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 2021


**SUMMARY**

- Operating revenue for the first half of year 2021 amounted to approximately RMB10,392,021,000, representing an increase of 18.8% as compared to the corresponding period of last year;

- Profit from operations for the first half of year 2021 amounted to approximately RMB1,688,409,000, representing a decrease of 13.8% as compared to the corresponding period of last year;

- Profit attributable to equity shareholders of the Company for the first half of year 2021 amounted to approximately RMB1,203,545,000, representing a decrease of 7.2% as compared to the corresponding period of last year;

- Basic earnings per share for the first half of year 2021 was RMB0.28.


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 2021 (the "**Reporting Period**"), together with comparative unaudited financial data for the corresponding period of 2020. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2021 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 2021 – Unaudited*

| | Notes | Six months ended 30 June 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|---|
| **Revenue** | 3(a) | **10,392,021** | 8,746,831 |
| Cost of sales | | **(7,397,769)** | (5,724,987) |
| **Gross profit** | | **2,994,252** | 3,021,844 |
| Other income | 5 | **243,464** | 201,421 |
| (Impairment losses)/reversal of impairment losses on trade receivables, net | | **(35,601)** | 1,622 |
| (Impairment losses)/reversal of impairment losses on other receivables, net | | **(15,800)** | 4,106 |
| Selling and marketing expenses | | **(328,608)** | (250,773) |
| Administrative expenses | | **(630,728)** | (599,094) |
| Other gains and losses | 6 | **(21,201)** | 87,916 |
| Expenses incurred during off-peak suspension | | **(517,369)** | (508,003) |
| **Profit from operations** | | **1,688,409** | 1,959,039 |
| Finance costs | 7(a) | **(127,517)** | (184,906) |
| Share of results of associates | | **22,076** | 9,171 |
| **Profit before taxation** | | **1,582,968** | 1,783,304 |
| Income tax expense | 8 | **(331,479)** | (459,250) |
| **Profit for the period** | | **1,251,489** | 1,324,054 |
| Attributable to: | | | |
| Equity shareholders of the Company | | **1,203,545** | 1,296,631 |
| Non-controlling interests | | **47,944** | 27,423 |
| **Profit for the period** | | **1,251,489** | 1,324,054 |
| **Earnings per share** | 9 | | |
| Basic *(RMB)* | | **0.28** | 0.30 |
| Diluted *(RMB)* | | **0.28** | 0.28 |

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the six months ended 30 June 2021 – Unaudited*

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| **Profit for the period** | **1,251,489** | 1,324,054 |
| **Other comprehensive income/(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 | **3,051** | (15,981) |
| **Total comprehensive income for the period** | **1,254,540** | 1,308,073 |
| Attributable to: | | |
| Equity shareholders of the Company | **1,206,596** | 1,280,650 |
| Non-controlling interests | **47,944** | 27,423 |
| **Total comprehensive income for the period** | **1,254,540** | 1,308,073 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*At 30 June 2021 – Unaudited*

| | Notes | At 30 June 2021 RMB'000 | At 31 December 2020 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Fixed assets | | | |
| – Property, plant and equipment | | **15,892,139** | 15,717,501 |
| Right-of-use assets | | **2,267,286** | 2,304,350 |
| | | **18,159,425** | 18,021,851 |
| Intangible assets | | **1,101,163** | 995,994 |
| Goodwill | | **90,132** | 90,132 |
| Other financial assets | | **45,161** | 44,622 |
| Interests in associates | | **301,099** | 320,535 |
| Deferred tax assets | | **242,789** | 168,039 |
| Other long-term assets | | **816,720** | 857,888 |
| | | **20,756,489** | 20,499,061 |
| **CURRENT ASSETS** | | | |
| Inventories | | **2,287,266** | 2,288,043 |
| Trade and bills receivables | 10 | **2,393,342** | 2,319,478 |
| Other receivables and prepayments | 11 | **1,118,494** | 905,110 |
| Derivative component of convertible bonds | 18 | **237,873** | 243,737 |
| Restricted bank deposits | 12 | **38,879** | 20,771 |
| Bank balances and cash | | **1,473,159** | 1,401,233 |
| | | **7,549,013** | 7,178,382 |
| **CURRENT LIABILITIES** | | | |
| Bank loans – amount due within one year | 13 | **2,297,750** | 1,544,749 |
| Other borrowings | 14 | **909** | 330,909 |
| Current portion of long-term bonds | 15 | **–** | 321,000 |
| Trade payables | 16 | **4,116,282** | 3,605,201 |
| Other payables and accrued expenses | 17 | **2,150,114** | 2,480,568 |
| Contract liabilities | | **879,002** | 732,802 |
| Taxation payable | | **294,840** | 267,584 |
| Convertible bonds | | **521,419** | 543,263 |
| Lease liabilities | | **9,779** | 13,419 |
| | | **10,270,095** | 9,839,495 |
| **NET CURRENT LIABILITIES** | | **(2,721,082)** | (2,661,113) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **18,035,407** | 17,837,948 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*At 30 June 2021 – Unaudited*

| | Notes | At 30 June 2021 RMB'000 | At 31 December 2020 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Bank loans – amount due after one year | 13 | **230,000** | 1,117,000 |
| Other borrowings | 14 | **–** | 909 |
| Long-term bonds | 15 | **–** | 115,000 |
| Long-term payables | | **236,760** | 253,741 |
| Defined benefit obligations | | **111,460** | 111,460 |
| Deferred income | | **215,853** | 222,844 |
| Lease liabilities | | **57,453** | 59,574 |
| Deferred tax liabilities | | **69,973** | 75,403 |
| | | **921,499** | 1,955,931 |
| **NET ASSETS** | | **17,113,908** | 15,882,017 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **295,671** | 295,671 |
| Share premium | | **8,235,037** | 8,235,037 |
| Share capital and Share premium | | **8,530,708** | 8,530,708 |
| Other reserves | | **8,378,686** | 7,172,090 |
| **TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY** | | **16,909,394** | 15,702,798 |
| **Non-controlling interests** | | **204,514** | 179,219 |
| **TOTAL EQUITY** | | **17,113,908** | 15,882,017 |

## 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.

## 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 2021 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2020.

**Application of amendments to IFRSs**

In the Reporting Period, the Group has applied 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 2021 for the preparation of the Group's condensed consolidated financial statements:

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

The application of the amendments to IFRSs in the Reporting Period 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.

## 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 | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| Sales of cement | **8,460,283** | 6,966,619 |
| Sales of clinker | **1,054,833** | 948,861 |
| Sales of concrete | **591,526** | 602,913 |
| Sales of other products | **285,379** | 228,438 |
| | **10,392,021** | 8,746,831 |

The Group's revenues for the six months ended 30 June 2021 and 2020 were generated in the People's Republic of China (the "**PRC**"). Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b).

### (b) Segment reporting

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.

### *(i) Segment results, assets and liabilities*

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.

| | 2021 | | | | | 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Shandong Province** | **Northeastern China** | **Shanxi Province** | **Xinjiang Region** | **Total** | Shandong Province | Northeastern China | Shanxi Province | Xinjiang Region | Total |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| For the six months ended 30 June | | | | | | | | | | |
| **Disaggregated by timing of revenue** | | | | | | | | | | |
| Point in time | **6,720,807** | **2,143,005** | **1,298,286** | **224,857** | **10,386,955** | 5,710,194 | 1,655,132 | 1,105,797 | 272,079 | 8,743,202 |
| Over time | **2,856** | **99** | **2,111** | **–** | **5,066** | 2,991 | 334 | 304 | – | 3,629 |
| Revenue from external customers | **6,723,663** | **2,143,104** | **1,300,397** | **224,857** | **10,392,021** | 5,713,185 | 1,655,466 | 1,106,101 | 272,079 | 8,746,831 |
| Inter-segment revenue | **549,663** | **12,265** | **14,204** | **–** | **576,132** | 293,668 | 53,355 | 55,449 | – | 402,472 |
| **Reportable segment revenue** | **7,273,326** | **2,155,369** | **1,314,601** | **224,857** | **10,968,153** | 6,006,853 | 1,708,821 | 1,161,550 | 272,079 | 9,149,303 |
| **Reportable segment profit** (adjusted profit before taxation) | **1,452,018** | **116,622** | **269,792** | **66,610** | **1,905,042** | 1,736,109 | 75,168 | 248,088 | 104,684 | 2,164,049 |
| As at 30 June/31 December | | | | | | | | | | |
| **Reportable segment assets** | **12,742,841** | **8,387,446** | **5,194,446** | **1,024,799** | **27,349,532** | 13,155,824 | 8,083,169 | 5,115,134 | 1,053,625 | 27,407,752 |
| **Reportable segment liabilities** | **5,308,864** | **1,812,590** | **205,295** | **79,679** | **7,406,428** | 5,440,585 | 1,524,080 | 300,098 | 164,570 | 7,429,333 |

### (ii) *Reconciliations of reportable segment profit or loss*

| | **Six months ended 30 June** | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| **Profit** | | |
| Reportable segment profit | **1,905,042** | 2,164,049 |
| Elimination of inter-segment profit | **(197,071)** | (286,709) |
| Reportable segment profit derived from the Group's external customers | **1,707,971** | 1,877,340 |
| Share of results of associates | **22,076** | 9,171 |
| Waiver of interest expenses | **54,800** | 44,828 |
| Gain/(loss) on fair value changes of financial assets at FVTPL | **539** | (642) |
| (Loss)/gain on fair value changes of derivative component of convertible bonds | **(3,493)** | 73,532 |
| Unallocated finance costs | **(103,778)** | (166,174) |
| Unallocated head office and corporate expenses | **(95,147)** | (54,751) |
| Consolidated profit before taxation | **1,582,968** | 1,783,304 |

## 4 SEASONALITY OF OPERATIONS

The Group generally experiences higher cement demands in the second half of the year compared to the first half of the year due to construction season starting at the 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 | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| Interest income | **7,957** | 15,876 |
| Government grants *(note)* | **124,480** | 108,616 |
| Amortisation of deferred income | **7,125** | 8,803 |
| Waiver of interest expenses | **54,800** | 44,828 |
| Others | **49,102** | 23,298 |
| | **243,464** | 201,421 |

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

## 6 OTHER GAINS AND LOSSES

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| Net foreign exchange gain | **1,916** | 8,990 |
| Net (loss)/gain from disposal of fixed assets | **(7,937)** | 8,220 |
| Gain/(loss) on fair value changes of financial assets at FVTPL | **539** | (642) |
| (Loss)/gain on fair value changes of derivative component of convertible bonds | **(3,493)** | 73,532 |
| Donations | **(11,779)** | (5,452) |
| Bad debt recovery | **–** | 4,162 |
| Others | **(447)** | (894) |
| | **(21,201)** | 87,916 |

## 7 PROFIT BEFORE TAXATION

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

### (a) Finance costs

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| Interest on bank loans | **62,501** | 93,224 |
| Interest on other borrowings and long-term bonds | **17,246** | 45,728 |
| Interest on lease liabilities | **1,776** | 1,850 |
| Effective interest expense on convertible bonds | **31,925** | 37,781 |
| Less: capitalised interest expenses(*) | **(543)** | – |
| Net interest expenses | **112,905** | 178,583 |
| Unwinding of discount | **5,633** | 3,769 |
| Bank charges | **8,979** | 2,554 |
| | **127,517** | 184,906 |

* The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant is 4.50% for the six months ended 30 June 2021.

### (b) Other items

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| Depreciation | | |
| – property, plant and equipment | **616,583** | 632,301 |
| – right-of-use assets | **38,968** | 37,312 |
| Amortisation | | |
| – intangible assets | **83,543** | 76,215 |

## 8 INCOME TAX EXPENSE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| **Current tax expenses** | | |
| Provision for the PRC income tax | **399,393** | 483,567 |
| Underprovision in prior years | **3,953** | 283 |
| | **403,346** | 483,850 |
| **Deferred taxation** | **(71,867)** | (24,600) |
| | **331,479** | 459,250 |

*Notes:*

(i) The Group's PRC subsidiaries are subject to PRC income tax at the statutory rate of 25% (six months ended 30 June 2020: 25%) unless otherwise specified.

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

(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 2020: 16.5%). No provision for Hong Kong Profits Tax has been made as the Company and the subsidiaries incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax during the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

## 9 EARNINGS PER SHARE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***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 | **1,203,545** | 1,296,631 |
| 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 | **1,203,545** | 1,260,880 |
| 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 | **4,353,966,228** | 4,446,970,997 |

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 both periods.

For the six months ended 30 June 2021, the computation of diluted earnings per share had not taken into account the potential ordinary shares on convertible bonds as the assumed conversion would be anti-dilutive and result in an increase in earnings per share. 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.

## 10 TRADE AND BILLS RECEIVABLES

| | At 30 June 2021 RMB'000 | At 31 December 2020 RMB'000 |
|---|---|---|
| Bills receivables | **1,263,660** | 1,199,872 |
| Trade receivables | **1,466,907** | 1,422,922 |
| Less: allowance for credit losses | **(337,225)** | (303,316) |
| | **2,393,342** | 2,319,478 |

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 2021 RMB'000 | At 31 December 2020 RMB'000 |
|---|---|---|
| Within 3 months | **1,274,044** | 911,522 |
| 3 to 6 months | **405,353** | 653,987 |
| 6 to 12 months | **354,972** | 417,976 |
| Over 12 months | **358,973** | 335,993 |
| | **2,393,342** | 2,319,478 |

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 the sale of cement and clinker. Credit sales with a general credit period of 30 to 60 days are occasionally allowed to selected customers with good credit histories and a 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 2021** *RMB'000* | At 31 December 2020 *RMB'000* |
|---|---|---|
| Deposit | **99,953** | 36,417 |
| Prepayments for raw materials | **208,639** | 164,807 |
| Prepayments for utilities | **76,674** | 77,735 |
| VAT recoverable | **219,601** | 179,764 |
| Amount due from related parties | **36,413** | 5,384 |
| Amount due from third parties | **445,678** | 362,537 |
| Others | **31,536** | 78,466 |
| | **1,118,494** | 905,110 |

## 12 RESTRICTED BANK DEPOSITS

Restricted bank deposits as at 30 June 2021 include RMB29,429,000 (31 December 2020: RMB16,760,000) of cash deposits pledged to banks for the performance guarantee in relation to certain sales or purchases agreements, and RMB9,450,000 (31 December 2020: RMB4,011,000) 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 certain sales or purchase contracts. Further details of this litigation are set out in note 14.

## 13 BANK LOANS

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

| | **At 30 June 2021** *RMB'000* | At 31 December 2020 *RMB'000* |
|---|---|---|
| Bank loans – Secured (*) | **103,750** | 103,750 |
| Bank loans – Unsecured | **2,424,000** | 2,557,999 |
| | **2,527,750** | 2,661,749 |

* These bank loans were secured by certain plants and buildings with an aggregate carrying amount of RMB8,534,000 (31 December 2020: RMB8,712,000).

As at 30 June 2021, there is no default in bank loans repayment.

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

| | At 30 June 2021 *RMB'000* | At 31 December 2020 *RMB'000* |
|---|---|---|
| Within one year | **2,297,750** | 1,544,749 |
| After one year but within two years | **230,000** | 1,117,000 |
| | **2,527,750** | 2,661,749 |

## 14 OTHER BORROWINGS

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

| | *Notes* | At 30 June 2021 *RMB'000* | At 31 December 2020 *RMB'000* |
|---|---|---|---|
| Loan from government – Unsecured | (i) | **909** | 1,818 |
| Short-term financing bills | (ii) | **–** | 330,000 |
| | | **909** | 331,818 |

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

| | At 30 June 2021 *RMB'000* | At 31 December 2020 *RMB'000* |
|---|---|---|
| Within one year | **909** | 330,909 |
| After one year but within two years | **–** | 909 |
| | **909** | 331,818 |

*Notes:*

(i) The government loan was received by Liaoning Shanshui Gongyuan Cement Co., Ltd. for constructing an environmental friendly production line. The loan is unsecured, bears interest at one-year PRC deposit interest rate plus 0.30% (31 December 2020: one-year deposit interest rate plus 0.30%) and is repayable in equal instalments from years 2012 to 2021.

(ii) All of the short-term financing bills are issued by Shandong Shanshui Cement Group Co., Ltd ("**Shandong Shanshui**") and tradable in the PRC inter-bank market. As at 30 June 2021, the details of short-term financing bills are listed below:

| Issuer | Outstanding principal *(RMB'000)* | Issue date | Original maturity date | Original interest rates *(per annum)* | Interest payment term | Interest rates after restructuring plans *(per annum)* | Remark |
|---|---|---|---|---|---|---|---|
| Shandong Shanshui | nil (31/12/2020: 190,000) | 14/04/2015 | 22/11/2015 | 5.30% | settled at the maturity date | nil (31/12/2020: 7.70%) | Note |
| Shandong Shanshui | nil (31/12/2020: 140,000) | 14/05/2015 | 12/02/2016 | 4.50% | settled at the maturity date | nil (31/12/2020:6.49%) | Note |

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

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

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 2021, there is no default in repayment of other borrowings and accordingly, portion of interest related to short-term financing bills of RMB22,894,000 has been waived and recognised as other income in profit or loss during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB6,107,000).

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 2021, cash and cash equivalents of RMB9,450,000 (31 December 2020: RMB4,011,000), right-of-use assets with underlying assets of land lease prepayments of RMB5,070,000 (31 December 2020: RMB5,132,000) and fixed assets of RMB24,550,000 (31 December 2020: RMB25,057,000) have been frozen by the PRC Courts.

## 15 LONG-TERM BONDS

| | At 30 June 2021 *RMB'000* | At 31 December 2020 *RMB'000* |
|---|---|---|
| Medium-term notes | – | 436,000 |
| Less: Current portion of medium-term notes | – | (321,000) |
| Long-term bonds, less current portion | – | 115,000 |

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

| Issuer | Outstanding principal *(RMB'000)* | Issue date | Original maturity date | Original interest rates *(per annum)* | Interest payment term | Interest rates after restructuring plans *(per annum)* |
|---|---|---|---|---|---|---|
| **Medium-term notes issued in the PRC inter-bank market** | | | | | | |
| Shandong Shanshui | nil (31/12/2020: 286,000) | 18/01/2013 | 21/01/2016 | 5.44% | annually | nil (31/12/2020: 0%–5.44%) |
| Shandong Shanshui | nil (31/12/2020: 150,000) | 27/02/2014 | 27/02/2017 | 6.10% | annually | nil (31/12/2020: 0%–6.10%) |

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

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 a 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 2021, there is no default in repayment of long-term bonds and accordingly, a portion of interest related to medium-term notes of RMB31,906,000, has been waived and recognised as other income in profit or loss during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB38,721,000).

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 2021** | At 31 December 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **2,508,285** | 2,219,539 |
| 3 to 6 months | **456,387** | 465,384 |
| 6 to 12 months | **493,051** | 349,927 |
| Over 12 months | **658,559** | 660,351 |
| | **4,116,282** | 3,605,201 |

As at 30 June 2021 and 31 December 2020, 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 2021, certain suppliers and third parties have initiated lawsuits against the Group to demand immediate settlement of trade payables with a carrying amount of RMB7,572,000 (31 December 2020: RMB16,558,000) plus interest for late payment, if any.

The management are continuing to negotiate with the suppliers to settle these amounts out of court. No adjustments have been made to these 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 2021** *RMB'000* | At 31 December 2020 *RMB'000* |
|---|---|---|---|
| Accrued payroll and welfare | | **247,526** | 439,835 |
| Taxes payable other than income tax | | **64,804** | 50,808 |
| Staff compensation and termination provisions | | **156,551** | 159,110 |
| Amount due to related parties | | **855,289** | 857,225 |
| Payables to former shareholders of acquired subsidiaries | | **78,937** | 95,174 |
| Acquisition consideration payables | (i) | **44,878** | 45,149 |
| Current portion of long term payables | | **1,287** | 1,287 |
| Accrued expenses and other payables | (ii) | **700,842** | 831,980 |
| | | **2,150,114** | 2,480,568 |

*Notes:*

(i) Included in the balance are amounts payable for the acquisition of Liaocheng Meijing Zhongyuan Cement Co., Ltd. ("**Liaocheng Meijing Zhongyuan Cement**") amounting to RMB30,678,000 (31 December 2020: RMB30,678,000). 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 litigations related to Liaocheng Meijing Zhongyuan Cement is still in process.

(ii) Included in accrued expenses and other payables are interest payables, payable for mine management, contract guarantee of RMB544,000, RMB123,946,000 and RMB122,387,000, respectively (31 December 2020: RMB212,884,000, RMB123,946,000 and RMB107,699,000 respectively).

As at 30 June 2021, certain suppliers and third parties have lawsuits against the Group to demand immediate settlement of other payables with carrying amount of RMB1,562,000 (31 December 2020: RMB62,903,000) plus interest for late payment, if any.

## 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 2021 (i.e. from 3 March 2020 to 29 July 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 2020: 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 2021 and 31 December 2020, which will mature on 7 August 2021.

The movement of the components of the convertible bonds during the six months ended 30 June 2021 and 30 June 2020 is set out below:

| | **Debt component** *RMB'000* | **Derivative component** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| 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 |
| At 1 January 2021 (audited) | 543,263 | (243,747) | 299,516 |
| Interest charge | 31,925 | – | 31,925 |
| Interest paid | (48,463) | – | (48,463) |
| Fair value change | – | 3,493 | 3,493 |
| Exchange realignment | (5,306) | 2,381 | (2,925) |
| At 30 June 2021 (unaudited) | 521,419 | (237,873) | 283,546 |

The debt component of convertible bonds is classified as current liabilities while the derivative component is classified as current assets in the condensed consolidated financial statements as at 30 June 2021 and in the consolidated financial statements as at 31 December 2020 respectively.

The fair values of the Group's derivative components at 30 June 2021 and 31 December 2020 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, which may change due to changes in share price of the Company.

## 19 CAPITAL, RESERVES AND DIVIDEND

### (a) Share capital

| | 30 June 2021 and 31 December 2020 | |
|---|---|---|
| | **Number of shares** | **RMB equivalent** |
| | | *RMB'000* |
| Ordinary shares of the Company of USD0.01 each | | |
| **Authorised:** | | |
| At 1 January 2020, 31 December 2020, 1 January 2021 and 30 June 2021 | 10,000,000,000 | 701,472 |
| **Issued and fully paid:** | | |
| At 1 January 2020, 31 December 2020, 1 January 2021 and 30 June 2021 | 4,353,966,288 | 295,671 |

### (b) Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

## 20 CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2021 not provided for in the condensed consolidated financial statements were as follows:

| | **At 30 June 2021** | At 31 December 2020 |
|---|---|---|
| | ***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 | **729,110** | 765,849 |

## 21 CONTINGENT LIABILITIES AND OTHER EVENTS

(a) As at 30 June 2021, several litigation claims were initiated by the customers against the Group to demand immediate repayment of the outstanding balance in relation to certain sales contracts of cement and other products, with an aggregate amount of RMB10,922,000 (31 December 2020: RMB28,020,000), which had not been concluded. No provision for these litigation claims was made in these condensed consolidated financial statements as in the opinion of the directors of the Company, the possibility of an outflow of economic resources is remote.

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

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

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

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

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

The Company renewed its application for leave to appeal against the decision on the Writ Application on 15 March 2021 and leave to appeal was granted by the Cayman Islands Court of Appeal on 8 April 2021. The Company filed its appeal on 12 April 2021 and the Appeal has been listed for 10 November 2021.

On 17 December 2020, the Grand Court heard a court summons for directions ("**Summons**") taken out by Tianrui on 26 August 2020 in connection with the Petition.

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

In its judgment dated 27 January 2021, the Grand Court ordered that CNBM and ACC be joined as respondents to the Petition, and that the Petition be served on CNBM and ACC.

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

Other than the disclosure above, as at the date of this announcement, as far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at 30 June 2021, the Group was the defendant of certain non-material litigations, a party to certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business. The likely outcome of these litigations or other legal proceedings cannot be ascertained at present, but the Directors believe that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating environment and industry overview

In the first half of 2021, facing the complex and ever changing environment both abroad and at home, the Chinese government continued to consolidate and expand the achievements in the pandemic prevention and control and the economic and social development. Due to the precise implementation of macro policies, China embraced continuous and steady economic recovery, continued rise in production demands, overall stability in employment and commodity price, rapid growing of new driving forces, and steady improvement in quality and efficiency. Market entities are expected to be looking up, major macro indicators are within a reasonable range, and economic development has shown a trend with steady progress.

In the first half of 2021, China's GDP was RMB53,216.7 billion. By quarters, in the first quarter, a year on year ("YOY") increase of 18.3% was recorded, while in the second quarter, an increase of 7.9% was recorded, representing a continuous recovery of growth. China's fixed assets investment (excluding rural households) amounted to RMB25,590.0 billion, representing a YOY increase of 12.6%; infrastructure investment in the first half of 2021 recorded a YOY increase of 7.8%, a slight decrease compared with January to May; investment in manufacturing sector recorded a YOY increase of 19.2%, an increase of 1.4 percentage point compared with January to May; investment in real estate development recorded a YOY increase of 15.0%. The sales area of commercial housing nationwide was 886.35 million square meters, representing a YOY increase of 27.7%; and the sales of commercial housing amounted to RMB9,293.1 billion, representing a YOY increase of 38.9%. ***(Source: the website of National Bureau of Statistics of China)***

In the first half of 2021, China made remarkable achievements in both overall planning of the prevention and control of the pandemic and promoting economic work. We basically won the battle in the prevention and control of the pandemic. The economy recovered steadily and strengthened in a stable manner, with a YOY growth of 12.9% in GDP, and an average growth of 5.3% in two years. The cement industry remained generally prosperous, with strong downstream demand and significant increase in output. The national cement production reported the highest half-year output on record, with the national cumulative cement output of 1.147 billion tonnes, representing a YOY increase of 14.1%. Judging by the two-year average growth rate, the national cumulative cement output in the first half of the year maintained growth at a relatively stable rate of about 4.2% on average in the two years.

Cement prices fell following a rise, at the same level as last year as a whole. After the low season of the cement industry from January to March in the first half of the year, the demand of cement reached its peak in April and May, followed by the seasonal low season, with cement prices rising and then falling. Cement prices averaged at RMB461.3/tonne in the first half of the year, basically flat compared to RMB461.5/tonne in the same period of 2020. However, dragged by the soaring thermal coal costs at the cost side, cement costs increased significantly, and the profit might decline. In the first half of the year, the price of thermal coal went up throughout the whole period, and the profits of downstream enterprises were under pressure. The average price of thermal coal in the first half of 2021 was RMB816.5/tonne, representing a significant increase of 50.4% as compared to RMB542.8/tonne in the same period of last year, and the profit of cement industry in the first half of the year is expected to be around RMB75 billion, representing a YOY decrease of 2.4%. ***(Source: the website of Digital Cement)***

**Company's business review**

In the first half of 2021, 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 2021, the Group had a total production capacity of 94.97 million tonnes of cement, 50.47 million tonnes of clinker and 17.1 million cubic meters of concrete.

During the Reporting Period, the Group's total sales of cement and clinker were 29.137 million tonnes, representing a YOY increase of 20.0%; sales volume of concrete was 1.454 million cubic meters, representing a YOY increase of 13.2%; sales revenue was RMB10,392,021,000, representing a YOY increase of 18.8%; and the profit for the period was RMB1,251,489,000, representing a YOY decrease of 5.5%.

**REVENUE**

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

| Region | **January–June 2021** | | January–June 2020 | | Change of sales revenue |
|---|---|---|---|---|---|
| | **Sales revenue** ***RMB'000*** | **Sales proportion** | Sales revenue *RMB'000* | Sales proportion | |
| Shandong Region | **6,723,663** | **64.7%** | 5,713,185 | 65.3% | **17.7%** |
| Northeast China Operating Region | **2,143,104** | **20.6%** | 1,655,466 | 18.9% | **29.5%** |
| Shanxi Operating Region | **1,300,397** | **12.5%** | 1,106,101 | 12.7% | **17.6%** |
| Xinjiang Operating Region | **224,857** | **2.2%** | 272,079 | 3.1% | **(17.4)%** |
| Total | **10,392,021** | **100%** | 8,746,831 | 100% | **18.8%** |

In the Reporting Period, the Group's revenue amounted to RMB10,392,021,000, representing an increase of RMB1,645,190,000 or 18.8% from that of RMB8,746,831,000 for the corresponding period of 2020. The increase in revenue was mainly attributable to the increase in sales volume of cement of the Company.

In respect of revenue contribution for the six months ended 30 June 2021, sales of cement and clinker accounted for 91.6% (2020: 90.5%) and the sales of ready-mix concrete accounted for 5.7% (2020: 6.9%).

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

| Product | **January–June 2021** Sales revenue *RMB'000* | **January–June 2021** proportion | January–June 2020 Sales revenue *RMB'000* | January–June 2020 proportion | Sales revenue YOY change |
|---|---|---|---|---|---|
| Cement | **8,460,283** | **81.4%** | 6,966,619 | 79.6% | 21.4% |
| Clinker | **1,054,833** | **10.2%** | 948,861 | 10.9% | 11.2% |
| Concrete | **591,526** | **5.7%** | 602,913 | 6.9% | (1.9)% |
| Others | **285,379** | **2.7%** | 228,438 | 2.6% | 24.9% |
| Total | **10,392,021** | **100%** | 8,746,831 | 100% | 18.8% |

## 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 RMB7,397,769,000 (2020: RMB5,724,987,000). The increase in cost of sales was mainly due to the increase in cost of raw materials, prices of coal and cost of transportation for the period.

The gross profit for the six months ended 30 June 2021 was RMB2,994,252,000 (2020: RMB3,021,844,000), representing a gross profit margin of 28.8% on revenue (2020: 34.5%). The decrease in gross profit margin was mainly attributable to the effect of the increase in cost of raw materials and cost of coal.

## FINANCIAL REVIEW

### Other income

Other income increased from RMB201,421,000 to RMB243,464,000, mainly due to the increase in income from government grants and the recognition of waiver of interest expenses as compared with the same period of last year.

### Other gains and losses

Other gains and losses decreased from net gains of RMB87,916,000 to net losses of RMB 21,201,000, mainly due to the recognition of a gain of RMB73,532,000 on fair value changes of derivative component of convertible bonds for the same period of last year, while there was recognition of losses on fair value changes for the period.

### Selling and marketing expense, administrative expense and finance expense

Selling and marketing expenses increased from RMB250,773,000 to RMB328,608,000, representing a YOY increase of 31.0%, which was mainly due to the increase in transportation costs of sales of goods as a result of the increase in sales volume of cement.

A YOY increase of 5.3% from RMB599,094,000 to RMB630,728,000 was recorded in administrative expense, which was mainly due to the fact that in the same period of last year, travel and business entertainment expenses were reduced due to the impact of COVID-19 pandemic, and the base amount of social insurance payments were low in the same period of last year due to the government's related policies for reduction and exemption of social insurance contributions; social insurance payments in this period were made at normal rates; and business entertainment expenses required for business expansion increased accordingly.

A YOY decrease of 31.0% from RMB184,906,000 to RMB127,517,000 was recorded in finance expense, which was mainly due to lower interest expenses as compared with same period of last year resulting from early repayment of certain bonds during the period.

### Taxation

Income tax expenses declined from RMB459,250,000 to RMB331,479,000, representing a YOY decrease of 27.8%, which was mainly due to the decrease in the Group's profit in the period and the increase in profit of subsidiaries in Northeast China for this period, which was used to offset losses of previous years resulting in reduction of the effective tax rate for the period.

### Profit for the period

During the Reporting Period, the Group recorded a net profit of RMB1,251,489,000, representing a decrease of RMB72,565,000 from RMB1,324,054,000 for the same period of 2020, which was mainly due to an increase in sales cost of cement and clinker, and an increase in marketing expenses and administrative expenses during 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 subsequently, its financial structure has continued to improve. As of 30 June 2021, the Group's current liabilities exceeded current assets by approximately RMB2,721,082,000, which was slightly increased from the excess of current liabilities over current assets as at 31 December 2020 of approximately RMB2,661,113,000; as at 30 June 2021, the total of the interest-bearing borrowings (including bank loans, other borrowings, long-term bonds and convertible bonds) was RMB3,050,078,000, of which RMB2,820,078,000 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 2021, the total assets increased by approximately 2.3% to approximately RMB28,305,502,000 (31 December 2020: approximately RMB27,677,443,000), while total equity increased by approximately 7.8% to approximately RMB17,113,908,000 (31 December 2020: approximately RMB15,882,017,000).

As at 30 June 2021, bank balances and cash of the Group was approximately RMB1,473,159,000 (31 December 2020: approximately RMB1,401,233,000).

As at 30 June 2021, net gearing ratio of the Group was approximately 8.4% (31 December 2020: 13.9%), each of which was calculated based on net liabilities and total equities as of 30 June 2021 and 31 December 2020. 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 2021** | January–June 2020 |
|---|---|---|
| Net cash generated from operating activities | **2,020,965** | 1,602,221 |
| Net cash used in investing activities | **(1,014,418)** | (455,819) |
| Net cash used in financing activities | **(935,588)** | (742,199) |
| Net change in cash and cash equivalents | **70,959** | 404,203 |
| Balance of cash and cash equivalents as at 1 January | **1,401,233** | 1,364,054 |
| Effect of foreign exchange rates change | **967** | (13,906) |
| Balance of cash and cash equivalents as at 30 June | **1,473,159** | 1,754,351 |

**Net cash generated from operating activities**

During the Reporting Period, the Group recorded a net cash generated from operating activities of RMB2,020,965,000, representing a YOY increase of RMB418,744,000, mainly due to an increase in cash inflow from operating activities as a result of an increase 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 RMB1,014,418,000, representing a YOY increase of RMB558,599,000, mainly due to the increase in capital expenditure for the construction of new cement and clinker production lines and the purchase of equipment for technological renovation in the period.

**Net cash used in financing activities**

During the Reporting Period, the Group recorded a net cash used in financing activities of RMB935,588,000, representing a YOY increase of RMB193,389,000, mainly due to the increase in the net effect of cash outflow for the Group's bank loans repayment of borrowings and bonds as compared with the same period of last year.

**Capital expenditures**

During the Reporting Period, the capital expenditures were approximately RMB1,077,568,000, which were mainly invested in respect of intelligent production, mine resources reserves, and new construction and technical renovation of cement and clinker production lines.

Outstanding capital commitments under relevant agreements not provided for in the financial statements as at 30 June 2021 were as follows:

*(Unit: RMB'000)*

| | **30 June 2021** | 31 December 2020 |
|---|---|---|
| Authorised and contracted for | | |
| – plant and equipment | **729,110** | 765,849 |
| Authorised but not contracted for | | |
| – plant and equipment | **791,506** | 1,268,803 |
| Total | **1,520,616** | 2,034,652 |

**Pledge of assets**

Details in relation to pledge of assets of the Group as at 30 June 2021 are set out in note 13 to the announcement.

**Contingent liabilities**

Details in relation to contingent liabilities of the Group as at 30 June 2021 are set out in note 21 to the announcement.

**Human resources**

As at 30 June 2021, the Group had a total of 18,107 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

**Operational situation analysis**

In the first half of 2021, the prices of bulk commodities such as coal continued to rise, and the time for taking products out of the kilns in the first half of the year was less than that in the same period of the previous year, which was the main reason for the YOY decline in profits; poor awareness of ecological construction in the industry in Henan, Hebei and other neighboring regions, and the constant fluctuation in prices had hit Shandong and some other regions heavily, the market uncertainties had increased; in addition, the reduction of indicators of coal use, the reduction of carbon emission indicators and tightening environmental protection policies were long-term factors that affected the profitability of enterprises.

From a macro point of view, the introduction and implementation of regulations and policies such as production capacity reduction and replacement, normalized off-peak production, early warning weather production restriction and control of total pollution emission will play a positive role in the control of new production capacity, the balance of dynamic supply and the construction of industry ecology. In the second half of the year, downstream demands will be further recovered, and the market in Shandong, a high-priced area, will gradually increase production volume, cement prices will rise steadily, and benefits will gradually improve; with the increase in coal production and imports, the contradiction between supply and demand of coal will tend to ease, coal prices are expected to stabilize with a drop.

**Business outlook of the Company for the second half of the year**

The Company will strengthen the unified management of sales, clarify the main responsibilities of staff at all levels, focus on two major markets of key projects and rural revitalization, increase its market share in capital construction in the place where the Company is located, strengthen system control, and avoid marketing risks and improve management standards. The Company will take solid steps to reduce costs and improve efficiency, further strengthening production management and equipment maintenance management, reducing production costs, strengthening procurement management, reducing raw material costs, and strengthening financial management and expense management.

The Company will strictly implement industrial policies, seize opportunities, and take solid steps to promote the construction of key projects. The Company will seriously study the national policies and come up with corresponding plans to address the recent policy changes in production capacity and emissions, and determine the roadmap and timetable. In accordance with the working idea of "integrating resources, optimizing the layout, implementing chain supplement and enhancement, and enhancing the strength", the Company will focus on the clinker line, and cement mill capacity replacement and layout, increase efforts to promote key projects, and accelerate the development of the upstream and downstream extension of the industrial chain.

The Company will attach great importance to environmental protection and production safety, strictly abide by relevant laws, regulations and policies, take solid steps to rectify problems related to mine resources, enterprise land and destruction of forest land, and strengthen environmental protection management and mine management. The Company will attach great significance to the product quality of clinker, cement and commercial concrete, and strictly enforce relevant standards to ensure product quality. The Company will comprehensively promote the construction of safety standardization, consolidate the foundation of production safety, so as to ensure the realization of production safety.

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 2021.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to maintaining good corporate governance standards.

The Company has applied the principles and 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 2021, 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 2021 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, 6 August 2021

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