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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

SUMMARY

- Operating revenue for the first half of year 2019 amounted to approximately RMB9,440,723,000, representing an increase of 40% as compared to the corresponding period of last year;

- Operating profit for the first half of year 2019 amounted to approximately RMB1,938,564,000, representing an increase of 33% as compared to the corresponding period of last year;

- Profit attributable to equity shareholders of the Company for the first half of year 2019 amounted to approximately RMB1,196,369,000, representing an increase of 59% as compared to the corresponding period of last year;

- Basic earnings per share for the first half of year 2019 was RMB0.27.

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 six months ended 30 June 2019 (the "**Reporting Period**"), together with comparative unaudited financial data for the corresponding period in 2018. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019 have been approved by the Board and reviewed by the audit committee of the Board (the "**Audit Committee**").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019 – Unaudited

	Notes	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Revenue	3(a)	**9,440,723**	6,759,414
Cost of sales		**(6,159,135)**	(4,375,319)
Gross profit		**3,281,588**	2,384,095
Other income	5	**183,397**	203,019
Other net expenses	6	**(72,778)**	(3,343)
Reversal of impairment losses on trade receivables, net		**2,282**	6,870
Reversal of impairment losses on other receivables, net		**2,031**	5,795
Loss from suspension of production		**(430,992)**	(433,370)
Selling and marketing expenses		**(274,092)**	(201,132)
Administrative expenses		**(752,872)**	(506,682)
Profit from operations		**1,938,564**	1,455,252
Finance costs	7a	**(243,812)**	(400,845)
Share of results of associates		**19,195**	8,901
Profit before taxation		**1,713,947**	1,063,308
Income tax expense	8	**(508,306)**	(352,201)
Profit for the period		**1,205,641**	711,107
Attributable to:			
Equity shareholders of the Company		**1,196,369**	751,766
Non-controlling interests		**9,272**	(40,659)
Profit for the period		**1,205,641**	711,107
Earnings per share	9		
Basic *(RMB)*		**0.27**	0.22
Diluted *(RMB)*		**0.27**	0.22

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019 – Unaudited

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Profit for the period	**1,205,641**	711,107
Other comprehensive expense for the period		
Item that will not be reclassified to profit or loss:		
Exchange differences arising on translation	**(1,601)**	(67,226)
Total comprehensive income for the period	**1,204,040**	643,881
Attributable to:		
Equity shareholders of the Company	**1,194,768**	684,540
Non-controlling interests	**9,272**	(40,659)
Total comprehensive income for the period	**1,204,040**	643,881

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019 – Unaudited

	Notes	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
NON-CURRENT ASSETS			
Fixed assets			
– Property, plant and equipment		**15,783,641**	15,922,070
– Land lease prepayments		**–**	2,208,691
Right-of-use assets		**2,289,022**	–
		18,072,663	18,130,761
Intangible assets		**868,198**	894,663
Goodwill		**14,223**	14,223
Other financial assets		**141,630**	73,391
Interests in associates		**331,319**	315,063
Deferred tax assets		**178,032**	159,649
Other long-term assets		**646,191**	626,907
		20,252,256	20,214,657
CURRENT ASSETS			
Inventories		**1,951,336**	1,458,828
Trade and bills receivables	10	**2,305,062**	2,126,724
Other receivables and prepayments	11	**767,347**	692,050
Derivative component of convertible bonds	18	**172,969**	246,204
Restricted bank deposits	12	**20,666**	30,307
Bank balances and cash		**1,355,798**	1,303,943
		6,573,178	5,858,056
CURRENT LIABILITIES			
Bank loans – amount due within one year	13	**2,693,005**	4,299,350
Other borrowings	14	**204,909**	281,159
Current portion of long-term bonds	15	**1,194,750**	1,338,000
Trade payables	16	**3,739,873**	3,240,134
Other payables and accrued expenses	17	**2,775,802**	3,042,205
Contract liabilities		**763,767**	644,759
Lease liabilities		**6,167**	–
Taxation payable		**406,321**	382,577
		11,784,594	13,228,184
NET CURRENT LIABILITIES		**(5,211,416)**	(7,370,128)
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,040,840**	12,844,529

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019 – Unaudited

	Notes	**At 30 June 2019** ***RMB'000***	At 31 December 2018 *RMB'000*
NON-CURRENT LIABILITIES			
Bank loans – amount due after one year	13	**1,421,000**	–
Other borrowings	14	**430,818**	496,727
Long-term bonds	15	**973,000**	1,371,500
Defined benefit obligations		**136,640**	136,640
Deferred income		**242,028**	248,303
Long-term payables		**271,575**	280,487
Lease liabilities		**70,556**	–
Deferred tax liabilities		**86,886**	91,436
Convertible bonds	18	**634,087**	633,100
		4,266,590	3,258,193
NET ASSETS		**10,774,250**	9,586,336
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		**2,186,308**	991,540
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**10,717,016**	9,522,248
Non-controlling interests		**57,234**	64,088
TOTAL EQUITY		**10,774,250**	9,586,336

1 BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("**IAS 34**") "Interim Financial Reporting", issued by the International Accounting Standards Board ("**IASB**") as well as with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company.

The auditor of the Company expressed a qualified opinion on the audited consolidated statements of profit or loss, profit or loss and other comprehension income, changes in equity and cash flows of the Group for the year ended 31 December 2018 and an unmodified opinion on the audited consolidated statement of financial position of the Group as at 31 December 2018 in their report dated 20 March 2019. The report also includes a Material Uncertainty Related to Going Concern section that draws attention to the Group's current liabilities exceeding its current assets by RMB7,370,128,000, which indicates that a material uncertainty exists that may cast significant doubt on the Group's ability as a going concern.

Material uncertainties relating to the Group's ability to continue as a going concern

As at 30 June 2019, the Group's current liabilities exceeded its current assets by RMB5,211,416,000. Its total interest-bearing borrowings liabilities amounted to RMB7,551,569,000, out of which RMB4,092,664,000 were due within 12 months. The bank balances and cash of the Group amounted to RMB1,355,798,000 as at 30 June 2019. As at 30 June 2019, through commencing legal proceedings, certain suppliers and third parties also have demanded that the Group repays the overdue payables of RMB595,904,000. These facts and circumstances described above indicate the existence of material uncertainties that may cast significant doubt about Group's ability to continue as a going concern.

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

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

(i) Subsequent to 30 June 2019 and up to the date of approval of the interim report, the Group has repaid bank loans of RMB10,000,000. During the six months ended 30 June 2019, the Group obtained new banking facilities amounting to RMB1,401,455,000. The new banking facilities are fully utilised as at 30 June 2019, of which bank loans of an aggregate principal amount of RMB654,455,000 and RMB747,000,000 will be repayable before 30 June 2020 and after 30 June 2020 respectively.

(ii) Subsequent to 30 June 2019 and up to the date of approval of the interim report, the Group has repaid short-term financing bills of RMB28,750,000. Up to the date of approval of the interim report, the remaining outstanding short-term financing bills with an aggregate principal of RMB175,250,000 and RMB429,000,000 as at 30 June 2019 will be repayable before 30 June 2020 and after 30 June 2020 respectively, of which RMB43,000,000 are interest free and RMB590,000,000 carry interest at 4.35%–5.3% per annum on the condition that the Group fully complies with the revised repayment terms.

(iii) Subsequent to 30 June 2019 and up to the date of approval of the interim report, the Group repaid medium-term notes of RMB152,750,000. Up to the date of approval of the interim report, the remaining outstanding medium-term notes with an aggregate principal of RMB1,042,000,000 and RMB973,000,000 at 30 June 2019 will be repayable before 30 June 2020 and after 30 June 2020 respectively, of which medium-term notes with principal of RMB132,000,000 is interest free and medium-term note with principal of RMB2,035,750,000 carry interest at 5.44%–6.2% per annum on the condition that the Group fully complies with the revised repayment plans.

(iv) The Company has appointed legal counsels to represent it to oppose the winding up petitions in the Cayman Islands and in Hong Kong (the "**Petitions**"). The Cayman Islands Petition was struck out by an order of the Grand Court of the Cayman Islands (the "**Grand Court**") dated 19 October 2018 (the "**Strike-out Order**") and the Hong Kong Petition was withdrawn by the petitioner as a result of the Strike-out Order. The Court of Appeal of the Cayman Islands (the "**Court of Appeal**") on 16 January 2019 allowed an appeal against the Strike-out Order, and as a result the Cayman Islands Petition was reinstated and returned to the Grand Court. The Directors do not believe there is any reasonable basis for the Cayman Islands Petition. The Company's legal counsel filed an application on 21 February 2019 for leave to appeal to the Privy Council of the United Kingdom (the "**Privy Council**") to set aside the Court of Appeal's decision (the "**Application**"). The Court of Appeal declined to grant the Application after a hearing on 16 April 2019. The Company and its legal counsel are considering all available options.

(v) The Group is also maximising its sales effort, including speeding up sales of its existing inventories, seeking new orders and implementing comprehensive policies to improve operating cash flows.

The Directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the Directors are of the opinion that it is appropriate to prepare the condensed consolidated financial statements for the six months ended 30 June 2019 on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in these condensed consolidated financial statements for the six months ended 30 June 2019.

2 PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to IFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

IFRS 16	Leases
IFRIC-Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts and changes in accounting policies of application on IFRS 16 "Leases"

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 Leases ("**IAS 17**") and related interpretations.

On transition, the Group has made the following adjustments upon application of IFRS 16:

The Group recognised lease liabilities of RMB87,672,000 and right-of-use assets of RMB2,303,229,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.68%.

As a lessee

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	98,807
Lease liability discounted at relevant incremental borrowing rates	88,022
Add: Lease liability resulting from lease modification of an existing lease	180
Extension options reasonably certain to be exercised	268
Less: Recognition exemption – short-term leases	(798)
Lease liabilities relating to operating leases recognised upon application of IFRS16 as at 1 January 2019	87,672
Analysed as	
Current	17,116
Non-current	70,556
	87,672

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets *RMB'000*
Right-of-use assets relating to operating leases – upon application of IFRS 16	87,672
Reclassified from land lease prepayments *(note)*	2,208,691
Reclassified from other receivables and prepayments	6,866
	2,303,229
By class:	
Land lease prepayments	2,294,852
Plants and buildings	8,377
	2,303,229

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Reclassifications	**Carrying amounts under IFRS 16 at 1 January 2019**
	RMB'000	*RMB'000*	***RMB'000***
Non-current assets			
Fixed assets			
– Land lease prepayment *(note)*	2,208,691	(2,208,691)	**–**
Right-of-use assets	–	2,303,229	**2,303,229**
Current assets			
Other receivables and prepayments	692,050	(6,866)	**685,184**
Current liabilities			
Lease liabilities	–	(17,116)	**(17,116)**
Non-current liabilities			
Lease liabilities	–	(70,556)	**(70,556)**

Note:

Upfront payments for leasehold lands in the PRC were classified as land lease prepayment as at 31 December 2018. Upon application of IFRS 16, the non-current portion of prepaid lease payments amounting to RMB2,208,691,000 was reclassified to right-of-use assets.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Sales of cement	**7,522,147**	5,109,989
Sales of clinker	**977,265**	944,091
Sales of concrete	**745,832**	561,655
Sales of other products	**188,396**	139,704
Rendering of services	**7,083**	3,975
	9,440,723	6,759,414

The Group's revenues for the six months ended 30 June 2019 and 2018 were generated in the PRC. Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b).

(b) Segment reporting

(i) Segment results, assets and liabilities

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

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

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

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

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

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

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

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

– Segment assets include all tangible, 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 bank loans and other borrowings managed directly by the segments.

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

– Segment results represents profits, earned by each segment without allocation of head office administrative expenses, share of results of associates, waiver of interest expenses, waiver of medium-term notes principal, gain on fair value changes of financial assets at fair value through profit or loss ("**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 and convertible bonds. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

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 period is set out below.

	2019					2018				
	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*
For the six months ended										
Disaggregated by timing of revenue										
Point in time	**6,596,928**	**1,428,268**	**1,042,147**	**370,081**	**9,437,424**	4,896,069	1,117,960	546,236	195,236	6,755,501
Over time	**2,731**	**220**	**348**	**–**	**3,299**	3,063	175	675	–	3,913
Revenue from external customers	**6,599,659**	**1,428,488**	**1,042,495**	**370,081**	**9,440,723**	4,899,132	1,118,135	546,911	195,236	6,759,414
Inter-segment revenue	**183,868**	**98,406**	**52,349**	**–**	**334,623**	14,874	4,578	26,486	–	45,938
Reportable segment revenue	**6,783,527**	**1,526,894**	**1,094,844**	**370,081**	**9,775,346**	4,914,006	1,122,713	573,397	195,236	6,805,352
Reportable segment profit/(loss) (adjusted profit/(loss) before taxation)	**1,774,222**	**(12,063)**	**213,785**	**158,941**	**2,134,885**	1,547,320	(142,883)	35,395	53,981	1,493,813
As at 30 June/31 December										
Reportable segment assets	**11,519,882**	**8,189,273**	**5,439,987**	**1,087,566**	**26,236,708**	10,536,958	8,129,952	5,336,846	1,095,822	25,099,578
Reportable segment liabilities	**3,561,476**	**2,863,354**	**1,522,053**	**259,957**	**8,206,840**	2,957,600	3,175,331	1,283,362	498,689	7,914,982

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	**2,134,885**	1,493,813
Elimination of inter-segment profit	**(164,708)**	(76,986)
Reportable segment profit derived from the Group's external customers	**1,970,177**	1,416,827
Share of results of associates	**19,195**	8,901
Waiver of interest expense	**65,327**	114,442
Waiver of medium-term notes principal	**–**	3,750
Gain/(loss) on fair value changes of financial assets at FVTPL	**3,107**	(603)
Loss on fair value changes of derivative component of convertible bonds	**(71,664)**	–
Unallocated finance costs	**(196,213)**	(343,130)
Unallocated head office and corporate expenses	**(75,982)**	(136,879)
Consolidated profit before taxation	**1,713,947**	1,063,308

4 SEASONALITY OF OPERATIONS

The Group generally experiences higher cement demands in the second half of the year compared to first half of the year due to construction season starts at second quarter of each year. As a result, the Group typically reports lower revenue and results in the first half of the year.

5 OTHER INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Interest income	**10,929**	9,137
Government grants *(note)*	**90,548**	54,223
Amortisation of deferred income	**6,275**	8,915
Waiver of interest expenses	**65,327**	114,442
Waiver of medium-term notes principal	**–**	3,750
Others	**10,318**	12,552
	183,397	203,019

Note: Government grants mainly represented tax refunds, subsidies and energy reduction incentives from local governments.

6 OTHER NET EXPENSES

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Net gain from disposal of fixed assets	**1,791**	2,377
Net foreign exchange gain	**3,212**	–
Net gain/(loss) on fair value changes on other financial asset at FVTPL	**3,107**	(603)
Loss on fair value changes of derivative component of convertible bonds	**(71,664)**	–
Others	**(9,224)**	(5,117)
	(72,778)	(3,343)

7 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Interest on bank loans	**120,199**	143,694
Interest on other borrowings and long-term bonds	**72,759**	248,541
Interest on lease liabilities	**1,767**	–
Effective interest expense on convertible bonds	**32,648**	–
Less: capitalised interest expenses(*)	**(221)**	(141)
Net interest expenses	**227,152**	392,094
Unwinding of discount	**4,662**	880
Bank charges	**11,998**	7,871
	243,812	400,845

* The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant is 5.48% and 5.94% for the six months ended 30 June 2019 and 2018 respectively.

(b) Other items

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Depreciation		
– Property, plant and equipment	**621,540**	603,057
– Right-of-use assets	**33,605**	–
Amortisation		
– Land lease prepayments	**–**	29,594
– Intangible assets	**72,277**	47,505

8 INCOME TAX EXPENSE

Taxation in the condensed consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current tax expenses		
Provision for the PRC income tax	**531,239**	345,616
Deferred taxation		
Origination and reversal of temporary differences	**(22,933)**	6,585
	508,306	352,201

(i) The Group's PRC subsidiaries are subject to PRC income tax at the statutory rate of 25% (six months ended 30 June 2018: 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% (six months ended 30 June 2018: 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 six months ended 30 June 2019 (six months ended 30 June 2018: nil).

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2019 is based on the profit attributable to ordinary equity shareholders of the Company for the period of RMB1,196,369,000 (six months ended 30 June 2018: RMB751,766,000) and the weighted average number of ordinary shares of 4,353,966,228 (six months ended 30 June 2018: 3,379,140,240) in issue during the interim period.

(b) Diluted earnings per share

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

- On 25 May 2011, the Company granted 7,300,000 ordinary share options to certain Directors and employees, which was vested immediately after being granted ("**the 2011 Options**"). The exercise price of the 2011 Options are HK$7.90.

- On 27 January 2015, the Company granted 207,300,000 ordinary share options to certain Directors and employees, which vested six months after being granted ("**the 2015 Options**"). The exercise price of the 2015 Options are HK$3.68.

The Company's shares had been suspended for trading since 16 April 2015. The average share price of the Company for the period from 1 January 2015 to 15 April 2015 was HK$4.49. On 31 October 2018, trading in the shares of the Company on the Stock Exchange was resumed. The average share price of the Company for the six months ended 30 June 2019 was HK$2.61.

The Directors are of the opinion that the 2011 Options and 2015 Options are anti-dilutive for the six months ended 30 June 2018 and 2019 respectively as the Directors believe that the exercise of the 2011 Options and 2015 Options would not result in the issue of ordinary shares for less than the average market price of ordinary shares during the six months ended 30 June 2018, in the absence of market price information from 16 April 2015 onward and taking into account the respective adverse nature of the events which have affected the affairs of the Group since that date. Besides, the exercise price of the 2011 Options and 2015 Options was higher than the average market price of the shares during the six months ended 30 June 2019 upon the resumption of trading of the shares of the Company.

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their assumed exercise would result in an increase in earnings per share.

10 TRADE AND BILLS RECEIVABLES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Bills receivables	**1,246,112**	1,144,877
Trade receivables	**1,336,201**	1,261,380
Less: allowance for credit losses	**(277,251)**	(279,533)
	2,305,062	2,126,724

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:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Within 3 months	**1,338,320**	816,824
3 to 6 months	**315,713**	514,055
6 to 12 months	**292,582**	414,501
Over 12 months	**358,447**	381,344
	2,305,062	2,126,724

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

Generally, the Group requires full payment upon delivery of goods for sale of cement and clinker. Credit sales with general credit period of 30 to 60 days are occasionally allowed to certain selected customers with good credit histories and significant transaction amount. Settlement with bank acceptance notes with maturity within three to six months is also acceptable. For sales of pipes and concrete, the Group allows an average of credit period ranging from 90 days to 180 days.

As at 30 June 2019, total bills received amounting to RMB1,246,112,000 (31 December 2018: RMB1,144,877,000) are held by the Group for settlement of trade receivables, of which certain bills were further discounted/endorsed by the Group. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

11 OTHER RECEIVABLES AND PREPAYMENTS

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Deposit	**18,318**	68,557
Prepayments for raw materials	**140,313**	137,839
VAT recoverable	**130,191**	87,522
Amount due from related parties	**129,074**	76,974
Amount due from third parties	**228,725**	233,547
Others	**120,726**	87,611
	767,347	692,050

12 RESTRICTED BANK DEPOSITS

Restricted bank deposits include RMB10,246,000 as at 30 June 2019 (31 December 2018: RMB16,493,000) of cash deposits pledged to banks for the performance guarantee in relation to certain sales or purchases cement, and RMB10,420,000 (31 December 2018: RMB13,814,000) of bank balances which have been frozen by the PRC Court pending the outcome of the legal proceedings initiated by the Group's creditors relating to other borrowings, long-term bonds and certain sales or purchase contracts. Further details of this litigation are set out in notes 13 to 15.

The pledged bank deposits will be released upon the expiry of the relevant guarantee in 2022. The frozen cash and cash equivalents may not be used by the Group until the litigation is resolved.

13 BANK LOANS

The analysis of the carrying amount of bank loans is as follows:

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Bank loans – Secured (*)	**183,550**	216,150
Bank loans – Unsecured	**3,930,455**	4,083,200
	4,114,005	4,299,350

* Bank loans were either pledged by certain right-of-use assets with the underlying assets of land lease prepayments with an aggregate carrying amount of RMB4,267,000 (31 December 2018: land lease prepayments of RMB4,318,000) and plants and buildings with an aggregate carrying amount of RMB9,267,000 (31 December 2018: RMB8,747,000).

As at 31 December 2018, an unsecured bank loan of approximately RMB80,000,000 was overdue and carried an interest rate of 10.14% per annum. Accordingly, bank loans amounting to approximately RMB3,513,150,000 and RMB786,200,000 due for repayment in 2019 and after 2019 respectively which contain cross default clauses that demand immediate repayment when there is default in any bank loans repayment are classified as current liabilities as at 31 December 2018.

During the six months ended 30 June 2019, the overdue unsecured bank loan is repaid by the Group. As at 30 June 2019, there is no default in bank loans repayment and accordingly, bank loans amounting to approximately RMB2,693,005,000 and RMB1,421,000,000, which are due for repayment before 30 June 2020 and after 30 June 2020 respectively based on the scheduled repayment terms set out in the loan agreements are classified as current and non-current liabilities respectively as at 30 June 2019.

Bank loans due for repayment, based on the scheduled repayment terms set out in the loan agreements are as follows:

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
Within one year on demand	**2,693,005**	3,513,150
After one year but within two years	**574,000**	686,200
After two years but within five years	**847,000**	100,000
	1,421,000	786,200
	4,114,005	4,299,350

14 OTHER BORROWINGS

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

	Notes	**At 30 June 2019** ***RMB'000***	At 31 December 2018 *RMB'000*
Loan from government – Unsecured	(i)	**2,727**	3,636
Short-term financing bills	(ii)	**633,000**	774,250
		635,727	777,886

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

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
Within one year on demand	**204,909**	281,159
After one year but within two years	**99,909**	164,909
After two years but within five years	**330,909**	331,818
	430,818	496,727
	635,727	777,886

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 0.30% (31 December 2018: 0.30%) and is repayable in equal instalments from 2012 to 2021.

(ii) All of the short-term financing bills are issued by Shandong Shanshui Cement Group Co., Ltd ("**Shandong Shanshui**") and tradable in the PRC inter-bank market. As at 30 June 2019, the details of short-term financing bills are listed below:

Issuer	**Outstanding principal** *(RMB'000)*	**Issue date**	**Maturity date**	**Original interest rates** *(per annum)*	**Interest payment term**	**Interest rates after restructuring plans** *(per annum)*
Shandong Shanshui	301,000 (31/12/2018: 400,450)	14/04/2015	22/11/2015	5.30%	settled at the maturity date	0%–5.3% (31/12/2018: 0%–7.67%)
Shandong Shanshui	332,000 (31/12/2018: 373,800)	14/05/2015	12/02/2016	4.50%	settled at the maturity date	0%–5.3% (31/12/2018: 0%–7.67%)

As at 31 December 2018, all of the outstanding short-term financing bills issued by Shandong Shanshui are overdue. The Group negotiated with the holders of the short-term financing bills for extension of repayment of principal of the short-term financing bills and successfully reached agreements with all holders of short-term financing bills to restructure the repayment terms as at 31 December 2018.

As at 30 June 2019, the outstanding short-term financing bills of RMB204,000,000 and RMB429,000,000 are repayable before 30 June 2020 and after 30 June 2020 respectively (31 December 2018: RMB280,250,000 and RMB494,000,000 are repayable in 2019 and after 2019 respectively) according to the revised repayment plans, of which short-term financing bills with principal of RMB43,000,000 (31 December 2018: RMB98,250,000) is interest-free and short-term financing bills with principal of RMB590,000,000 (31 December 2018: RMB676,000,000) carry interest rate at 4.35%–5.3% per annum on the condition that the Group fully complies with the revised repayment plans.

Besides, under the restructuring plans, the PRC banks and financial institutions have agreed to waive portion of principal of short-term financing bills and portion of interest and penalty interest accrued on the principal amounts up to the date of the restructuring plan to the short term financing bills on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. The waived interest related to short term financing bills of RMB19,485,000 has been recognised as other income in profit or loss during the six months ended 30 June 2019.

Certain assets of the Group have been frozen by the PRC Courts in respect of the litigations relating to other borrowings, long-term bonds and certain sales or purchase contracts. As at 30 June 2019, cash and cash equivalents of RMB10,420,000 (31 December 2018: RMB13,814,000), investments in subsidiaries of RMB5,545,188,000 (31 December 2018: RMB5,664,792,000), right-of-use assets with underlying assets of land lease prepayments of RMB29,390,000 (31 December 2018: land lease prepayment of RMB35,578,000) and fixed assets of RMB78,837,000 (31 December 2018: RMB82,229,000) have been frozen by the PRC courts.

15 LONG-TERM BONDS

	At 30 June 2019 ***RMB'000***	At 31 December 2018 *RMB'000*
Medium-term notes and other note	**2,167,750**	2,709,500
Less: Current portion of medium-term notes and other note	**(1,194,750)**	(1,338,000)
Long-term bonds, less current portion	**973,000**	1,371,500

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

Issuer	Outstanding principal *(RMB'000)*	Issue date	Maturity date	Original interest rates *(per annum)*	Interest payment term	Interest rates after restructuring plans *(per annum)*
Medium-term notes issued in the PRC inter-bank market (notes (i) and (ii))						
Shandong Shanshui	1,011,000 (31/12/2018: 1,138,000)	18/01/2013	21/01/2016	5.44%	annually	0%–5.44% (31/12/2018: 0%–7.67%)
Shandong Shanshui	724,750 (31/12/2018: 846,500)	27/02/2014	27/02/2017	6.10%	annually	0%–6.1% (31/12/2018: 0%–7.67%)
Shandong Shanshui	432,000 (31/12/2018: 725,000)	09/05/2014	12/05/2017	6.20%	annually	0%–6.2% (31/12/2018: 0%–7.67%)

Notes:

(i) As at 31 December 2018, all of the medium-term notes issued by Shandong Shanshui are overdue. The Group negotiated with the holders of medium-term note holder for extension of repayment of principal of the long-term bonds and successfully reached agreements with all holders of medium-term notes to restructure the repayment terms as at 31 December 2018.

As at 30 June 2019, the outstanding medium-term notes of RMB1,194,750,000 and RMB973,000,000 are repayable before 30 June 2020 and after 30 June 2020 respectively (31 December 2018: RMB1,338,000,000 and RMB1,371,500,000 are repayable in 2019 and after 2019 respectively) according to the revised repayment plants, of which, medium-term notes with principal of RMB132,000,000 (31 December 2018: RMB200,000,000) is interest free and medium-term notes with principal of RMB2,035,750,000 (31 December 2018: RMB2,509,500,000) carry interest at 5.44%–6.2% per annum on the condition that the Group fully complies with the revised repayment plans.

Besides, under the restructuring plans, the PRC banks and financial institutions have agreed to waive portion of the interest and penalty interest accrued on the principal amounts up to date of the restructuring plan to the medium-term note on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. The waived interest related to medium-term notes of RMB45,842,000 has been recognised as other income in profit or loss during the six months ended 30 June 2019.

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

16 TRADE PAYABLES

As at the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
Within 3 months	**2,171,443**	1,800,360
3 to 6 months	**476,413**	479,353
6 to 12 months	**358,009**	203,713
Over 12 months	**734,008**	756,708
	3,739,873	3,240,134

As at 30 June 2019 and 31 December 2018, all trade payables of the Group are repayable on demand. All trade payables are expected to be settled within one year.

As at 30 June 2019, certain suppliers and third parties have initiated lawsuits against the Group to demand immediately settlement of trade payables with carrying amount of RMB216,647,000 (31 December 2018: RMB200,528,000) plus interest for late payment, if any. As of the date of this result announcement, certain litigations related to trade payables with carrying amount of RMB162,765,000 (31 December 2018: RMB158,508,000) have been judged by the PRC Court, with the Court ordering the Group to settle the trade payables, the related interest, penalty interest and expenses incurred during the litigation. Certain litigations related to trade payables with carrying amount of RMB53,882,000 (31 December 2018: RMB42,020,000) are still in progress.

The management are continuing to negotiate with the suppliers to settle these amounts out of court. No adjustments have been made to the condensed consolidated financial statements to accrue for any potential interest or other penalties that may arise through the Courts if the negotiations are not successful, as the Directors consider that the eventual outcome of these litigations cannot presently be determined, given their preliminary status.

17 OTHER PAYABLES AND ACCRUED EXPENSES

	Notes	**At 30 June 2019** *RMB'000*	At 31 December 2018 *RMB'000*
Accrued payroll and welfare		**240,567**	324,062
Taxes payable other than income tax		**96,309**	114,277
Staff compensation and termination provisions		**162,196**	163,996
Amount due to related parties		**909,970**	917,795
Payable to third parties of acquired subsidiaries		**93,520**	97,712
Acquisition consideration payable	(i)	**82,021**	182,383
Current portion of long term payables		**1,266**	1,266
Acquisition of property, plant and equipment		**2,156**	10,695
Accrued expenses and other payables	(ii)	**1,187,797**	1,230,019
		2,775,802	3,042,205

Notes:

(i) Included in the balance are amounts payable for the acquisition of Xinghao Cement Co., Ltd. ("**Xinghao Cement**"), Dalian Heyuan Investment Management Co., Ltd. and Liaocheng Meijing Zhongyuan Cement Co., Ltd. ("**Liaocheng Meijing Zhongyuan Cement**") amounting to RMB nil, RMB35,000,000 and RMB32,878,000, respectively (31 December 2018: RMB101,705,000, RMB50,000,000 and RMB30,678,000, respectively). The previous shareholder of Xinghao Cement and Liaocheng Meijing Zhongyuan Cement has sued the Group to settle the unpaid acquisition consideration payable plus interest for late payment. During the six months ended 30 June 2019, the Group negotiated with the previous shareholders of Xinghao Cement and an agreement was reached between the Group and the previous shareholders of Xinghao Cement on the settlement of the payables. The previous shareholders of Xinghao Cement withdrew the lawsuit and accordingly, such litigation claim was release. The payable for acquisition of equity interests in Xinghao Cement was settled during the period. As a result, the Group obtained control over Xinghao Cement as at 30 June 2019 and the group has the ability to direct the relevant activities which significantly affect Xinghao Cement's returns. Up to date of the approval of these condensed consolidated financial statement, the litigation related to Liaocheng Meijing Zhongyuan Cement is still in progress.

(ii) Included in accrued expenses and other payables are interest payables, payable for mine management, contract guarantee received of RMB549,829,000, RMB131,946,000 and RMB156,129,000 (31 December 2018: RMB664,618,000, RMB134,416,000 and RMB123,028,000) respectively.

As at 30 June 2019, certain suppliers and third parties have lawsuits against the Group to demand immediate settlement of other payables with carrying amount of RMB379,257,000 (31 December 2018: RMB368,311,000) plus interest for late payment, if any. As of the date of the approval of this condensed consolidated financial statement, certain litigations related to other payables with carrying amount of RMB240,966,000 (31 December 2018: RMB240,304,000) have been judged by the PRC Court, with the Court ordering the Group to settle the other payables, the related interests, penalty interest and expenses incurred during the litigation. Certain litigation related to other payables with carrying amount of RMB138,291,000 (31 December 2018: RMB128,007,000) are still in progress.

18 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 CB 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 respectively (equivalent to approximately RMB1,444,665,000 and RMB2,196,795,000 respectively). The CB Agreements were completed on 8 August 2018 and 3 September 2018 (the "**Issue Dates**"). The initial conversion price is HK$6.29 per share.

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

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

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

The Company has the right to convert the outstanding principal amount of the CB into fully-paid ordinary shares of the Company at any time during the period commencing from 19th month following the issue date and up to inclusive of 7 business days prior to the maturity date 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 CB 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.

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 12% (31 December 2018: 13%). The derivative components are financial assets or financial liabilities because the early redemption options is non-closely related to the economic characteristics and risks of the host. Hence, the conversion option is not an equity component. These derivatives are measured at fair value with charges in fair value subsequent to the initial recognition recognised in profit or loss.

The movement of the components of the convertible bonds during the six months ended 30 June 2019 is set out below:

	Debt component *RMB'000*	Derivative component *RMB'000*	Total *RMB'000*
At 31 December 2018	633,100	(246,204)	386,896
Interest charge	2,542	–	2,542
Fair value change	–	71,664	71,664
Exchange realignment	(1,555)	1,571	16
At 30 June 2019	634,087	(172,969)	461,118

The debt component convertible bonds are classified as non-current liabilities while the derivative component is classified as current assets in the consolidated financial statements as at 30 June 2019.

The fair values of the Group's derivative components at the date of grant of the convertible bonds, date of amendment of convertible bonds coming into effect and 30 June 2019 have been arrived at on the basis of a valuation carried out on the respective dates by an independent qualified professional valuer not connected to the Group. The fair value was determined based on Monte-Carlo model.

19 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The Directors do not declare the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

(b) Share capital

	30 June 2019 and 31 December 2018	
	Number of shares	RMB equivalent *RMB'000*
Authorised:		
Ordinary shares of the Company of USD0.01 each	10,000,000,000	701,472

	30 June 2019 and 31 December 2018	
	Number of shares	**RMB equivalent**
		RMB'000
Ordinary shares of the Company, issued and fully paid:		
At 1 January 2018 and 30 June 2018	3,379,140,240	227,848
Issue of new shares *(note i)*	85,845,636	5,973
Conversion of convertible bonds *(note ii)*	888,980,352	61,850
At 31 December 2018 and 30 June 2019	4,353,966,228	295,671

(i) On 7 October 2018, the Company announced the arrangement to allot and issue 85,845,636 new ordinary shares of the Company to various independent private investors of HK$4.20 per ordinary share, representing a discount of approximately 33.23% to the closing price of HK$6.29 per ordinary share as quoted on the Stock Exchange on the day immediately prior to the trading suspension of the shares of the Company. The net proceeds would mainly be used for the redemption of senior notes issued in the Stock Exchange, repayment of borrowing of the Group and general working capital. These new shares were issued under the special mandate granted to the Directors at the extraordinary general meeting of the Company held on 30 October 2018 and rank pari passu with other shares in issue in all respects.

(ii) Pursuant to the special mandate granted at the extraordinary general meeting of the Company held on 30 October 2018, convertible bonds in an aggregate principal amount of US$456,000,000 and the compensation for early conversion equal to the aggregate of (a) an amount equal to any unpaid interest, accrued, or that would have accrued in respect of the convertible bonds subject to early conversion; and (b) an amount equal to 1% of the principal amount outstanding of the convertible bonds subject to early conversion were converted into shares of the Company at the conversion price of HK$4.20 per share. Accordingly, an aggregate of 888,980,352 ordinary shares of the Company were allotted and issued by conversion of the convertible bonds. The newly issued shares rank pari passu with other shares in issue in all respects.

20 CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2019 not provided for in the condensed consolidated financial statements were as follows:

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
Capital expenditure in respect of the acquisitions of fixed assets authorised and contracted for but not provided for in the condensed consolidated financial statements	**297,292**	321,051

21 CONTINGENT LIABILITIES AND OTHER EVENTS

(a) Guarantees issued

On 14 December 2016, the Company entered into a guarantee in favor of Bank of China Pingdingshan Branch as a security for the provision of the loan facility of RMB400,000,000 to Tianrui Group. The guarantee will expire on 14 December 2019.

(b) Litigation contingencies

(i) Shandong Shanshui and Pingyin Shanshui Cement Co., Ltd. have provided guarantees on behalf of Shanshui Heavy Industries, an associate of the Group, for its bank loan with the principal of RMB300,000,000. The bank loan of Shanshui Heavy Industries bears the interest rate quoted by the People's Bank of China and is repayable within five years from 2015. The guarantee will expire two years after the agreed repayment date.

Certain land use right and properties of Shanshui Heavy Industries have been seized by the court. The Directors considered that the fair value of seized assets was more than RMB300,000,000, and no provision for this claim is needed accordingly.

(ii) As at 30 June 2019, 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 RMB8,862,000 which have yet been concluded. No provision for these litigation claims was made in the interim financial report during the six months ended 30 June 2019 as in the opinion of the Directors, the possibility of an outflow of economic resources is remote.

Other than the disclosure of above, as at 30 June 2019, the Group was not involved in any other material litigation or arbitration. As far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at 30 June 2019, the Group was the defendant of certain non-material litigations, and also a party to certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the Directors believe that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating environment and industry overview

In the first half of 2019, faced with the complicated and ever-changing environment at home and abroad, the Chinese government upheld the general principle of seeking progress while maintaining stability, and continued to pursue the new development philosophy and high-quality development, kept supply-side structural reform as its main task, deepened reforms and opening up, and took further steps to ensure stable employment, stable financial sector, stable foreign trade, stable foreign investment, stable domestic investment, and stable expectations. Thanks to these efforts, China's economic performance was generally stable and remained within a reasonable range, with progress being made in certain areas.

In the first half of 2019, China's GDP was RMB45,093.6 billion, representing a year on year ("**YOY**") increase of 6.3% at comparable prices, a stable growth despite 0.5 percentage point down from the same period last year. The total investment in fixed assets (excluding rural households) across the country was RMB29,910 billion, representing a YOY increase of 5.8%. The total investment in infrastructure (excluding electricity sector) across the country registered a YOY increase of 4.1%. The total investment in real estate development across the country was RMB6,160.9 billion, representing a YOY growth of 10.9%. The sales area of commercial residential property nationwide was 757.86 million square meters, representing a YOY decrease of 1.8%.The sales of commercial residential property nationwide were RMB7,069.8 billion, up by 5.6%. ***(Source: National Bureau of Statistics of China)***

In the first half of 2019, China's fixed-asset investment growth continued to pick up, and infrastructure investment continued to grow at a slow but steady pace. In particular, investment in railway transportation and road transportation maintained a rapid growth, and investment in water conservancy management turned to positive growth. Real estate investment slowed down slightly but still grew at a fast pace, and floor space under construction and floor space newly started for construction by real estate developers continued to grow rapidly YOY, while land acquisition area, though improved noticeably, continued to decline significantly YOY. China's total cement production amounted to approximately 1,045 million tonnes, representing a YOY increase of 6.8%, a record-high growth rate as compared with the same period of past five years. China's cement industry realized a total profit of RMB82.6 billion, representing a YOY increase of approximately RMB15.7 billion or 29.6%. ***(Source: Digital Cement)***

Company's business review

In the first half of 2019, 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 30 June 2019, the Group had a total production capacity of 100.38 million tonnes of cement, 51.07 million tonnes of clinker and 19.30 million cubic meters of concrete.

During the Reporting Period, the Group's total sales of cement and clinker were 23.932 million tonnes, representing a YOY increase of 27.8%; sales volume of concrete was 1.504 million cubic meters, representing a YOY increase of 19.5%; sales revenue was RMB9,440,723,000, representing a YOY increase of 39.7%; and the profit for the period was RMB1,205,641,000.

REVENUE

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

Region	**January–June 2019** Sales revenue *RMB'000*	Sales proportion	January–June 2018 Sales revenue *RMB'000*	Sales proportion	Change of sales revenue
Shandong Region	**6,599,659**	**69.9%**	4,899,132	72.5%	34.7%
Eastern Shandong Operating Region	**2,401,983**	**25.4%**	1,894,867	28.0%	26.8%
Western Shandong Operating Region	**2,820,418**	**29.9%**	1,958,358	29.0%	44.0%
Southern Shandong Operating Region	**1,377,258**	**14.6%**	1,045,907	15.5%	31.7%
Northeast China Operating Region	**1,428,488**	**15.1%**	1,118,135	16.5%	27.8%
Shanxi Operating Region	**1,042,495**	**11.1%**	546,911	8.0%	90.6%
Xinjiang Operating Region	**370,081**	**3.9%**	195,236	3.0%	89.6%
Total	**9,440,723**	**100.0%**	6,759,414	100.0%	39.7%

In the Reporting Period, the Group's revenue amounted to RMB9,440,723,000, representing an increase of RMB2,681,309,000 or 39.7% from that of RMB6,759,414,000 for the corresponding period of 2018. The increase in revenue was mainly attributable to the increase in average selling price of the Company's products.

In respect of revenue contribution for the six months ended 30 June 2019, sales of cement and clinker accounted for 90.1% (2018: 89.6%) and the sales of ready-mix concrete accounted for 7.9% (2018: 8.3%).

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

Product	**January–June 2019** **Sales revenue** ***RMB'000***	**proportion**	January–June 2018 Sales revenue *RMB'000*	proportion	Sales revenue YOY change
Cement	**7,522,147**	**79.7%**	5,109,989	75.6%	47.2%
Clinker	**977,265**	**10.4%**	944,091	14.0%	3.5%
Concrete	**745,832**	**7.9%**	561,655	8.3%	32.8%
Others	**195,479**	**2.0%**	143,679	2.1%	36.1%
Total	**9,440,723**	**100%**	6,759,414	100.0%	39.7%

COST OF SALES AND GROSS PROFIT

The Group's cost of sales primarily includes cost of raw materials, fuel expenses (consisting of coal and electricity), depreciation and amortization and other overhead costs. During the Reporting Period, the Group's cost of sales was RMB6,159,135,000 (2018: RMB4,375,319,000). 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 the six months ended 30 June 2019 was RMB3,281,588,000 (2018: RMB 2,384,095,000), representing a gross profit margin of 34.8% on revenue (2018: 35.3%). The increase in gross profit but decrease in gross profit margin was mainly attributable to the net effect of increase in average selling price of cement products, cost of raw materials and cost of coal when compared with that of the corresponding period of the previous year.

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Other income

Other income decreased from RMB203,019,000 to RMB183,397,000, mainly due to the decrease in the waiver of interest expense resulting from debt restructuring as compared with the same period of last year.

Other net expenses

Other net expenses increased from RMB3,343,000 to RMB72,778,000, mainly due to the recognition of a loss of RMB71,664,000 on fair value changes of derivative component of convertible bond for the period.

Selling and marketing expense, administrative expense and finance expense

Selling and marketing expenses rose to RMB274,092,000 from RMB201,132,000, representing a YOY increase of 36.3%, which was mainly due to the increase of transportation costs and sales service charges resulting from the increase of sales volume for the period.

A YOY increase of 48.6% from RMB506,682,000 to RMB752,872,000 was recorded in administrative expense, mainly due to the increased accrued bonuses as a result of growth in operating results for the period and the payments of litigation-related penalty and overdue interest.

A YOY decrease of 39.2% from RMB400,845,000 to RMB243,812,000 was recorded in finance expense, mainly due to lower interest expenses as compared with same period of last year resulting from negotiation on debts and accelerated repayment of borrowings.

Taxation

Income tax expenses rose to RMB508,306,000 from RMB352,201,000, representing a YOY increase of 44.3%, mainly due to the substantial increase in profit for the period.

Profit for the period

During the Reporting Period, the Group recorded a net profit of RMB1,205,641,000, representing an increase of RMB494,534,000 over RMB711,107,000 for the same period of last year, mainly due to an increase in sales volume and average selling price of cement within the period.

FINANCIAL RESOURCES AND LIQUIDITY

For six months ended 30 June 2019, the Group maintained healthy financial positions. Total assets increased by approximately 2.9% to approximately RMB26,825,434,000 (31 December 2018: approximately RMB26,072,713,000), while total equity increased by approximately 12.4% to approximately RMB10,774,250,000 (31 December 2018: approximately RMB9,586,336,000).

As at 30 June 2019, bank balances and cash of the Group was approximately RMB1,355,798,000 (31 December 2018: approximately RMB1,303,943,000).

As at 30 June 2019, net gearing ratio of the Group was approximately 36.5% (31 December 2018: 42.6%), each of which was calculated based on net liabilities and total equities as of 30 June 2019 and 31 December 2018. The decrease of gearing ratio was due to the continuous repayment of borrowings for the period.

Cash flow

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

(Unit: RMB'000)

	January–June 2019	January–June 2018
Net cash generated from operating activities	**1,642,319**	1,270,779
Net cash used in investing activities	**(758,195)**	(177,818)
Net cash used in financing activities	**(830,036)**	(1,011,044)
Net change in cash and cash equivalents	**54,088**	81,917
Balance of cash and cash equivalents as at 1 January	**1,303,943**	307,995
Effect of foreign exchange rates change	**(2,233)**	(413)
Balance of cash and cash equivalents as at 30 June	**1,355,798**	389,499

Net cash generated from operating activities

During the Reporting Period, the Group recorded a net cash generated from operating activities of RMB1,642,319,000, representing a YOY increase of RMB371,540,000, mainly due to an increase in cash inflow from operating activities as a result of an increase in profit for the period.

Net cash used in investing activities

During the Reporting Period, the Group recorded a net cash used in investing activities of RMB758,195,000, representing a YOY increase of RMB580,377,000, mainly due to the increase in capital expenditures arising from the addition of fixed assets and upgrade of equipment and payment on equity interest for resumption of control on Xinghao Cement.

Net cash used in financing activities

During the Reporting Period, the Group recorded a net cash used in investing activities of RMB830,036,000, representing a YOY decrease of RMB181,008,000, mainly due to the decrease of net amount affected by the cash outflow from the Group's bank borrowings and repayment of bank loans and bonds as compared with the corresponding period of last year .

Capital expenditures

During the Reporting Period, the capital expenditures invested were approximately RMB616,485,000, which were mainly invested in respect 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 30 June 2019 were as follows:

(Unit: RMB'000)

	30 June 2019	31 December 2018
Authorised and contracted for		
– plant and equipment	**297,292**	321,051
Authorised but not contracted for		
– plant and equipment	**179,714**	79,660
Total	**477,006**	400,711

Pledge of assets

Details in relation to pledge of assets of the Group as at 30 June 2019 are set out in note 13 to the condensed consolidated financial statements.

Contingent liabilities

Details in relation to contingent liabilities of the Group as at 30 June 2019 are set out in note 21 to the condensed consolidated financial statements.

Human resources

As at 30 June 2019, the Group had a total of 18,556 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, save for the recovery of control over Xinghao Cement Co., Ltd., in March 2019 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 THE SECOND HALF OF THE YEAR

In the first half of 2019, China's accumulated cement output increased by 6.8% YOY, a record growth rate in nearly 6 years. The six major regions saw growth in cement output to a varying degree, with the growth rate in the northern regions being faster than that in the southern regions, especially in North China and Northeast China, where the growth rate was close to 20%. East China and Northwest China also registered double-digit growth in cement output. In contrast, the growth of cement output in the south-central and southwest regions was relatively weak.

In terms of provinces, 23 provinces achieved positive growth and 8 provinces experienced negative growth. In particular, Jilin, Shanxi, Shandong, Tibet and Heilongjiang saw rapid increase in cement output, with a growth rate of over 20%. Hebei, Gansu, Tianjin and Liaoning also registered double-digit growth in cement output. Hainan, Beijing, Qinghai, Guizhou, Guangxi, Hunan, Guangdong and Ningxia registered negative growth in cement output. In the first half of this year, the demand for cement in Hainan, Qinghai, Guizhou, Guangxi, Hunan and Guangdong weakened significantly. In addition, the reasons for the high growth in cement output in those regions were different. The high output growth in Jilin was mainly due to the decrease of inflow from Liaoning and Inner Mongolia, while that in Shandong, Tibet and Hebei was due to increased demand.

In the second half of 2019, investment in real estate is expected to slow down to a small extent, while investment in infrastructure projects is expected to accelerate. Therefore, it is expected that the growth rate of cement demand in the second half of the year will be lower than that in the first half of the year. However, cement output is likely to achieve a positive growth in 2019, and the clinker consumption will exceed 1.4 billion tonnes to reach a record high, which will be a strong support for the overall stability of cement prices in the second half of the year.

The Company believes that in the second half of 2019, with the support of the Chinese government, China's economy, driven by investment in infrastructure and real estate, will keep high-quality and stable growth, and the demand for cement will remain strong.

In the second half of 2019, cutting excessive capacity remained a key theme of the industry. As the Chinese government further advanced supply-side structural reform and stepped up efforts on air pollution control and environmental remediation, off-peak production, production restriction for environmental protection, elimination of outdated production capacity, capacity reduction and replacement, and mergers and reorganizations will increase industry concentration and will continue to be the most important means for the cement industry to promote the supply-side structural reform.

The 32.5 strength grade of composite silicate cement (PC32.5R) will be removed under the new national standards to be effective from 1 October 2019. As PC32.5R is a representative type of low-grade cement, its elimination will, on the one hand, increase the consumption of clinker required for cement production, and on the other hand, increase the production costs of grinding plants and lead to the close-down or transformation of some grinding plants. This will benefit the Company as over 60% of the Company's products are high-grade cement.

In the second half of 2019, more efforts will be made to promote green and high-quality development. As China's economy has entered the stage of high-quality development, cement enterprises, amid severe industrial overcapacity and weak market demand, will turn to energy conservation and emission reduction and intelligent manufacturing, eliminate low-grade cement products, develop low-carbon cement, ecological cement, dry powder mortar and other new cement-based materials, improve product quality and optimize product mix so as to stay in line with the high-quality development of the industry and cater to new market demands.

In the second half of 2019, the Group will, in accordance with its annual work plan, hew to the goal of "bringing about record-high economic returns". Specifically, it will speed up the replacement of old drivers of growth with new ones, implement the three major strategies of "resource reserve, industry chain extension and talent-oriented development", make efforts to accomplish key tasks such as standardization of rules and procedures, strengthening weaknesses, management innovation and team building, so as to pursue high-quality development and open up fresh growth prospects. Meanwhile, the Group will seize the favorable opportunity arising from the restructuring of the cement industry to enhance its presence in the domestic market.

In terms of operation and management, the Group will keep a close eye on the impact of the supply-side structural reform and environmental protection policies on the supply side, as well as the impact of the country's increased infrastructure investment on the demand side. It will make comprehensive studies and analyses and accurately predict the market trends, so as to improve the accuracy of marketing strategies and improve the quality of operations. Further, it will strengthen studies and analyses on the raw material markets, consolidate and strengthen its strategic cooperation with major suppliers of various materials, and actively explore new pipelines to ensure stable and economic supply of raw materials. Meanwhile, the Group will thoroughly implement the national environmental protection policies and guidelines, carry out technological renovation to save energy and reduce emissions, and further improve its environmental management standard; continue to promote the construction of green mines, enforce standardized mining operations, and carry out remediation and restoration of mining areas; and accelerate industry chain extension and vigorously develop aggregate business. In addition, the Group will improve its staff training mechanism, innovate talents recruiting mode and enhance its talent incentive mechanism to generate internal impetus for the sustainable development of the Company.

In short, the Group 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.

RECENT DEVELOPMENTS

On 30 August 2018, Tianrui (International) Holding Company Limited ("**Tianrui**") filed a winding-up petition against the Company in the Grand Court (the "**Cayman Islands Petition**"). The Cayman Islands Petition was struck out by order of the Grand Court on 19 October 2018 (the "**Strike-out Order**"). On 13 November 2018, Tianrui filed a notice of appeal against the Grand Court's Order (the "**Cayman Appeal**").

On 16 January 2019, the Court of Appeal allowed the Cayman Appeal and the Cayman Islands Petition was reinstated and returned to the Grand Court.

On 21 February 2019, the Company made an application for leave to appeal to the Privy Council to set aside the Court of Appeal's decision. The Court of Appeal declined to grant the Application after a hearing on 5 April 2019.

The Company and its legal counsel are considering all available options.

In addition, the Company was served on 4 June 2019 with a Writ of Summons issued on 27 May 2019, in the Grand Court of the Cayman Islands, Financial Services Division (the "**Writ**").

The Writ has been issued 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 subsequent 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, it will vigorously defend itself against the Writ and Tianrui's claim. Please refer to the Company's announcements dated 18 January 2019, 22 January 2019, 15 February 2019, 21 March 2019, 17 April 2019 and 5 June 2019 for further information.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019.

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

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

Chairman and Chief Executive Officer

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW OF INTERIM REPORT AND RESULTS ANNOUNCEMENT BY AUDIT COMMITTEE

The audit committee comprises the three independent non-executive Directors who reviewed the unaudited interim results and report of the Group for the six months ended 30 June 2019, and discussed with the Company's management regarding risk management, internal control and other important matters.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND REPORT

This interim results announcement is available on the website of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the website of the Company (http://www.sdsunnsygroup.com). The interim report of the Company for the six months ended 30 June 2019 will be despatched to the shareholders of the Company and published on the above websites in due course.

APPRECIATION

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

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

Hong Kong, 10 August 2019

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