, the summary statement of profit or loss, summary statement of comprehensive income and summary statement of changes in equity for the year then ended, and related notes, are derived from the audited financial statements of the Company for the year ended 31 December 2017. We do not express an opinion on the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year ended 31 December 2017. We expressed a qualified audit opinion on the consolidated statement of financial position as at 31 December 2017. A copy of the modified auditor's report dated 6 October 2018 have been set out on pages 139 to 149 of the summary financial report.

In our opinion, the summary financial report:

- a. is consistent with the annual financial statements and the auditor's report thereon and the directors' report of the Company for the year ended 31 December 2017 from which it is derived; and
- b. complies with the requirements of Part 2 of the Hong Kong Companies (Summary Financial Reports) Regulation.

# (XVII) Independent Auditor's Report on the Summary Financial Report (Continued)

## SUMMARY FINANCIAL STATEMENTS

The summary financial statements included in the summary financial report do not contain all the disclosures required by International Financial Reporting Standards issued by the International Accounting Standards Board. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

## THE AUDITED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We do not express an opinion on the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year ended 31 December 2017 in our report dated 6 October 2018. We expressed a qualified audit opinion on the audited consolidated statement of financial position in our report dated 6 October 2018.

That report also includes:

- A material Uncertainty Related to Going Concern section that draw attention to note 2(b) in the audited financial statements. Note 2(b) of the audited financial statements indicates that the Group's current liabilities exceeded its current assets by RMB15,408 million as at 31 December 2017. These events or conditions, along with other matters set forth in note 2(b) of the audited financial statements, indicate that a material uncertainty exist, that may cast significant doubt on the Group's ability as a going concern. These matters are addressed in note 2(b) of the summary financial statements.
- An other matters section that draw attention to the matters which led the predecessor auditor to disclaim their opinion on the consolidated financial statements of the Group for the year ended 31 December 2016.
- The communication of other key audit matters. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.

## DIRECTORS' RESPONSIBILITY FOR THE SUMMARY FINANCIAL REPORT

Under the Hong Kong Companies Ordinance, the directors are responsible for the preparation of the summary financial report in accordance with section 439 of the Hong Kong Companies Ordinance and the Hong Kong Companies (Summary Financial Reports) Regulation. In preparing the summary financial report, section 3(1) and (2) of the Hong Kong Companies (Summary Financial Reports) Regulation requires that the summary financial report must contain the information derived from the annual financial statements and the auditor's report thereon and the directors' report for the year ended 31 December 2017, and contain such information and particulars set out in sections 3(3), 5 and 6 of the Hong Kong Companies (Summary Financial Reports) Regulation, and be approved by the board of directors.



# (XVII) Independent Auditor's Report on the Summary Financial Report (Continued)

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary financial report is consistent with the annual financial statements and the auditor's report thereon and the directors' report; and complies with the requirements of Part 2 of the Hong Kong Companies (Summary Financial Reports) Regulation, based on our procedures, which were conducted in accordance with Hong Kong Standard on Auditing 810 (Revised) *Engagements to Report on Summary Financial Statements* issued by the Hong Kong Institute of Certified Public Accountants. We are also required to state whether the auditor's report on the annual financial statements for the year ended 31 December 2017 is qualified or otherwise modified.

**Moore Stephens CPA Limited**

Certified Public Accountants

**Cheung Sai Kit**

Practising Certificate Number: P05544

Hong Kong, 6 October 2018