SUNNSY

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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 691)**

# PRELIMINARY ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

**SUMMARY**

- Operating revenue for 2021 amounted to approximately RMB24,659,544,000 (2020: RMB20,891,454,000), representing an increase of 18.0% as compared to 2020;
- Profit from operations for 2021 amounted to approximately RMB4,198,280,000 (2020: RMB4,659,112,000), representing a decrease of 9.9% as compared to 2020;
- Profit attributable to equity shareholders of the Company for 2021 amounted to approximately RMB2,777,298,000 (2020: RMB3,186,993,000), representing a decrease of 12.9% as compared to 2020;
- Basic earnings per share for 2021 was RMB0.64 (2020: RMB0.73).

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 2021 (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 2021*

| | Notes | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|---|
| **Revenue** | 4(a) | **24,659,544** | 20,891,454 |
| Cost of sales | | **(17,399,995)** | (13,926,789) |
| **Gross profit** | | **7,259,549** | 6,964,665 |
| Other income | 5 | **464,126** | 542,104 |
| Impairment losses on trade receivables, net | | **(44,393)** | (43,582) |
| Impairment losses on other receivables, net | | **(36,453)** | (31,727) |
| Selling and marketing expenses | | **(809,858)** | (681,168) |
| Administrative expenses | | **(1,472,882)** | (1,358,311) |
| Other net expenses | 6 | **(434,067)** | (50,980) |
| Expenses incurred during off-peak suspension period | | **(727,742)** | (681,889) |
| **Profit from operations** | | **4,198,280** | 4,659,112 |
| Finance costs | | **(231,734)** | (347,110) |
| Share of results of associates | | **37,637** | 21,588 |
| **Profit before taxation** | 7 | **4,004,183** | 4,333,590 |
| Income tax expense | 8 | **(1,109,336)** | (1,059,200) |
| **Profit for the year** | | **2,894,847** | 3,274,390 |
| Attributable to: | | | |
| Equity shareholders of the Company | | **2,777,298** | 3,186,993 |
| Non-controlling interests | | **117,549** | 87,397 |
| **Profit for the year** | | **2,894,847** | 3,274,390 |
| **Earnings per share** | 9 | | |
| Basic *(RMB)* | | **0.64** | 0.73 |
| Diluted *(RMB)* | | **0.64** | 0.72 |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2021*

| | 2021<br>*RMB'000* | 2020<br>*RMB'000* |
|---|---|---|
| **Profit for the year** | **2,894,847** | 3,274,390 |
| **Other comprehensive income/(expenses)** | | |
| Item that will not be reclassified to profit or loss: | | |
| Remeasurements of net defined benefit obligations | **(420)** | 5,800 |
| Exchange differences arising on translation from functional currency to presentation currency | **11,499** | 15,934 |
| **Other comprehensive income for the year** | **11,079** | 21,734 |
| **Total comprehensive income for the year** | **2,905,926** | 3,296,124 |
| Attributable to: | | |
| Equity shareholders of the Company | **2,788,377** | 3,208,727 |
| Non-controlling interests | **117,549** | 87,397 |
| **Total comprehensive income for the year** | **2,905,926** | 3,296,124 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2021*

| | *Notes* | **31.12.2021** **RMB'000** | 31.12.2020 *RMB'000* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **15,963,349** | 15,717,501 |
| Right-of-use assets | | **2,340,463** | 2,304,350 |
| Intangible assets | | **1,295,554** | 995,994 |
| Goodwill | | **90,132** | 90,132 |
| Other financial assets | | **20,920** | 44,622 |
| Interests in associates | | **316,660** | 320,535 |
| Deferred tax assets | | **214,911** | 168,039 |
| Other long-term assets | | **935,215** | 857,888 |
| | | **21,177,204** | 20,499,061 |
| **CURRENT ASSETS** | | | |
| Inventories | | **2,761,944** | 2,288,043 |
| Trade and bills receivables | 11 | **2,289,310** | 2,319,478 |
| Other receivables and prepayments | | **1,283,150** | 905,110 |
| Derivative component of convertible bonds | 16 | **–** | 243,747 |
| Restricted bank deposits | | **28,908** | 20,771 |
| Bank balances and cash | | **1,423,171** | 1,401,233 |
| | | **7,786,483** | 7,178,382 |
| **CURRENT LIABILITIES** | | | |
| Bank loans – amount due within one year | 13 | **2,392,750** | 1,544,749 |
| Other borrowings | 14 | **909** | 330,909 |
| Current portion of long-term bonds | 15 | **–** | 321,000 |
| Trade payables | 12 | **3,737,635** | 3,605,201 |
| Other payables and accrued expenses | | **2,283,495** | 2,480,568 |
| Contract liabilities | | **527,927** | 732,802 |
| Taxation payable | | **390,574** | 267,584 |
| Convertible bonds | 16 | **–** | 543,263 |
| Lease liabilities | | **9,852** | 13,419 |
| | | **9,343,142** | 9,839,495 |
| **NET CURRENT LIABILITIES** | | **(1,556,659)** | (2,661,113) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **19,620,545** | 17,837,948 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*At 31 December 2021*

| | Notes | 31.12.2021 RMB'000 | 31.12.2020 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Bank loans – amount due after one year | 13 | **135,000** | 1,117,000 |
| Other borrowings | 14 | **–** | 909 |
| Long-term bonds | 15 | **–** | 115,000 |
| Long-term payables | | **263,423** | 253,741 |
| Defined benefit obligations | | **107,730** | 111,460 |
| Deferred income | | **243,104** | 222,844 |
| Lease liabilities | | **53,023** | 59,574 |
| Deferred tax liabilities | | **64,383** | 75,403 |
| | | **866,663** | 1,955,931 |
| **NET ASSETS** | | **18,753,882** | 15,882,017 |
| **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 | | **9,957,526** | 7,172,090 |
| **TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY** | | **18,488,234** | 15,702,798 |
| **Non-controlling interests** | | **265,648** | 179,219 |
| **TOTAL EQUITY** | | **18,753,882** | 15,882,017 |

## 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. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

**Amendments to IFRSs that are mandatorily effective for the current year**

In the current year, the Group has applied the following amendments to IFRSs issued by International Accounting Standard Board ("IASB"), which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

| | |
|---|---|
| Amendment to IFRS 16 | Covid-19-Related Rent Concessions |
| Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform-phase 2 |

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

**New and amendments to IFRSs in issue but not yet effective**

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

| | |
|---|---|
| IFRS 17 | Insurance Contracts and the related Amendments[3] |
| Amendments to IFRS 3 | Reference to Conceptual Framework[2] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to IFRS 16 | Covid-19-Related-Rent Concessions beyond 30 June 2021[1] |
| Amendments to IAS 1 | Classification of liabilities as Current or Non-current[3] |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of Accounting Policies[3] |
| Amendments to IAS 8 | Definition of Accounting Estimates[3] |
| Amendments to IAS 12 | Deferred Tax related to Assets and liabilities arising from a Single Transaction[3] |
| 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 April 2021.
[2] Effective for annual periods beginning on or after 1 January 2022.
[3] Effective for annual periods beginning on or after 1 January 2023.
[4] Effective for annual periods beginning on or after a date to be determined.

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.

## 3. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with IFRSs, the collective terms of which include all applicable individual IFRSs, International Accounting Standards ("**IASs**") and Interpretations issued by the 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".

## 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 the 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:

| | **2021** | 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sales of cement | **20,137,864** | 16,847,525 |
| Sales of clinker | **2,381,060** | 2,282,506 |
| Sales of concrete | **1,509,257** | 1,270,932 |
| Sales of other products | **631,363** | 490,491 |
| | **24,659,544** | 20,891,454 |

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 geographical 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 regions in which the Group's business operates.

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

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

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

- Xinjiang Region – subsidiaries of the Group mainly 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 represent 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, (loss)/gain 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 from bank balances, interest expenses on borrowings managed directly by the segments, depreciation and amortisation, impairment losses on and additions to non-current segment assets used by the segments in their operations and impairment losses 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 2021 and 2020 is set out below:

| | 2021 | | | | | 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 15,895,110 | 5,241,928 | 2,906,342 | 601,338 | 24,644,718 | 13,506,179 | 4,361,481 | 2,526,467 | 490,049 | 20,884,176 |
| Over time | 5,375 | 7,627 | 1,265 | 559 | 14,826 | 5,874 | 863 | 541 | – | 7,278 |
| Revenue from external customers | 15,900,485 | 5,249,555 | 2,907,607 | 601,897 | 24,659,544 | 13,512,053 | 4,362,344 | 2,527,008 | 490,049 | 20,891,454 |
| Inter-segment revenue | 1,201,413 | 38,967 | 86,437 | – | 1,326,817 | 708,881 | 111,530 | 126,365 | – | 946,776 |
| **Reportable segment revenue** | 17,101,898 | 5,288,522 | 2,994,044 | 601,897 | 25,986,361 | 14,220,934 | 4,473,874 | 2,653,373 | 490,049 | 21,838,230 |
| **Reportable segment profit (adjusted profit before taxation)** | 3,395,764 | 733,108 | 457,168 | 209,215 | 4,795,255 | 3,785,143 | 431,464 | 501,174 | 172,922 | 4,890,703 |
| **Included in arriving at segment results are:** | | | | | | | | | | |
| Interest income | 12,121 | 22,422 | 603 | 11 | 35,157 | 7,524 | 1,153 | 247 | 692 | 9,616 |
| Interest expense | 27,502 | 8,893 | 6,766 | – | 43,161 | 25,956 | 22,430 | 962 | 1,369 | 50,717 |
| Depreciation and amortisation for the year | 726,724 | 360,626 | 284,414 | 53,743 | 1,425,507 | 527,504 | 562,563 | 349,835 | 54,572 | 1,494,474 |
| Impairment losses on property, plant and equipment | 168,834 | 451 | 2,789 | – | 172,074 | 11,219 | 28,005 | – | – | 39,224 |
| Impairment losses/(reversal of impairment) on trade receivables, net | 34,069 | 9,115 | 1,012 | 197 | 44,393 | 35,802 | 4,210 | (297) | 3,867 | 43,582 |
| Impairment losses on other receivables, net | 25,513 | 7,887 | 3,032 | 21 | 36,453 | 5,664 | 20,056 | 393 | 2 | 26,115 |
| Additions to property, plant and equipment, right-of-use assets and intangible assets during the year | 1,422,353 | 490,932 | 313,010 | 24,547 | 2,250,842 | 1,006,816 | 225,671 | 141,664 | 68,373 | 1,442,524 |
| **Reportable segment assets** | 14,564,111 | 8,156,963 | 5,122,441 | 941,528 | 28,785,043 | 13,155,824 | 8,083,169 | 5,115,134 | 1,053,625 | 27,407,752 |
| **Reportable segment liabilities** | 5,790,671 | 1,380,918 | 154,335 | 57,971 | 7,383,895 | 5,440,585 | 1,524,080 | 300,098 | 164,570 | 7,429,333 |

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

| | **2021** | 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Reportable segment revenue | **25,986,361** | 21,838,230 |
| Elimination of inter-segment revenue | **(1,326,817)** | (946,776) |
| Consolidated revenue | **24,659,544** | 20,891,454 |
| **Profit** | | |
| Reportable segment profit | **4,795,255** | 4,890,703 |
| Elimination of inter-segment profit | **(251,947)** | (295,067) |
| Reportable segment profit derived from the Group's external customers | **4,543,308** | 4,595,636 |
| Share of results of associates | **37,637** | 21,588 |
| Waiver of interest expenses | **54,800** | 100,688 |
| Loss on fair value changes of financial assets at FVTPL | **(1,992)** | (473) |
| (Loss)/gain on fair value changes of derivative component of convertible bonds | **(242,667)** | 72,042 |
| Unallocated finance costs | **(188,573)** | (296,393) |
| Unallocated head office administrative expenses | **(198,330)** | (159,498) |
| Consolidated profit before taxation | **4,004,183** | 4,333,590 |

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

| | **2021** | 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Assets** | | |
| Reportable segment assets | **28,785,043** | 27,407,752 |
| Elimination of inter-segment profit | **(36,914)** | (37,346) |
| Elimination of inter-segment receivables | **(676,833)** | (772,712) |
| | **28,071,296** | 26,597,694 |
| Deferred tax assets | **214,911** | 168,039 |
| Interests in associates | **316,660** | 320,535 |
| Derivative component of convertible bonds | **–** | 243,747 |
| Unallocated head office assets | **360,820** | 347,428 |
| Consolidated total assets | **28,963,687** | 27,677,443 |
| **Liabilities** | | |
| Reportable segment liabilities | **7,383,895** | 7,429,333 |
| Elimination of inter-segment payables | **(676,833)** | (772,712) |
| | **6,707,062** | 6,656,621 |
| Deferred tax liabilities | **64,383** | 75,403 |
| Unallocated bank loans | **2,527,750** | 2,423,749 |
| Unallocated other borrowings | **909** | 331,818 |
| Unallocated long-term bonds | **–** | 436,000 |
| Convertible bonds | **–** | 543,263 |
| Unallocated head office liabilities | **909,701** | 1,328,572 |
| Consolidated total liabilities | **10,209,805** | 11,795,426 |

***(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

| | **2021** | 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest income | **35,157** | 15,043 |
| Government grants *(note)* | **283,140** | 322,117 |
| Amortisation of deferred income | **13,949** | 14,345 |
| Waiver of interest expenses | **54,800** | 100,688 |
| Others | **77,080** | 89,911 |
| | **464,126** | 542,104 |

*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

| | **2021** | 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net foreign exchange (loss)/gain | **(4,864)** | 5,246 |
| Net gain/(loss) from disposal of property, plant and equipment | **15,407** | (16,363) |
| Loss on fair value changes of financial assets at FVTPL | **(1,992)** | (473) |
| (Loss)/gain on fair value changes of derivative component of convertible bonds | **(242,667)** | 72,042 |
| Impairment losses on property, plant and equipment | **(172,074)** | (39,224) |
| Penalties *(note)* | **(2,264)** | (78,140) |
| Donations | **(18,300)** | (15,033) |
| Bad debt recovery | **2,626** | 4,162 |
| Others | **(9,939)** | 16,803 |
| | **(434,067)** | (50,980) |

*Note:* The amount for the year ended 31 December 2020 mainly represented penalties amounting to RMB71,652,000 for certain litigations initiated by certain suppliers and third parties against subsidiaries of the Group which have been adjudicated by the PRC Court in 2020. The amount had been fully settled in 2021.

## 7. PROFIT BEFORE TAXATION

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

### (a) Finance costs

| | *Notes* | **2021** **RMB'000** | 2020 *RMB'000* |
|---|---|---|---|
| Interest on bank loans | | **124,787** | 165,063 |
| Interest on other borrowings and long-term bonds | | **17,246** | 85,979 |
| Interest on lease liabilities | | **3,127** | 3,719 |
| Effective interest expense on convertible bonds | | **43,532** | 72,013 |
| Less: capitalised interest expenses | (i) | **(900)** | – |
| Net interest expenses | | **187,792** | 326,774 |
| Bank charges | | **33,271** | 5,939 |
| Unwinding of discount | (ii) | **10,671** | 14,397 |
| | | **231,734** | 347,110 |

*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 2021 (2020: nil).

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

| | **2021** **RMB'000** | 2020 *RMB'000* |
|---|---|---|
| Defined employee benefit plan | **3,460** | 3,800 |
| Long-term payables | **7,211** | 10,597 |
| | **10,671** | 14,397 |

### (b) Personnel expenses

| | 2021 | 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries, wages and other benefits | **1,614,812** | 1,366,714 |
| Bonus and awards | **298,056** | 375,686 |
| Staff's pension costs *(note)* | **271,458** | 142,265 |
| Expense recognised in respect of defined benefit plan | **3,930** | 4,330 |
| | **2,188,256** | 1,888,995 |

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

### (c) Other items

| | 2021 | 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Amortisation | | |
| – intangible assets | **151,823** | 165,925 |
| Depreciation | | |
| – property, plant and equipment | **1,200,089** | 1,260,032 |
| – right-of-use assets | **73,595** | 75,650 |
| | **1,273,684** | 1,335,682 |
| Auditors' remuneration | | |
| – audit services | **6,150** | 6,000 |
| – other services | **900** | 950 |
| | **7,050** | 6,950 |
| Cost of inventories sold | **17,389,874** | 13,885,444 |
| Impairment losses on inventories (included in cost of sales) | **10,121** | 41,345 |

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

**Taxation in the consolidated statement of profit or loss:**

| | **2021** | 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Current tax** | | |
| Provision for PRC income tax | **1,157,356** | 1,142,931 |
| Under/(over) provision in respect of prior years | **9,872** | (49,929) |
| | **1,167,228** | 1,093,002 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(57,892)** | (33,802) |
| | **1,109,336** | 1,059,200 |

*Notes:*

(i) The Group's PRC subsidiaries are subject to PRC income tax at the statutory rate of 25% (2020: 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% (2020: 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 2021 (2020: 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:

| | **2021** | 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Earnings figures are calculated as follows: | | |
| Profit for the year attributable to owners of the Company and earnings for the purposes of basic earnings per share | **2,777,298** | 3,186,993 |
| Effect of dilutive potential ordinary shares | | |
| Effective interest expense on convertible bonds | **N/A** | 72,013 |
| Gain on fair value changes of derivative component of convertible bonds | **N/A** | (72,042) |
| Earnings for the purpose of diluted earnings per share | **2,777,298** | 3,186,964 |
| 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 | **N/A** | 93,004,769 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per shares | **4,353,966,228** | 4,446,970,997 |

## 10. DIVIDEND

A final dividend for the year ended 31 December 2021 of no more than RMB0.256 per share (2020: nil) amounting to approximately RMB1,114,615,000 (2020: nil) has been proposed by the Directors of the Company after the end of the reporting period. The proposed final dividend for the current year is subject to the approval of the Company's shareholders at the forthcoming general meeting and all necessary order and approval from the Grand Court given the outstanding Cayman Petition against the Company (as defined in note 17(b) to this announcement).

## 11. TRADE AND BILLS RECEIVABLES

| | **2021** | 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Bills receivables | **989,586** | 1,199,872 |
| Trade receivables | **1,592,930** | 1,422,922 |
| Less: allowance for credit losses | **(293,206)** | (303,316) |
| | **2,289,310** | 2,319,478 |

### (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:

| | **2021** | 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **1,136,843** | 911,522 |
| 3 to 6 months | **422,846** | 653,987 |
| 6 to 12 months | **270,244** | 417,976 |
| Over 12 months | **459,377** | 335,993 |
| | **2,289,310** | 2,319,478 |

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:

| | **2021** | 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **2,241,310** | 2,129,539 |
| 3 to 6 months | **433,319** | 465,384 |
| 6 to 12 months | **367,260** | 349,927 |
| Over 12 months | **695,746** | 660,351 |
| | **3,737,635** | 3,605,201 |

As at 31 December 2021 and 2020, all trade payables of the Group are repayable on demand. All trade payables are expected to be settled within one year.

## 13. BANK LOANS

| | **2021** | 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Bank loans – Secured (*) | **103,750** | 103,750 |
| Bank loans – Unsecured | **2,424,000** | 2,557,999 |
| | **2,527,750** | 2,661,749 |

* These bank loans were pledged by certain plants and buildings with an aggregate carrying amount of RMB8,356,000 (2020: RMB8,712,000).

As at 31 December 2021, 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:

| | **2021** | 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within one year | **2,392,750** | 1,544,749 |
| After one year but within two years | **135,000** | 1,117,000 |
| | **2,527,750** | 2,661,749 |

## 14. OTHER BORROWINGS

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

| | | **2021** | 2020 |
|---|---|---|---|
| | *Notes* | ***RMB'000*** | *RMB'000* |
| Loan from government – Unsecured | (i) | **909** | 1,818 |
| Short-term financing bills | (ii) | **–** | 330,000 |
| | | **909** | 331,818 |

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

| | **2021** | 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within one year or on demand | **909** | 330,909 |
| After one year but within two years | **–** | 909 |
| | **909** | 331,818 |

*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% (2020: one-year PRC deposit interest rate plus 0.3%) and is repayable in equal instalments from years 2012 to 2022.

(ii) All of the short-term financing bills are issued by Shandong Shanshui Cement Group Company Limited ("**Shandong Shanshui**"), a wholly-owned subsidiary of the Company, and are registered at Interbank Market Clearing House Co., Ltd. (the "**Shanghai Clearing House**"). As at 31 December 2021, the details of short-term financing bills are listed below:

| **Issuer** | **Outstanding principal** *(RMB'000)* | **Issue date** | **Original maturity date** | **Original interest rates** *(per annum)* | **Original interest payment term** | **Interest rates after restructuring plans** *(per annum)* | **Remark** |
|---|---|---|---|---|---|---|---|
| Shandong Shanshui | Nil (2020: 190,000) | 14/04/2015 | 22/11/2015 | 5.30% | Settled at maturity date | Nil (2020: 7.70%) | Note |
| Shandong Shanshui | Nil (2020: 140,000) | 14/05/2015 | 12/02/2016 | 4.50% | Settled at maturity date | Nil (2020: 6.49%) | Note |

*Note:* Based on further agreements entered into among the Group and the holders of these short-term financing bills, the Shanghai Clearing House has cancelled the registration of the short-term financial bills on 12 June 2020 and 25 June 2021, respectively.

As at 31 December 2020, the outstanding short-term financing bills with principal of RMB330,000,000 carried interest rate at 6.49% – 7.70% per annum. The outstanding short-term financing bills have been fully repaid by the Group during the year ended 31 December 2021.

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 2021, there is no default in repayment of other borrowings and accordingly, portion of interest related to short-term financing bills of RMB22,894,000 has been waived and recognised as other income in profit or loss during the year ended 31 December 2021 (2020: RMB15,517,000).

## 15. LONG-TERM BONDS

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Medium-term notes and other notes | – | 436,000 |
| Less: Current portion of medium-term notes and other notes | – | (321,000) |
| Long-term bonds, less current portion | – | 115,000 |

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 | Original 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 | Nil (2020: 286,000) | 18/01/2013 | 21/01/2016 | 5.44% | Annually | Nil (2020: 0%–5.44%) |
| Shandong Shanshui | Nil (2020: 150,000) | 27/02/2014 | 27/02/2017 | 6.10% | Annually | Nil (2020: 0%–6.10%) |

As at 31 December 2020, the outstanding medium-term notes with principal of RMB64,000,000 was interest free and principal of RMB372,000,000 carried interest at 5.44% – 6.10% per annum. The outstanding medium-term notes have been fully repaid by the Group during the year ended 31 December 2021.

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 2021, there is no default in repayment of long-term bonds and accordingly, portion of interest related to medium-term notes of RMB31,906,000 has been waived and recognised as other income in profit or loss during the year ended 31 December 2021 (2020: RMB85,171,000).

## 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 Takeovers 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% (2020: 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 and as at 31 December 2020, the outstanding principal amount of the CB was US$75,000,000.

On the maturity date of the outstanding CB (i.e. 7 August 2021), the Company redeemed and paid the whole of the outstanding CB at an amount equal to 100% of the outstanding principal amount of the CB (i.e. US$75,000,000, equivalent to approximately RMB487,152,000) plus the accrued interest in respect of the outstanding CB principal amount up to the maturity date of US$15,000,000 (equivalent to approximately RMB96,997,000) in accordance with the terms of the CB.

The movement of the components of the convertible bonds for the years ended 31 December 2021 and 2020 is set out below:

| | **Debt component** | **Derivative component** | **Total** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2020 | 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 |
| Interest charge | 43,532 | – | 43,532 |
| Interest paid | (96,997) | – | (96,997) |
| Redemption of CB | (487,152) | – | (487,152) |
| Fair value change | – | 242,667 | 242,667 |
| Exchange realignment | (2,646) | 1,080 | (1,566) |
| **At 31 December 2021** | **–** | **–** | **–** |

The debt component of convertible bonds was classified as current liabilities while the derivative component of the outstanding convertible bonds was classified as current assets in the consolidated financial statements as at 31 December 2020.

The fair values of the Group's derivative component of the outstanding convertible bonds as at 31 December 2020 had 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 2021, 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 RMB23,484,000 (2020: RMB28,020,000) which have yet been concluded. No provision for these litigation claims was made in the annual financial report during the year ended 31 December 2021 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 has applied for leave to appeal against the Court of Appeal's decision from the Privy Council which was refused by the Privy Council on 29 September 2021.

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, (ii) strike out the Writ (the "**Writ Application**"), and/or (iii) stay both proceedings (the "**Applications**").

On 6 April 2020, 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 with respect to the Writ Application, 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 against the decision on the Writ Application on 15 March 2021 and leave to appeal was granted by the Cayman Islands Court of Appeal on 8 April 2021. The Company filed its appeal on 12 April 2021 and the Appeal has been listed for 10 November 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 of the Summons, 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.

On 19 March 2021, the Petition was served on CNBM and ACC. Thereafter, at a further hearing of the Summons on 16 July 2021, the Grand Court ordered that the Petition be treated as an inter-party proceeding between Tianrui, CNBM and ACC, save that the Company may also participate for the purpose of discovery and to be heard regarding the appropriate remedy should the Petition be granted. At the hearing, Tianrui conceded that the only relief it was seeking in the winding-up proceedings was the liquidation of the Company and was ordered to amend its Petition accordingly. The Grand Court also granted leave to Tianrui to amend the Writ to confine the relief it is seeking to declarations that (i) the exercise by the Company's directors of the power to issue certain convertible bonds on or about 8 August and/or on about 3 September 2018 was not a valid exercise of the said power; (ii) the exercise by the directors on 30 October 2018 of the power to convert the aforesaid bonds and the power to issue new shares was not a valid exercise of the said powers; (iii) the exercise by the directors of the power to issue all other shares and securities in the Company after 1 August 2018 was not a valid exercise of the said power.

Other than the disclosure 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 2021, the Group was the defendant of certain non-material litigations, 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 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 2021, in the face of the complicated domestic and international situation and various risks and challenges, the Chinese government has taken a holistic approach to and kept calm in dealing with the situation. Through the efforts of all parties from the country, China has maintained its leading position in the world in terms of economic development and COVID-19 pandemic prevention and control, the overall national economy has been operating within a reasonable range, the major development targets for the year have been accomplished, the construction of a new development pattern has taken new steps; new results have been achieved in quality development, and the 14th Five-Year Plan has made a good start.

According to preliminary calculation, China's GDP was RMB114,367.0 billion in 2021, representing a year on year ("**YOY**") increase of 8.1%. The investment in fixed assets (excluding rural households) across the country was RMB54,454.7 billion, representing a YOY increase of 4.9%. Nationwide investment in real estate development was RMB14,760.2 billion, representing a YOY growth of 4.4%. Investments were recovering generally in 2021. ***(Source: National Bureau of Statistics)***

In 2021, the cement industry endured an important test, with both supply and demand flourishing in the first half of the year, and the booming situation was generally continuing. However, with the concentration of land supply and other policy regulation in the real estate sector, the growth rate of new construction was declining, and the fundamentals of the sector were hit by continuous exogenous factors, the boom of the cement industry continued to decline, and the growth rate of results also reached a low point. In September, the National Development and Reform Commission issued the Plan for Improving the System of Dual Control over Energy Consumption Intensity and Total Consumption (《完善能源消費強度和總量雙控制度方案》), power rationing policy led to a significant increase in upstream coal prices, resulting in a rapid rise in cement prices in China, which reached a peak in October. Subsequently, relevant policies were introduced to curb the rise in coal prices and cement prices fell in November to December. In the second half of the year, cement prices rose to a high level as the supply side faced dual control over energy consumption (namely, control over total energy consumption and energy consumption intensity), coupled with power rationing and production curtailment and soaring coal prices, while demand weakened and cement production fell at an increasing rate. In 2021, China's cumulative cement production was 2.363 billion tonnes, representing a YOY decrease of 1.2%. In December, China's cement output was 191 million tonnes, representing a YOY decrease of 11.1%. In 2021, the average national cement market price was RMB486 per tonne, representing an increase of 10.7% as compared with 2020. Against a backdrop of significant increase in production costs and shrinking supply, cement prices moved upwards to a record high as a whole. Throughout the year, cement prices showed a "downward first and then upward" trend. ***(Source: Digital Cement)***

**Company's business review**

In 2021, 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 2021, the Group had a total production capacity of 94.79 million tonnes of cement, 50.47 million tonnes of clinker and 17.10 million cubic meters of concrete.

During the Reporting Period, the Group's total sales of cement and clinker were 64.194 million tonnes, representing a YOY increase of 7.1%; sales volume of concrete was 3.553 million cubic meters, representing a YOY increase of 26.4%; revenue was RMB24,659,544,000, representing a YOY increase of 18.0%; and the profit for the year was RMB 2,894,847,000, representing a YOY decrease of 11.6%.

## REVENUE

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

| | **2021** | | 2020 | | Change |
|---|---|---|---|---|---|
| Region | **Sales revenue** *RMB'000* | **Sales proportion** | Sales revenue *RMB'000* | Sales proportion | of sales revenue |
| Shandong Region | **15,900,485** | **64.5%** | 13,512,053 | 64.7% | 17.7% |
| Northeast China Region | **5,249,555** | **21.3%** | 4,362,344 | 20.9% | 20.3% |
| Shanxi Region | **2,907,607** | **11.8%** | 2,527,008 | 12.1% | 15.1% |
| Xinjiang Region | **601,897** | **2.4%** | 490,049 | 2.3% | 22.8% |
| Total | **24,659,544** | **100%** | 20,891,454 | 100% | 18.0% |

During the Reporting Period, the Group's revenue amounted to RMB24,659,544,000, representing an increase of RMB3,768,090,000, and approximately 18.0% over RMB20,891,454,000 as compared with 2020. The increase in revenue was mainly attributable to the increase in sales volume of cement and average selling price for the year.

In respect of revenue contribution for 2021, sales of cement and clinker accounted for 91.4% (2020: 91.5%) and the sales of ready-mix concrete accounted for 6.1% (2020: 6.1%).

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

| Product | **2021** Sales revenue *RMB'000* | **2021** Sales proportion | 2020 Sales revenue *RMB'000* | 2020 Sales proportion | Sales revenue YOY change |
|---|---|---|---|---|---|
| Cement | **20,137,864** | **81.7%** | 16,847,525 | 80.6% | 19.5% |
| Clinker | **2,381,060** | **9.7%** | 2,282,506 | 10.9% | 4.3% |
| Concrete | **1,509,257** | **6.1%** | 1,270,932 | 6.1% | 18.8% |
| Others | **631,363** | **2.5%** | 490,491 | 2.4% | 28.7% |
| Total | **24,659,544** | **100%** | 20,891,454 | 100% | 18.0% |

## 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 RMB17,399,995,000 (2020: RMB13,926,789,000). The increase in cost of sales was mainly due to the increase in cost of raw materials and prices of coal.

The gross profit for 2021 was RMB7,259,549,000 (2020: RMB6,964,665,000), representing a gross profit margin of 29.4% on revenue (2020: 33.3%). The increase in gross profit was mainly attributable to a YOY increase in cement and clinker sales volume; however, the gross profit margin decreased as the increase in the costs of raw materials and coal was greater than the increase in the sale price of cement and clinker.

## FINANCIAL REVIEW

### Other income

Other income decreased from RMB542,104,000 to RMB464,126,000, mainly due to the decrease in government grants as compared with the previous year and the decrease in waiver of interest expenses caused by the early repayments of short-term financing bills and medium-term notes.

### Other net expenses

Other net expenses increased from RMB50,980,000 to RMB434,067,000, mainly due to the recognition of a loss of RMB242,667,000 on fair value changes of derivative component of convertible bond for the year, and the recognition of a profit of RMB72,042,000 on changes in fair value for the last year; in addition, the YOY increase in the impairment losses on property, plant and equipment was RMB132,850,000 for the year.

**Selling and marketing expense, administrative expense and finance expense**

A YOY increase of 18.9% from RMB681,168,000 to RMB809,858,000 was recorded in selling and marketing expenses, mainly due to the increase in sales volume of cement, transportation costs and sales service charges for the year.

A YOY increase of 8.4% from RMB1,358,311,000 to RMB1,472,882,000 was recorded in administrative expense, mainly due to the decrease in expenses of traveling and business entertainment resulting from the impact of the COVID-19 outbreak in the previous year, the low base amount of social insurance in the previous year under the relevant relief measures by the government while the social insurance was paid on normal basis for this year, and the increase in business entertainment expenses as a result of the business expansion and development.

A YOY decrease of 33.2% from RMB347,110,000 to RMB231,734,000 was recorded in finance expense, mainly due to lower interest expenses as compared with the previous year resulting from the full repayment of bonds.

**Taxation**

A YOY increase of 4.7% from RMB1,059,200,000 to RMB1,109,336,000 was recorded in income tax expenses, due to the YOY increase in taxable income mainly because certain losses incurred in the year were not deductible for tax purposes.

**Profit for the year**

The Group recorded a net profit for the year of RMB2,894,847,000, representing a decrease of RMB379,543,000 over RMB3,274,390,000 as compared with 2020, mainly due to the increase in operating expenses, provision for impairment loss and recognition of loss on fair value changes of derivative component of convertible bonds during 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 2021, the Group's current liabilities exceeded current assets by approximately RMB1,556,659,000 which was sharply less than the excess of current liabilities over current assets as at 31 December 2020 of approximately RMB2,661,113,000. As at 31 December 2021, the total interest-bearing borrowings (including bank loans, other borrowings) was RMB2,528,659,000, of which RMB2,393,659,000 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 2021, total assets increased by approximately 4.6% to approximately RMB28,963,687,000 (2020: approximately RMB27,677,443,000), while total equity increased by approximately 18.1% to approximately RMB18,753,882,000 (2020: approximately RMB15,882,017,000).

As at 31 December 2021, bank balances and cash of the Group was approximately RMB1,423,171,000 (2020: approximately RMB1,401,233,000).

As at 31 December 2021, net gearing ratio of the Group was approximately 5.6% (2020: 13.9%), each of which was calculated based on net debts and total equities as of 31 December 2021 and 31 December 2020. The decrease of gearing ratio was due to the completion of repayment of bonds 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)*

| | **2021** | 2020 |
|---|---|---|
| Net cash generated from operating activities | **3,553,072** | 3,509,672 |
| Net cash used in investing activities | **(2,097,184)** | (1,325,379) |
| et cash used in financing activities | **(1,439,860)** | (2,135,273) |
| Net change in cash and cash equivalents | **16,028** | 49,020 |
| Balance of cash and cash equivalents as at 1 January | **1,401,233** | 1,364,054 |
| Effect of foreign exchange rates change | **5,910** | (11,841) |
| Balance of cash and cash equivalents as at 31 December | **1,423,171** | 1,401,233 |

**Net cash generated from operating activities**

During the Reporting Period, the Group recorded a net cash generated from operating activities of RMB3,553,072,000, representing a YOY increase of RMB43,400,000, mainly due to the increase in sales volume of cement and average selling price of the products for the year.

**Net cash used in investing activities**

During the Reporting Period, the Group recorded a net cash used in investing activities of RMB2,097,184,000, representing a YOY increase of RMB771,805,000, mainly due to the increase in capital expenditure for intelligent production, construction of new production lines and technical transformation within the Group during the year.

**Net cash used in financing activities**

During the Reporting Period, the Group recorded a net cash used in financing activities of RMB1,439,860,000, representing a YOY decrease of RMB695,413,000, mainly due to the decrease in the net effect of cash outflow from early repayment of short-term financing bills and medium-term notes and repayment of convertible bonds on maturity for the year as compared with the previous year.

**Capital expenditures**

During the Reporting Period, the capital expenditures were approximately RMB1,805,631,000, which were mainly invested in intelligent production, mine resources reserves, and new construction and technical improvement 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 2021 were as follows:

*(Unit: RMB'000)*

| | **31 December 2021** | 31 December 2020 |
|---|---|---|
| Authorised and contracted for | | |
| – plant and equipment | **1,061,592** | 765,849 |
| Authorised but not contracted for | | |
| – plant and equipment | **1,093,965** | 1,268,803 |
| Total | **2,155,557** | 2,034,652 |

**Pledge of assets**

Details in relation to pledge of assets of the Group as at 31 December 2021 are set out in note 13.

**Contingent liabilities**

Details in relation to contingent liabilities of the Group as at 31 December 2021 are set out in note 17.

**Human resources**

As at 31 December 2021, the Group had a total of 17,740 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 2022

In 2022, it is expected that cement demand will remain in the plateau period with steadiness in general with a steady decline. Meanwhile, in the context of policy influences, low carbon requirements, limits on energy utilization and weakness in supplies, the total production capacity will continue to be restricted. The prices in the mainstream markets are expected to stay strong, and the industrial benefits may remain stable.

**From the perspective of demand:** In 2022, cement demand will remain stable in general with a steady decline. The national government clearly highlighted the work for the 2022 economy, which will strengthen inter-cyclical adjustments of macro policies, support new infrastructure construction for high-quality development in order to promote the soft landing of real estate. It also highlighted the enhancement of building of basic-need housing and the better support of commercial housing market to meet the reasonable housing demand of home buyers, thus to promote the healthy development and effective recycling for real estate. The infrastructure construction investment plan for 2022 is expected to be laid out in advance to promote the rebound in cement demand and the marginal easing in real estate policies. However, considering that the demand in infrastructure construction sector is unable to cover the losses incurred from the cement demand in real estate sector, it is expected that the demand for the year will remain stable with a steady decline, with a decline of approximately 2% to 3%, and the year-on-year growth rate in cement demand for the year will show the characteristics of first declining and then rising, a gradual increase from a low level at the beginning.

**From the perspective of supply:** Environmental protection and low carbon are expected to remain the momentum of "on-going rise", and factors such as "Normalization of Staggered Peak Production", "Carbon Peaking", and "Power Curtailment" produce a clear restriction on the compression of cement supply. Moreover, the government has imposed strict control on the new projects, including cement, of "high pollution and high energy-consuming" by further optimizing capacity structure, for which energy saving and efficiency enhancement will leap ahead.

**From the perspective of prices and benefits:** In 2022, industrial benefit level will continue to remain stable, mainstream market prices are expected to remain radical adjustment trend at high level. Under the premise of conscientiously implementing the industrial policy of capacity reduction and replacement and normalized staggered peak production arrangements, the improvement of industrial concentration, the extension of the cement industry chain and the strengthening of industrial supply chain, with policy back-ups and the confidence of leaders from large enterprises, in our opinion, the economic benefits will maintain a steady growth in the whole industry in 2022.

## RISKS AND CHALLENGES FOR THE CEMENT INDUSTRY FOR 2022

### 1. Overcapacity remains and resolving overcapacity is under heavy pressure

According to the statistics of Information and Research Center of China Cement Association, in 2021, the cement clinker capacity utilization rate stood at 74%, and overcapacity remains the main problem for the cement industry. The upsurge in cement inventories is driven by the obvious weakening of cement demand, full utilization of capacity and abundant supply in the second and third quarters of 2021. The cement prices in most areas of southern mainstream market declined rapidly, with factory prices falling below RMB300/ton in some areas in succession, showing a critical landscape in industrial operation, as elucidated by the highlighted problems in overcapacity once cement production cannot operate in full capacity with demand contraction. There are still urgent problems to be solved in the industry in terms of overcapacity, slow withdrawal of inefficient production capacity, the low proportion of advanced production capacity.

### 2. The implementation of the "dual carbon" policy will have a significant impact on the cement industry

With the ongoing promotion of national "dual carbon" work, the cement industry will be prompted to enter a comprehensive high-quality development stage featuring low-carbon greenness, by way of promoting industrial upgrading and reform, advancing the industry to save energy and reduce carbon. The withdrawal of inefficient cement production capacity will highlight the competing advantage of high-quality capacity enterprises and the leading enterprises in the industry. It is expected to further improve the industry concentration through mergers and acquisitions. The promotion of "dual carbon" will extend the industrial chain of cement enterprises with the advancement of collaborative disposal, intelligence of and layout of new energy in the industry as a result, and also, inevitably, push up the integrated costs of cement enterprises.

The Company will need to invest more in carbon reduction technology innovation and construct a synergy mechanism for carbon emission reduction in the industry. The Company will need to pick up the pace of carbon peak emissions in advance in the industry by completing production capacity and production output under the carbon quota target as well as researching and actively participating in the carbon trading market.

### 3. The steady ongoing growth of efficiency faces challenges resulting from the weakening demand and increase of costs

In 2022, the global economic landscape remains complex as evidenced by the existence of domestic economic pressure and risks. In cement demand, the industry should be prepared to confront with a larger decline. The Company will deal with market risks by strengthening the normalized staggered peak production arrangements, adjusting supply dynamic balances, improving industry self-discipline and integrity, relying on the market initiative of large enterprise groups, giving full play to the coordination and service capabilities of provincial associations, and effectively controlling overcapacity at the supply side with the help of energy dual control and the policy of reduction of pollutants and carbon emissions.

The cement industry is of an energy-dependent nature, and the sharp increases in coal and electricity prices will significantly increase the cost of cement production. Meanwhile, energy consumption, safety and environmental protection requirements continue to improve, resulting in ongoing investment in technological innovation that causes enterprises to increase the cost of various elements of production, which will pose a challenge to the steady growth of cement industry efficiency. The betterments of the establishment of China's cement market, entrepreneurs being more and more rational and the service capacity of the industry associations being stronger and stronger are favorable conditions for resolving the development risks and challenges facing the industry.

***(Sources: analysis of the economic operation of China cement in 2021 and outlook for year 2022, Digital Cement)***

Looking forward to year 2022, 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 recommends a final dividend of no more than RMB0.256 per share for the year ended 31 December 2021 (2020: nil). The final dividend is subject to the Company's shareholders' approval at the Company's forthcoming annual general meeting and all necessary order and approval from the Grand Court given the outstanding winding-up petition against the Company. Subject to the timetable of the Grand Court, the proposed dividend is expected to be distributed to the shareholders on or before 31 December 2022. The proposed dividend has not been provided for in the consolidated financial statements for the year ended 31 December 2021.

## 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 C.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.

Mr. LI Huibao has been appointed as the Chairman with effect from 15 December 2021 as Mr. CHANG Zhangli's replacement. The Company did not appoint any Chief Executive Officer and Mr. LI Huibao, 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 2021 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 27 May 2022. 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, 24 May 2022 to Friday, 27 May 2022, 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, 23 May 2022.

## 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**
**LI Huibao**
*Chairman*

Hong Kong, 21 March 2022

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