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 Report 08

CONTENTS

DEFINITIONS

In this interim report, unless the context otherwise requires, the following words and expressions have the following meanings:

"Company" or "Shanshui Cement"	China Shanshui Cement Group Limited
"Group"	the Company and its subsidiaries
"Reporting Period"	January 1, 2008 to June 30, 2008
"Directors"	Directors of the Company
"Board"	Board of Directors of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Rules of the Stock Exchange"	the Rules Governing the Listing of Securities on The Stock Exchange
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Shares"	the ordinary shares in the share capital of the Company with a nominal value of US$0.01 each
"Shareholder(s)"	holder(s) of the Share(s)
"clinker"	a semi-finished product in the cement production process
"RMB"	Renminbi
"PRC"	The People's Republic of China
"National Bureau of Statistic of China"	The National Bureau of Statistics of the People's Republic of China
"SFO"	Securities and Futures Ordinance (Cap. 571) (as amended, supplemented or otherwise modified from time to time)

(A) BOARD OF DIRECTORS

Executive Directors
ZHANG Caikui (Chairman)
LI Yanmin
DONG Chengtian
YU Yuchuan

Non-executive Directors
Homer SUN
JIAO Shuge (alias JIAO Zhen)

Independent Non-executive Directors
SUN Jianguo
WANG Yanmou
WANG Jian

Audit Committee
WANG Yanmou (Chairman)
SUN Jianguo
WANG Jian

Remuneration Committee
SUN Jianguo (Chairman)
WANG Yanmou
WANG Jian

(B) COMPANY PROFILE

(1) Company Name		
Chinese	:	中國山水水泥集團有限公司
English	:	CHINA SHANSHUI CEMENT GROUP LIMITED
(2) Registered Office	:	Offices of Maples Corporation Services Limited PO Box 309, Ugland House Grand Cayman, KY1-1104 Cayman Islands
(3) Principal Place of Business in China	:	Sunnsy Industrial Park, Gushan Town, Changqing District, Jinan, Shangdong, China
(4) Principal Place of Business in Hong Kong	:	Suite 901 B Kinwick Centre, 32 Hollywood Road, Central, Hong Kong
(5) Email address	:	ir@shanshuigroup.com
(6) Website	:	www.shanshuigroup.com
(7) Authorised Representatives	:	ZHANG Caikui, LI Yanmin
(8) Alternate Authorised Representative	:	LI Cheung Hung
(9) Joint Company Secretaries	:	ZHANG Bin , LI Cheung Hung, ACIS, ACS, FCPA, FAIA
(10) Qualified Accountant	:	LI Cheung Hung, ACIS, ACS, FCPA, FAIA
(11) Principal Bankers	:	China Merchants Bank Construction Bank of China
(12) Listing Date	:	4 July 2008
(13) Website for publication of this report	:	www.shanshuigroup.com
(14) Exchange on which the Company's shares are listed	:	The Hong Kong Stock Exchange
(15) Stock code	:	691
(16) Stock Short Name	:	Shanshui Cement
(17) Hong Kong Share Registrar and Transfer Office	:	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17/F Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
(18) Compliance Adviser	:	Guotai Junan Capital Limited
(19) Other Advisers		
Legal Adviser as to PRC laws	:	Commerce & Finance Law Offices
Legal Adviser as to Hong Kong laws	:	Norton Rose Hong Kong
Auditor	:	KPMG

(C) DIRECTORS, SENIOR MANAGEMENT AND STAFF

(1) Appointment or dismissal of Directors and senior management during the Reporting Period

On 13 June 2008, the shareholders unanimously approved the appointment of Mr. SUN Jianguo, Mr. WANG Yanmou, Mr. WANG Jian as independent non-executive Directors. The appointment was effective from 13 June 2008, and the directors shall retire by rotation in the relevant Annual General Meeting.

(2) Interests of Directors

On 14 June 2008, Tianjin Tianhui Cement Co., Ltd. (天津市天輝水泥有限公司) ("Tianjin Tianhui "), Jinan Shanshui Stanford New Buliding Materials Co., Ltd. (濟南山水史坦富新型建材有限公司) ("Shanshui Stanford"), Shandong Jinzhu Powder Co., Ltd. (山東金珠粉末注射製造有限公司) ("Jinzhu Powder") which are indirectly controlled by Mr. ZHANG Caikui entered into agreements with Shandong Shanshui Cement Group Co., Ltd. (山東山水水泥集團有限公司) ("Shandong Shanshui"), a subsidiary of the Company, respectively, which included (1) a Framework Agreement for the sales and purchase of clinkers entered into with Tianjin Tianhui; (2) a Tenancy Agreement entered into with Shanshui Stanford; (3) a Tenancy Agreement entered into with Jinzhu Powder ; (4) a Trademark License Agreement entered into with Tianjin Tianhui; (5) a Management Agreement entered into with Tianjin Tianhui.

During the Reporting Period, save as the above agreements, none of the Directors had any material interest in any contract entered into by the Company or its subsidiaries.

(3) Code on Corporate Governance Practices

As at the date of this report, the Board is not aware of any information which would indicate that the Company did not comply with the code provisions of the Code on Corporate Governance Practices (the "Code Provisions") as set out in Appendix 14 to the Listing Rules of the Stock Exchange since the listing of the Shares on the Stock Exchange ("Listing").

(4) Model Code

The Company has adopted a set of code of practice with standards not lower than those prescribed in the Model Code as set out in Appendix10 to the Listing Rules of the Stock Exchange regarding securities transactions by directors. Having made specific enquiries with the Directors, the Company understands that they had complied with the required standard regarding securities transactions by the directors as set out in the Model Code since Listing.

(5) Employees and their remuneration

As at June 30, 2008, the Group had a total of 12,782 employees whose aggregate remuneration amounted to RMB163,233,000, which was the aggregate remuneration of the employees for the Reporting Period.

(D) CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS AND THE DIRECTORS

(1) Changes in the Shares of the Company from 14 June, 2008 to 29 July, 2008

The Company had 3,254,200 Shares in issue as at June 14, 2008, pursuant to the resolutions of our Shareholders passed on June 14, 2008, 1,949,265,800 Shares credited as fully paid at par were issued to the holders of Shares on the register of members of our Company at the close of business on June 14, 2008 (or as they may direct) in proportion to their respective shareholdings by way of capitalization of the sum of US$19,492,658 standing to the credit of the share premium account of our Company upon completion of the Global Offering. The Company made the Global Offering of 650,840,000 Shares as set out in the prospectus dated June 20, 2008. Pursuant to the resolutions passed by the board committee of the Company on July 25, 2008, 97,626,000 additional Shares were issued on July 29, 2008 following the exercise of the over-allotment option, representing 15% of the total number of shares issued thereunder. As at July 29, 2007, the Company had a total of 2,700,986,000 Shares in issue.

(2) Shareholdings of substantial shareholders as at July 29, 2008

As at June 30, 2008, the interests or short positions of substantial shareholders in any shares or underlying shares of the Company were not required to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") because the Company was not a "listed corporation" as defined in Divisions 2 and 3 of Part XV of the SFO on that date.

As at July 29, 2008, following the Listing and the exercise of the over-allotment option, the interests of persons, other than the Directors and the chief executives of the Company, in the Shares and underlying shares of the Company, which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, were as follows:

Name of shareholder	Number of Shares interested (1)	Nature of interests	Percentage of Shares in issue (2)
China Shanshui Investment Company Limited	871,736,400 (L)	Beneficial owner	32.27%
MS Cement Limited (3)	207,921,600 (L) (4)	Beneficial owner	7.70%
Morgan Stanley Private Equity Asia, LP (3)	662,897,400 (L) (4)	Interest in controlled corporations	24.54%
Morgan Stanley Private Equity Asia, L.L.C. (3)	735,516,600 (L) (4), (5)	Interest in controlled corporations	27.23%

Name of shareholder	Number of Shares interested (1)	Nature of interests	Percentage of Shares in issue (2)
Morgan Stanley Private Equity Asia, Inc (3)	735,516,600 (L) (4), (5)	Interest in controlled corporations	27.23%
MS Cement IV Limited (6)	454,975,800 (L)	Beneficial owner	16.84%
Morgan Stanley Private Equity Asia III, LP (6)	454,975,800 (L)	Interest in controlled corporations	16.84%
Morgan Stanley Private Equity Asia III, L.L.C. (6)	454,975,800 (L)	Interest in controlled corporations	16.84%
Morgan Stanley Private Equity Asia III, Inc (6)	454,975,800 (L)	Interest in controlled corporations	16.84%
Morgan Stanley Private Equity Holdings (Cayman) Limited (6)	454,975,800 (L)	Interest in controlled corporations	16.84%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Limited (6)	454,975,800 (L)	Interest in controlled corporations	16.84%
CDH Construct Limited (7)	136,492,200 (L)	Beneficial owner	5.05%
CDH China Fund III, L.P. (7)	136,492,200 (L)	Interest in a controlled corporation	5.05%
CDH III Holdings Company Limited (7)	136,492,200 (L)	Interest in a controlled corporation	5.05%
CDH Diamond Holdings III, L.P. (7)	136,492,200 (L)	Interest in a controlled corporation	5.05%
China Diamond Holdings Company Limited (7)	136,492,200 (L)	Interest in a controlled corporation	5.05%

Notes:

(1) The letter "L" denotes a long position in such Shares.

(2) Without taking into account the dilution effect of conversion of the Convertible Notes.

(3) MS Cement Limited ("MS I"), a limited liability company incorporated in the Cayman Islands, is controlled by Morgan Stanley Private Equity Asia L.P. ("MSPEA"), a fund managed by the private equity arm of Morgan Stanley. The general partner of MSPEA is Morgan Stanley Private Equity Asia, L.L.C. ("MSPEA GP"), the managing member of which is Morgan Stanley Private Equity Asia, Inc., a wholly-owned subsidiary of Morgan Stanley. Each of MSPEA, MSPEA GP and Morgan Stanley Private Equity Asia, Inc. is deemed to be interested in the Shares held by MS I.

(4) This includes 58,276,800 Shares which MS I is entitled to but has not yet converted pursuant to the convertible notes issued by the Company on September 21, 2007 to MS I, MS Cement II Limited ("MS II"), International Finance Corporation and CDH Cement Limited, which are convertible into Shares subject to the terms and conditions therein contained (the "Convertible Notes"). Each of MSPEA, MSPEA GP and Morgan Stanley Private Equity Asia, Inc. is deemed to be interested in the conversion Shares which MS I is interested in.

(5) This includes 20,429,400 Shares which MS II is entitled to but has not yet converted pursuant to the Convertible Notes. Each of MSPEA GP and Morgan Stanley Private Equity Asia, Inc. is deemed to be interested in the conversion Shares which MS II is interested in.

(6) MS Cement IV Limited ("MS IV"), a limited liability company incorporated in the Cayman Islands, is jointly controlled by MSPEA and Morgan Stanley Private Equity Asia III, L.P. (through their respective control of Morgan Stanley Private Equity Holdings (Cayman) Limited and Morgan Stanley Private Equity Asia III Holdings (Cayman) Limited), which are funds managed by the private equity arm of Morgan Stanley. The general partners of such funds are MSPEA GP and Morgan Stanley Private Equity Asia III, L.L.C. ("MSPEA III GP"), respectively. The managing members of MSPEA GP and MSPEA III GP are respectively Morgan Stanley Private Equity Asia, Inc. and Morgan Stanley Private Equity Asia III, Inc., both of which are wholly-owned subsidiaries of Morgan Stanley. Each of Morgan Stanley Private Equity Holdings (Cayman) Limited, Morgan Stanley Private Equity Asia III Holdings (Cayman) Limited, MSPEA, Morgan Stanley Private Equity Asia III, L.P., MSPEA GP, MSPEA III GP, Morgan Stanley Private Equity Asia, Inc., and Morgan Stanley Private Equity Asia III, Inc. is deemed to be interested in the Shares held by MS IV.

(7) CDH Construct Limited ("CDH Construct"), a limited liability company incorporated in the British Virgin Islands ("BVI"), is a wholly-owned subsidiary of CDH China Fund III, L.P., an exempted limited partnership organized and existing under the laws of the Cayman Islands focused on private equity investments in China. The general partner of CDH China Fund III, L.P. is CDH III Holdings Company Limited, a limited liability company organized and existing under the laws of the Cayman Islands. CDH III Holdings Company Limited is controlled as to 80% by China Diamond Holdings III, L.P., a limited partnership organized and existing under the laws of the BVI. The general partner of China Diamond Holdings III, L.P. is China Diamond Holdings Company Limited, which is incorporated in the BVI. Each of CDH China Fund III, L.P., CDH III Holdings Company Limited, China Diamond Holdings III, L.P. and China Diamond Holdings Company Limited is deemed to be interested in the Shares held by CDH Construct.

Save as disclosed above and so far as the directors are aware of, as at July 29, 2008, no person, other than the directors or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register maintained pursuant to Section 336 of the SFO.

(3) Purchases, sales or redemptions of listed securities

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries up to July 29, 2008 other than Listing.

(4) Directors' and chief executives' interests in the Shares, underlying shares and debentures

As at June 30, 2008, the Directors or chief executives of the Company had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, such interests or short positions were not required to be disclosed to the Company and the Stock Exchange because the Company was not a "listed corporation" as defined in Divisions 7 and 8 of Part XV of the SFO on that date.

As at July 29, 2008, following the listing of the Company and the exercise of the over-allotment option, the interests of the Directors and chief executives in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) ("Associated Corporations"), which would be required to be notified to the Company and the Stock Exchange, pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing of Rules of the Stock Exchange, were as follows:

Name of Director	Nature of interests	Number of Shares	Total	Percentage of Shares in issue as at 29 July 2008
Mr. Zhang Caikui	Interest in a controlled corporation	871,736,400	871,736,400	32.27%

Note:

(1) The 871,736,400 Shares were held by China Shanshui Investment Company Limited ("Shanshui Investment"). Shanshui Investment is wholly-owned by Zhang Trust, a trust which is controlled as to 65.55% by Mr. Zhang Caikui as a discretionary trustee and a beneficiary.

Save as disclosed above, as at July 29, 2008, none of the Directors or chief executive of the Company had any interest in the Shares, underlying Shares and debentures of the Company or any of its associated corporations, which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Division 7 and 8 of Part XV of the SFO, or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code contained in the Listing Rules.

(E) MAJOR EVENTS

(1) Corporate governance

Since Listing on July 4, 2008, the Company has strictly complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules of the Stock Exchange.

The Group has established a sound corporate governance structure. Members of the Board committees are also independent non-executive Directors of the Company. With a focus on the performance by the respective committees of their functions, the Board made further improvements in the terms of reference, means for performance of functions and working procedures of the respective committees.

Based on the guidance from the Stock Exchange relating to the internal control of listed companies, the Company established an internal control system covering various aspects and parts of corporate operation such as corporate governance, production management, equipment management, material procurement, sales of products, remuneration allocation and production safety. The Company also enhanced its internal auditing functions to ensure that the Company would be managed in a scientific manner and its internal control system would be implemented effectively.

Pursuant to the Listing Rules of the Stock Exchange and based on the principles of "impartiality, equity, publicity and fairness", the Company further regulated the transactions among its subsidiaries, strengthened the supervision over internal price of clinkers and eliminated the conduct of improper connected transactions.

The Company strengthened its investor relations management by establishing a sound investor communication mechanism, ascertaining the responsibilities of the investor relation management department and relevant persons and publicizing the Company's telephone and fax number, mailbox and website for corporate investors to access. Disclosure of information was made in a timely, complete and accurate manner. Insider trading, unauthorized disclosure of information and acts causing damages to the interest of other investors were strictly prohibited.

Based on the requirements of the Listing Rules of the Stock Exchange, the Company enhanced the information disclosure system and management rules and raised the awareness of the directors, senior management and related departments to operate in accordance with the Listing Rules of the Stock Exchange.

(2) Interim dividend

The Board does not recommend the payment of any dividend for the first half of 2008.

(3) Material litigation and arbitration

Save as disclosed in the prospectus of the Company dated June 20, 2008, the Group was not involved in any material litigation or arbitration during the Reporting Period.

(4) Material asset acquisition, disposal and reorganization

The Company had no material asset acquisition, disposal or reorganization during the period from the publication of the prospectus of the Company on June 20, 2008 to the end of the Reporting Period.

(5) Connected transactions

Purchasing of clinkers and other materials

In preparation for the Global Offering, Shandong Shanshui entered into a framework agreement (the "Framework Agreement") with Tianjin Tianhui governing the purchase of clinkers and other materials by Tianjin Tianhui from the Group for a term from July 4, 2008, being the listing date, to December 31, 2010, and applied to the Stock Exchange for a waiver from strict compliance with the announcement requirement under Rule 14A.47 of the Listing Rules in connection with the Framework Agreement pursuant to Rule 14A.42(3) of the Listing Rules. Pursuant to the waiver sought (which was granted by the Stock Exchange), the annual value of the transactions shall not exceed the cap of approximately RMB45 million, RMB50 million and RMB55 million for the 3 years ending 31 December 2010. During the six months ended June 30, 2008, the value of transactions between the Group and Tianjin Tianhui was approximately RMB19.14 million.

(6) Share option scheme

Pursuant to the resolution passed by the Shareholders on 14 June 2008, the Share Option Scheme was conditionally adopted and taken effect upon Listing. Since the adoption of the Share Option Scheme, the Company had not granted any share options.

(7) Material contracts

Save as disclosed in the prospectus of the Company, no material contracts had been entered into by the Group during the Reporting Period.

(8) Audit committee

The audit committee comprises the three independent non-executive Directors of the Company who, together with the management and the external auditors have reviewed the accounting standards and practices adopted by the Group, and discussed the Group's internal control and financial reports, including the review of the unaudited interim results of the Group for the six months ended 30 June 2008.

(1) INDUSTRY OVERVIEW

Cement is a basic and essential material, its demand is directly driven by economic growth and increase in fixed asset investment and also subject to the impact of macroeconomic policies, upstream energy and resources supply.

Since the beginning of 2008, the Chinese economy has been put to the test by the global economic slowdown triggered by the US sub-prime mortgage crisis and occurrence of natural disasters in the country. However, the country was able to maintain overall faster but steady growth. For the first half of 2008, China's GDP recorded a year-on-year growth of 10.4%; while fixed asset investment also recorded a year-on-year growth of 25.9% (source: National Bureau of Statistics of China), which in turn gave a strong push to market demand for cement.

According to The National Development and Reform Commission's statistics, in the first half of 2008, the country produced a total of 648 million tons of cement, representing an increase of 8.7% year-on-year, with growth rate 7.3 percentage point slower than in the same period last year. The drop in growth rate of demand for cement relative to last year was the result of the snowstorm in eastern and southern China in the first quarter, the rainy weather in the second quarter, the Sichuan earthquakes, the Government's stepping up effort to eliminate obsolete cement production capacity and trim in production by enterprises facing power shortage. Nevertheless, export volume of cement for the first half of 2008 dropped year-on-year of 18.4% to 14.49 million tons, the growth of the total production volume in China represented a continuous exponential demand for cement in mainland.

In the first half of the year, the development of the cement industry in China was positive by following through China's macroeconomic measures coupled with its policies brought into the cement industry, which accelerated the restructuring of the industry with increasing efforts on eliminating obsolete cement production capacity. During the period, the price of cement recorded steady growth and was at a higher level than that of the same period last year, leading to increased profits for the industry players. The average price of PO42.5 bulk cement in the country was RMB325.36 per ton in the first half of 2008, representing an year-on-year increase of 10.26%.

The rise of cement price was the result of different factors, the first being substantial increase in the price of upstream energy supply and other resources. Since the beginning of 2008, cement enterprises in eastern and southern China had to purchase coal at RMB200 more per ton than a year ago, some enterprises even paid up to RMB1,000 per ton. Risen coal price alone had pushed up the production cost of cement by more than RMB30 per ton. Secondly, with increasing efforts to eliminate obsolete cement production, enterprises with solid strengths were able to realize their full capability and management standard. The country trimmed nearly 20 million tons of obsolete capacity and the proportion of cement produced using the new suspension preheater dry process was more than 56%, representing an increase of 3 percentage point year-on-year. Cement price gradually returned to a reasonable level. Furthermore, large-scale new suspension preheater dry process and residual heat power generation that could help conserve energy and reduce pollution were the major part of investment made by the cement industry, thus absorbing some of the impacts of external price kikes.

In the domestic market, the two major regional cement markets, Shandong, where Shanshui Group is based, and Liaoning, both demonstrated positive growth momentum. According to data on China Digital Cement (中國數字水泥網), in the first five months of the year, cement production volume in Shandong reached 56.6099 million tons, representing a -2.8% growth year-on-year, which mainly due to the volume control coupled with the increasing efforts on eliminating vertical kilns by Shandong Province. However, since the selling price of cement had risen substantially, Shandong Province earned the most profit among all at RMB1,147 million, an increase of 17.86% year-on-year. In the first five months, Liaoning produced 12.8527 million tons of cement in total, representing a 18.8% growth year-on-year and ranking eighth in the country.

(2) COMPANY'S BUSINESS REVIEW

During the first half of 2008, the Group was highly alerted to the macroeconomic environment and the market changes, in which, the Group has raised the selling price and at the same time increased the sales volume. Furthermore, the Group accelerated the construction pace of its residual heat recovery projects and implemented every energy saving and pollution reduction measure to offset the rising costs of coal and electricity, as a result, the Group's overall operational quality has been enhanced. During the Reporting Period, the Group recorded year-on-year increase for sales volumes of clinker and cement, operational income and profit.

For the first half of 2008, the Group's sales revenue amounted to RMB3,372 million, a year-on-year growth of 87.83%. While profit for the period recorded a year-on-year growth of 115.81% to RMB151 million, with net profit margin reached 4.47%.

I. Business analysis

(1) Sales revenue analysis together with the respective year-on-year changes

(unit: RMB'000)

Product	**January-June 2008 Revenue**	**January-June 2008 Sales Proportion (%)**	January-June 2007 Revenue	January-June 2007 Sales Proportion (%)	Sales revenue Y-O-Y Change(%)
Cement	**2,587,576**	**76.74**	1,299,756	72.40	99.10
Clinker	**618,519**	**18.34**	367,817	20.49	68.16
Others	**165,750**	**4.92**	127,639	7.11	29.86
Total	**3,372,025**	**100.00**	1,795,212	100.00	87.83

During the Reporting Period, the growth in sales revenue of the Group was attributable to the increase in selling price and sales volume. In view of the revenue breakdown by products, revenue from clinker amounted to RMB619 million, representing a year-on-year growth of 68.16%, while revenue from cement amounted to RMB2,588 million, representing a year-on-year growth of 99.10%.

The average unit price of coal in the first half of 2008 increased by 26.8% when compared with the same period last year, thus pushed up the unit cost of clinker. As the increase in prices of the Group's cement products was higher than the rise in cement and clinker production costs resulting from higher coal price, and also that the Group was able to markedly raise output and sales, leading to lower fixed cost, the Group recorded an enhanced gross profit margin.

On the cost saving front, the Group generated power of 199 million kilowatt-hours from residue heat for its own use, translating into saving of RMB0.38/kilowatt-hour in electricity cost and RMB75.526 million in total clinker cost.

(2) COMPANY BUSINESS REVIEW– *continued*

I. Business analysis– *continued*

(2) Sales volume, unit selling price of products and their year-on-year changes

Product	Sales volume ('000 tons) 1H 2008	Sales volume ('000 tons) 1H 2007	Sales volume Y-O-Y changes (%)	Unit selling price (RMB/ton) 1H 2008	Unit selling price (RMB/ton) 1H 2007	Unit selling price Y-O-Y changes (%)
Cement	12,456	7,006	77.79	207.73	185.9	11.73
Clinker	3,125	2,235	39.82	199.90	164.6	21.45

During the Reporting Period, the Group sold 12.456 million tons of cement, an increase of 77.79% when compared with the same period of last year. The total sales volume of commodity clinker was 3.125 million tons, up by 39.82% when compared with the same period of last year. The continuous increase in infrastructure expense, speeding up of property construction, and the fastened phase out pace of vertical kilns have increased the sales volume of cement.

(3) Analysis of sales revenue by region and the respective year-on-year changes

(Unit: RMB'000)

Region	January to June 2008 Sales amount	January to June 2008 Proportion (%)	January to June 2007 Sales amount	January to June 2007 Proportion (%)	Sales revenue Y-O-Y changes (%)
Eastern China/ Northern China	**2,824,012**	**83.75**	1,535,883	85.55	83.87
Liaoning Province	**415,299**	**12.32**	0	0	N/A
Export	**132,714**	**3.93**	259,329	14.45	-48.82
Total	**3,372,025**	**100**	1,795,212	100	87.83

The five enterprises acquired at the end of 2007 in Shandong and Liaoning Province operated smoothly and contributed to notable improvement of the Group's major economic and technical indices. Among those enterprises, those in Northeastern China reported a RMB415 million increase in revenue, with its total revenue accounting for 12.32% of the Group total in the first half of 2008. It has opened the market in Northeastern China for the Group. The other newly acquired companies in Yantai also recorded revenue growth, adding net revenue of RMB638 million to Northern China, which accounted for 18.92% of the Group's total revenue. Affected by the global economy, export policies of the country and the appreciation of RMB, the Group exported 530,200 tons or 49.02% less cement and clinker than in the same period last year.

(2) COMPANY BUSINESS REVIEW– *continued*

II. Profit Analysis

(1) Key profit and loss items and their respective changes

(Unit: RMB'000)

	January-June 2008	January-June 2007	Y-O-Y changes(%)
Revenue	**3,372,025**	1,795,212	87.83
Gross profit	**665,044**	319,145	108.38
Profit from operations	**365,568**	160,675	127.52
Profit before taxation	**197,572**	86,717	127.84
Profit for the period	**150,797**	69,876	115.81
Profit attributable to equity holders of the company	**155,132**	69,462	123.33
Net cash generated from operating activities	**887,757**	217,808	307.59

For the first half of 2008, the Group recorded sales revenue of RMB3,372 million, an increase of 87.83% over the same period last year. Profit from operations amounted to RMB366 million, a year-on-year increase of 127.52%. Profit for the period increased year-on-year by 115.81% to RMB151 million. Profit attributable to equity holders of the company was RMB155 million, representing a year-on-year increase of 123.33%. The increase in profit was mainly attributable to the increase in total selling price and sales volume.

(3) FINANCIAL REVIEW

I. Expenses during the period

(unit: RMB'000)

	1H 2008	1H 2007	Proportion to sales revenue (%) 1H 2008	Proportion to sales revenue (%) 1H 2007	Proportion to sales y-o-y changes (percentage points)
Selling and marketing expenses	**85,863**	78,289	**2.55%**	4.36%	-1.81%
Administrative expenses	**235,907**	104,788	**7.00%**	5.84%	1.16%
Net finance expenses	**167,996**	73,958	**4.98%**	4.12%	0.86%
Total	**489,766**	257,035	**14.52%**	14.32%	0.2%

During the first half of 2008, all expenses of the Group were controlled efficiently. The increase in administrative expenses and finance expenses were mainly attributable to the higher cost in the newly acquired enterprise in Northeastern China in 2007, and the raise in lending interest rates by the People's Bank of China.

II. Changes in balance sheet items

(Unit: RMB'000)

	As at 30 June 2008	As at 31 December 2007	Changes(%)
Non-current assets	**8,393,730**	7,712,680	8.83%
Current assets	**2,686,102**	2,569,189	4.55%
Total assets	**11,079,832**	10,281,869	7.76%
Current liability	**5,475,063**	5,046,067	8.50%
Non-current liability	**3,094,147**	2,662,824	16.20%
Minority interests	**30,239**	41,485	-27.11%
Equity attributable to equity holders of the company	**2,480,383**	2,531,493	-2.02%
Total liability and equity	**11,079,832**	10,281,869	7.76%

As at 30 June 2008, the Group's total assets, total liability and net assets amounted to RMB11.080 billion, RMB8,569 million and RMB2,511 million respectively. The Group's asset to liability ratio was 77.34%, representing an increase of 2.37 percentage point when compared with that at the end of 2007. Net gearing ratio amounted to 0.63. The Group's current assets, current liability and net current liability amounted to RMB2,686 million, RMB5,475 million and RMB2,789 million respectively.

(3) FINANCIAL REVIEW– *continued*

III. Long term and short term bank borrowing and other borrowings

(Unit: RMB'000)

Terms of debt	As at 30 June 2008	As at 31 December 2007
Short-term debt	**2,501,705**	2,493,877
Long-term debt	**2,048,593**	1,801,741
Total	**4,550,298**	4,295,618

The Group's borrowing due within 1 year amounted to RMB2,502 million and accounted for 54.98% of the Group's total borrowing, a 3.08 percentage point decrease compared with the beginning of 2008. Long-term borrowing due over 1 year amounted to RMB2,048 million and accounted for 45.02% of the Group's total borrowing, a 3.08 percentage point increase compared with the beginning of 2008. The increase in the proportion of long-term borrowing has enhanced the asset liquidity of the Group.

IV. As at 30 June 2008, the Group has not accounted for the production facility construction contracts as well as equipment purchase agreements. Its capital commitment is analyzed as below:

(Unit: RMB'000)

	As at 30 June 2008	As at 31 December 2007
Authorized and contracted for	**523,343**	462,456
Authorized but not contracted for	**633,897**	0
Total	**1,157,240**	462,456

As at 30 June 2008, the Group has approved and signed the contracts amounting to RMB523 million, a 13.17% increase as compared to the RMB60.887 million increase recorded in the previous corresponding period. Furthermore, the capital commitment of RMB634 million was approved by the Group but not yet signed.

(3) FINANCIAL REVIEW– *continued*

V. Net cash flow analysis

	January-June 2008	January-June 2007
Net cash generated from operating activities	**887,757**	217,808
Net cash generated from investing activities	**-1,312,827**	-362,453
Net cash generated from financing activities	**64,774**	526,020
Cash and cash equivalents	**-360,296**	381,375
Cash and cash equivalents at the beginning of year	**721,265**	323,514
Cash generated from changes in exchange rate	**-7,793**	0
Cash and cash equivalents at year end	**353,176**	704,889

From January to June of 2008, the Group's net cash generated from operating activities amounted to RMB888 million, representing an increase of RMB670 million or 307.59% over the same period last year. The Group's net cash generated from investing activities amounted to -RMB1,313 million, representing an increase of RMB950 million as compare to the net cash used in investing activities during the same period last year. The increase was mainly due to the Group's substantial investment amount required for the Group's projects in 2008.

(4) OUTLOOK FOR THE SECOND HALF OF THE YEAR

It is estimated that the fixed asset investment will maintain its steady growing trend in the second half of 2008. The Group expects to benefit from continuous growth in investment in fixed assets in the country, hastening elimination of obsolete cement production capacity and government continuous support for 12 largest enterprises, and thus deliver positive operating results.

In the first half of 2008, fixed asset investment in China had increased by 26.3% against the previous corresponding period. According to the expert from The China Finance and Economics News, it was analyzed that, with domestic demand stable while export kept declining, to maintain faster but steady economic growth and taking into account the need for rebuilding after natural disasters and conversing energy and reducing pollution, investment in fixed assets has to increase. Therefore, quick increase in investment in the second half year is expected, which will translate into strong demand for cement. Demand for cement products in 2008 is expected to grow at about same speed as last year, up by 150 million tons or more.

In the second half of 2008, the Government will speed up removal of sub-standard cement production. It is expected that the sub-standard production capacity will be decreased by up to 60.00 million tons for the entire year. The move will be favorable to the development of large-scale manufacturers using the new drying production method. In the second half of 2008, it is likely that the prices of production materials such as coal, power and oil will continue to rise, and the price of cement will remain stable with inclination to increase. Furthermore, as the government continues to oust obsolete cement production capacity and large cement enterprises accelerate business restructuring and integration, the industry will continue to improve and develop with discipline.

As the largest cement enterprise in Shandong and Liaoning provinces and the second largest in the country, Shanshui Group will further ride on its market leading position, to strengthen the restructuring and consolidation of the acquired enterprises and speed up the capacity expansion pace at low cost. In the second half of 2008, the Group will actively enhance production and sales volume, average selling price, return on assets and return on equity. At the same time, the Group will utilize residual heat power generation and other measures to further control the costs. With the commencement of operations of the Group's new production lines and cement grinding station located in Shandong and Liaoning provinces, the market shares of each region will be enhanced. In respect to the newly acquired enterprises, the Group will accelerate and complete the consolidation of its acquired corporations within the year, targeting to upgrade their efficiency to the Group's current standard in 2009.

(III) INTERIM FINANCIAL STATEMENT (UNAUDITED)

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	Note	Six months ended 30 June 2008 Unaudited RMB'000	2007 Unaudited RMB'000
Revenue	4	**3,372,025**	1,795,212
Cost of sales		**(2,706,981)**	(1,476,067)
Gross profit		**665,044**	319,145
Other income, net	6	**22,294**	24,607
Selling and marketing expenses		**(85,863)**	(78,289)
Administrative expenses		**(235,907)**	(104,788)
Profit from operations		**365,568**	160,675
Finance income	7	**18,548**	12,746
Finance expenses	7	**(186,544)**	(86,704)
Net finance expenses	7	**(167,996)**	(73,958)
Profit before taxation		**197,572**	86,717
Income tax	8	**(46,775)**	(16,841)
Profit after taxation		**150,797**	69,876
Attributable to			
Equity holders of the Company		**155,132**	69,462
Minority interests		**(4,335)**	414
Profit after taxation		**150,797**	69,876
Dividends	9	**205,755**	–
Earnings per share	10		
– Basic (RMB)		**0.08**	0.04
– Diluted (RMB)		**0.08**	0.04

The notes on pages 25 to 50 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

At 30 June 2008

(Expressed in Renminbi)

	Note	At 30 June 2008 Unaudited RMB'000	At 31 December 2007 Audited RMB'000
Non-current assets			
Property, plant and equipment	11	**6,308,020**	5,784,887
Lease prepayments		**1,131,336**	1,078,406
Intangible assets		**272,207**	295,573
Long-term deferred assets	12	**137,176**	–
Goodwill		**500,746**	500,746
Other investments		**9,985**	18,323
Deferred tax assets		**34,260**	34,745
Total non-current assets		**8,393,730**	7,712,680
Current assets			
Inventories	13	**842,980**	532,997
Trade and bills receivable	14	**346,519**	429,254
Prepayment and other receivables	15	**1,121,443**	877,936
Pledged bank deposits	16	**21,984**	7,737
Cash and cash equivalents	16	**353,176**	721,265
Total current assets		**2,686,102**	2,569,189
Total assets		**11,079,832**	10,281,869
Equity			
Share capital		**244**	244
Reserves		**2,480,139**	2,531,249
Equity attributable to equity holders of the Company		**2,480,383**	2,531,493
Minority interests		**30,239**	41,485
Total equity		**2,510,622**	2,572,978

The notes on pages 25 to 50 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

At 30 June 2008

(Expressed in Renminbi)

	Note	At 30 June 2008 Unaudited RMB'000	At 31 December 2007 Audited RMB'000
Non-current liabilities			
Loans and borrowings	17(a)	**1,786,700**	1,492,700
Loans from equity holders	17(a)	**261,893**	309,041
Convertible notes	17(c)	**84,917**	85,458
Defined benefit obligations		**180,419**	183,899
Deferred income	18	**208,922**	39,886
Long-term payables		**432,430**	414,744
Deferred tax liabilities		**138,866**	137,096
Total non-current liabilities		**3,094,147**	2,662,824
Current liabilities			
Loans and borrowings	17(b)	**2,447,024**	2,437,688
Loans from equity holders	17(b)	**54,681**	56,189
Trade and bills payables	19	**1,134,335**	835,531
Other payables and accruals	20	**1,803,447**	1,694,219
Current tax liabilities		**35,576**	22,440
Total current liabilities		**5,475,063**	5,046,067
Total liabilities		**8,569,210**	7,708,891
Total equity and liabilities		**11,079,832**	10,281,869
Net current liabilities		**(2,788,961)**	(2,476,878)
Total assets less current liabilities		**5,604,769**	5,235,802

The notes on pages 25 to 50 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

(Expressed in Renminbi)

		Attributable to equity holders of the Company									
		Share capital	Share premium	Statutory reserves	Other reserves	Exchange reserve	Fair value reserve	Retained earnings	Subtotal	Minority interests	Total equity
		Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007		10	413,238	112,877	(73,703)	(73)	4,673	34,603	491,625	19,056	510,681
Increase in minority interests attributable to acquisition of subsidiaries and contribution to subsidiaries		–	–	–	–	–	–	–	–	20	20
Profit for the period		–	–	–	–	–	–	69,462	69,462	414	69,876
Available-for-sale investments – fair value change		–	–	–	–	–	5,218	–	5,218	43	5,261
Exchange differences		–	–	–	–	–	–	–	–	–	–
At 30 June 2007		10	413,238	112,877	(73,703)	(73)	9,891	104,065	566,305	19,533	585,838
At 1 January 2008		**244**	**1,765,499**	**145,132**	**404,244**	**(9,894)**	**11,972**	**214,296**	**2,531,493**	**41,485**	**2,572,978**
Acquisition of additional interest in a subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(677)**	**(677)**
Liquidation of a dormant subsidiary	**(i)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,197)**	**(6,197)**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**155,132**	**155,132**	**(4,335)**	**150,797**
Available-for-sale investments – fair value change		**–**	**–**	**–**	**–**	**–**	**(6,179)**	**–**	**(6,179)**	**(37)**	**(6,216)**
Exchange differences		**–**	**–**	**–**	**–**	**5,692**	**–**	**–**	**5,692**	**–**	**5,692**
Dividends		**–**	**–**	**–**	**–**	**–**	**–**	**(205,755)**	**(205,755)**	**–**	**(205,755)**
At 30 June 2008		**244**	**1,765,499**	**145,132**	**404,244**	**(4,202)**	**5,793**	**163,673**	**2,480,383**	**30,239**	**2,510,622**

Notes:

(i) In February 2008, the Group liquidated a dormant subsidiary, Qingdao Shanshui Cement Company Limited, and returned the paid-in capital to the minority equity holders.

The notes on pages 25 to 50 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

(Expressed in Renminbi)

		Six months ended 30 June	
		2008	2007
		Unaudited	Unaudited
	Note	**RMB'000**	RMB'000
Cash generated from operations		**1,112,721**	321,138
Finance cost		**(195,702)**	(90,517)
Tax paid		**(29,262)**	(12,813)
Net cash generated from operating activities		**887,757**	217,808
Net cash used in investing activities		**(1,312,827)**	(362,453)
Net cash generated from financing activities		**64,774**	526,020
Net decrease in cash and cash equivalents		**(360,296)**	381,375
Cash and cash equivalents at 1 January		**721,265**	323,514
Effect of foreign exchange rate changes		**(7,793)**	–
Cash and cash equivalents at 30 June	16	**353,176**	704,889

The notes on pages 25 to 50 form part of this interim financial report.

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 "Interim financial reporting" ("IAS 34"), adopted by the International Accounting Standards Board ("IASB"). It was authorised for issuance on 2 September 2008.

The interim financial report has been prepared in accordance with the same accounting policies adopted by China Shanshui Cement Group Limited (the "Company") and its subsidiaries (collectively, the "Group") in the preparation of the financial statements for the year ended 31 December 2007. Please refer to Note 2 for the discussion of new and revised International Financial Reporting Standards ("IFRSs") adopted by the Group in 2008.

The interim financial report has been prepared on the basis that the Group will continue to operate throughout the next twelve months as a going concern. The Group's current liabilities exceeded its current assets by RMB 2,788,961,000 as at 30 June 2008. Based on future projections of the Group's profits and cash inflows from operations, the ability of the Group to obtain continued bank financing and the net proceeds received in relation to the initial public offering of the company's shares to finance its continuing operation, the Company's directors have prepared the interim report on a going concern basis.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2007.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs. IFRSs include IAS and related interpretations.

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

The financial information relating to the financial year ended 31 December 2007 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20 June 2008.

2. NEW AND REVISED IFRSs

The IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2008. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements prepared under IFRSs for the year ending 31 December 2008, on the basis of IFRSs currently in issue.

The IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements prepared under IFRSs for the year ending 31 December 2008 may be affected by the issue of additional interpretations or other changes announced by the IASB subsequent to the date of issuance of this interim report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

3. SEGMENT REPORTING

The Group's risks and rates of return are affected predominantly by differences in the areas it operates. Geographical segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. As the Group operates in a single business segment, the manufacturing and trading of cement and clinker in the PRC, no business segment information is presented.

The Group has two geographical segments by location of operations as follows:

(i) Shandong Province – subsidiaries operated and located in the Shandong Province of the PRC.

(ii) Northeastern China – subsidiaries operated and located in the Liaoning and Inner-Mongolia Provinces of the PRC.

3. SEGMENT REPORTING – *continued*

	Six months ended 30 June 2008 (Unaudited)				Six months ended 30 June 2007 (Unaudited)			
	Shandong Province RMB'000	Northeastern China RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000	Shandong Province RMB'000	Northeastern China RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000
Revenue from external customers	2,960,965	415,299	(4,239)	3,372,025	1,795,212	–	–	1,795,212
Segment result	411,037	(6,645)	(209)	404,183	174,588	–	–	174,588
Unallocated operating income and expenses				(38,615)				(13,913)
Profit from operations				365,568				160,675
Finance costs				(167,996)				(73,958)
Taxation				(46,775)				(16,841)
Profit for the period				150,797				69,876

4. REVENUE

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
	RMB'000	RMB'000
Sales of cement and clinker	**3,206,275**	1,667,573
Sales of other products and rendering of services	**165,750**	127,639
	3,372,025	1,795,212

5. SEASONALITY OF OPERATIONS

The Group on average experiences higher cement demands in the second half of the year. As a result, the Group typically reports lower revenue and results in the first half of the year.

6. OTHER INCOME, NET

		Six months ended 30 June	
		2008	2007
		Unaudited	Unaudited
Other income	Note	**RMB'000**	RMB'000
Government grants	(i)	**39,801**	22,173
Financial guarantee received		**–**	21,009
Amortisation of financial guarantee issued		**16,111**	15,520
Penalty income		**319**	195
Others		**5,272**	2,996
		61,503	61,893

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Other expenses	**RMB'000**	RMB'000
Financial guarantee issued	**–**	(21,009)
Amortisation of financial guarantee received	**(16,111)**	(15,520)
Losses from sale of property, plant and equipment	**(18,126)**	(35)
Penalty expenses	**(1,728)**	(566)
Others	**(3,244)**	(156)
	(39,209)	(37,286)
Other income, net	**22,294**	24,607

Notes:

(i) Government grants totalling RMB 21,704,000 and RMB 31,760,000 represent the refunds of value-added tax received from the tax bureaux for usage of industrial waste materials during the six months ended 30 June 2007 and 2008 respectively. The remaining amounts mainly represent various government subsidies received from finance bureaux to encourage companies invested in the respective areas.

7. PROFIT BEFORE TAXATION

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

(a) Net finance expenses

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Finance income	**RMB'000**	RMB'000
Interest income on bank deposits	**4,451**	4,300
Net foreign exchange gain	**13,922**	8,497
Dividend income/(losses) from other investments	**175**	(51)
	18,548	12,746

		Six months ended 30 June	
		2008	2007
		Unaudited	Unaudited
Finance expenses	Note	**RMB'000**	RMB'000
Interest on interest-bearing borrowings		**(164,478)**	(89,577)
Less: capitalised interest expense	(i)	**20,769**	5,487
Net interest expense		**(143,709)**	(84,090)
Unwinding of discount	(ii)	**(26,872)**	(1,674)
Bank charges		**(3,165)**	(940)
Interest rate swaps	(iii)	**(12,798)**	—
		(186,544)	(86,704)
Net finance expenses		**(167,996)**	(73,958)

7. PROFIT BEFORE TAXATION – *continued*

(a) Net finance expenses – *continued*

Notes:

(i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 5.81% and 6.18% for the six months ended 30 June 2007 and 2008 respectively.

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

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
	RMB'000	RMB'000
Convertible notes (Note 17(c))	**4,820**	–
Defined benefit plans	**4,022**	1,674
Acquisition consideration payable	**18,030**	–
	26,872	1,674

(iii) In 2007, the Group entered into three interest rate swap agreements with the Bank of China and the Agricultural Bank of China respectively. The Group conducted the swaps solely for investment purpose. As at 30 June 2008, the fair value for these interest rate swaps was RMB 13,617,000 deficit in aggregate.

(b) Personnel expenses

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
	RMB'000	RMB'000
Salaries, wages and other benefits	**145,675**	74,738
Contributions to defined contribution retirement plans	**17,558**	8,790
	163,233	83,528

7. PROFIT BEFORE TAXATION – *continued*

(c) Other items

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
	RMB'000	RMB'000
Depreciation	**218,285**	92,288
Amortisation		
– lease prepayments	**13,473**	3,045
– intangible assets	**25,199**	3,540
Operating lease charges	**2,971**	1,847
Impairment losses provided		
– trade receivables	**220**	–
Cost of inventories	**2,706,981**	1,476,067
Losses from disposal of property, plant and equipment	**18,126**	35

Note: Cost of inventories includes RMB 115,449,000 and RMB 266,332,000 relating to personnel expenses, depreciation and amortisation expenses and provision of inventories for the six months ended 30 June 2007 and 2008 respectively, which are also included in the respective amounts disclosed separately above or in Note 7(b) for each type of expenses.

8. INCOME TAX

(a) Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
	RMB'000	RMB'000
Current tax expenses		
Provision for the PRC income tax	**42,434**	17,785
Deferred tax expenses		
Origination and reversal of temporary differences	**4,341**	(3,051)
Change in tax rate	**–**	2,107
	46,775	16,841

8. INCOME TAX – *continued*

(a) Taxation in the consolidated income statement represents: – *continued*

(i) 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.

(ii) No provision for Hong Kong Profits Tax has been made as the subsidiaries incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax during the six months periods ended 30 June 2007 and 2008.

(iii) Pursuant to the currently applicable income tax rules, the PRC regulations and local income tax concessions granted, the companies comprising the Group in the PRC are liable to the PRC enterprise income tax at a rate of 25% during the six months ended 30 June 2008 (corresponding period in 2007: 33%), except for the following:

The applicable income tax rate for Continental (Shandong) Cement, Continental Corporation (Shandong) Cement Products Manufacturing Corporation and Continental (Shandong) Cement Mining Corporation (collectively referred to as the "Kangda Cement"), Shandong Shanshui Cement Group Co.,Ltd. ("Shandong Shanshui"), Pingyin Shanshui Cement Co.,Ltd. ("Pingyin Shanshui") and Anqiu Shanshui Cement Co.,Ltd. ("Anqiu Shanshui") is 24%. Furthermore, those companies are registered as foreign invested enterprises and are entitled to a tax concession period during which they are fully exempted from the PRC enterprise income tax for two years starting from its first tax profit-making year, followed by a 50% reduction in the PRC enterprise income tax rate for the next three years.

The year 2006 was the first profit-making year of Shandong Shanshui, Pingyin Shanshui and Anqiu Shanshui, therefore, they enjoy a 50% reduction in the PRC enterprise income tax rate for the six months ended 30 June 2008 (corresponding period in 2007: 0%).

(iv) According to the new tax law and implementation rules of the new tax law, enterprises that enjoyed a fixed period of tax exemption and reduction under previous applicable rules and regulations would continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment had not commenced due to lack of profit, such preferential tax treatment would commence from 1 January 2008. Accordingly, the year 2008 is the first tax exemption year for Kangda Cement.

(v) In addition, according to the new tax law, PRC subsidiaries of the Company are subject to withholding tax on the dividends to their foreign investors arising from profits earned subsequent to 1 January 2008. Deferred tax liability amounting to RMB 10,425,000 had been recognised in this regard.

9. DIVIDEND DECLARED AND PAID DURING THE PERIOD

		Six months ended 30 June	
		2008	2007
		Unaudited	Unaudited
	Note	**RMB'000**	RMB'000
Final dividend in respect of the previous financial year, declared and paid during the period	(i)	**205,755**	–

Notes:

(i) Pursuant to a resolution of the Board of Directors of the Company passed on 18 April 2008, the Company declared dividends of approximately USD 28,311,540 for 3,254,200 nominal shares to the then equity holders and USD 1,666,981 for 191,607 potential shares to note holders of convertible notes at USD 8.7 per share respectively, from retained earnings for the year ended 31 December 2007. The dividends have been fully paid out to the equity holders of the Company on 26 June 2008.

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2008 is based on the profit attributable to equity holders of the Company for the period of RMB 155,132,000 (corresponding period in 2007: RMB 69,462,000) and the 1,952,520,000 ordinary shares (corresponding period in 2007: 1,952,520,000) which has been determined after taking into account of the capitalisation issue as if the shares were outstanding throughout the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2008 is based on the profit attributable to ordinary equity shareholders of the Company of RMB 159,952,000 and the weighted average number of 2,067,484,200 ordinary shares, calculated as follows:

10. EARNINGS PER SHARE – *continued*

(b) Diluted earnings per share – *continued*

(i) Profit attributed to ordinary equity shareholders of the Company (diluted)

	Six months ended 30 June 2008 Unaudited RMB'000
Profit attributable to equity shareholders of the Company (basic)	**155,132**
Unwinding of discount on convertible notes	**4,820**
Profit attributable to equity shareholders of the Company (diluted)	**159,952**

(ii) Weighted average number of ordinary shares (diluted)

	Six months ended 30 June 2008 Unaudited
Weighted average number of ordinary shares (basic)	**1,952,520,000**
Effect of conversion of shares for convertible notes	**114,964,200**
Weighted average number of ordinary shares (diluted)	**2,067,484,200**

The diluted earnings per share is not presented for the six months ended 30 June 2007 as there were no dilutive potential ordinary shares in existence for the period and therefore, the diluted earnings per share is the same as the basic earnings per share.

As the global offering and the commencement of the listing of the Company is on 4 July 2008, the above earnings per share does not include the initial public offering share increase effect.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, the addition of property, plant and equipment (including transfer from construction in progress) of the Group amounted to RMB 775,218,000 (corresponding period in 2007: RMB 232,732,000). Items of property, plant and equipment with net book value totalling RMB 36,651,000 were disposed of during the six months ended 30 June 2008 (corresponding period in 2007: RMB 2,882,000), resulting in a loss on disposal of RMB 18,126,000 (corresponding period in 2007: RMB 35,000).

Up to the date of this report, the Group was in the process of applying for or changing registration of the title certificates of certain plants and buildings with an aggregate carrying value of approximately RMB 20,327,000 as at 30 June 2008 (31 December 2007:RMB 21,185,000).

12. LONG-TERM DEFERRED ASSETS

Pursuant to the consulting service agreement ("Service Agreement") entered between China Pioneer Cement (Hong Kong) Company Limited, a subsidiary of the Company, and China Northeastern Building Materials Consulting Limited ("Northeastern Consulting") for HKD 150,000,000 in December 2007, Northeastern Consulting will provide the Group with various services from 1 January 2008 to 31 December 2019. The service fee is amortised over effective period of various services as stated in the Service Agreement.

	2008 Unaudited RMB'000
At 1 January	**–**
Additions	**138,084**
Amortised in consolidated income statement	**(908)**
At 30 June	**137,176**

13. INVENTORIES

	At 30 June 2008 Unaudited RMB'000	At 31 December 2007 Audited RMB'000
Raw materials	**500,137**	241,477
Semi-finished goods	**61,005**	91,010
Finished goods	**156,895**	112,325
Spare parts	**124,943**	88,185
	842,980	532,997

As at 30 June 2008, raw materials include coal in the sum of RMB 272,834,000 (31 December 2007: RMB 102,101,000). The company increase inventory level of coal in anticipation of increase in production.

14. TRADE AND BILLS RECEIVABLE

	At 30 June 2008 Unaudited RMB'000	At 31 December 2007 Audited RMB'000
Bills receivable	**152,729**	319,861
Trade receivables	**193,790**	109,393
	346,519	429,254

All of the trade and bills receivable (net of impairment losses for bad and doubtful debts) are expected to be recovered within one year.

An aging analysis of trade and bills receivable of the Group is as follows:

	At 30 June 2008 Unaudited RMB'000	At 31 December 2007 Audited RMB'000
Within 3 months	**119,409**	93,497
Over 3 months but less than 6 months	**197,814**	325,029
Over 6 months but less than 12 months	**24,516**	8,729
Over 12 months	**12,069**	9,068
	353,808	436,323
Less: Allowances for bad and doubtful accounts	**(7,289)**	(7,069)
	346,519	429,254

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

15. PREPAYMENT AND OTHER RECEIVABLES

	Note	At 30 June 2008 Unaudited RMB'000	At 31 December 2007 Audited RMB'000
Prepayments for raw materials		**172,230**	114,849
Prepayments for long-lived assets	(i)	**573,644**	365,966
VAT recoverables		**73,737**	33,079
Financial guarantee received		**49,561**	65,961
Amount due from related parties	(ii)	**4,480**	8,894
Amount due from third parties	(iii)	**192,295**	251,875
Others		**55,496**	37,312
		1,121,443	877,936

Notes:

(i) As at 30 June 2008, prepayment for long-lived assets totalling RMB 573,644,000 includes prepayments for construction of plant and equipment of RMB 452,237,000, RMB 60,327,000 prepaid for acquisition of land use rights, and RMB 42,031,000 prepaid for acquisition of mining rights.

(ii) Amount due from related parties mainly represents receivables from sales of clinker and raw material and rental receivable. As at 30 June 2008, amount due from related parties totalling RMB 4,480,000 includes receivables arising from sales of clinker and raw materials of RMB 3,119,000, and rental receivable of RMB 1,361,000. Further details are set out in Note 22(b).

(iii) The balance as at 30 June 2008 mainly represents amounts due from third parties of Liaoyang Qianshan Cement Co., Ltd. ("Qianshan Cement") and Kangda Cement.

16. CASH AT BANK AND IN HAND

	At 30 June 2008 Unaudited RMB'000	At 31 December 2007 Audited RMB'000
Cash at bank and in hand	**353,176**	721,265
Pledged bank deposits	**21,984**	7,737
	375,160	729,002
Less: Pledged bank deposits	**(21,984)**	(7,737)
Cash and cash equivalents	**353,176**	721,265

17. LOANS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

(a) The Group's long-term loans and borrowings comprise:

	Note	**At 30 June 2008 Unaudited RMB'000**	At 31 December 2007 Audited RMB'000
Bank loans			
- Secured	(i)	**2,643,120**	2,018,620
Loans from equity holders			
- Secured	(ii)	**316,574**	365,230
Loan from government			
- Unsecured	(iii)	**10,000**	10,000
		2,969,694	2,393,850
Less: Current portion of long-term loans			
Secured bank loans	(i)	**(866,420)**	(535,920)
Secured equity holders loans	(ii)	**(54,681)**	(56,189)
		2,048,593	1,801,741
Representing:			
Bank loans		**1,776,700**	1,482,700
Government loan (iii)		**10,000**	10,000
Equity holders loans		**261,893**	309,041
		2,048,593	1,801,741

17. LOANS – *continued*

(b) The Group's short-term loans and borrowings comprise:

	Note	**At 30 June 2008 Unaudited RMB'000**	At 31 December 2007 Audited RMB'000
Bank loans			
- Secured	(iv)	**1,421,604**	1,612,268
Loan from third parties			
- Secured	(v)	**159,000**	289,500
Current portion of long-term loans			
- Secured		**921,101**	592,109
		2,501,705	2,493,877
Representing:			
Bank loans		**2,288,024**	2,148,188
Equity holders loans		**54,681**	56,189
Third parties loans		**159,000**	289,500
		2,501,705	2,493,877

17. LOANS – *continued*

(b) The Group's short-term loans and borrowings comprise: – *continued*

Notes:

(i) Non-current secured bank loans with amount of RMB 44,500,000 as at 31 December 2007 and 30 June 2008 each were secured by Jinan Shanshui Group Co., Ltd. ("Jinan Shanshui") as disclosed in Note 22. Loans of RMB 804,000,000 and RMB 568,400,000 as at 31 December 2007 and 30 June 2008 respectively, were guaranteed by third party. Other balances were either pledged by certain items of property, plant and equipment and land use rights, pledged by equity interests of certain subsidiary of the Group, or guaranteed by companies within the Group.

(ii) Anqiu Shanshui and Pingyin Shanshui entered into loan agreements with one of the Company's equity holders, International Finance Corporation ("IFC") totalling USD 50,000,000 in 2006.

The loans bear interest at London Inter Bank Offered Rate ("LIBOR") plus 2% per annum and are repayable bi-annually from 2008 to 2014. These loans are secured by certain fixed assets of the subsidiaries.

(iii) The government loan was received by Gongyuan Cement for constructing an environmental friendly production line. The loan is unsecured, bears interest at one-year PRC deposit interest rate plus 0.3% and is repayable in 2021.

(iv) Bank loan of RMB 540,000,000 and RMB 305,000,000, as at 31 December 2007 and 30 June 2008 respectively were guaranteed by third parties, the remaining current secured bank loans as at 31 December 2007 and 30 June 2008 were pledged by certain items of property, plant and equipment and land use rights, or guaranteed by companies within the Group.

Current secured bank loans carried annual variable interest rates ranging from 6.39% to 8.75% for the six months ended 30 June 2008 (corresponding period in 2007: 6.12% to 8.48%) respectively.

(v) Current secured third parties loans carried interest at annual rates ranging from 6.39% to 8.75% as at 30 June 2008.

The balance represents loans due to predecessor equity holders of the newly acquired subsidiaries including Yantai Shanshui Cement Co., Ltd. ("Yantai Shanshui") and Zaozhuang Shanshui Cement Co., Ltd. ("Zaozhuang Shanshui"), which were pledged by equity interests of Yantai Shanshui and Zaozhuang Shanshui respectively. The Group has entered into agreements with respective predecessor investors of those subsidiaries to settle the balance in 2008.

Some of the Group's banking facilities are subject to the fulfilment of covenants relating to certain subsidiaries' balance sheet ratios, as are commonly found in lending arrangements with financial institutions, or conditions of assets relating to production of cements. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance of these covenants.

As at 30 June 2008, Qianshan Cement, a newly acquired subsidiary by the Group on 28 December 2007, had past due short-term bank loans totalling RMB 282,524,000. The Group is working with these lenders to restructure the outstanding loans and interest payments.

As at 30 June 2008, certain properties, equipment and land use right with an aggregate carrying amount of RMB 2,019,192,000 are pledged to secure bank loans granted to the Group.

17. LOANS – *continued*

(c) Convertible notes

	Liability portion RMB'000	Equity portion RMB'000	Total RMB'000
At 1 January 2008	**85,458**	**64,774**	**150,232**
Interest charged	**4,820**	**–**	**4,820**
Foreign exchange gain	**(5,361)**	**–**	**(5,361)**
At 30 June 2008	**84,917**	**64,774**	**149,691**

On 30 November 2005, China Shanshui (Hong Kong) signed a convertible notes purchase agreement with the minority equity holders which agreed to issue convertible notes amounting to USD 20,000,000 to the minority equity holders (the "notes holders"). The convertible notes were issued by the Company on 21 September 2007 with zero coupon rate.

According to the terms of the convertible notes, the notes holders may elect to require the Company to redeem in whole or in part the convertible notes at a price equal to the outstanding principal amount at any time after 2 July 2011. The convertible notes are convertible into a total of 191,607 of the Company's ordinary shares of USD 0.01 each at a conversion price of USD 104.4 per share six months after the completion of an initial public offering. If the Company declares any dividends or distribution on its shares before the notes holders elect to exercise the conversion rights, the notes holders are entitled to receive payments equal to the dividend payable for each share multiplied by the total number of shares issuable upon exercise of the conversion rights.

Pursuant to the written resolutions of the shareholders of the Company passed on 14 June 2008, 1,949,265,800 shares were allotted and issued to the holders of shares on the register of members of the Company at the close of business on 14 June 2008 ("the Capitalisation Issue"). According to the Capitalisation Issue, the convertible ordinary shares is enlarged from 191,607 shares to 114,964,200 shares.

18. DEFERRED INCOME

	2008 Unaudited RMB'000	2007 Audited RMB'000
At 1 January	**39,886**	24,280
Additions	**170,042**	16,794
Recognised in consolidated income statement	**(1,006)**	(1,188)
At 30 Jun/31 Dec	**208,922**	39,886

Deferred income mainly represents the PRC local government grants received from related authorities for fixed asset investment, such as cement and clinker plants and residual heat generation plants. The subsidies are recognised in consolidated income statement over the estimated useful lives of the respective assets. There are no unfulfilled conditions and contingencies relating to the grants.

19. TRADE AND BILLS PAYABLES

An aging analysis of trade and bills payables is set out below:

	At 30 June 2008 Unaudited RMB'000	At 31 December 2007 Audited RMB'000
Within 3 months	**753,944**	495,741
Over 3 months but less than 6 months	**143,259**	157,750
Over 6 months but less than 12 months	**110,441**	133,828
Over 12 months	**126,691**	48,212
	1,134,335	835,531

20. OTHER PAYABLES AND ACCRUALS

	Note	**At 30 June 2008 Unaudited RMB'000**	At 31 December 2007 Audited RMB'000
Customer deposits and receipts in advance	(i)	**754,749**	233,878
Payable to third parties of acquired subsidiaries	(ii)	**220,837**	251,429
Staff compensation and termination provisions		**209,020**	209,930
Accrued payroll and welfare		**150,884**	157,586
Taxes payable other than income tax		**126,017**	70,313
Acquisition consideration payable	(iii)	**104,163**	354,299
Financial guarantee issued		**49,561**	66,460
Water and electricity expenses		**28,453**	11,274
Lease prepayment payable	(iv)	**21,788**	239,148
Construction quality deposit		**21,329**	13,328
Interest rate swaps		**13,617**	819
Other acquisition consideration payable		**9,252**	9,252
Accrued interest expenses		**4,882**	5,057
Other accrued expenses and payables	(v)	**88,895**	71,446
		1,803,447	1,694,219

Notes:

(i) The Group typically requires full payment upon delivery of goods for sales of cement, clinkers and bubble bricks. The balance mainly represents the cash advances received from customers for purchasing cement and clinkers.

(ii) The balance represents payable to third parties of newly acquired subsidiaries by the Group during 2007, which mainly consists of accrued interest expense of RMB 76,527,000, current account with former related parties of Gongyuan Cement and Kangda Cement totalling RMB 86,758,000, payable to third party of Qianshan Cement of RMB 41,600,000. The balance is to be settled in 2008.

(iii) The balance as at 30 June 2008 represents acquisition consideration payable for Continental Cement Corporation and Kangda Cement of RMB 64,163,000, Yantai Shanshui of RMB 30,000,000 and Gongyuan Cement and its subsidiaries of RMB 10,000,000. Pursuant to the respective acquisition agreements, the balance will be settled in 2008.

(iv) The balance as at 31 December 2007 mainly represents land use right cost of Qianshan Cement in the sum of RMB 211,289,000. The balance was settled in January 2008.

(v) Other accrued expenses and payables represent balance of miscellaneous payables, such as accrued transportation expenses, repair and maintenance payable and rental fee, etc.

21. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 30 June 2008 not provided for in the interim financial report were as follows:

	At 30 June 2008 Unaudited RMB'000	At 31 December 2007 Audited RMB'000
Authorised and contracted for	**523,343**	462,456
Authorised but not contracted for	**633,897**	–
	1,157,240	462,456

(b) Operating lease commitments

At 30 June 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2008 Unaudited RMB'000	At 31 December 2007 Audited RMB'000
Within 1 year	**15,182**	16,348
After 1 year but within 2 years	**14,705**	15,547
After 2 year but within 5 years	**44,115**	46,115
After 5 years	**150,107**	165,071
	224,109	243,081

The Group leases a number of pieces of land and ports under non-cancellable operating leases. The leases typically run without any contingent lease terms, nor did the lease agreements contain any terms that may require higher future rental payments, restrictions on dividends, additional liabilities, or other terms.

22. MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions

	Note	Six months ended 30 June 2008 Unaudited RMB'000	2007 Unaudited RMB'000
Recurring transactions			
Sales:	(i)		
- Tianjin Tianhui Cement Co., Ltd. ("Tianjin Tianhui")		**19,287**	7,436
Rental income:			
- Shanshui Jinzhu Powder Co., Ltd. ("Jinzhu Powder")		**68**	68
- Shanshui Stanford New Building Materials Co., Ltd. ("Stanford")		**279**	279
		347	347

22. MATERIAL RELATED PARTY TRANSACTIONS – *continued*

(a) Transactions – *continued*

	Note	Six months ended 30 June 2008 Unaudited RMB'000	2007 Unaudited RMB'000
Non-recurring transactions			
Transactions with the Group treasury:	(ii)		
From:			
- Jinan Shanshui		–	2,572
- Tianjin Tianhui		–	10,402
- Jinan Cement Product Factory ("Jinan Cement Product")		–	258
- Jinan Shanshui Lixin Investment Development Co., Ltd. ("Shanshui Lixin")		–	33
- Jinan Shanshui Jianxin Investment Development Co., Ltd. ("Shanshui Jianxin")		–	5
- Jinan Cement Factory ("Jinan Cement")		–	2
- Jinan Shanshui Group Property Development Co., Ltd. ("Property Development")		–	450
- Jinan Dongfanghong Cement Co., Ltd. ("Jinan Dongfanghong")		–	1
- Jinan Huanghai Cement Co., Ltd. ("Jinan Huanghai")		–	1
		–	13,724
Non-recurring transactions			
Transactions with the Group treasury:	(ii)		
To:			
- Jinan Shanshui		–	2,347
- Tianjin Tianhui		–	10,488
- Jinan Cement Product		–	242
- Shanshui Lixin		–	2,547
- Property Development		–	454
		–	16,078

22. MATERIAL RELATED PARTY TRANSACTIONS – *continued*

(a) Transactions – *continued*

	Note	Six months ended 30 June **2008** **Unaudited** **RMB'000**	2007 Unaudited RMB'000
Advances from:	(ii)		
- Dongyue Packaging Co., Ltd. ("Dongyue")		**–**	276
		–	276
Advances to:	(ii)		
- Jinan Shanshui		**–**	560
- Jinan Cement Product		**–**	185
- Dongyue		**–**	13
		–	758
Investment disposal to:			
- Shanshui Lixin	(iii)	**–**	2,584
- Shanshui Jianxin	(iii)	**–**	456
		–	3,040
Repayment of loans and related interests from:			
- IFC		**52,576**	28,645
Financing to:			
- China Shanshui Investment Co., Ltd. ("Shanshui Investment")		**35,849**	–
Repayment of loans and related interests from:			
- Shanshui Investment		**36,079**	–

Notes:

(i) This represents sales of clinkers which were carried out in accordance with the terms of the underlying agreements. The directors of the Company are of the opinion that the sales were conducted on normal commercial terms and in the ordinary course of business of the Group.

(ii) These transactions represent the deposit into/withdrawal from the Group's treasury by related parties and advances from/to related parties. The Group has ceased such transactions with those related parties since 1 January 2008.

(iii) Investment disposal by Shandong Cement Factory Co., Ltd. ("Shandong Cement Factory") represents disposal of a 3.04% equity interest in Jinan Safari World Company Limited in 2007.

22. MATERIAL RELATED PARTY TRANSACTIONS – *continued*

(b) Balances with related parties

	At 30 June 2008 Unaudited RMB'000	At 31 December 2007 Audited RMB'000
Other receivables due from:		
- Tianjin Tianhui	**3,119**	4,846
- Stanford	**1,158**	3,879
- Jinzhu Powder	**203**	169
	4,480	8,894
Customer deposits and receipts in advance from:		
- Tianjin Tianhui	**49,058**	–
	49,058	–
Loans due to:		
- IFC	**316,574**	365,230
	316,574	365,230

	At 30 June 2008 Unaudited RMB'000	At 31 December 2007 Audited RMB'000
Liability portion of convertible notes due to:		
- MS Cement Limited	**43,046**	43,320
- MS Cement II Limited	**15,090**	15,186
- CDH Cement Limited	**17,441**	17,552
- IFC	**9,341**	9,400
	84,918	85,458
Outstanding bank loans secured by:		
- Jinan Shanshui	**44,500**	44,500

22. MATERIAL RELATED PARTY TRANSACTIONS – *continued*

(c) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel of the Group is as follows:

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
	RMB'000	RMB'000
Salary, allowances and other benefits	**7,898**	7,687
Defined contribution retirement plans	**84**	88
	7,982	7,775

23. POST BALANCE SHEET EVENTS

(a) Initial Public Offering

On 4 July 2008, the Company issued 650,840,000 ordinary shares in connection with its global offering and the commencement of the listing of its shares on the Main Board of the Hong Kong Stock Exchange and raised gross proceeds of approximately RMB 1.6 billion.

On 25 July 2008, the Global Coordinator fully exercised the over-allotment option on behalf of the International Underwriters. The Company allotted and issued an aggregate of 97,626,000 additional shares, representing 15% of the shares initially issued under the global offering, and further raised gross proceeds of approximately RMB 239 million.

(b) Litigation claim

In March 2008, the Liaoyang branch of Industrial and Commercial Bank of China ("ICBC") applied for a payment order from the Intermediary Court of Liaoyang (the "Court") for past due bank loans of Qianshan Cement, a subsidiary of the Company, for the amount of RMB 48,988,000 out of past due loans from ICBC totalling RMB 73,988,000, together with interest of RMB 28,480,000. The payment order was approved by the Court on the same date. As at 30 June 2008, the Group has recognised the past due loans of RMB 73,988,000 and accrued related interest expenses of RMB 44,571,000 accordingly. The loans were secured by certain assets of Qianshan Cement with an aggregating carrying amount of RMB 148,196,000. The court performed auction of these certain assets and the auction was failed. As at the date of this report, the settlement of the said past due loans is still being negotiated with the lender.

(Expressed in Renminbi unless otherwise indicated)

24. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2008

Up to the date of issue of this interim financial report, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2008:

	Effective for accounting periods beginning on or after
IFRIC 13, Customer Loyalty Programmes	1 July 2008
IFRS 8, Operating Segments	1 January 2009
Revised IAS 1, Presentation of Financial Statements	1 January 2009
Revised IAS 23, Borrowing Costs	1 January 2009
Amendments to IFRS 2, Share-Based Payment – Vesting Conditions and Cancellations	1 January 2009
Revised IFRS 3, Business Combination	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009
Revised IAS 27, Consolidated and Separate Financial Statements	1 July 2009

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations in the period of initial application and has so far concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.