CHINA SHANSHUI CEMENT GROUP LIMITED
中國山水水泥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 691)

PRELIMINARY ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

SUMMARY

- Operating revenue for 2020 amounted to approximately RMB20,891,454,000 (2019: RMB21,478,831,000), representing a decrease of 2.7% as compared to 2019;
- Profit from operations for 2020 amounted to approximately RMB4,659,112,000 (2019: RMB4,692,516,000), representing a decrease of 0.7% as compared to 2019;
- Profit attributable to equity shareholders of the Company for 2020 amounted to approximately RMB3,186,993,000 (2019: RMB2,973,104,000), representing an increase of 7.2% as compared to 2019;
- Basic earnings per share for 2020 was RMB0.73 (2019: RMB0.68).

The Board of Directors (the "**Board**") of China Shanshui Cement Group Limited (the "**Company**") hereby announces the consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2020 (the "**Reporting Period**"), together with the corresponding figures for the previous financial year.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	4(a)	**20,891,454**	21,478,831
Cost of sales		**(13,926,789)**	(14,207,109)
Gross profit		**6,964,665**	7,271,722
Other income	5	**542,104**	490,437
(Impairment losses)/reversal of impairment on trade receivables, net		**(43,582)**	15,225
(Impairment losses)/reversal of impairment on other receivables, net		**(31,727)**	2,569
Selling and marketing expenses		**(681,168)**	(672,945)
Administrative expenses		**(1,358,311)**	(1,500,670)
Other net expenses	6	**(50,980)**	(171,604)
Expenses incurred during off-peak suspension period		**(681,889)**	(742,218)
Profit from operations		**4,659,112**	4,692,516
Finance costs		**(347,110)**	(509,770)
Share of results of associates		**21,588**	43,242
Profit before taxation	7	**4,333,590**	4,225,988
Income tax expense	8	**(1,059,200)**	(1,197,606)
Profit for the year		**3,274,390**	3,028,382
Attributable to:			
Equity shareholders of the Company		**3,186,993**	2,973,104
Non-controlling interests		**87,397**	55,278
Profit for the year		**3,274,390**	3,028,382
Earnings per share	9		
Basic *(RMB)*		**0.73**	0.68
Diluted *(RMB)*		**0.72**	0.68

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2020

	2020 *RMB'000*	2019 *RMB'000*
Profit for the year	**3,274,390**	3,028,382
Other comprehensive income/(expenses) for the year		
Item that will not be reclassified to profit or loss:		
Remeasurements of net defined benefit obligations	**5,800**	9,290
Exchange differences arising on translation from functional currency to presentation currency	**15,934**	(7,442)
Other comprehensive income/(expenses) for the year	**21,734**	1,848
Total comprehensive income for the year	**3,296,124**	3,030,230
Attributable to:		
Equity shareholders of the Company	**3,208,727**	2,974,952
Non-controlling interests	**87,397**	55,278
Total comprehensive income for the year	**3,296,124**	3,030,230

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2020

	Notes	31.12.2020 RMB'000	31.12.2019 RMB'000
NON-CURRENT ASSETS			
Fixed assets			
– Property, plant and equipment		**15,717,501**	15,999,633
Right-of-use assets		**2,304,350**	2,331,767
		18,021,851	18,331,400
Intangible assets		**995,994**	930,613
Goodwill		**90,132**	90,132
Other financial assets		**44,622**	134,411
Interests in associates		**320,535**	312,342
Deferred tax assets		**168,039**	145,977
Other long-term assets		**857,888**	665,788
		20,499,061	20,610,663
CURRENT ASSETS			
Inventories		**2,288,043**	1,995,166
Trade and bills receivables	11	**2,319,478**	1,937,492
Other receivables and prepayments		**905,110**	690,966
Derivative component of convertible bonds	16	**243,747**	187,779
Restricted bank deposits		**20,771**	41,685
Bank balances and cash		**1,401,233**	1,364,054
		7,178,382	6,217,142
CURRENT LIABILITIES			
Bank loans – amount due within one year	13	**1,544,749**	2,814,920
Other borrowings	14	**330,909**	160,909
Current portion of long-term bonds	15	**321,000**	935,500
Trade payables	12	**3,605,201**	3,741,546
Other payables and accrued expenses		**2,480,568**	2,602,433
Contract liabilities		**732,802**	597,487
Taxation payable		**267,584**	311,745
Convertible bonds	16	**543,263**	–
Lease liabilities		**13,419**	17,196
		9,839,495	11,181,736
NET CURRENT LIABILITIES		**(2,661,113)**	(4,964,594)
TOTAL ASSETS LESS CURRENT LIABILITIES		**17,837,948**	15,646,069

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	**31.12.2020**	31.12.2019
		RMB'000	*RMB'000*
NON-CURRENT LIABILITIES			
Bank loans – amount due after one year	13	**1,117,000**	847,000
Other borrowings	14	**909**	331,818
Long-term bonds	15	**115,000**	436,000
Long-term payables		**253,741**	279,879
Defined benefit obligations		**111,460**	122,120
Deferred income		**222,844**	235,149
Convertible bonds	16	**–**	634,057
Lease liabilities		**59,574**	72,464
Deferred tax liabilities		**75,403**	87,143
		1,955,931	3,045,630
NET ASSETS		**15,882,017**	12,600,439
CAPITAL AND RESERVES			
Share capital		**295,671**	295,671
Share premium		**8,235,037**	8,235,037
Share capital and share premium		**8,530,708**	8,530,708
Other reserves		**7,172,090**	3,966,492
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**15,702,798**	12,497,200
Non-controlling interests		**179,219**	103,239
TOTAL EQUITY		**15,882,017**	12,600,439

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

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

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standard Board ("**IASB**"). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based payment", leasing transactions that are accounted for in accordance with IFRS 16 "Leases" and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

3. APPLICATION OF AMENDMENTS TO IFRSs

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the "Amendments to References to the Conceptual Framework in IFRSs" and the following amendments to IFRSs issued by IASB for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the "Amendments to References to the Conceptual Framework in IFRSs" and amendments to IFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts and the Related Amendments[1]
Amendments to IFRS 16	Covid-19-Related Rent Consessions[4]
Amendments to IFRS 3	Reference to Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform-Phase 2[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venure[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRSs	Annual Improvements to IFRSs 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 June 2020.
5 Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of the new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

Revenue from sales of cement, clinker, concrete and other products are recognised when the goods are transferred at a point in time. The performance obligation is satisfied upon the delivery of the goods. Revenue from rendering of delivery services is recognised over time by reference to the progress of delivery services provided by the Group. The performance obligation is satisfied upon the completion of the delivery services.

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

	2020	2019
	RMB'000	*RMB'000*
Sales of cement	**16,847,525**	17,183,378
Sales of clinker	**2,282,506**	2,267,395
Sales of concrete	**1,270,932**	1,579,402
Sales of other products	**490,491**	448,656
	20,891,454	21,478,831

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

(b) Segment reporting

(i) Segment results, assets and liabilities

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

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

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

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

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

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

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

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

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

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

– Segment results represents profits earned by each segment without allocation of head office administrative expenses, share of results of associates, waiver of interest expenses, loss on fair value changes of financial assets at FVTPL, gain/(loss) on fair value changes of derivative component of convertible bonds, directors' remuneration, auditor's remuneration and finance costs in relation to the unallocated bank loans, other borrowings, long-term bonds, other convertible bonds. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

– In addition to receiving segment information concerning adjusted profit before taxation, the CODM is provided with segment information concerning revenue, interest income and expense from bank balances and cash 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 and impairment losses/(reversal of impairment) on trade and bills receivables and other receivables. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2020 and 2019 is set out below.

	2020					2019				
	Shandong Province	**Northeastern China**	**Shanxi Province**	**Xinjiang Region**	**Total**	Shandong Province	Northeastern China	Shanxi Province	Xinjiang Region	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Disaggregated by timing of revenue										
Point in time	**13,506,179**	**4,361,481**	**2,526,467**	**490,049**	**20,884,176**	14,477,199	3,866,436	2,449,938	678,067	21,471,640
Over time	**5,874**	**863**	**541**	**–**	**7,278**	5,600	304	1,287	–	7,191
Revenue from external customers	**13,512,053**	**4,362,344**	**2,527,008**	**490,049**	**20,891,454**	14,482,799	3,866,740	2,451,225	678,067	21,478,831
Inter-segment revenue	**708,881**	**111,530**	**126,365**	**–**	**946,776**	295,514	337,726	83,514	–	716,754
Reportable segment revenue	**14,220,934**	**4,473,874**	**2,653,373**	**490,049**	**21,838,230**	14,778,313	4,204,466	2,534,739	678,067	22,195,585
Reportable segment profit (adjusted profit before taxation)	**3,785,143**	**431,464**	**501,174**	**172,922**	**4,890,703**	3,822,925	426,954	443,659	234,624	4,928,162
Included in arriving at segment results are:										
Interest income	**7,524**	**1,153**	**247**	**692**	**9,616**	5,698	595	76	463	6,832
Interest expense	**25,956**	**22,430**	**962**	**1,369**	**50,717**	35,000	24,630	205	4,232	64,067
Depreciation and amortisation for the year	**527,504**	**562,563**	**349,835**	**54,572**	**1,494,474**	661,141	514,107	310,195	52,986	1,538,429
Impairment losses on property, plant and equipment	**11,219**	**28,005**	**–**	**–**	**39,224**	2,060	–	8,938	–	10,998
Impairment losses/(reversal of impairment) on trade receivables, net	**35,802**	**4,210**	**(297)**	**3,867**	**43,582**	(15,681)	(1,855)	–	2,311	(15,225)
Impairment losses/(reversal of impairment) on other receivables, net	**5,664**	**20,056**	**393**	**2**	**26,115**	41,112	(4,333)	3,321	–	40,100
Additions to fixed assets, right-of-use assets and intangible assets during the year	**1,006,816**	**225,671**	**141,664**	**68,373**	**1,442,524**	917,809	167,143	176,268	113,758	1,374,978
Reportable segment assets	**13,155,824**	**8,083,169**	**5,115,134**	**1,053,625**	**27,407,752**	11,686,712	8,099,543	5,289,518	970,449	26,046,222
Reportable segment liabilities	**5,440,585**	**1,524,080**	**300,098**	**164,570**	**7,429,333**	5,847,580	1,547,028	645,887	190,986	8,231,481

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

	2020	2019
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**21,838,230**	22,195,585
Elimination of inter-segment revenue	**(946,776)**	(716,754)
Consolidated revenue	**20,891,454**	21,478,831
Profit		
Reportable segment profit	**4,890,703**	4,928,162
Elimination of inter-segment profit	**(295,067)**	(180,085)
Reportable segment profit derived from Group's external customers	**4,595,636**	4,748,077
Share of results of associates	**21,588**	43,242
Waiver of interest expenses	**100,688**	153,486
Loss on fair value changes of financial assets at FVTPL	**(473)**	(3,796)
Gain/(loss) on fair value changes of derivative component of convertible bonds	**72,042**	(60,714)
Unallocated finance costs	**(296,393)**	(461,471)
Unallocated head office administrative expenses	**(159,498)**	(192,836)
Consolidated profit before taxation	**4,333,590**	4,225,988

The accounting policies of the reportable segments are the same as the Group's accounting policies.

	2020	2019
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**27,407,752**	26,046,222
Elimination of inter-segment profit	**(37,346)**	(1,801)
Elimination of inter-segment receivables	**(772,712)**	(783,371)
	26,597,694	25,261,050
Deferred tax assets	**168,039**	145,977
Interests in associates	**320,535**	312,342
Derivative component of convertible bonds	**243,747**	187,779
Unallocated head office assets	**347,428**	920,657
Consolidated total assets	**27,677,443**	26,827,805
Liabilities		
Reportable segment liabilities	**7,429,333**	8,231,481
Elimination of inter-segment payables	**(772,712)**	(783,371)
	6,656,621	7,448,110
Deferred tax liabilities	**75,403**	87,143
Unallocated bank loans	**2,423,749**	3,013,750
Unallocated other borrowings	**331,818**	492,727
Unallocated long-term bonds	**436,000**	1,371,500
Convertible bonds	**543,263**	634,057
Unallocated head office liabilities	**1,328,572**	1,180,079
Consolidated total liabilities	**11,795,426**	14,227,366

(iii) Geographical information

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

(iv) Information about major customers

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

5. OTHER INCOME

	2020	2019
	RMB'000	*RMB'000*
Interest income	**15,043**	16,429
Government grants *(note)*	**322,117**	268,826
Amortisation of deferred income	**14,345**	13,154
Waiver of interest expenses	**100,688**	153,486
Others	**89,911**	38,542
	542,104	490,437

Note: Government grants mainly represented tax refunds, operating subsidies and energy reduction incentives from local governments received by the Group during the Reporting Period. There are no special conditions that are needed to be fulfilled for receiving such government grants.

6. OTHER NET EXPENSES

	2020	2019
	RMB'000	*RMB'000*
Net foreign exchange gain	**5,246**	6,497
Net loss from disposal of property, plant and equipment	**(16,363)**	(21,811)
Loss on fair value changes of financial assets at FVTPL	**(473)**	(3,796)
Gain/(loss) on fair value changes of derivative component of convertible bonds	**72,042**	(60,714)
Impairment losses on property, plant and equipment	**(39,224)**	(10,998)
Impairment losses on goodwill	**–**	(6,040)
Penalties *(note)*	**(78,140)**	(66,796)
Donations	**(15,033)**	(17,150)
Bad debt recovery	**4,162**	24,934
Others	**16,803**	(15,730)
	(50,980)	(171,604)

Note: Included in the amount are penalties amounting to RMB71,652,000 (2019: RMB51,796,000) for certain litigations raised by certain suppliers and third parties against subsidiaries of the Group during the Reporting Period. The litigations have been judged by the PRC Court, with the PRC Court ordering the subsidiaries to settle the amounts. The penalties were not yet settled as at the end of the Reporting Period and are recognised and included in other payables. As of the date of the approval of these consolidated financial statements, penalties amounting to RMB32,197,779 were settled by the subsidiaries.

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Notes	2020 RMB'000	2019 RMB'000
Interest on bank loans		**165,063**	227,629
Interest on other borrowings and long-term bonds		**85,979**	154,538
Interest on lease liabilities		**3,719**	4,105
Effective interest expense on convertible bonds		**72,013**	75,626
Less: capitalised interest expenses	(i)	**–**	(221)
Net interest expenses		**326,774**	461,677
Bank charges		**5,939**	31,294
Unwinding of discount	(ii)	**14,397**	16,799
		347,110	509,770

Notes:

(i) The capitalisation rates used to determine the amount of borrowing interests eligible for capitalisation related to construction of fixed assets was 4.90% per annum for the year ended 31 December 2019 (2020: nil).

(ii) This item represents the unwinding of discount for the following liabilities using the effective interest rate for the current period:

	2020 RMB'000	2019 RMB'000
Defined employee benefit plan	**3,800**	4,270
Long-term payables	**10,597**	12,529
	14,397	16,799

(b) Personnel expenses

	2020	2019
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**1,366,714**	1,400,779
Bonus and awards	**375,686**	384,316
Staff's pension costs *(note)*	**142,265**	222,652
Expense recognised in respect of defined benefit plan	**4,330**	5,030
	1,888,995	2,012,777

Note: For the year ended 31 December 2020, Covid-19 related government assistance amounting to RMB168,905,000 have been offset against staff pension costs.

(c) Other items

	2020	2019
	RMB'000	*RMB'000*
Amortisation		
– intangible assets	**165,925**	193,538
Depreciation		
– property, plant and equipment	**1,260,032**	1,283,050
– right-of-use assets *(note)*	**75,650**	69,627
	1,335,682	1,352,677
Auditors' remuneration		
– audit services	**6,000**	6,300
– other services	**950**	980
	6,950	7,280
Cost of inventories sold	**13,885,444**	14,207,209
Impairment losses/(reversal of impairment) on inventories (included in cost of sales)	**41,345**	(100)

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

Taxation in the consolidated statement of profit or loss:

	2020	2019
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**1,142,931**	1,178,875
Under/(over) provision in respect of prior years	**(49,929)**	9,352
	1,093,002	1,188,227
Deferred tax		
Origination and reversal of temporary differences	**(33,802)**	9,379
	1,059,200	1,197,606

Notes:

(i) The Group's PRC subsidiaries are subject to PRC income tax at the statutory rate of 25% (2019: 25%) unless otherwise specified.

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

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

The Company and its subsidiaries incorporated in Hong Kong are subject to Hong Kong Profits Tax at the rate of 16.5% (2019: 16.5%). No provision for Hong Kong Profits Tax has been made as the Company and the subsidiaries incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax during the year ended 31 December 2020 (2019: nil).

9. EARNINGS PER SHARE

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

Earnings figures are calculated as follows:	**2020** *RMB'000*	2019 *RMB'000*
Profit for the year attributable to owners of the Company and earnings for the purposes of basic earnings per share	**3,186,993**	2,973,104
Effect of dilutive potential ordinary shares		
Effective interest expense on convertible bonds	**72,013**	–
Gain on fair value changes of derivative component of convertible bonds	**(72,042)**	–
Earnings for the purpose of diluted earnings per share	**3,186,964**	2,973,104

Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**4,353,966,228**	4,353,966,228
Effect of dilutive potential ordinary shares on convertible bonds	**93,004,769**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per shares	**4,446,970,997**	4,353,966,228

10. DIVIDEND

The directors of the Company do not recommend the payment of a dividend for the year ended 31 December 2020 (2019: nil).

11. TRADE AND BILLS RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Bills receivables	**1,199,872**	856,218
Trade receivables	**1,422,922**	1,345,582
Less: allowance for credit losses	**(303,316)**	(264,308)
	2,319,478	1,937,492

(a) Ageing analysis

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

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**911,522**	865,036
3 to 6 months	**653,987**	522,951
6 to 12 months	**417,976**	279,496
Over 12 months	**335,993**	270,009
	2,319,478	1,937,492

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

12. TRADE PAYABLES

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

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**2,129,539**	2,145,100
3 to 6 months	**465,384**	530,975
6 to 12 months	**349,927**	380,924
Over 12 months	**660,351**	684,547
	3,605,201	3,741,546

As at 31 December 2020 and 2019, all trade payables of the Group are repayable on demand. All trade payables are expected to be settled within one year.

13. BANK LOANS

	2020	2019
	RMB'000	*RMB'000*
Bank loans – Secured (*)	**103,750**	150,950
Bank loans – Unsecured	**2,557,999**	3,510,970
	2,661,749	3,661,920

* These bank loans were pledged by certain land lease prepayments with an aggregate carrying amount of RMB nil (2019: RMB4,178,000) and plants and buildings with an aggregate carrying amount of RMB8,712,000 (2019: RMB8,223,000).

As at 31 December 2020, there is no default in bank loans repayment.

Bank loans due for repayment based on the extended repayment terms set out in the borrowing agreements are as follows:

	2020	2019
	RMB'000	*RMB'000*
Within one year	**1,544,749**	2,814,920
After one year but within two years	**1,117,000**	847,000
	2,661,749	3,661,920

14. OTHER BORROWINGS

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

		2020	2019
	Notes	***RMB'000***	*RMB'000*
Loan from government – Unsecured	(i)	**1,818**	2,727
Short-term financing bills	(ii)	**330,000**	490,000
		331,818	492,727

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

	2020 *RMB'000*	2019 *RMB'000*
Within one year or on demand	**330,909**	160,909
After one year but within two years	**909**	330,909
After two years but within five years	**–**	909
	909	331,818
	331,818	492,727

Notes:

(i) The government loan was received by Liaoning Shanshui Gongyuan Cement Co., Ltd. for constructing an environmental friendly production line. The loan is unsecured, bears interest at one-year PRC deposit interest rate plus 0.3% (2019: one-year PRC deposit interest rate plus 0.3%) and is repayable in equal instalments from years 2012 to 2021.

(ii) All of the short-term financing bills are issued by Shandong Shanshui Cement Group ("**Shandong Shanshui**") and registered at Interbank Market Clearing House Co., Ltd (the "**Shanghai Clearing House**"). As at 31 December 2020, the details of short-term financing bills were listed below:

Issuer	**Outstanding principal** *(RMB'000)*	**Issue date**	**Maturity date**	**Original interest rates** *(per annum)*	**Original interest payment term**	**Interest rates after restructuring plans** *(per annum)*	**Remark**
Shandong Shanshui	190,000 (2019: 190,000)	14/04/2015	22/11/2015	5.3%	settle at the maturity date	7.70% (2019: 4.15%–7.70%)	*Note*
Shandong Shanshui	140,000 (2019: 300,000)	14/05/2015	12/02/2016	4.5%	settle at the maturity date	6.49% (2019: 1.86%–6.49%)	N/A

Note: Based on further agreements entered into among the Group and the holders of these short-term financing bills, Shanghai Clearing House has cancelled the registration of the short-term financial bills on 12 June 2020 and these short-term financing bills are no longer listed on public market.

The outstanding short-term financing bills with principal of RMB330,000,000 (2019: RMB490,000,000) carry interest rate at 6.49% – 7.70% (2019: 1.86% – 7.70%) per annum.

In previous years, the Group negotiated with holders of the short-term financing bills to restructure the repayment terms. Under the restructuring plans, the holders of the short-term financing bills (mainly PRC banks and financial institutions) have agreed to waive portion of interest and penalty interest accrued on the principal amount of the short-term financing bills up to the date of the restructuring plan on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. As at 31 December 2020, there is no default in repayment of other borrowings and accordingly, portion of interest related to short-term financing bills of RMB15,517,000 has been waived and recognised as other income in profit or loss during the year ended 31 December 2020 (2019: RMB38,131,000).

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 purchase contracts. As at 31 December 2020, cash and cash equivalents of RMB4,011,000 (2019: RMB12,150,000), right-of-use assets with underlying assets of land lease prepayments of RMB5,132,000 (2019: RMB28,926,000) and fixed assets of RMB25,057,000 (2019: RMB77,776,000) have been frozen by the PRC Courts.

15. LONG-TERM BONDS

	2020 ***RMB'000***	2019 *RMB'000*
Medium-term notes and other notes	**436,000**	1,371,500
Less: Current portion of medium-term notes and other notes	**(321,000)**	(935,500)
Long-term bonds, less current portion	**115,000**	436,000

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

Issuer	Outstanding principal *(RMB'000)*	Issue date	Maturity date	Original interest rates *(per annum)*	Original interest payment term	Interest rates after restructuring plans *(per annum)*
Medium-term notes issued in the PRC inter-bank market						
Shandong Shanshui	RMB286,000 (2019: RMB784,000)	18/01/2013	21/01/2016	5.44%	annually	0%–5.44% (2019: 0%–5.44%)
Shandong Shanshui	RMB150,000 (2019: RMB502,500	27/02/2014	27/02/2017	6.10%	annually	0%–6.10% (2019: 0%–6.10%)
Shandong Shanshui	– (2019: RMB85,000)	09/05/2014	12/05/2017	6.20%	annually	0%–6.20% (2019: 0%–6.20%)

The outstanding medium-term notes with principal of RMB64,000,000 (2019: RMB107,500,000) is interest free and principal of RMB372,000,000 (2019: RMB1,264,000,000) carry interest at 5.44% – 6.20% (2019: 5.44% – 6.20%) per annum.

In previous years, the Group negotiated with holders of the medium-term notes to restructure the repayment terms. Under the restructuring plans, the holders of the medium-term financing bills (mainly PRC banks and financial institutions) have agreed to waive portion of the interest and penalty interest accrued on the principal amounts of the medium-term notes up to the date of the restructuring plan on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. As at 31 December 2020, there is no default in repayment of long-term bonds and accordingly, portion of interest related to medium-term notes of RMB85,171,000, has been waived and recognised as other income in profit or loss during the year ended 31 December 2020 (2019: RMB115,355,000).

Certain assets of the Group have been frozen by the PRC Court in respect of the litigation of the medium-term notes (see note 14).

16. CONVERTIBLE BONDS

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

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

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

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

The Company has the right to convert the outstanding principal amount of the CB into fully-paid ordinary shares of the Company at any time during the period commencing from the 19th month following the issue date and up to inclusive of 7 business days prior to the maturity date of 2 September 2021 (i.e. from 3 March 2020 to 24 August 2021) upon (i) the grant of approval for the listing of and permission to deal in the Conversion Shares by the Listing Committee of the Stock Exchange, with such approval being unconditional or subject to conditions to which neither the Company nor Subscriber shall reasonably object; or (ii) the cancellation of listing. In the event that the Company elects to exercise the conversion right, it shall pay to each Holder an amount equal to the interest that would have accrued on the CB of the Holder from the date on which the Company elects to exercise the conversion right (the "**Company Conversion Date**") to the next anniversary date after the Company Conversion Date.

Unless previously redeemed, converted or purchased and cancelled, the Company shall redeem the whole of the outstanding CB on the maturity date at an amount equal to 100% of the outstanding principal amount of the CB plus accrued interest in respect of the outstanding principal amount of the CB by delivering a notice to each CB holder.

The CB contains two components, debt component and derivatives (including conversion and early redemption options) component. The effective interest rate of the debt component is 13% (2019: 13%). The derivative components are financial assets or financial liabilities because the early redemption option is non-closely related to the economic characteristics and risk of the host. Hence, the conversion option is not an equity component. These derivatives are measured at fair value with changes in fair value subsequent to the initial recognition recognised in profit or loss.

On 6 October 2018, the Company entered into deed of amendments with the CB Subscribers to amend the terms of CB to allow for early conversion of certain CB at the option of the issuer, during the period commencing on (and including) 30 October 2018, the date on which the listing of the shares issued upon early conversion has been approved by the Stock Exchange and the issuance of the early conversion shares has been approved by the Shareholders of the Company to the maturity date of the CB. CB of US$456,600,000 in principal amount out of the total outstanding principal amount of the CB of US$531,600,000 was converted into fully paid ordinary shares on 30 October 2018. Upon the conversion of the CB, the outstanding principal amount of the CB is USD75,000,000 as at 31 December 2020 and 2019, which will mature on 2 September 2021.

The movement of the components of the convertible bonds for the years ended 31 December 2020 and 2019 is set out below:

	Debt component *RMB'000*	Derivative component *RMB'000*	Total *RMB'000*
At 1 January 2019	633,100	(246,204)	386,896
Interest charge	75,625	–	75,625
Interest paid	(82,324)	–	(82,324)
Fair value change	–	60,714	60,714
Exchange realignment	7,656	(2,289)	5,367
At 31 December 2019	634,057	(187,779)	446,278
Interest charge	72,013	–	72,013
Interest paid	(124,583)	–	(124,583)
Fair value change	–	(72,042)	(72,042)
Exchange realignment	(38,224)	16,074	(22,150)
At 31 December 2020	**543,263**	**(243,747)**	**299,516**

The debt component of convertible bonds was classified as non-current liabilities as at 31 December 2019. As at 31 December 2020, the debt component of convertible bonds is classified as current liabilities as the convertible bonds will be matured within one year after the end of the Reporting Period. The derivative component of the outstanding convertible bonds is classified as current assets in the consolidated financial statements as at 31 December 2020 and 2019.

The fair values of the Group's derivative component of the outstanding convertible bonds as at 31 December 2020 and 2019 has been arrived at on the basis of a valuation carried out by GW Financial Advisory Services Limited, an independent firm of qualified professional valuer not connected to the Group.

17. CONTINGENT LIABILITIES AND OTHER EVENTS

(a) Litigation contingencies

As at 31 December 2020, 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 RMB3,767,000 (2019: RMB14,043,000) which have yet been concluded. No provision for these litigation claims was made in the annual financial report during the year ended 31 December 2020 as in the opinion of the Directors, the possibility of an outflow of economic resources is remote.

(b) Litigation in the Cayman Islands

The Company is facing a winding-up petition (the "**Cayman Petition**") before the Grand Court of the Cayman Islands (the "**Grand Court**"). The Cayman Petition was filed by one of the shareholders of the Company, Tianrui (International) Holding Company Limited ("**Tianrui**"). The Company has appointed legal counsel in relation to the Cayman Petition.

On 21 March 2019, the Company announced that it was considering applying for a validation order (the "**VO Application**") from the Grand Court to sanction the deposit of share certificates into the Central Clearing and Settlement System ("**CCASS**") of Hong Kong, and asking shareholders who wish to have their share certificates included in any such application for a validation (the "**Requesting Shareholders**") to submit a written request to the Company. On 29 March 2019 (Cayman Islands time), the Company made the VO Application to the Grand Court to, among others, validate the transfer of shares held by the Requesting Shareholders to HKSCC Nominees Limited, the common nominee for shares deposited in CCASS. On 12 September 2019, the Grand Court granted the VO Application and ordered (among other things) the validation of any transfer of shares to HKSCC Nominees Limited by the Company's shareholders and that any such transfer shall not be avoided in the event of any order for the winding-up of the Company (the "**Share Transfer Order**"). On the same day that the judgment was handed down, the Grand Court also granted the petitioner, Tianrui, leave to appeal against its decision to the Court of Appeal. On 18 February 2020 (Cayman Islands time), the Court of Appeal allowed this appeal and reversed the Share Transfer Order. The Company is seeking leave to appeal against the Court of Appeal's decision.

The Company was served on 4 June 2019 with a Writ of Summons issued on 27 May 2019 in the Grand Court (the "**Writ**"). The Writ has been issued also by Tianrui, seeking (i) orders setting aside the Company's issue of certain convertible bonds, issued on or about 8 August 2018 and 3 September 2018, the subsequent conversion of the bonds on 30 October 2018 and/or the allotment of the Company's shares to the holders of such convertible bonds; and/or (ii) declarations setting aside the issue and subsequent conversion of the bonds. The Company considers that there is no reasonable basis for the orders and/or declarations sought and will vigorously defend itself against the Writ and Tianrui's claim.

On 12 August 2019, the Company filed applications with the Grand Court to, among others, (i) strike out the Cayman Petition and the Writ, and/or (ii) stay both proceedings (the "**Applications**").

On 6 April 2020 (Cayman Islands time), the Grand Court dismissed the Applications, and as a result, the two proceedings will continue. The Company filed an application for leave to appeal against the Grand Court's decision, which was refused at the hearing on 17 December 2020 as recorded in the subsequent order dated 8 March 2021. The Company renewed its application for leave to appeal on 15 March 2021.

On 17 December 2020, the Grand Court heard a court summons for directions ("**Summons**") taken out by Tianrui on 26 August 2020 in connection with the Petition. At the hearing, Tianrui sought leave to re-amend the Petition, notably in order to join China National Building Materials Company Limited ("**CNBM**") and Asia Cement Corporation ("**ACC**") as respondents to the Petition. CNBM and ACC are currently shareholders of the Company.

In its judgment dated 27 January 2021, the Grand Court ordered that CNBM and ACC be joined as respondents to the Petition, and that the Petition be served on CNBM and ACC. No further steps in the Petition will be taken, pending such service.

Tianrui was ordered to pay the Company's legal costs of the hearing of the Summons, which dealt with applications resulting from Tianrui's change of mind and approach.

Other than the disclosure of the above, as at the date of this announcement, 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 2020, 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 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.

DISCUSSION ON THE RESULTS AND FINANCIAL POSITIONS OF THE COMPANY

MANAGEMENT DISCUSSION AND ANALYSIS

Operating environment and industry overview

In 2020, faced with the difficult and complicated environment at home and abroad, especially the severe impact of the novel coronavirus pneumonia pandemic (the "**COVID-19 pandemic**"), the Chinese government upheld the general principle of seeking progress while maintaining stability, coordinated pandemic prevention and control and economic and social development, resulting in a stable recovery of economic operation, a strong guarantee for employment and people's livelihood, and the better-than-expected achievements in respect of economic and social development.

In 2020, China's GDP was RMB101,598.6 billion, representing a year on year ("YOY") increase of 2.3%. Nationwide investment in real estate development was RMB14,144.3 billion, representing a YOY growth of 7.0%, down by 2.9 percentage points from the previous year. The investment in fixed assets (excluding rural households) across the country was RMB51,890.7 billion, representing a YOY increase of 2.9%. The investment in fixed asset steadily rebounded, and the investment in high-tech industries and social fields rapidly grew. ***(Source: National Bureau of Statistics)***

The economic operation of the cement industry in 2020 showed characteristics of "sharp decline, rapid recovery and getting stable". The YOY growth of cement output and sales volume saw a turnaround from negative to positive. In 2020, the annual cement output reached 2.38 billion tonnes, representing a YOY increase of 1.6%. The total annual output ranked fourth in history, maintaining a high plateau period. With the double adjustment on the cement supply and demand structure, the national clinker consumption increased year by year. In 2020, the national cement clinker output hit a record high of 1.58 billion tonnes, representing a YOY increase of 3.26%. In 2020, thanks to the steady demand throughout the year and the continuous high prices in the cement industry, the "stable volume and price" performance ensured the steady efficiency of the entire cement industry, which maintained relatively sound profits of the cement industry in 2020. Throughout the year of 2020, the sales revenue of cement was RMB996 billion, representing a YOY decrease of 2.2%, and the profit of the cement industry was RMB183.3 billion, representing a YOY decrease of 2.1%. ***(Source: Digital Cement)***

Company's business review

In 2020, the Group was committed to refining our fundamental internal management to enhance the quality of existing manufacturing operations and the sustainability of profits.

As at 31 December 2020, the Group had a total production capacity of 103.16 million tonnes of cement, 51.55 million tonnes of clinker and 19.30 million cubic meters of concrete.

During the Reporting Period, the Group's total sales of cement and clinker were 59.949 million tonnes, representing a YOY increase of 7.5%; sales volume of concrete was 2.812 million cubic meters, representing a YOY decrease of 12.2%; revenue was RMB20,891,454,000, representing a YOY decrease of 2.7%; and the profit for the year was RMB3,274,390,000, representing a YOY increase of 8.1%.

REVENUE

The table below shows the sales breakdown by region during the Reporting Period:

Region	**2020** Sales revenue *RMB'000*	**2020** Sales proportion	2019 Sales revenue *RMB'000*	2019 Sales proportion	Change of sales revenue
Shandong Region	**13,512,053**	**64.7%**	14,482,799	67.4%	(6.7%)
Northeast China Region	**4,362,344**	**20.9%**	3,866,740	18.0%	12.8%
Shanxi Region	**2,527,008**	**12.1%**	2,451,225	11.4%	3.1%
Xinjiang Region	**490,049**	**2.3%**	678,067	3.2%	(27.7%)
Total	**20,891,454**	**100%**	21,478,831	100.0%	(2.7%)

During the Reporting Period, the Group's revenue amounted to RMB20,891,454,000, representing a decrease of RMB587,377,000 approximately 2.7% over RMB21,478,831,000 as compared with 2019. The decrease in revenue was mainly attributable to the decrease in average selling price of products for the year.

In respect of revenue contribution for 2020, sales of cement and clinker accounted for 91.5% (2019: 90.6%) and the sales of ready-mix concrete accounted for 6.1% (2019: 7.4%).

The table below shows the sales breakdown by product during the Reporting Period:

Product	**2020** Sales revenue *RMB'000*	**2020** Sales proportion	2019 Sales revenue *RMB'000*	2019 Sales proportion	Sales revenue YOY change
Cement	**16,847,525**	**80.6%**	17,183,378	80.0%	(2.0%)
Clinker	**2,282,506**	**10.9%**	2,267,395	10.6%	0.7%
Concrete	**1,270,932**	**6.1%**	1,579,402	7.4%	(19.5%)
Others	**490,491**	**2.4%**	448,656	2.0%	9.3%
Total	**20,891,454**	**100%**	21,478,831	100%	(2.7%)

COST OF SALES AND GROSS PROFIT

The Group's cost of sales primarily includes cost of raw materials, fuel expenses (consisting of coal and electricity), depreciation and amortization and other overhead costs. During the Reporting Period, the Group's cost of sales was RMB13,926,789,000 (2019: RMB14,207,109,000). The decrease in cost of sales was mainly due to the decrease in cost of raw materials and prices of coal.

The gross profit for 2020 was RMB6,964,665,000 (2019: RMB7,271,722,000), representing a gross profit margin of 33.3% on revenue (2019: 33.9%). The decrease in gross profit and slight decrease in gross profit margin was mainly attributable to the net effect of decrease in average selling price of cement products, cost of raw materials and cost of coal when compared with the previous year.

FINANCIAL REVIEW

Other income

Other income increased from RMB490,437,000 to RMB542,104,000, mainly due to the increase in government grants as compared with the previous year.

Other net expenses

Other net expenses decreased from RMB171,604,000 to RMB50,980,000, mainly due to the recognition of a gain of RMB72,042,000 on fair value changes of derivative component of convertible bond for the year, and the recognition of a loss of RMB60,714,000 on fair value changes for the previous year.

Selling and marketing expense, administrative expense and finance expense

A YOY increase of 1.2% from RMB672,945,000 to RMB681,168,000 was recorded in selling and marketing expenses, mainly due to the increase of transportation costs and advertising expenses resulting from the increase of sales volume for the year.

A YOY decrease of 9.5% from RMB1,500,670,000 to RMB1,358,311,000 was recorded in administrative expense, mainly due to the decrease in total wages and the legal and professional expenses for the year as compared with the previous year, and the decrease in the expenses of traveling and business entertainment as a result of the COVID-19 outbreak, and the decrease in the amount of social insurance under the relevant relief measures by the government as compared with the previous year.

A YOY decrease of 31.9% from RMB509,770,000 to RMB347,110,000 was recorded in finance expense, mainly due to lower interest expenses as compared with the previous year resulting from negotiation on debts and accelerated repayment of borrowings.

Taxation

A YOY decrease of 11.6% from RMB1,197,606,000 to RMB1,059,200,000 was recorded in income tax expenses, mainly due to the increase in profit from subsidiaries in Northeast China and Shanxi, which was used to offset losses of previous years resulting in reduction of real tax rate for the year.

Profit for the year

The Group recorded a net profit for the year of RMB3,274,390,000, representing an increase of RMB246,008,000 over RMB3,028,382,000 as compared with 2019, mainly due to an increase in sales volume of cement and clinker and the relevant measures to reduce cost and improve efficiency for the year.

FINANCIAL RESOURCES AND LIQUIDITY

As the Group's profit performance has continued to improve in recent years, and its borrowings have been repaid, its financial structure has continued to improve. As of 31 December 2020, the Group's current liabilities exceeded current assets by approximately RMB2,661,113,000 which was sharply less than the excess of current liabilities over current assets as at 31 December 2019 of approximately RMB4,964,594,000; as at 31 December 2020, the total of the interest-bearing borrowings (including bank loans, other borrowings, long-term bonds and convertible bonds) was RMB3,972,830,000, of which RMB2,739,921,000 will be due within 12 months from the end of the Reporting Period. The directors of the Company have given careful consideration to the future liquidity, operating performance of the Group and its available sources of financing, and believe that the cash flow generated from operating activities and certain appropriate financing activities of the Group will be able to meet the funding needs of operations and repay the outstanding interest-bearing borrowings.

As at 31 December 2020, total assets increased by approximately 3.2% to approximately RMB27,677,443,000 (2019: approximately RMB26,827,805,000), while total equity increased by approximately 26.0% to approximately RMB15,882,017,000 (2019: approximately RMB12,600,439,000).

As at 31 December 2020, bank balances and cash of the Group was approximately RMB1,401,233,000 (2019: approximately RMB1,364,054,000).

As at 31 December 2020, net gearing ratio of the Group was approximately 13.9% (2019: 27.6%), each of which was calculated based on net liabilities and total equities as of 31 December 2020 and 31 December 2019. The decrease of gearing ratio was due to the continuous repayment of borrowings and the increase in shareholders' interest resulting from the increased revenue for the year.

Cash flow

The analysis on cash flow during the Reporting Period is set out below:

(Unit: RMB'000)

	2020	2019
Net cash generated from operating activities	**3,507,072**	4,166,604
Net cash used in investing activities	**(1,325,379)**	(1,520,899)
Net cash used in financing activities	**(2,132,673)**	(2,600,085)
Net change in cash and cash equivalents	**49,020**	45,620
Balance of cash and cash equivalents as at 1 January	**1,364,054**	1,303,943
Effect of foreign exchange rates change	**(11,841)**	14,491
Balance of cash and cash equivalents as at 31 December	**1,401,233**	1,364,054

Net cash generated from operating activities

During the Reporting Period, the Group recorded a net cash generated from operating activities of RMB3,507,072,000, representing a YOY decrease of RMB659,532,000, mainly due to the delay in resumption of business after the off-peak suspension compared with previous year caused by the pandemic during the year, the higher sales in the fourth quarter as compared with the same period last year and the increase in trade and bills receivables at the end of the year.

Net cash used in investing activities

During the Reporting Period, the Group recorded a net cash used in investing activities of RMB1,325,379,000, representing a YOY decrease of RMB195,520,000, mainly due to the payment on equity interest for resumption of control on Xinghao Cement and Shanshui Heavy Industries for the previous year, and the receipts arising from capital-reduction of certain investee companies during the year.

Net cash used in financing activities

During the Reporting Period, the Group recorded a net cash used in financing activities of RMB2,132,673,000, representing a YOY decrease of RMB467,412,000, mainly due to the decrease in the net cash outflow of the Group for bank borrowings and repayment of bank loans and bonds for the year as compared with the previous year.

Capital expenditures

During the Reporting Period, the capital expenditures were approximately RMB1,520,619,000, which were mainly invested in intelligent production, mine resources reserves, and new construction and technical renovation of cement and clinker production lines.

Outstanding capital commitments under production facility construction contracts and equipment purchase agreements not provided for in the financial statements as at 31 December 2020 were as follows:

(Unit: RMB'000)

	31 December 2020	31 December 2019
Authorised and contracted for		
– plant and equipment	**765,849**	324,888
Authorised but not contracted for		
– plant and equipment	**1,268,803**	334,698
Total	**2,034,652**	659,586

Pledge of assets

Details in relation to pledge of assets of the Group as at 31 December 2020 are set out in note 13.

Contingent liabilities

Details in relation to contingent liabilities of the Group as at 31 December 2020 are set out in note 17.

Human resources

As at 31 December 2020, the Group had a total of 18,409 employees. The Group provides retirement insurance, medical insurance and unemployment insurance and makes contributions to the housing provident scheme for its employees in the PRC in accordance with applicable laws and regulations in the PRC. The Group remunerates its employees based on their respective work performance and experience and reviews its employee remuneration policies as and when appropriate.

Material acquisition and disposal by subsidiaries and affiliated companies

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

Management of foreign exchange exposure

The Group's functional currency is RMB, and during the Reporting Period, as most of the sales amounts and purchase amounts of the Group were denominated in RMB, there was no significant foreign exchange exposure.

The Group did not use any financial derivatives to hedge against any foreign exchange exposure.

OUTLOOK FOR 2021

In the face of the tremendous impact of the COVID-19 pandemic and the complicated social environment at home and abroad, in order to inhibit the economic downturn, China continued to strengthen the counter-cyclical adjustment of macroeconomic policies, implemented various major reform measures, fully exploited the super-large-scale market advantages and the domestic demand potential in China to build a new development pattern in which the domestic circle is the mainstay and the domestic and international double circles promote each other, and consolidated the positive momentum of economic recovery through multiple measures. Due to the continuous effectiveness of the proactive fiscal policy and the prudent monetary policy, China has overcome the adverse effects of the pandemic and flood, and launched a series of policies and initiatives in a phased, rhythmic and targeted manner, driving the rapid recovery of cement demand.

In 2021, it is expected that demand will remain in the "plateau period" and various factors including environmental protection will continue to compress the supply. The price and efficiency of the cement industry will maintain at the level of the past two years. With the exception of the downside risk in certain regions due to the new production capacity, the prices in the mainstream markets are expected to stay strong, and the benefits are expected to remain stable.

From the perspective of demand: (1) In terms of infrastructure: 2021 is the first year of the 14th Five-Year Plan. In order to maintain a reasonable increase in investment, accelerate the improvement of the weak areas in infrastructure, municipal engineering and other fields, and promote the construction of major projects such as new infrastructure, new urbanization, transportation and water conservancy, etc., and to accelerate the building of a country with strong transportation network, the infrastructure investment has a strong support. It is difficult for infrastructure investment to experience negative growth and is expected to maintain a low growth rate, which will rise under the base effect in the first half of the year and fall in the second half of the year. (2) In terms of real estate: the introduction of the "three red lines" policy will restrict the financing of real estate enterprises from increment, which will lead to downward pressure on the new construction of real estates in 2021. As a result, it will have an impact on the demand of real estate to cement. At the same time, considering that real estate development enterprises shall accelerate the turnover to a certain extent to reduce their reliance on financing and still have a certain willingness to start construction, thus, the impact of real estate on cement is expected to be limited. Therefore, the cement demand in 2021 is cautiously estimated: -2%~0, and the demand growth rate will show the characteristics of first rising and then declining, a gradual decline from a high level at the beginning.

From the perspective of supply: environmental protection is expected to continue to increase, and factors such as "Normalization of Off-peak Season Production", "Carbon Peaking", and "Power Curtailment" still have significant effects on the compression of cement supply and the effective resolution of excess capacity. In addition, in respect of new production capacity, except for certain regions such as Yunnan and Guangxi that are facing new production capacity pressure, which have a certain impact on the market, the production capacity of the most of the remaining regions will generally remain at the 2020 level.

From the perspective of prices and benefits: 2021 will continue to remain stable as the past two years. Other than the downward risks in certain regions, mainstream market prices are expected to remain firm and benefits are expected to remain stable.

From the perspective of policy: the introduction and implementation of regulations and policies such as production capacity reduction and replacement, normalized off-peak season production, early warning weather production restriction, control of total pollution emission, anti-monopoly supervision, etc., are conducive to the control of new capacity, the balance of dynamic supply, self-discipline and integrity of the industry as well as the fair competition environment of the market.

From the perspective of technological innovation: in particular, large enterprise groups have increased their investments in technological innovation with the increase in profitability, and the levels of energy efficiency and comprehensive utilization of resources have increased significantly, and the application of digital information technology is leading the transformation and upgrading of the industry, environmental protection and safety production standards will be further improved. In 2021, with the support of government departments, the China Cement Association launched the carbon peak and carbon neutral work of the cement industry, which will also bring a new development pattern for the further high-quality and sustainable development of the cement industry.

(Sources: analysis of the economic operation of the cement industry in 2020 and outlook for year 2021, Digital Cement, China Cement)

Looking forward to year 2021, the Company will, with the efforts of all its employees, keep improving the quality of its operations to take business development to a new level, and build itself into a top-notch player in the industry. Meanwhile, it will earnestly fulfill social responsibility, and reward its shareholders and employees and the society with excellent performance.

FINAL DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2020, because of the on-going winding-up petition in the Cayman Islands and the fact that while the winding-up petition is still outstanding, the Company will need to apply for a validation order from the Grand Court to validate the payment of dividend. Given the amount of time and uncertainty in relation to the application for the validation order, the Board does not propose the payment of any dividend this year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to maintaining good corporate governance standards.

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

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

Chairman and Chief Executive Officer

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 the Reporting Period.

REVIEW OF THE PRELIMINARY ANNOUNCEMENT BY THE AUDIT COMMITTEE

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

SCOPE OF WORK OF MOORE STEPHENS CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, Moore Stephens CPA Limited ("**Moore Stephens**"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Moore Stephens in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Moore Stephens on the preliminary announcement.

ANNUAL GENERAL MEETING

The Company's annual general meeting is to be held on 29 May 2021. The notice of the annual general meeting will be published on the website of the Company (http://www.sdsunnsygroup.com) and of the Stock Exchange (http://www.hkexnews.hk) as and when appropriate.

CLOSURE OF THE REGISTER OF MEMBERS

For determining the shareholders with entitlement to attend and vote at the annual general meeting, the register of members will be closed from Tuesday, 25 May 2021 to Saturday, 29 May 2021, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the annual general meeting, all completed transfer forms, accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Monday, 24 May 2021.

APPRECIATION

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

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

Hong Kong, 24 March 2021

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. CHANG Zhangli and Ms. WU Ling-ling; and three independent non-executive Directors, namely Mr. CHANG Ming-cheng, Mr. LI Jianwei and Mr. HSU You-yuan.