SUNNSY

CHINA SHANSHUI CEMENT GROUP LIMITED
中國山水水泥集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 691)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

SUMMARY

- Operating revenue for the first half of year 2020 amounted to approximately RMB8,746,831,000, representing a decrease of 7.3% as compared to the corresponding period of last year;
- Profit from operations for the first half of year 2020 amounted to approximately RMB1,959,039,000, representing an increase of 1.1% as compared to the corresponding period of last year;
- Profit attributable to equity shareholders of the Company for the first half of year 2020 amounted to approximately RMB1,296,631,000, representing an increase of 8.4% as compared to the corresponding period of last year;
- Basic earnings per share for the first half of year 2020 was RMB0.30.

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 2020 (the "**Reporting Period**"), together with comparative unaudited financial data for the corresponding period in 2019. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020 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 2020 – Unaudited

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
Revenue	3(a)	**8,746,831**	9,440,723
Cost of sales		**(5,724,987)**	(6,159,135)
Gross profit		**3,021,844**	3,281,588
Other income	5	**201,421**	183,397
Reversal of impairment losses on trade receivables, net		**1,622**	2,282
Reversal of impairment losses on other receivables, net		**4,106**	2,031
Selling and marketing expenses		**(250,773)**	(274,092)
Administrative expenses		**(599,094)**	(752,872)
Other gains and losses	6	**87,916**	(72,778)
Expenses incurred during off-peak suspension		**(508,003)**	(430,992)
Profit from operations		**1,959,039**	1,938,564
Finance costs	7(a)	**(184,906)**	(243,812)
Share of results of associates		**9,171**	19,195
Profit before taxation		**1,783,304**	1,713,947
Income tax expense	8	**(459,250)**	(508,306)
Profit for the period		**1,324,054**	1,205,641
Attributable to:			
Equity shareholders of the Company		**1,296,631**	1,196,369
Non-controlling interests		**27,423**	9,272
Profit for the period		**1,324,054**	1,205,641
Earnings per share	9		
Basic *(RMB)*		**0.30**	0.27
Diluted *(RMB)*		**0.28**	0.27

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020 – Unaudited

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Profit for the period	**1,324,054**	1,205,641
Other comprehensive expense for the period		
Item that will not be reclassified to profit or loss:		
Exchange differences arising on translation from functional currency to presentation currency	**(15,981)**	(1,601)
Total comprehensive income for the period	**1,308,073**	1,204,040
Attributable to:		
Equity shareholders of the Company	**1,280,650**	1,194,768
Non-controlling interests	**27,423**	9,272
Total comprehensive income for the period	**1,308,073**	1,204,040

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 – Unaudited

	Notes	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
NON-CURRENT ASSETS			
Fixed assets			
– Property, plant and equipment		**15,677,791**	15,999,633
Right-of-use assets		**2,304,708**	2,331,767
		17,982,499	18,331,400
Intangible assets		**947,522**	930,613
Goodwill		**90,132**	90,132
Other financial assets		**109,269**	134,411
Interests in associates		**293,118**	312,342
Deferred tax assets		**178,811**	145,977
Other long-term assets		**762,217**	665,788
		20,363,568	20,610,663
CURRENT ASSETS			
Inventories		**2,226,406**	1,995,166
Trade and bills receivables	10	**2,427,384**	1,937,492
Other receivables and prepayments	11	**703,766**	690,966
Derivative component of convertible bonds	18	**264,491**	187,779
Restricted bank deposits	12	**44,396**	41,685
Bank balances and cash		**1,754,351**	1,364,054
		7,420,794	6,217,142
CURRENT LIABILITIES			
Bank loans – amount due within one year	13	**2,534,749**	2,814,920
Other borrowings	14	**99,909**	160,909
Current portion of long-term bonds	15	**737,000**	935,500
Trade payables	16	**4,011,402**	3,741,546
Other payables and accrued expenses	17	**2,529,432**	2,602,433
Contract liabilities		**769,991**	597,487
Taxation payable		**409,306**	311,745
Lease liabilities		**13,597**	17,196
		11,105,386	11,181,736
NET CURRENT LIABILITIES		**(3,684,592)**	(4,964,594)
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,678,976**	15,646,069

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 – Unaudited

	Notes	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
NON-CURRENT LIABILITIES			
Bank loans – amount due after one year	13	**847,000**	847,000
Other borrowings	14	**330,909**	331,818
Long-term bonds	15	**236,000**	436,000
Defined benefit obligations		**246,944**	279,879
Deferred income		**122,120**	122,120
Long-term payables		**226,346**	235,149
Convertible bonds	18	**606,679**	634,057
Lease liabilities		**68,466**	72,464
Deferred tax liabilities		**86,000**	87,143
		2,770,464	3,045,630
NET ASSETS		**13,908,512**	12,600,439
CAPITAL AND RESERVES			
Share capital		**295,671**	295,671
Share premium		**8,235,037**	8,235,037
Share capital and Share premium		**8,530,708**	8,530,708
Other reserves		**5,247,142**	3,966,492
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**13,777,850**	12,497,200
Non-controlling interests		**130,662**	103,239
TOTAL EQUITY		**13,908,512**	12,600,439

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 comparative information of 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 2019 and an unmodified opinion on the audited consolidated financial statements of the Group for the year ended 31 December 2019 in their report dated 20 March 2020.

Significant events and transactions in the Reporting Period

The outbreak of Coronavirus Disease 2019 ("**COVID-19 outbreak**") and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. Save for the shutdown of some subsidiaries in the first quarter each year due to seasonal factors, the shutdown has been prolonged due to the impact of COVID-19 outbreak in 2020, and the mandatory quarantine measures imposed by the government also affected the transportation and delivery. However, the operations of subsidiaries of the Group have resumed to normal since March to April 2020 as the epidemic was properly controlled. In addition, the government of the People's Republic of China (the "**PRC**") has announced some financial measures and supports for enterprises to overcome the negative impact arising from the pandemic. As such, there is no material impact on the the financial position and performance of the Group for the Reporting Period.

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 additional accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("**IFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

Application of new and amendments to IFRSs

In the Reporting Period, the Group has applied, the Amendments to References to the conceptual Framework in IFRSs and the following amendments to IFRSs issued by the IASB for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

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

Except as described below, the application of the Amendments to References to the conceptual Framework in IFRSs and the 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.

2.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the Reporting Period had no impact on the condensed consolidated financial statements.

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	
	2020	2019
	RMB'000	*RMB'000*
Sales of cement	**6,966,619**	7,522,147
Sales of clinker	**948,861**	977,265
Sales of concrete	**602,913**	745,832
Sales of other products	**228,438**	195,479
	8,746,831	9,440,723

The Group's revenues for the six months ended 30 June 2020 and 2019 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 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 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 and intangible assets and current assets, with the exception of interests in associates, deferred tax assets, derivative component of convertible bonds and other corporate assets. Segment liabilities include trade payables, other payables and accrued expenses and bank loans and other borrowings managed directly by the segments and lease liabilities.

– 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, gain/(loss) on fair value changes of financial assets at fair value through profit or loss ("**FVTPL**"), gain/(loss) on fair value changes of derivative component of convertible bonds, directors' remuneration, auditor's remuneration and finance costs in relation to the unallocated bank loans, other borrowings, long-term bonds 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.

	2020					2019				
	Shandong Province	**Northeastern China**	**Shanxi Province**	**Xinjiang Region**	**Total**	Shandong Province	Northeastern China	Shanxi Province	Xinjiang Region	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended										
Disaggregated by timing of revenue										
Point in time	**5,710,194**	**1,655,132**	**1,105,797**	**272,079**	**8,743,202**	6,596,928	1,428,268	1,042,147	370,081	9,437,424
Over time	**2,991**	**334**	**304**	**–**	**3,629**	2,731	220	348	–	3,299
Revenue from external customers	**5,713,185**	**1,655,466**	**1,106,101**	**272,079**	**8,746,831**	6,599,659	1,428,488	1,042,495	370,081	9,440,723
Inter-segment revenue	**293,668**	**53,355**	**55,449**	**–**	**402,472**	183,868	98,406	52,349	–	334,623
Reportable segment revenue	**6,006,853**	**1,708,821**	**1,161,550**	**272,079**	**9,149,303**	6,783,527	1,526,894	1,094,844	370,081	9,775,346
Reportable segment profit/(loss) (adjusted profit/(loss) before taxation)	**1,736,109**	**75,168**	**248,088**	**104,684**	**2,164,049**	1,774,222	(12,063)	213,785	158,941	2,134,885
As at 30 June/31 December										
Reportable segment assets	**12,095,403**	**8,105,541**	**5,383,591**	**927,453**	**26,511,988**	11,686,712	8,099,543	5,289,518	970,449	26,046,222
Reportable segment liabilities	**5,431,631**	**1,751,552**	**694,779**	**139,575**	**8,017,537**	5,847,580	1,547,028	645,887	190,986	8,231,481

(ii) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	**2,164,049**	2,134,885
Elimination of inter-segment profit	**(286,709)**	(164,708)
Reportable segment profit derived from the Group's external customers	**1,877,340**	1,970,177
Share of results of associates	**9,171**	19,195
Waiver of interest expenses	**44,828**	65,327
(Loss)/gain on fair value changes of financial assets at FVTPL	**(642)**	3,107
Gain/(loss) on fair value changes of derivative component of convertible bonds	**73,532**	(71,664)
Unallocated finance costs	**(166,174)**	(196,213)
Unallocated head office and corporate expenses	**(54,751)**	(75,982)
Consolidated profit before taxation	**1,783,304**	1,713,947

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	
	2020	2019
	RMB'000	*RMB'000*
Interest income	**15,876**	10,929
Government grants *(note)*	**108,616**	90,548
Amortisation of deferred income	**8,803**	6,275
Waiver of interest expenses	**44,828**	65,327
Others	**23,298**	10,318
	201,421	183,397

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

6 OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Net foreign exchange gain	**8,990**	3,212
Net gain from disposal of fixed assets	**8,220**	1,791
(Loss)/gain on fair value changes on financial asset at FVTPL	**(642)**	3,107
Gain/(loss) on fair value changes of derivative component of convertible bonds	**73,532**	(71,664)
Bad debt recovery	**4,162**	–
Others	**(6,346)**	(9,224)
	87,916	(72,778)

7 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Interest on bank loans	**93,224**	120,199
Interest on other borrowings and long-term bonds	**45,728**	72,759
Interest on lease liabilities	**1,850**	1,767
Effective interest expense on convertible bonds	**37,781**	32,648
Less: capitalised interest expenses(*)	**–**	(221)
Net interest expenses	**178,583**	227,152
Unwinding of discount	**3,769**	4,662
Bank charges	**2,554**	11,998
	184,906	243,812

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

(b) Other items

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Depreciation		
– Property, plant and equipment	**632,301**	621,540
– Right-of-use assets	**37,312**	33,605
Amortisation		
– Intangible assets	**76,215**	72,277

8 INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Current tax expenses		
Provision for the PRC income tax	**483,567**	531,239
Underprovision in prior years	**283**	–
Deferred taxation	**(24,600)**	(22,933)
	459,250	508,306

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

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

(iii) 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 2019: 16.5%). No provision for Hong Kong Profits Tax has been made as the Company and the subsidiaries incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax during the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

9 EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Earnings figures are calculated as follows:		
Profit for the period attributable to owners of the Company and earnings for the purposes of basic earnings per share	**1,296,631**	1,196,369
Effect of dilutive potential ordinary shares		
Effective interest expense on convertible bonds	**37,781**	–
Gain on fair value changes of derivative component of convertible bonds	**(73,532)**	–
Earnings for the purpose of diluted earnings per share	**1,260,880**	1,196,369
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**4,353,966,228**	4,353,966,228
Effect of dilutive potential ordinary shares on convertible bonds	**93,004,769**	–
Weighted average number of ordinary shares for purpose of diluted earnings per shares	**4,446,970,997**	4,353,966,228

The computation of diluted earnings per share does not assume the exercise of the share options granted by the Company in 2011 and 2015 because exercise prices of these share options were higher than the average market price of the shares for the both periods.

For the six months ended 30 June 2020, the computation of diluted earnings per share assumed the conversion of the Company's outstanding convertible bonds which are dilutive. For the six months ended 30 June 2019, the computation of diluted earnings per share had not taken into account of the potential ordinary shares on convertible bonds as the assumed conversion would be anti-dilutive and result in an increase in earnings per share.

10 TRADE AND BILLS RECEIVABLES

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Bills receivables	**1,204,971**	856,218
Trade receivables	**1,485,099**	1,345,582
Less: allowance for credit losses	**(262,686)**	(264,308)
	2,427,384	1,937,492

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 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Within 3 months	**1,482,291**	865,036
3 to 6 months	**312,373**	522,951
6 to 12 months	**363,573**	279,496
Over 12 months	**269,147**	270,009
	2,427,384	1,937,492

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.

11 OTHER RECEIVABLES AND PREPAYMENTS

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Deposit	**31,602**	24,707
Prepayments for raw materials	**116,183**	109,303
VAT recoverable	**74,405**	123,223
Amount due from related parties	**4,348**	7,962
Amount due from third parties	**341,810**	307,519
Others	**135,418**	118,252
	703,766	690,966

12 RESTRICTED BANK DEPOSITS

Restricted bank deposits as at 30 June 2020 include RMB29,665,000 (31 December 2019: RMB29,535,000) of cash deposits pledged to banks for the performance guarantee in relation to certain sales or purchases cement, and RMB14,731,000 (31 December 2019: RMB12,150,000) 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 note 14.

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 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Bank loans – Secured (*)	**103,750**	150,950
Bank loans – Unsecured	**3,277,999**	3,510,970
	3,381,749	3,661,920

* These 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 RMB4,127,000 (31 December 2019: RMB4,178,000) and plants and buildings with an aggregate carrying amount of RMB8,045,000 (31 December 2019: RMB8,223,000).

As at 30 June 2020, there is no default in bank loans repayment and accordingly, bank loans amounting to approximately RMB2,534,749,000 and RMB847,000,000, which are due for repayment before 30 June 2021 and after 30 June 2021 respectively, based on the scheduled repayment terms set out on the loan agreements, are classified as current and non-current liabilities, respectively as at 30 June 2020.

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

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
Within one year on demand	**2,534,749**	2,814,920
After one year but within two years	**847,000**	847,000
	3,381,749	3,661,920

14 OTHER BORROWINGS

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

		At 30 June 2020	At 31 December 2019
	Notes	***RMB'000***	*RMB'000*
Loan from government – Unsecured	(i)	**1,818**	2,727
Short-term financing bills	(ii)	**429,000**	490,000
		430,818	492,727

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

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
Within one year on demand	**99,909**	160,909
After one year but within two years	**330,909**	330,909
After two years but within five years	**–**	909
	330,909	331,818
	430,818	492,727

Notes:

(i) The government loan was received by Liaoning Shanshui Gongyuan Cement Co., Ltd. for constructing an environmental friendly production line. The loan is unsecured, bears interest at one-year PRC deposit interest rate plus 0.30% (31 December 2019: one-year deposit interest rate plus 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 2020, the details of short-term financing bills are listed below:

Issuer	**Outstanding principal** *(RMB'000)*	**Issue date**	**Original maturity date**	**Original interest rates** *(per annum)*	**Interest payment term**	**Interest rates after restructuring plans** *(per annum)*
Shandong Shanshui	190,000 (31/12/2019: 190,000)	14/04/2015	22/11/2015	5.30%	settled at the maturity date	7.70% (31/12/2019: 4.15%–7.70%)
Shandong Shanshui	239,000 (31/12/2019: 300,000)	14/05/2015	12/02/2016	4.50%	settled at the maturity date	1.86%–6.49% (31/12/2019: 1.86%–6.49%)

The outstanding short-term financing bills with principal of RMB429,000,000 (31 December 2019: RMB490,000,000) carry interest rate at 1.86% to 7.70% (31 December 2019: 1.86% to 7.70%) per annum.

In previous years, the Group negotiated with holders of the short-term financing bills to restructure the repayment terms. Under the restructuring plans, the holders of the short-term financing bills (mainly PRC banks and financial institutions) have agreed to waive portion of interest and penalty interest accrued on the principal amount of the short-term financing bills up to the date of the restructuring plan on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. As at 30 June 2020, there is no default in repayment of other borrowings and accordingly, portion of interest related to short-term financing bills of RMB6,107,000 has been waived and recognised as other income in profit or loss during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB19,485,000).

Certain assets of the Group have been frozen by the PRC Courts in respect of the litigations relating to other borrowings, long-term bonds and certain sales or purchase contracts. As at 30 June 2020, cash and cash equivalents of RMB14,731,000 (31 December 2019: RMB12,150,000), right-of-use assets with underlying assets of land lease prepayments of RMB23,259,000 (31 December 2019: RMB28,926,000) and fixed assets of RMB76,067,000 (31 December 2019: RMB77,776,000) have been frozen by the PRC courts.

15 LONG-TERM BONDS

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
Medium-term notes	**973,000**	1,371,500
Less: Current portion of medium-term notes	**(737,000)**	(935,500)
Long-term bonds, less current portion	**236,000**	436,000

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

Issuer	Outstanding principal *(RMB'000)*	Issue date	Original 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						
Shandong Shanshui	649,000 (31/12/2019: 784,000)	18/01/2013	21/01/2016	5.44%	annually	0%–5.44% (31/12/2019: 0%–5.44%)
Shandong Shanshui	301,000 (31/12/2019: 502,500)	27/02/2014	27/02/2017	6.10%	annually	0%–6.10% (31/12/2019: 0%–6.10%)
Shandong Shanshui	23,000 (31/12/2019: 85,000)	09/05/2014	12/05/2017	6.20%	annually	0%–6.20% (31/12/2019: 0%–6.20%)

The outstanding medium-term notes with principal of RMB35,000,000 (31 December 2019: RMB107,500,000) is interest free and principal of RMB938,000,000 (31 December 2019: RMB1,264,000,000) carry interest at 5.44% to 6.20% (31 December 2019: 5.44% to 6.20%) per annum.

In previous years, the Group negotiated with holders of the medium-term notes to restructure the repayment terms. Under the restructuring plans, the holders of the medium-term financing bills (mainly PRC banks and financial institutions) have agreed to waive portion of the interest and penalty interest accrued on the principal amounts of the medium-term notes up to the date of the restructuring plan on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. As at 30 June 2020, there is no default in repayment of long-term bonds and accordingly, portion of interest related to medium-term notes of RMB38,721,000, has been waived and recognised as other income in profit or loss during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB45,842,000).

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

16 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 2020	At 31 December 2019
	RMB'000	*RMB'000*
Within 3 months	**2,360,142**	2,145,100
3 to 6 months	**486,334**	530,975
6 to 12 months	**472,509**	380,924
Over 12 months	**692,417**	684,547
	4,011,402	3,741,546

As at 30 June 2020 and 31 December 2019, 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 2020, certain suppliers and third parties have initiated lawsuits against the Group to demand immediately settlement of trade payables with carrying amount of RMB152,074,000 (31 December 2019: RMB182,204,000) 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 RMB82,856,000 (31 December 2019: RMB99,891,000) 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 RMB69,218,000 (31 December 2019: RMB82,313,000) 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 of the Company 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 2020** *RMB'000*	At 31 December 2019 *RMB'000*
Accrued payroll and welfare		**282,397**	356,218
Taxes payable other than income tax		**46,704**	85,851
Staff compensation and termination provisions		**157,432**	162,154
Amount due to related parties		**943,716**	936,737
Payables to former shareholders of acquired subsidiaries		**91,840**	93,054
Acquisition consideration payables	(i)	**49,820**	64,820
Current portion of long term payables		**1,248**	1,287
Accrued expenses and other payables	(ii)	**956,277**	902,312
		2,529,434	2,602,433

Notes:

(i) Included in the balance are amounts payable for the acquisitions 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 RMB1,705,000, RMB5,000,000 and RMB30,678,000, respectively (31 December 2019: RMB1,705,000, RMB20,000,000 and RMB30,678,000, respectively). The previous shareholders of Liaocheng Meijing Zhongyuan Cement have sued the Group to settle the unpaid acquisition consideration payable plus interest for late payment. Up to the date of approval of these condensed consolidated financial statements, 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 RMB377,622,000, RMB126,006,000 and RMB104,005,000, respectively (31 December 2019: RMB430,672,000, RMB126,006,000 and RMB92,337,000, respectively).

As at 30 June 2020, certain suppliers and third parties have lawsuits against the Group to demand immediate settlement of other payables with carrying amount of RMB178,184,000 (31 December 2019: RMB181,470,000) plus interest for late payment, if any. As of the date of the approval of these condensed consolidated financial statement, certain litigations related to other payables with carrying amount of RMB15,010,000 (31 December 2019: RMB53,481,000) 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 RMB163,174,000 (31 December 2019: RMB127,989,000) 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 of Hong Kong Limited (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 of 7 August 2020 and 2 September 2021 upon (i) the grant of approval for the listing of and permission to deal in the conversion shares by the Listing Committee of the Stock Exchange, with such approval being unconditional or subject to conditions to which neither the Company nor Subscriber shall reasonably object; or (ii) the cancellation of listing. In the event that the Company elects to exercise the conversion right, it shall pay to each 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.

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

The CB contains two components, debt component and derivatives (including conversion and early redemption options) component. The effective interest rate of the debt component is 13% (31 December 2019: 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.

On 6 October 2018, the Company entered into deed of amendments with the CB Subscribers to amend the terms of CB to allow for early conversion of certain CB at the option of the issuer, during the period commencing on (and including) the date on which the listing of the shares issued upon early conversion has been approved by the Stock Exchange and the issuance of the early conversion shares has been approved by the shareholders of the Company. CB of US$456,600,000 in principal amount out of the total outstanding principal amount of the CB of US$531,600,000 was converted into fully paid ordinary shares on 30 October 2018. The outstanding principal amount of the CB is US$75,000,000 as at 30 June 2020 and 31 December 2019, which will mature on 2 September 2021.

The movement of the components of the convertible bonds during the six months ended 30 June 2020 is set out below:

	Debt component *RMB'000*	**Derivative component** *RMB'000*	**Total** *RMB'000*
At 1 January 2019 (audited)	633,100	(246,204)	386,896
Interest charge	32,648	–	32,648
Interest paid	(30,106)	–	(30,106)
Fair value change	–	71,664	71,664
Exchange realignment	(1,555)	1,571	16
At 30 June 2019 (unaudited)	634,087	(172,969)	461,118
At 1 January 2020 (audited)	634,057	(187,779)	446,278
Interest charge	37,781	–	37,781
Interest paid	(74,349)	–	(74,349)
Fair value change	–	(73,532)	(73,532)
Exchange realignment	9,190	(3,180)	6,010
At 30 June 2020 (unaudited)	606,679	(264,491)	342,188

The debt component of convertible bonds is classified as non-current liabilities while the derivative component is classified as current assets in the condensed consolidated financial statements as at 30 June 2020.

The fair values of the Group's derivative components at 30 June 2020 and 31 December 2019 have been arrived at on the basis of a valuation carried out by GW Financial Advising Services Limited, 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 DIVIDEND

(a) Share capital

	30 June 2020 and 31 December 2019	
	Number of shares	**RMB equivalent**
		RMB'000
Ordinary shares of the Company of USD0.01 each		
Authorised:		
At 1 January 2019, 31 December 2019, 1 January 2020 and 30 June 2020	10,000,000,000	701,472
Issued and fully paid:		
At 1 January 2019, 31 December 2019, 1 January 2020 and 30 June 2020	4,353,966,228	295,671

(b) Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

20 CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2020 not provided for in the condensed consolidated financial statements were as follows:

	At 30 June 2020	At 31 December 2019
	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	**199,093**	324,888

21 CONTINGENT LIABILITIES AND OTHER EVENTS

(a) Litigation contingencies

As at 30 June 2020, several litigation claims were initiated by the customers against the Group to demand immediate repayment of the outstanding balance in relation to certain cement and other products sales contracts with an aggregate amount of RMB14,919,000 (31 December 2019: RMB14,043,000) which have yet been concluded. In addition, several litigation claims were initiated by the employees and former employees against the Group in relation to labor disputes with an aggregate amount of approximately RMB7,562,000 (2019: RMB537,000) which have yet been concluded. No provision for these litigation claims was made in these condensed consolidated financial statements as in the opinion of the Directors, the possibility of an outflow of economic resources is remote.

(b) Litigation in the Cayman Islands

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

On 21 March 2019, the Company announced that it was considering applying for a validation order (the "**VO Application**") from the Grand Court to sanction the deposit of share certificates into the Central Clearing and Settlement System ("**CCASS**") of Hong Kong, and asking shareholders who wish to have their share certificates included in any such application for a validation (the "**Requesting Shareholders**") to submit a written request to the Company. On 29 March 2019 (Cayman Islands time), the Company made the VO Application to the Grand Court to, among others, validate the transfer of shares held by the Requesting Shareholders to HKSCC Nominees Limited, the common nominee for shares deposited in CCASS. On 12 September 2019, the Grand Court granted the VO Application and ordered (among other things) the validation of any transfer of shares to HKSCC Nominees Limited by the Company's shareholders and that any such transfer shall not be avoided in the event of any order for the winding-up of the Company (the "**Share Transfer Order**"). On the same day that the judgment was handed down, the Grand Court also granted the petitioner, Tianrui, leave to appeal against its decision to the Court of Appeal. On 18 February 2020 (Cayman Islands time), the Court of Appeal allowed this appeal and reversed the Share Transfer Order. The Company is seeking leave to appeal against the Court of Appeal's decision, and continues to vigorously dispute the Cayman Petition, which it believes to be without merits.

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 declarations setting aside the issue and subsequent conversion of the bonds. The Company considers that there is no reasonable basis for the orders and/or declarations sought and will vigorously defend itself against the Writ and Tianrui's claim.

On 12 August 2019, the Company filed applications with the Grand Court to, among others, (i) strike out the Cayman Petition and the Writ, and/or (ii) stay both proceedings (the "**Applications**"). On 6 April 2020 (Cayman Islands time), the Grand Court dismissed the Applications, and as a result, the two proceedings will continue. The Company has filed an application for leave to appeal against the Grand Court's decision.

Other than the disclosure of above, as at 30 June 2020, 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 2020, the Group was the defendant of certain non-material litigations and certain non-material litigations and 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 2020, China's GDP was RMB45,661.4 billion. By quarters, in the first quarter, a year on year ("**YOY**") decrease of 6.8% was recorded, while in the second quarter, a YOY growth of 3.2% was recorded. During the second quarter, the GDP growth rate turned to be a positive 3.2% from a previous negative one, which was better than market expectation. In June, economic indicators improved significantly: the added value of industrial enterprises above designated size increased for three consecutive months, the growth rate of total retail sales of consumer products and fixed assets investment continued to decline at a slower pace, the unemployment rate in urban areas decreased slightly, and the real income of residents declined at a slower rate. China's fixed assets investment (excluding rural households) amounted to RMB28,160.3 billion, representing a YOY decrease of 3.1%, while infrastructure investment (excluding power, heat, gas and water production and supply sectors) recorded a YOY decrease of 2.7%, among which, the investment in water conservancy increased by 0.4%, the investment in public facilities management decreased by 6.2%, the investment in road transportation and railway transportation increased by 0.8% and 2.6%, respectively. ***(Source: National Bureau of Statistics of China)***

In the first half of 2020, China's economy recorded a growth despite of an earlier decline. Key indicators achieved a recovery growth and fixed assets investment decreased at a significantly slower rate. Infrastructure investment continued to decrease slightly on a YOY basis, however, the investment in each of water conservancy, road transportation and railway transportation all increased slightly after a turnaround. The investment in real estate development turned to positive growth, floor space under construction by real estate developers continued to increase at a slow pace and floor space newly started for construction by real estate developers continued to decline significantly YOY, while the newly-acquired land area figure was basically same as that of the previous year.

In the first half of 2020, operation and production resumption were sped up nationwide. The economy recovered stably, and the market demand for cement rebound soon. However, cement production indicator still showed a negative growth despite that China's cumulative cement output continued to decline at a slower pace, due to the impact of COVID-19 outbreak and the adverse weather condition of heavy rainfall in Southern China on the market. But the decline in cement output narrowed significantly to be below 5% from a nearly 30% YOY decrease at the beginning of the year. For the second half of the year, owing to the end of plum rain season, the arrival of the traditional peak season of construction works and the resulting rapid rebound of demand, the cement output is expected to increase at a positive pace instead of a negative one.

In the first half of 2020, China's total cement production amounted to 998 million tonnes, representing a YOY decrease of 4.8%, but such decrease was 3.4% lower as compared with that from January to May, while China's total cement production in the corresponding period of last year represented a YOY increase of 6.8%; in June, China's cement production amounted to 229 million tonnes, representing a YOY increase of 8.4%, but a decrease of 8.06% as compared with that of the previous month. ***(Source: Digital Cement)***

Company's business review

In the first half of 2020, the Group has been continuously committed to refining our fundamental internal management to enhance the quality of existing manufacturing operations and the sustainability of profits.

As at 30 June 2020, 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 24.288 million tonnes, representing a YOY increase of 1.5%; sales volume of concrete was 1,284 million cubic meters, representing a YOY decrease of 14.6%; sales revenue was RMB8,746,831,000, representing a YOY decrease of 7.3%; and the profit for the period was RMB1,324,054,000, representing a YOY increase of 9.8%.

REVENUE

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

Region	**January–June 2020** Sales revenue *RMB'000*	Sales proportion	January–June 2019 Sales revenue *RMB'000*	Sales proportion	Change of sales revenue
Shandong Region	**5,713,185**	**65.3%**	6,599,659	69.9%	**-13.4%**
Northeast China Operating Region	**1,655,466**	**18.9%**	1,428,488	15.1%	**15.9%**
Shanxi Operating Region	**1,106,101**	**12.7%**	1,042,495	11.1%	**6.1%**
Xinjiang Operating Region	**272,079**	**3.1%**	370,081	3.9%	**-26.5%**
Total	**8,746,831**	**100%**	9,440,723	100.0%	**-7.3%**

In the Reporting Period, the Group's revenue amounted to RMB8,746,831,000, representing a decrease of RMB693,892,000 or 7.3% from that of RMB9,440,723,000 for the corresponding period of 2019. The decrease in revenue was mainly attributable to the decrease in average selling price of the Company's products.

In respect of revenue contribution for the six months ended 30 June 2020, sales of cement and clinker accounted for 90.5% (2019: 90.1%) and the sales of ready-mix concrete accounted for 6.9% (2019: 7.9%).

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

Product	**January–June 2020** Sales revenue *RMB'000*	**proportion**	January–June 2019 Sales revenue *RMB'000*	proportion	Sales revenue YOY change
Cement	**6,966,619**	**79.6%**	7,522,147	79.7%	-7.4%
Clinker	**948,861**	**10.9%**	977,265	10.4%	-2.9%
Concrete	**602,913**	**6.9%**	745,832	7.9%	-19.2%
Others	**228,438**	**2.6%**	195,479	2.0%	16.9%
Total	**8,746,831**	**100%**	9,440,723	100%	-7.3%

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 RMB5,724,987,000 (2019: RMB6,159,135,000). The decrease in cost of sales was mainly due to the decrease in cost of raw materials, prices of coal and the decrease in cost of transportation for the period.

The gross profit for the six months ended 30 June 2020 was RMB3,021,844,000 (2019: RMB 3,281,588,000), representing a gross profit margin of 34.5% on revenue (2019: 34.8%). The decrease in gross profit and the slight decrease in gross profit margin was mainly attributable to the net effect of decrease in average selling price of cement products, cost of raw materials and cost of coal when compared with that of the corresponding period of the previous year.

FINANCIAL REVIEW

Other income

Other income increased from RMB183,397,000 to RMB201,421,000, mainly due to the increase in income from government grants as compared with the same period of last year.

Other gains and losses

Other gains and losses increased from net losses of RMB72,778,000 to net gains of RMB87,916,000, mainly due to the recognition of a gain of RMB73,532,000 on fair value changes of derivative component of convertible bonds for the period, while there was a recognition of a loss of RMB71,664,000 on fair value changes of derivative component of convertible bond for the same period of last year..

Selling and marketing expense, administrative expense and finance expense

Selling and marketing expenses declined to RMB250,773,000 from RMB274,092,000, representing a YOY decrease of 8.5%, which was mainly due to the decrease of sales service charges for the period.

A YOY decrease of 20.4% from RMB752,872,000 to RMB599,094,000 was recorded in administrative expense, mainly due to the decrease in the accrued bonuses and the legal and profesional expenses for the period, and the decrease in the expenses of traveling and business entertainment as a result of the COVID-19 outbreak. In addition, we incurred payments of litigation-related penalty and overdue interest for the same period last year, while we did not incur such expenses for the period.

A YOY decrease of 24.2% from RMB243,812,000 to RMB184,906,000 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 declined to RMB459,250,000 from RMB508,306,000, representing a YOY decrease of 9.7%, mainly due to the increase in profit from subsidiaries in Northeast China and Shanxi, which was used to offset losses of previous years resulting in reduction of real tax rate for the period.

Profit for the period

During the Reporting Period, the Group recorded a net profit of RMB1,324,054,000, representing an increase of RMB118,413,000 over RMB1,205,641,000 for the same period of 2019, mainly due to an increase in sales volume of cement and clinker and the relevant measures to reduce cost and improve efficiency within the period.

FINANCIAL RESOURCES AND LIQUIDITY

As the Group's profit performance has continued to improve in recent years, and its borrowings have been repaid, its financial structure has continued to improve. As of 30 June 2020, the Group's current liabilities exceeded current assets by approximately RMB3,684,592,000, which was less than the excess of current liabilities over current assets as at 31 December 2019 of approximately RMB4,964,594,000; as at 30 June 2020, the total of the interest-bearing borrowings (including bank loans, other borrowings, long-term bonds and convertible bonds) was RMB5,392,246,000, of which RMB3,371,658,000 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 30 June 2020, the total assets increased by approximately 3.6% to approximately RMB27,784,362,000 (31 December 2019: approximately RMB26,827,805,000), while total equity increased by approximately 10.4% to approximately RMB13,908,512,000 (31 December 2019: approximately RMB12,600,439,000).

As at 30 June 2020, bank balances and cash of the Group was approximately RMB1,754,351,000 (31 December 2019: approximately RMB1,364,054,000).

As at 30 June 2020, net gearing ratio of the Group was approximately 20.7% (31 December 2019: 27.6%), each of which was calculated based on net liabilities and total equities as of 30 June 2020 and 31 December 2019. 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 2020	January–June 2019
Net cash generated from operating activities	**1,602,221**	1,642,319
Net cash used in investing activities	**(455,819)**	(758,195)
Net cash used in financing activities	**(742,199)**	(830,036)
Net change in cash and cash equivalents	**404,203**	54,088
Balance of cash and cash equivalents as at 1 January	**1,364,054**	1,303,943
Effect of foreign exchange rates change	**(13,906)**	(2,233)
Balance of cash and cash equivalents as at 30 June	**1,754,351**	1,355,798

Net cash generated from operating activities

During the Reporting Period, the Group recorded a net cash generated from operating activities of RMB1,602,221,000, representing a YOY decrease of RMB40,098,000, mainly due to a decrease in cash inflow from operating activities as a result of a decrease in profit from operations for the period.

Net cash used in investing activities

During the Reporting Period, the Group recorded a net cash used in investing activities of RMB455,819,000, representing a YOY decrease of RMB302,376,000, mainly due to the payments on equity interest for resumption of control over Xinghao Cement in the same period of last year, and the receipts arising from capital-reduction of certain investee companies in the period.

Net cash used in financing activities

During the Reporting Period, the Group recorded a net cash used in financing activities of RMB742,199,000, representing a YOY decrease of RMB87,837,000, mainly due to the decrease in the net cash outflow for bank loans, borrowings and bonds as compared with the same period of last year.

Capital expenditures

During the Reporting Period, the capital expenditures were approximately RMB505,426,000, which were mainly invested in respect of intelligent production, mine resources reserves, cement, and new construction and technical renovation of clinker production lines.

Outstanding capital commitments under relevant agreements not provided for in the financial statements as at 30 June 2020 were as follows:

(Unit: RMB'000)

	30 June 2020	31 December 2019
Authorised and contracted for		
– plant and equipment	**199,093**	324,888
Authorised but not contracted for		
– plant and equipment	**690,736**	334,698
Total	**889,829**	659,586

Pledge of assets

Details in relation to pledge of assets of the Group as at 30 June 2020 are set out in note 13 to the announcement.

Contingent liabilities

Details in relation to contingent liabilities of the Group as at 30 June 2020 are set out in note 21 to the announcement.

Human resources

As at 30 June 2020, the Group had a total of 18,373 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 THE SECOND HALF OF THE YEAR

Macro operating environment outlook for the second half of the year

In the first half of 2020, the industry demand declined as affected by the COVID-19 outbreak, resulting in a downward trend in cement prices across the country and pressure on the performance of cement enterprises. However, from the perspective of the domestic economic situation, the main indicators have recovered to positive growth and the decline in fixed asset investment has narrowed to a great extent. A slight YOY decline was showed in infrastructure investment, while the YOY growth rate of investment in water conservancy management, road transportation and railway transportation has turned from negative to positive, indicating a slight increase. In the second half of 2020, supported by positive factors such as increased investment in infrastructure and continued recovery in real estate industry, cement prices will see in an upward recovery in the second half of the year, and cement demand will continue to maintain a healthy operation.

On the demand front, the overall forecast for the market demand in the second half of the year is expected to be higher than that of the same period last year due to the impact of three favorable factors.

1. Continuous efforts were put into economic stimulus policies.

   In order to hedge against the impact of the COVID-19 outbreak on the economy, China has increased money supply and introduced a series of economic stimulus policies regarding monetary and fiscal aspects.

2. Increasing efforts were put in the construction of key projects.

   More than RMB40 trillion has been announced to be invested in the infrastructure in 31 provinces across the country this year. The cumulative investment amount planned to be put into comprehensive transportation construction for 2020 as announced in the area where Shanshui is located was RMB303.6 billion: RMB184.2 billion for Shandong, RMB25.2 billion for Liaoning, RMB40 billion for Inner Mongolia and RMB54.2 billion for Xinjiang. The construction of certain projects has started in the first half of the year, and it is expected that cement consumption will increase significantly in the third quarter as the progress of project construction accelerates; at the same time, a number of new key projects will also accelerate to be implemented as the COVID-19 outbreak eases.

3. Recovery and growth were seen in the real estate industry.

   In the first half of the year, RMB6,278 billion has been put into the investment in real estate development across the country, representing a YOY increase of 1.9%. Among them, residential investment was RMB4,635 billion, representing an increase of 2.6%, and the growth rate was 2.6% higher than that from January to May. The growth rate of investment in real estate development has turned positive, and the floor space under construction by real estate developers has maintained a slight increase. Although the floor space newly started for construction has decreased significantly year on year, the land acquisition area has almost remained the same year on year, which indicates that the real estate industry is gradually recovering and further growth prospects are expected to be seen in the second half of the year. The recovery and growth of the real estate industry will bring further growth in demand for cement.

On the supply front, the supply-side reform of the cement industry will continue to be advanced.

In the second half of 2020, cutting excessive capacity will remain 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 protection, off-peak production, production restriction for environmental protection, elimination of outdated production capacity, capacity reduction and replacement, and mergers and reorganizations that increase industry concentration will continue to be the most important means for the cement industry to promote supply-side structural reform. In the second half of 2020, more efforts will be made to promote green and high-quality development. Green manufacturing is the only way for the transformation and upgrading of cement industry. Great efforts and time are required by green mine construction, energy saving and consumption reduction, and the building of a garden cement plant. On the other hand, intelligent factories and production lines will be constructed to further develop the intelligence and digitalization of cement factories. The industry needs to accelerate the speed of transformation and upgrading.

Meanwhile, the promulgation of new infrastructure plans by the NPC and CPPCC has also brought more opportunities for economic operations which suffered severe damage across the country. In the face of a new industry situation where opportunities and challenges co-exist, the in-depth integration of the development of networking, intelligence and digitalization in the 5G era with the traditional industry of cement is also imperative.

As the Group is the sixth largest cement and clinker manufacturer in China in terms of its capacity, the PRC government's implementation of stricter environmental protection policies and off-peak production measures to promote the development of intelligent, digital and green cement enterprises will facilitate us in cementing our market position and improving our financial performance.

Business outlook for the second half of the year

In the second half of 2020, the Group will, in accordance with its annual business goals, speed up the replacement of old drivers of growth with new ones, implement the three main strategies of "resource reserve, industry chain extension and talent-oriented development", make efforts to accomplish key tasks such as standardization of rules and procedures, remedying its shortcomings, 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 opportunities 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.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020.

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 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 2020, 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 2020 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, 7 August 2020

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.