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 2022

SUMMARY

- Operating revenue for 2022 amounted to approximately RMB21,488,959,000 (2021: RMB24,659,544,000), representing a decrease of 12.9% as compared to 2021;

- Profit from operations for 2022 amounted to approximately RMB1,464,033,000 (2021: RMB4,198,280,000), representing a decrease of 65.1% as compared to 2021;

- Profit attributable to equity shareholders of the Company for 2022 amounted to approximately RMB748,702,000 (2021: RMB2,777,298,000), representing a decrease of 73.0% as compared to 2021;

- Basic earnings per share for 2022 was RMB0.17 (2021: RMB0.64).

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 2022 (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 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	4(a)	**21,488,959**	24,659,544
Cost of sales		**(17,259,109)**	(17,399,995)
Gross profit		**4,229,850**	7,259,549
Other income	5	**315,595**	464,126
Reversal of impairment/(impairment losses) on trade receivables, net		**6,131**	(44,393)
Impairment losses on other receivables, net		**(24,345)**	(36,453)
Selling and marketing expenses		**(679,549)**	(809,858)
Administrative expenses		**(1,503,136)**	(1,472,882)
Other net expenses	6	**(175,475)**	(434,067)
Expenses incurred during off-peak suspension period		**(705,038)**	(727,742)
Profit from operations		**1,464,033**	4,198,280
Finance costs	7(a)	**(163,444)**	(231,734)
Share of results of associates		**(2,634)**	37,637
Profit before taxation	7	**1,297,955**	4,004,183
Income tax expense	8	**(540,824)**	(1,109,336)
Profit for the year		**757,131**	2,894,847
Attributable to:			
Equity shareholders of the Company		**748,702**	2,777,298
Non-controlling interests		**8,429**	117,549
Profit for the year		**757,131**	2,894,847
Earnings per share	9		
Basic *(RMB)*		**0.17**	0.64
Diluted *(RMB)*		**0.17**	0.64

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022	2021
	RMB'000	*RMB'000*
Profit for the year	**757,131**	2,894,847
Other comprehensive (expense)/income		
Items that will not be reclassified to profit or loss:		
Remeasurements of net defined benefit obligations	**2,100**	(420)
Exchange differences arising on translation from functional currency to presentation currency	**(53,195)**	11,499
Other comprehensive (expense)/income for the year	**(51,095)**	11,079
Total comprehensive income for the year	**706,036**	2,905,926
Attributable to:		
Equity shareholders of the Company	**697,607**	2,788,377
Non-controlling interests	**8,429**	117,549
Total comprehensive income for the year	**706,036**	2,905,926

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	31.12.2022 RMB'000	31.12.2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**16,963,357**	15,963,349
Right-of-use assets		**2,326,174**	2,340,463
Intangible assets		**1,569,445**	1,295,554
Goodwill		**90,132**	90,132
Other financial assets		**18,208**	20,920
Interests in associates		**514,029**	316,660
Deferred tax assets		**317,403**	214,911
Other long-term assets		**881,310**	935,215
		22,680,058	21,177,204
CURRENT ASSETS			
Inventories		**3,230,312**	2,761,944
Trade and bills receivables	11	**1,763,731**	2,289,310
Prepayments and other receivables		**1,435,338**	1,283,150
Restricted bank deposits		**223,473**	28,908
Bank balances and cash		**2,124,362**	1,423,171
		8,777,216	7,786,483
CURRENT LIABILITIES			
Bank loans – amount due within one year	13	**2,780,603**	2,392,750
Other borrowings	13	**–**	909
Trade payables	12	**4,711,006**	3,737,635
Other payables and accrued expenses		**2,291,581**	2,283,495
Contract liabilities		**519,332**	527,927
Taxation payable		**129,624**	390,574
Lease liabilities		**5,935**	9,852
		10,438,081	9,343,142
NET CURRENT LIABILITIES		**(1,660,865)**	(1,556,659)
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,019,193**	19,620,545

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	**31.12.2022**	31.12.2021
		RMB'000	*RMB'000*
NON-CURRENT LIABILITIES			
Bank loans – amount due after one year	13	**835,000**	135,000
Long-term payables		**241,095**	263,423
Defined benefit obligations		**100,830**	107,730
Deferred income		**302,223**	243,104
Lease liabilities		**55,965**	53,023
Deferred tax liabilities		**49,203**	64,383
		1,584,316	866,663
NET ASSETS		**19,434,877**	18,753,882
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		**10,632,905**	9,957,526
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**19,163,613**	18,488,234
Non-controlling interests		**271,264**	265,648
TOTAL EQUITY		**19,434,877**	18,753,882

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**") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IAS16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendment to IFRS 16	Covid-19 Related Rent Concessions beyond 30 June 2021
Amendments to HKFRSs	Annual Improvements to IFRS Standards 2018–2020

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 and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1	Non-current Liabilities with Covenants[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or 1 January 2024.

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 control over 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 by reference to the progress of delivery services provided.

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

	2022	2021
	RMB'000	*RMB'000*
Sales of cement	**17,161,832**	20,137,864
Sales of clinker	**2,337,728**	2,381,060
Sales of concrete	**1,403,513**	1,509,257
Sales of other products	**585,886**	631,363
	21,488,959	24,659,544

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, which is the manufacturing and sale of cement, clinker and concrete in the PRC, the Group's risks 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 non-current assets and current assets, with the exception of interests in associates 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 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 2022 and 2021 is set out below:

	2022					2021				
	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	**13,639,585**	**4,777,300**	**2,600,864**	**459,932**	**21,477,681**	15,895,110	5,241,928	2,906,342	601,338	24,644,718
Over time	**5,881**	**1,726**	**3,671**	**-**	**11,278**	5,375	7,627	1,265	559	14,826
Revenue from external customers	**13,645,466**	**4,779,026**	**2,604,535**	**459,932**	**21,488,959**	15,900,485	5,249,555	2,907,607	601,897	24,659,544
Inter-segment revenue *(note)*	**1,149,830**	**172,141**	**13,455**	**-**	**1,335,426**	1,201,413	38,967	86,437	–	1,326,817
Reportable segment revenue	**14,795,296**	**4,951,167**	**2,617,990**	**459,932**	**22,824,385**	17,101,898	5,288,522	2,994,044	601,897	25,986,361
Reportable segment profit (adjusted profit before taxation)	**1,393,511**	**39,833**	**279,110**	**111,214**	**1,823,668**	3,395,764	733,108	457,168	209,215	4,795,255
Included in arriving at segment results are:										
Interest income	**9,248**	**1,326**	**266**	**12**	**10,852**	12,121	22,422	603	11	35,157
Interest expense	**43,709**	**5,406**	**1,108**	**129**	**50,352**	27,502	8,893	6,766	–	43,161
Depreciation and amortisation for the year	**679,783**	**412,060**	**326,965**	**58,103**	**1,476,911**	726,724	360,626	284,414	53,743	1,425,507
Impairment losses on property, plant and equipment	**118,610**	**17,940**	**-**	**-**	**136,550**	168,834	451	2,789	–	172,074
(Reversal of impairment)/impairment losses on trade receivables, net	**(4,253)**	**(1,615)**	**(264)**	**1**	**(6,131)**	67,874	(4,026)	4	(5,774)	58,078
(Reversal of impairment)/impairment losses on other receivables, net	**(8,422)**	**28,730**	**2,274**	**25**	**22,607**	(52,124)	7,592	8,380	(15)	(36,167)
Government grant	**85,877**	**66,593**	**46,717**	**1,960**	**201,147**	135,435	99,080	46,140	1,167	281,822
Additions to property, plant and equipment, right-of-use assets and intangible assets during the year	**1,848,736**	**605,938**	**433,177**	**19,645**	**2,907,496**	1,422,353	490,932	313,010	24,547	2,250,842
Reportable segment assets	**15,940,368**	**8,746,040**	**5,469,902**	**1,021,911**	**31,178,221**	14,564,111	8,156,963	5,122,441	941,528	28,785,043
Reportable segment liabilities	**4,380,021**	**2,847,042**	**940,334**	**230,216**	**8,397,613**	5,790,671	1,380,918	154,335	57,971	7,383,895

Note: The inter-segment sales were carried out with reference to market process.

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

	2022	2021
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**22,824,385**	25,986,361
Elimination of inter-segment revenue	**(1,335,426)**	(1,326,817)
Consolidated revenue	**21,488,959**	24,659,544
Profit		
Reportable segment revenue	**1,823,668**	4,795,255
Elimination of inter-segment profit	**(226,382)**	(251,947)
Reportable segment profit derived from Group's external customers	**1,597,286**	4,543,308
Share of result of associates	**(2,632)**	37,637
Loss on fair value change of financial asset at FVTPL	**(2,712)**	(1,992)
Loss on fair value changes of derivative component of convertible bonds	**–**	(242,667)
Waiver of interest expenses	**–**	54,800
Unallocated finance costs	**(113,092)**	(188,573)
Unallocated head office and corporate expenses	**(180,895)**	(198,330)
Consolidated profit before taxation	**1,297,955**	4,004,183

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

	2022	2021
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**31,178,221**	28,785,043
Elimination of inter-segment profit	**(33,710)**	(36,914)
Elimination of inter-segment receivables	**(765,351)**	(676,833)
	30,379,160	28,071,296
Deferred tax assets	**317,403**	214,911
Interests in associates	**514,029**	316,660
Unallocated head office assets	**246,682**	360,820
Consolidated total assets	**31,457,274**	28,963,687
Liabilities		
Reportable segment liabilities	**8,397,613**	7,383,895
Elimination of inter-segment payables	**(765,351)**	(676,833)
	7,632,262	6,707,062
Deferred tax liabilities	**49,203**	64,383
Unallocated bank loans	**3,615,603**	2,527,750
Unallocated other borrowings	**–**	909
Unallocated head office liabilities	**725,329**	909,701
Consolidated total liabilities	**12,022,397**	10,209,805

(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

	Notes	2022 RMB'000	2021 RMB'000
Interest income		**20,260**	35,157
Government grants	(i)	**202,196**	283,140
Amortisation of deferred income		**11,803**	13,949
Reversal of other payables		**30,678**	–
Waiver of interest expenses	(ii)	**–**	54,800
Others		**50,658**	77,080
		315,595	464,126

Notes:

(i) Government grants mainly represented tax refunds, operating subsidies and energy reduction incentives from local governments received by the Group during the Reporting Period. No special conditions needs to be fulfilled for receiving such government grants.

(ii) In previous years, Shandong Shanshui Cement Group Company Limited ("**Shandong Shanshui**"), a wholly-owned subsidiary of the Company, issued short-term financing bills and medium-term notes for financing purpose. The Group negotiated with holders of the short-term financing bills and medium-term notes to restructure the repayment terms. Under the restructuring plans, the holders of the short-term financing bills and medium-term notes (mainly PRC banks and financial institutions) had agreed to waive a portion of the interest and penalty interest accrued on the principal amounts of the short-term financing bills and medium-term notes up to the date of the restructuring plans on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. The outstanding short-term financing bills and medium-term notes were fully repaid by the Group during the year ended 31 December 2021.

As at 31 December 2021, there were no default in repayment of short-term financing bills and medium-term notes and accordingly, a portion of the interest related to short-term financing bills and medium-term notes amounting to RMB54,800,000 had been waived and recognised as other income in profit or loss during the year ended 31 December 2021 (2022: nil).

6. OTHER NET EXPENSES

	Note	**2022** *RMB'000*	2021 *RMB'000*
Net foreign exchange loss		**(5,286)**	(4,864)
Net (loss)/gain from disposal of property, plant and equipment		**(8,780)**	15,407
Loss on fair value changes of derivative component of convertible bonds	(i)	**–**	(242,667)
Impairment losses on property, plant and equipment		**(136,550)**	(172,074)
Penalties		**(624)**	(2,264)
Donations		**(30,768)**	(18,300)
Recovery of bad debt previously written off		**2,526**	2,626
Loss on fair value changes of financial assets at FVTPL		**(2,712)**	(1,992)
Others		**6,719**	(9,939)
		(175,475)	(434,067)

Note:

(i) During the year ended 31 December 2021, the Company redeemed and fully paid the outstanding principal amount plus the accrued interest in accordance with the terms of convertible bonds upon the maturity of the convertible bonds issued by the Company in previous years. The Company recognised a loss on fair value changes of derivative component of convertible bonds of RMB242,667,000 during the year ended 31 December 2021.

7. PROFIT BEFORE TAXATION

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

(a) Finance costs

	Notes	**2022** **RMB'000**	2021 RMB'000
Interest on bank loans		**115,964**	124,787
Interest on lease liabilities		**2,895**	3,127
Interest on other borrowings and long-term bonds		**–**	17,246
Effective interest expense on convertible bonds		**–**	43,532
Less: capitalised interest expenses	(i)	**(100)**	(900)
Net interest expenses		**118,759**	187,792
Bank charges		**24,304**	33,271
Unwinding of discount	(ii)	**20,381**	10,671
		163,444	231,734

Notes:

(i) The capitalisation rates used to determine the amount of borrowing interests eligible for capitalisation related to construction of fixed assets was 4.35% per annum for the year ended 31 December 2022 (2021: 4.90%).

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

	2022 **RMB'000**	2021 RMB'000
Defined employee benefit plan	**2,840**	3,460
Long-term payables	**17,541**	7,211
	20,381	10,671

(b) Personnel expenses (including directors' remunerations)

	2022	2021
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**1,678,381**	1,614,812
Bonus and awards	**215,036**	298,056
Staff's pension costs	**299,849**	271,458
Expense recognised in respect of defined benefit plan	**3,240**	3,930
	2,196,506	2,188,256

(c) Other items

	2022	2021
	RMB'000	*RMB'000*
Amortisation of intangible assets	**203,721**	151,823
Depreciation of property, plant and equipment	**1,173,325**	1,200,089
Depreciation of right-of-use assets	**106,932**	73,595
	1,483,978	1,425,507
Auditors' remuneration		
– audit and assurance services	**5,800**	6,150
– other services	**900**	900
	6,700	7,050
Cost of inventories sold	**17,251,484**	17,389,874
Impairment losses on inventories (included in cost of sales)	**7,625**	10,121

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

Taxation in the consolidated statement of profit or loss:

	2022	2021
	RMB'000	*RMB'000*
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
Current tax	**529,993**	1,107,356
(Over)/under provision in respect of prior years	**(21,497)**	9,872
Withholding tax on distributed profit	**150,000**	50,000
	658,496	1,167,228
Deferred tax	**(117,672)**	(57,892)
	540,824	1,109,336

Notes:

(i) The Group's PRC subsidiaries are subject to PRC EIT at the statutory rate of 25% (2021: 25%) unless otherwise specified.

Certain subsidiaries which are recognised as High and New-tech Enterprise have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at a concessionary rate of 15% for both years.

(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.

The Company and its subsidiaries incorporated in Hong Kong are subject to Hong Kong Profits Tax at the rate of 16.5% (2021: 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 for both years.

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:

	2022	2021
	RMB'000	*RMB'000*
Earnings figures are calculated as follows:		
Profit for the year attributable to equity shareholders of the Company and earnings for the purposes of basic and diluted earnings per share	**748,702**	2,777,298
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

10. DIVIDEND

A final dividend for the year ended 31 December 2022 of no more than RMB0.07 per share amounting to approximately RMB304,778,000 has been proposed by the Board 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 annual general meeting and all necessary order and approval from the Grand Court of the Cayman Islands (the "**Grand Court**") given the outstanding Cayman Petition against the Company (as defined in note 14(b) to this announcement).

The Company refers to its announcements dated 21 March 2022, 27 May 2022 and 27 February 2023.

The 2021 final dividend of no more than RMB0.256 per share was approved by the Company's shareholders at the annual general meeting of the Company held on 27 May 2022 and is subject to all necessary order and approval from the Grand Court given the outstanding Cayman Petition against the Company. The Company has made an application for a validation order for payment of the 2021 final dividend (the "**Validation Application**"). Subsequent to the end of the reporting period, the Grand Court held a hearing on the Validation Application on Friday, 24 February 2023. At the conclusion of the hearing, the Judge of the Grand Court hearing the Validation Application decided to reserve his judgment. The Company will make another announcement after the Grand Court gives its judgment on the Validation Application.

11. TRADE AND BILLS RECEIVABLES

	2022	2021
	RMB'000	*RMB'000*
Bills receivables	**387,133**	989,586
Trade receivables	**1,634,983**	1,592,930
Less: allowance for credit losses	**(258,385)**	(293,206)
	1,763,731	2,289,310

(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:

	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**649,160**	1,136,843
3 to 6 months	**286,605**	422,846
6 to 12 months	**228,950**	270,244
Over 12 months	**599,016**	459,377
	1,763,731	2,289,310

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:

	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**3,049,803**	2,241,310
3 to 6 months	**622,319**	433,319
6 to 12 months	**425,822**	367,260
Over 12 months	**613,062**	695,746
	4,711,006	3,737,635

As at 31 December 2022 and 2021, all trade payables of the Group are repayable on demand. All trade payables are expected to be settled within one year.

13. BANK LOANS AND OTHER BORROWINGS

		2022	2021
	Notes	***RMB'000***	*RMB'000*
Bank loans – Secured	(i)	**505,603**	103,750
Bank loans – Unsecured		**3,110,000**	2,424,000
		3,615,603	2,527,750
Loan from government – Unsecured	(ii)	**–**	909
		3,615,603	2,528,659

Notes:

(i) These bank loans were secured by certain plants and buildings with an aggregate carrying amount of RMB8,123,000 (2021: RMB8,356,000) and bank deposits of RMB210,100,000 (2021: nil).

(ii) 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% (2021: one-year PRC deposit interest rate plus 0.3%) and is repayable in equal instalments from 2012 to 2022. The loan was fully repaid during the current year.

As at 31 December 2022 and 2021, there is no default in bank loans repayment.

Bank loans and other borrowings due for repayment based on the scheduled repayment terms set out in the loan agreements and borrowing agreements are as follows:

	2022	2021
	RMB'000	*RMB'000*
Within one year	**2,780,603**	2,393,659
After one year but within two years	**835,000**	135,000
	3,615,603	2,528,659

All bank loans are interest-bearing.

14. CONTINGENT LIABILITIES AND OTHER EVENTS

(a) Litigation contingencies

As at 31 December 2022, several litigation claims had been 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 RMB14,382,000 (2021: RMB23,484,000), which claims have not yet been concluded. No provision for these litigation claims was made in the annual financial report during the year ended 31 December 2022 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. 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.

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 orders sought by way of the Writ have since been amended (see below). 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 1 July 2022, the Cayman Islands Court of Appeal delivered its judgment ordering that the Writ be struck out as defective. The Certificate of the Order of the Court of Appeal was issued on 14 September 2022. However, the Court of Appeal did leave it open to Tianrui to reconstitute the Writ as a derivative claim.

On 11 October 2022, the Court of Appeal granted Tianrui leave to appeal to the Privy Council against its decision. On 23 December 2022, Tianrui filed a notice of appeal to the Privy Council against the decision of the Court of Appeal. Tianrui's appeal is still pending and has not yet been heard.

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 Cayman Petition.

At the hearing of the Summons, Tianrui sought leave to re-amend the Cayman Petition, notably in order to join China National Building Materials Company Limited ("**CNBM**") and Asia Cement Corporation ("**ACC**") as respondents to the Cayman 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 Cayman Petition, and that the Cayman Petition be served on CNBM and ACC.

On 19 March 2021, the Cayman 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 Cayman 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 Cayman 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 Cayman 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.

A hearing took place on 23 May 2022 following which the Grand Court settled the list of issues between the parties to the Cayman Petition for the purposes of discovery. Parties attended a case management hearing on 22 November 2022 and made further written submissions on 3 February 2023 to settle outstanding issues in relation to discovery, which is pending a decision from the Grand Court.

On 28 November 2022, the Company applied for a validation order to make payment of the 2021 final dividend as resolved at the annual general meeting of the Company held on 27 May 2022, and a variation of a prior validation order dated 11 October 2018. Tianrui and the Company attended a hearing before the Grand Court on 24 February 2023 in respect of this application, which is pending a decision by the Grand Court.

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 2022, 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.

DISCUSSION ON THE RESULTS AND FINANCIAL POSITIONS OF THE COMPANY

MANAGEMENT DISCUSSION AND ANALYSIS

Operating environment and industry overview

The production and sales of cement: sluggish demand throughout the year

In 2022, cement demand generally showed the characteristics of "sluggish demand throughout the year, no peaking in peak season, and more stagnant than usual in low season". Faced with the impact of factors such as the severe situation of the pandemic prevention and control, the continued bottoming out of the real estate market and the increasing downward pressure on the economy, the demand for cement shrank rapidly. According to the data of the National Bureau of Statistics, in 2022, total cement output in the country reached 2,120 million tonnes, representing a decrease of 10.8% compared to the previous year. The cement output hit the lowest since 2012, even made the biggest drop since 1969, and the year-on-year decline reached the double-digit level for the first time.

From the perspective of quarterly trend, in the first quarter, due to the sporadic outbreak of COVID-19 cases and the lack of funds for construction projects represented by the real estate sector and the slow resumption of construction, coupled with strict control over the pandemic and poor road transport, the resulting overall sluggish market demand led to only 387 million tonnes of cement output in the country in the first quarter, representing a significant year-on-year decline of 12.1%. In the second quarter, which should have been a traditional peak season, due to multiple unfavourable factors such as the persistent strict control measures implemented in the areas with resurgent COVID-19 cases, poor road transport and restriction over travelling of people, the downturn in the real estate sector continued with cement output of 590 million tonnes in the second quarter, representing a decline of 16.8%. In the second half of the year, the cement market did not thrive as it should during a peak season. However, due to a low base of cement output in the second half of 2021 (affected by the power rationing), the year-on-year decline slowed down significantly. In the third quarter, the market was more stagnant than usual during the low season, with a serious imbalance between supply and demand, resulting in substantial drop in cement prices in various regions. Especially in July, industry profit fell to the lowest level for the same period in history, inventory remained high, and cement output was 586 million tonnes, representing a year-on-year decline of 7.9%. In the fourth quarter, the cement market did not thrive as it should during a peak season, but the decline narrowed due to the impact of low base in the fourth quarter of 2021. The cement output reached 550 million tonnes, representing a year-on-year decline of 5.8%.

By region, the year-on-year growth rate of cement output in the six major regions of the country has decreased significantly. Among them, the largest decline was in the Northeastern China and Southwest China (close to 20%), while the decline in Central South China, East China and Northwestern China was relatively small (close to or less than 10%).

Cement prices: falling from a high level with volatility and adjustments

In 2022, the national cement market price fell into a volatility and adjustment market after experiencing a drastic drop. According to the data monitored by the website of Digital Cement, the average price of cement market for the year was RMB466 per tonne (price in place, the same below), representing a year-on-year decline of 4.2%. Although the decline was not significant, the actual cement price level had fell back to the level in 2017, taking into account the significant increases in coal prices and the cost of cement production.

From the perspective of monthly price trend, the domestic cement market price remained at a favourable level of more than RMB500 per tonne in the first four months. Since May, the price started to plummet until falling to the bottom of RMB415 per tonne in July for consolidation; in mid-August, the price showed slight fluctuation with upward trend, but the trend was unstable, and it fluctuated with downward trend again in September; from October to November, the price maintained an upward trend but at a lower rate and within a short time, and then it showed an early downward trend in December.

Core factors for the sluggish price

Firstly, affected by the weakening macroeconomic environment, the downstream demand remained sluggish and the seasonal characteristics were not obvious. The market showed the characteristics of "no peaking in peak season, and more stagnant than usual in low season";

Secondly, the construction of engineering projects in many places of the country was disrupted as a result of the strict control over the pandemic, which restricted the transaction of some cement markets;

Thirdly, despite the fact that cement enterprises in various places adopted more effective measures of off-peak season production to ease market supply pressure, some enterprises violated the self-discipline rules of the industry in order to compete for market share, and surplus production was exported to impact peripheral markets, triggering a chain reaction of prices in different regions.

By region: the highest price throughout the year was in North China, with an average price of RMB503 per tonne in 2022. The next highest price was in Northeast China, with an average price of RMB489 per tonne in 2022, while the lowest price remained in Southwest China at RMB406 per tonne, representing a year-on-year decline of 3.6%. The price in Central South China experienced the greatest decline, a year-on-year decline of 13.6%, which was followed by East China, a decline of 10%. The prices in North China and Northeast China increased by 9.2% and 2.6% year on year, respectively.

In general, the price of cement market throughout the year was in a fully declining tendency, while the price of coal as raw material rose from the beginning to the end of the year. Under the background of the two-way squeeze of declines in both sales volume and prices as well as high costs, the cement industry has experienced a significant decline in profits. Cement industry profits are expected to be only approximately RMB68 billion in 2022, RMB100 billion less than that in 2021, representing a year-on-year decrease of about 60%. From the perspective of price performance in various regions, there were certain differences in terms of the areas without profit growth and the decline extent, and the major profit decline was mainly seen in Guangxi, Guangdong, the Yangtze River Delta, Southwest China and other regions.

Looking forward to 2023, with the effective prevention and control of the COVID-19 pandemic, a new round of economic revival is expected, the infrastructure investment is expected to grow faster than the previous year, and the real estate market is expected to bottom out and stabilize. Cement demand for the year is expected to be flat overall or slightly decline, with a low probability of another sharp decline in demand. A relatively stable market environment is conducive to the cement industry to alleviate the supply-demand imbalance through supply-side adjustment, and effectively transmit cost pressure, which will help adjust the mindset of enterprises to reduce excessive competitive behavior and strengthen industry self-discipline. The industry profit level in 2023 is expected to improve significantly compared with that in 2022 (Source: website of Digital Cement).

Company's business review

In 2022, 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 2022, the Group had a total production capacity of 91.95 million tonnes of cement, 50.22 million tonnes of clinker and 18.10 million cubic meters of concrete.

During the Reporting Period, the Group's total sales of cement and clinker were 55,205,000 tonnes, representing a YOY decrease of 14.0%; sales volume of concrete was 3,328,000 cubic meters, representing a YOY decrease of 6.3%; revenue was RMB21,488,959,000, representing a YOY decrease of 12.9%; and the profit for the year was RMB757,131,000, representing a YOY decrease of 73.8%.

REVENUE

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

Region	**2022** Sales revenue *RMB'000*	**2022** Sales proportion	2021 Sales revenue *RMB'000*	2021 Sales proportion	Change of sales revenue
Shandong Region	**13,645,466**	**63.5%**	15,900,485	64.5%	-14.2%
Northeast China Region	**4,779,026**	**22.3%**	5,249,555	21.3%	-9.0%
Shanxi Region	**2,604,535**	**12.1%**	2,907,607	11.8%	-10.4%
Xinjiang Region	**459,932**	**2.1%**	601,897	2.4%	-23.6%
Total	**21,488,959**	**100%**	24,659,544	100%	-12.9%

During the Reporting Period, the Group's revenue amounted to RMB21,488,959,000, representing a decrease of RMB3,170,585,000 or 12.9% as compared with 2021. The decrease in revenue was mainly attributable to the decrease in sales volume of cement for the year.

In respect of revenue contribution for 2022, sales of cement and clinker accounted for 90.8% (2021: 91.4%) and the sales of ready-mix concrete accounted for 6.5% (2021: 6.1%).

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

Product	**2022** Sales revenue *RMB'000*	Sales proportion	2021 Sales revenue *RMB'000*	Sales proportion	Sales revenue YOY change
Cement	**17,161,832**	**79.9%**	20,137,864	81.7%	-14.8%
Clinker	**2,337,728**	**10.9%**	2,381,060	9.7%	-1.8%
Concrete	**1,403,513**	**6.5%**	1,509,257	6.1%	-7.0%
Others	**585,886**	**2.7%**	631,363	2.5%	-7.2%
Total	**21,488,959**	**100%**	24,659,544	100%	-12.9%

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 RMB17,259,109,000 (2021: RMB17,399,995,000). The decrease in cost of sales was mainly due to the decrease in the sales volume of cement and clinker during the year.

The gross profit for 2022 was RMB4,229,850,000 (2021: RMB7,259,549,000), representing a gross profit margin of 19.7% on revenue (2021: 29.4%). The decrease in gross profit was mainly attributable to a YOY decrease in cement and clinker sales volume. In addition, the sale price for the year remained unchanged from the previous year, yet the cost of raw materials and coal increased significantly, compressing the profit margin and resulting in a decline in gross profit margin.

FINANCIAL REVIEW

Other income

Other income decreased from RMB464,126,000 to RMB315,595,000, mainly due to the decrease in government grants income and the decrease in the recognition of waiver of interest expenses as compared with the previous year.

Other net expenses

Other net expenses decreased from RMB434,067,000 to RMB175,475,000, mainly due to the recognition of a loss of RMB242,667,000 for convertible bonds for the previous year.

Selling and marketing expense, administrative expense and finance expense

A YOY decrease of 16.1% from RMB809,858,000 to RMB679,549,000 was recorded in selling and marketing expenses, mainly due to the decrease in sales volume of cement, transportation costs and sales service charges for the year.

A YOY increase of 2.1% from RMB1,472,882,000 to RMB1,503,136,000 was recorded in administrative expense, mainly due to the increase in depreciation expenses and the increase in research and development expenses for new product development and process improvement during the year.

A YOY decrease of 29.5% from RMB231,734,000 to RMB163,444,000 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 decrease of 51.2% from RMB1,109,336,000 to RMB540,824,000 was recorded in income tax expenses, due to the decrease of profit for the year.

Profit for the year

The Group recorded a net profit for the year of RMB757,131,000, representing a decrease of RMB2,137,716,000 as compared with 2021, mainly due to the the decrease in cement sales volume, the decrease in revenue and the significant increase in coal costs, resulting in a significant decrease in gross profit 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 at 31 December 2022, the total interest-bearing borrowings (including bank loans, other borrowings) was RMB3,615,603,000, of which RMB2,780,603,000 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 2022, total assets increased by approximately 8.6% to approximately RMB31,457,274,000 (2021: approximately RMB28,963,687,000), while total equity increased by approximately 3.6% to approximately RMB19,434,877,000 (2021: approximately RMB18,753,882,000).

As at 31 December 2022, bank balances and cash of the Group was approximately RMB2,124,362,000 (2021: approximately RMB1,423,171,000).

As at 31 December 2022, net gearing ratio of the Group was approximately 7.1% (2021: 5.6%), each of which was calculated based on net debts and total equities as of 31 December 2022 and 31 December 2021. The increase of gearing ratio was due to the completion of repayment of bonds and the increase in shareholders' equity resulting from the profit for the year.

Cash flow

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

(Unit: RMB'000)

	2022	2021
Net cash generated from operating activities	**2,658,434**	3,553,072
Net cash used in investing activities	**(2,947,329)**	(2,097,184)
Net cash generated from financing activities	**1,047,726**	(1,439,860)
Net change in cash and cash equivalents	**758,831**	16,028
Balance of cash and cash equivalents as at 1 January	**1,423,171**	1,401,233
Effect of foreign exchange rates change	**(57,640)**	5,910
Balance of cash and cash equivalents as at 31 December	**2,124,362**	1,423,171

Net cash generated from operating activities

During the Reporting Period, the Group recorded a net cash generated from operating activities of RMB2,658,434,000, representing a YOY decrease of RMB894,638,000 mainly due to the decrease in sales volume of cement for the year.

Net cash used in investing activities

During the Reporting Period, the Group recorded a net cash used in investing activities of RMB2,947,329,000, representing a YOY increase of RMB850,145,000, mainly due to the increase in capital expenditure for intelligent production, construction of new production lines and relevant technical transformation to comply with environmental regulations, as well as equity investment within the Group during the year.

Net cash generated from financing activities

During the Reporting Period, the Group recorded a net cash generated from financing activities of RMB1,047,726,000, representing a YOY increase of RMB2,487,586,000, mainly due to the net effect of cash outflow from repayment bank loans, medium-term notes and convertible bonds in the previous year, and the increase in the net inflow of bank loans for the year.

Capital expenditures

During the Reporting Period, the capital expenditures were approximately RMB2,798,550,000, 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 2022 were as follows:

(Unit: RMB'000)

	31 December 2022	31 December 2021
Authorised and contracted for		
– plant and equipment	**1,457,927**	1,061,592
Authorised but not contracted for		
– plant and equipment	**1,430,757**	1,093,965
Total	**2,888,684**	2,155,557

Pledge of assets

Details in relation to pledge of assets of the Group as at 31 December 2022 are set out in note 13.

Contingent liabilities

Details in relation to contingent liabilities of the Group as at 31 December 2022 are set out in note 14.

Human resources

As at 31 December 2022, the Group had a total of 17,470 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 2023

(a) Operating environment outlook

From the perspective of demand: In 2023, the demand for cement is expected to stabilize and decline. At the end of 2022, multiple government departments have issued favorable real estate policies, and there are expectations for a stable real estate market. The financial benefits will support real estate development enterprises. In 2023, the real estate industry will further recover and is expected to bottom out and stabilize. It is anticipated that the year-on-year declines in new construction and completed areas will narrow, but the overall downward trend in real estate will continue. In particular, the land auction market has shrunk significantly, which will continue to affect the construction for new projects in 2023. It will take time to release demand in the short-term real estate market. Therefore, the pull-down effect of real estate on cement demand is still evident in 2023, but it will be weakened compared to 2022.

In 2022, infrastructure construction investment has maintained a high-speed growth. With the further opening up of infrastructure construction investment and financing bottlenecks, infrastructure construction in 2023 will become one of the important driving forces to support the economy, and infrastructure construction is expected to continue to maintain a rapid growth. Cement demand is expected to be flat or slightly lower throughout 2023. The demand growth rate will show the characteristics of first declining and then rising, representing a gradual increase from a low level at the beginning.

From the perspective of supply: The decline in demand makes the contradiction of overcapacity in the industry prominent and the regional convergence. Although environmental protection and low-carbon expectations still remain the momentum of "on-going rise", and factors such as "Normalization of Staggered Peak Production", "Carbon Peaking", and "Power Curtailment" still have an effect on the compression of cement supply in most regions. Considering the current weak demand expectations, the original compressed cement productivity has been difficult to greatly reverse the current supply-demand imbalance. In the future, it will be necessary to adjust the industrial structure by increasing capacity reduction and concentration levels to maintain the long-term healthy development of the industry.

From the perspective of benefits: The probability of another decline in demand in 2023 is low, and the relatively stable market environment is conducive to the industry adjusting contradictions through supply and effectively transmitting cost pressures, and the industrial benefit level in 2023 is expected to improve significantly compared with 2022.

Problems and challenges for the cement industry for 2023

1. Demand has declined and contradiction of severe overcapacity is more prominent

In the context of a sharp decline in demand, although the industrial capacity structure is constantly being optimized, the total capacity remains high, leading to a more severe overcapacity. It is estimated that the cement clinker capacity utilization rate will be about 65% in 2022, a year-on-year decrease of 10%. In the medium term, with the continuous optimization of China's economic development structure, the downward trend of cement demand will be the normal state, and resolving the severe overcapacity will become the focus of the industry's supply-side structural reform.

2. Costs will continue to increase and industry efficiency is under great pressure

The sharp increases in coal and electricity prices will significantly increase the cost of cement production. Energy consumption, safety, environmental protection, carbon emission reduction and other requirements continue to improve, resulting in ongoing investment in technological transformation by cement enterprises that causes enterprises to increase the cost, which will pose a challenge to the steady growth of cement industry efficiency. In an environment where demand has weakened sharply, it is a test for cement enterprises to transfer costs downstream smoothly. The future investment trend of stable growth of industry efficiency will focus on market integration, industrial concentration improvement, industrial chain supply chain investment, disruptive major scientific and technological innovation, and a carbon-neutral market.

3. The implementation of staggered peak production is severely challenged by the rapid decline of the market

In recent years, market demand has been in a plateau period. The normalized staggered peak production policy issued in response to severe overcapacity has achieved significant results in improving the environment and enhancing efficiency, but in the case of rapid short-term demand decline, the marginal utility of alleviating market supply pressure has been significantly weakened. The insufficient implementation of staggered peak production in certain regions has led to a large oversupply in the market, high inventory operation and low-price efficiency.

4. The low level of efficiency is not conducive to energy saving and carbon reduction and digital transformation

The low benefit level of the industry is not conducive to the ongoing promotion of national "dual carbon" work, and is also not conducive to energy saving and carbon reduction or digital transformation.

(Source: analysis of the economic operation of China cement in 2022 and outlook for 2023, Digital Cement)

(b) Business outlook of the Company

From the perspective of industry development: The price of raw fuel materials continues to run at a high level, and the entire industry has entered a high-cost period. The capacity is in a long-term severe overcapacity stage, the market demand is becoming increasingly insufficient year by year, and the competition is becoming increasingly fierce. The industry's development will be hampered by policies on energy consumption and emissions, such as energy saving and environmental protection. However, as the national economic growth in 2023 takes the priority of restoring and expanding consumption, a large number of policies focusing on high-quality supply have been issued intensively, which not only stimulates the demand for cement in the downstream market but also accelerates the supply-side structural reform of the cement industry.

From the perspective of enterprises: The Company has multi-regional and multi-brand competitive advantages and multi-tiered and diverse product quality advantages. At the same time, the Company has increased investment in technological transformation and other aspects in recent years, which has improved the enterprise's competitive advantage and ability of survival and development.

In 2023, the Company will focus on four work directions:

Firstly, focusing on "ecological construction". Unswervingly doing a good job in staggered peak production and other work, and continuing to lead the way in building a sound industry ecology.

Secondly, focusing on "precision investment". Adhering to the integration of making up for shortcomings, stabilizing investment and preventing risks, identifying the shortcomings and weaknesses, and using existing funds to make precise and critical investments.

Thirdly, focusing on "strengthening the main business". Continuing to strengthen the main business of clinker and cement, strengthening the advantageous industrial chain such as aggregation, and gradually optimizing asset allocation.

Fourthly, focusing on "environmental protection segment". With the main business in mind, we will promote the development and utilization of solid and hazardous waste disposal, alternative energy and new energy, and ensure precise investment according to local conditions.

Key tasks throughout the year include:

1. Legal operation and standardized management. Adhering to corporate governance in accordance with laws and regulations, and improving the scientific and standardized decision-making level. Strengthening the implementation and execution effect of the system and further rationalizing the three-level control mechanism. Strengthening legal publicity and education, and cultivating a good compliance and institutional culture.

2. Improving quality and reducing cost. Strictly implementing national regulations and standards, continuously enhancing the technical level, and improving product quality. Strengthening production cost management, strictly controlling the production process, and continuously promoting the work of tapping potential and reducing consumption. Reasonably maintaining the raw inflammable materials.

3. Continuing to enhance profitability. Implementing the concept of "price, cost and profit", maintaining the market share, and improving profitability. Eliminating obsolete capacity, implementing staggered peak production, and continuing to take a lead in building a sound industry ecology.

4. Precise investment and sustainable development. In terms of policy safety: ensure that safety and environmental protection meet standards. In terms of resource management: accelerating the increase of resource reserves, promoting the construction of green mines, and improving the standardization and intelligence of mine management. In terms of technological transformation: continuing to increase the value of production lines.

5. Strengthening talents and driving innovation. Accelerating the reform of the innovation system and mechanism, improving the innovation evaluation system, strengthening the support of talents, and comprehensively cultivating, recruiting and utilizing talents.

6. People-oriented and safe development. Further promoting the sharing of development achievements and improving the happiness index of employees. Deepening the construction of comprehensive risk management and internal control mechanisms, and implementing risk management responsibilities. Concentrating on financing guarantee, strengthening capital management and control, and preventing financing risks.

Looking forward to 2023, 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 RMB0.07 per share for the year ended 31 December 2022 (2021: RMB0.256). 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. The proposed dividend has not been provided for in the consolidated financial statements for the year ended 31 December 2022.

The Company refers to its announcements dated 21 March 2022, 27 May 2022 and 27 February 2023.

The 2021 final dividend of no more than RMB0.256 per share was approved by the Company's shareholders at the annual general meeting of the Company held on 27 May 2022 and is subject to all necessary order and approval from the Grand Court given the outstanding Cayman Petition against the Company. The Company has made a Validation Application for payment of the 2021 final dividend. The Grand Court held a hearing on the Validation Application on Friday, 24 February 2023. At the conclusion of the hearing, the Judge of the Grand Court hearing the Validation Application decided to reserve his judgment. The Company will make another announcement after the Grand Court gives its judgment on the Validation Application.

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.

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).

Meeting between Chairman and Independent Non-Executive Directors

According to Code Provision C.2.7 of the CG Code, the Chairman should at least annually hold a meeting with the Independent Non-Executive Directors without the presence of other Directors. During the Reporting Period, the Chairman did not hold any formal meeting with Independent Non-Executive Directors without the presence of other Directors due to the tight schedule of Mr. LI Huibao as the Chairman of the Board and Mr. CHANG Ming-cheng, Mr. LI Jianwei and Mr. HSU You-yuan as the Independent Non-Executive Directors. Besides, Independent Non-Executive Directors may communicate and discuss with the Chairman directly at any time to share their views on the Company's affairs. The Company considers that there are sufficient channels for discussion of the Company's affairs between the Chairman and Independent Non-Executive Directors in the absence of other 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 2022 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 25 May 2023. The notice of the annual general meeting will be published on the websites of the Company (http://www.sdsunnsygroup.com) and of the Hong Kong Exchanges and Clearing Limited (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 Monday, 22 May 2023 to Thursday, 25 May 2023, 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 Friday, 19 May 2023.

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, 15 March 2023

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.