



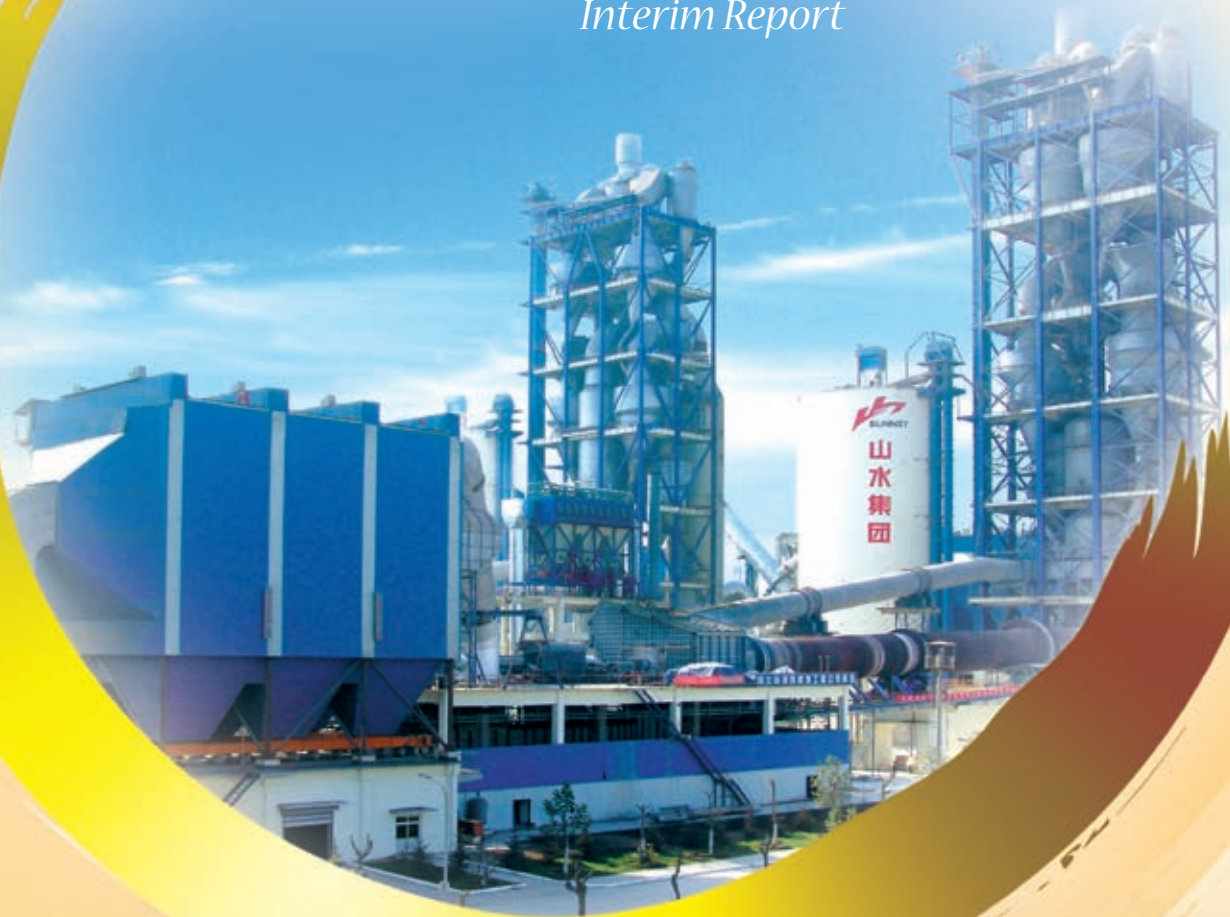
# CHINA SHANSHUI CEMENT GROUP LIMITED 中國山水水泥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 691

# 2009

*Interim Report*



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## 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” or “Shanshui Group”	the Company and its subsidiaries
“Reporting Period”	1 January 2009 to 30 June 2009
“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
“SFO”	Securities and Futures Ordinance (Cap.571) (as amended, supplemented or otherwise modified from time to time)
“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 Statistics”	The National Bureau of Statistics of the People’s Republic of China
“MIIT”	the Ministry of Industry and Information Technology of the PRC

## (I) Company Profile

### 1. 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

## (I) Company Profile

### 2. COMPANY PROFILE

- |      |   |  |
|------|---|--|
| (1)  | Company Name  |  |
|      | Company Name in Chinese                                 | : 中國山水水泥集團有限公司   |
|      | Official English name of the Company                    | : CHINA SHANSHUI CEMENT GROUP LIMITED  |
| (2)  | Registered Office                                       | : Offices of Maples Corporate Services Limited<br>PO Box 309, Ugland House<br>Grand Cayman, KY 1-1104<br>Cayman Islands                          |
| (3)  | Principal Place of Business in China                    | : Sunnsy Industrial Park, Gushan Town, Changqing District, Jinan, Shandong, China  |
| (4)  | Principal Place of Business in Hong Kong                | : 3rd Floor, Queen's Road Centre,<br>152 Queen's Road Central, Central, Hong Kong  |
| (5)  | E-mail 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<br>China Construction Bank Corporation  |
| (12) | Listing Date  | : 4 July 2008  |
| (13) | Website for publication of this report                  | : www.shanshuigroup.com  |
| (14) | Stock Exchange on which the Company's shares are listed | : The Hong Kong Stock Exchange   |
| (15) | Stock code  | : 0691   |
| (16) | Stock Short Name  | : Shanshui Cement  |
| (17) | Hong Kong Share Registrar and Transfer Office Address   | : Computershare Hong Kong Investor Services Limited<br>Rooms 1712-1716, 17/F<br>Hopewell Centre<br>183 Queen's Road East<br>Wanchai<br>Hong Kong |
| (18) | Compliance Adviser                                      | : Guotai Junan Capital Limited   |
| (19) | Legal Advisers  |  |
|      | as to PRC laws  | : Commerce & Finance Law Offices   |
|      | as to Hong Kong laws                                    | : Norton Rose Hong Kong  |
| (20) | Auditor   | : KPMG   |

**(II) Key Data****1. KEY FINANCIAL DATA**

(Unit: RMB'000)

	<b>30 June 2009</b>	31 December 2008
Total assets	<b>13,594,340</b>	12,772,617
Total liability	<b>8,784,586</b>	8,167,068
Equity attributable to equity shareholders of the Company	<b>4,762,021</b>	4,560,571

	<b>January to June 2009</b>	January to June 2008
Revenue	<b>3,869,002</b>	3,372,025
Gross profit	<b>833,202</b>	665,044
Gross profit margin	<b>21.54%</b>	19.72%
Profit from operations	<b>550,350</b>	384,116
Profit margin from operations	<b>14.22%</b>	11.39%
Profit attributable to equity shareholders of the Company	<b>309,975</b>	155,132
Basic earnings per share (RMB)	<b>0.11</b>	0.08
Net cash generated from operating activities	<b>430,980</b>	887,757

**2. KEY BUSINESS DATA**

	<b>January to June 2009</b>	January to June 2008
Sales volume of cement ('000 tonnes)	<b>12,737</b>	12,456
Sales volume of clinker ('000 tonnes)	<b>3,809</b>	3,125
Unit selling price of cement (RMB/tonne)	<b>227.80</b>	207.75
Unit selling price of clinker (RMB/tonne)	<b>187.72</b>	197.93

## (III) Changes in Share Capital and Shareholdings of Substantial Shareholders and Directors

### 1. CHANGES IN SHARE CAPITAL AND GENERAL INFORMATION ON THE LISTING OF THE SHARES

#### (1) Changes in share capital

As of 30 June 2009, our authorized share capital was US\$100,000,000 divided into 10,000,000,000 shares of par value of US\$0.01 each.

#### (2) Issue and listing of Shares

As of 31 December 2008, the Company has issued 2,700,986,000 Shares.

As at 30 April 2009, CDH Cement Limited, MS Cement Limited and MS Cement II Limited exercised the conversion rights attached to the Convertible Notes, which were converted into 23,611,800 Shares, 58,276,800 Shares and 20,429,400 Shares respectively.

As of 30 June 2009, the Company has issued a total of 2,803,304,000 Shares.

### 2. SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS AS OF 30 JUNE 2009

As at 30 June 2009, the interests or short positions of persons, other than the Directors and Chief Executive of the Company, in the Shares and underlying shares of the Company, which would be required 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 Ordinary Shares interested <sup>(1)</sup>	Nature of interests	Percentage of Shares in issue <sup>(2)</sup>
China Shanshui Investment Company Limited	871,736,400(L)	Beneficial owner	31.10%
MS Cement Limited <sup>(3)</sup>	150,296,724(L)	Beneficial owner	5.36%
Morgan Stanley Private Equity Asia, LP <sup>(3)</sup>	479,177,283(L)	Interest in controlled corporations	17.09%
Morgan Stanley Private Equity Asia, L.L.C. <sup>(3)</sup>	531,670,280 <sup>(4)</sup>	Interest in controlled corporations	18.97%
Morgan Stanley Private Equity Asia, Inc <sup>(3)</sup>	531,670,280 <sup>(4)</sup>	Interest in controlled corporations	18.97%
MS Cement IV Limited <sup>(5)</sup>	328,880,559(L)	Beneficial owner	11.73%
Morgan Stanley Private Equity Asia III, LP <sup>(5)</sup>	328,880,559(L)	Interest in controlled corporations	11.73%

### (III) Changes in Share Capital and Shareholdings of Substantial Shareholders and Directors

Name of shareholder	Number of Ordinary Shares interested <sup>(1)</sup>	Nature of interests	Percentage of Shares in issue <sup>(2)</sup>
Morgan Stanley Private Equity Asia III, L.L.C. <sup>(5)</sup>	328,880,559(L)	Interest in controlled corporations	11.73%
Morgan Stanley Private Equity Asia III, Inc <sup>(5)</sup>	328,880,559(L)	Interest in controlled corporations	11.73%
Morgan Stanley Private Equity Holdings (Cayman) Limited <sup>(5)</sup>	328,880,559(L)	Interest in controlled corporations	11.73%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Limited <sup>(5)</sup>	328,880,559(L)	Interest in controlled corporations	11.73%

Notes:

- (1) The letter "L" denotes a long position in such Shares.
- (2) Without taking into account the dilution effect of the not yet converted Convertible Notes. That is, without taking into account 12,646,200 shares which International Finance Corporation is entitled to but has not yet converted pursuant to the Convertible Notes issued by the Company on 21 September 2007 to International Finance Corporation, which are convertible into Shares subject to the terms and conditions therein contained (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) MS Cement II Limited ("MS II"), a limited liability company incorporated in the Cayman Islands, is controlled by MSPEA GP through MS III Limited, a limited liability company incorporated in the Cayman Islands which is controlled by MSPEA GP. Each of MSPEA GP and Morgan Stanley Private Equity Asia, Inc. is deemed to be interested in the Shares held by MS II.
- (5) 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.

Save as disclosed above and so far as the Directors are aware, as at 30 June 2009, no person, other than Directors or the Chief Executive of the Company, had an interest or short position in the Shares or underlying shares of the Company which would need 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.



### (III) Changes in Share Capital and Shareholdings of Substantial Shareholders and Directors

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

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the Reporting Period.

#### 4. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2009, the interests of the Directors and Chief Executive of the Company 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 of Hong Kong Limited ("Stock Exchange"), pursuant to Divisions 7 and 8 and section 352 of Part XV 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 ("Model Code") set out in Appendix 10 of the Listing Rules of the Stock Exchange ("Listing Rules"), were as follows:

Name of Director	Type of Share	Number of shares held	Total	Percentage of
				Shares in issue as at 30 June 2009
Zhang Caikui	Ordinary share	871,736,400	871,736,400	31.10%

Note:

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

Save as disclosed above, as of 30 June 2009, none of the Directors or Chief Executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its Associated Corporations, which would be required 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.

## (IV) Basic Information on Directors, Senior Management and Employees

### 1. APPOINTMENT OR DISMISSAL OF DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD

The General Meeting of the Company, which was held on 14 June 2008, approved the appointment of Mr. ZHANG Caikui, Mr. LI Yanmin, Mr. DONG Chengtian and Mr. YU Yuchuan as the Executive Directors of the Company for a term of office of three years commencing from 1 July 2008; Mr. Homer SUN and Mr. JIAO Shuge as the Non-Executive Directors; Mr. SUN Jianguo, Mr. WANG Yanmou and Mr. WANG Jian as the Independent Non-Executive Directors of the Company for an initial term of office of one year commencing from 1 July 2008, subject to a renewal of up to three years thereafter.

Pursuant to Clause 16.18 of the articles of association, Mr. ZHANG Caikui, Mr. JIAO Shuge and Mr. WANG Jian retired as directors by rotation at the 2008 annual general meeting held on 5 June 2009, and all of them have been re-elected as directors of the Company thereat.

### 2. INTERESTS OF DIRECTORS

On 14 June 2008, each of Tianjin Tianhui Cement Co., Ltd. (天津市天輝水泥有限公司) (“Tianjin Tianhui”), Jinan Shanshui Stanford New Building Materials Co., Ltd. (濟南山水史坦富新型建材有限公司) (“Shanshui Stanford”) and 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 for a term of three years commencing from the date of our listing, 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

During the Reporting Period, except that the positions of Chairman of the Board and the General Manager were held by Mr. ZHANG Caikui, the Board of the Company was 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 as set out in Appendix 14 to the Listing Rules of the Stock Exchange since the listing of the Shares on the Stock Exchange (the “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 Appendix 10 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 have complied with the required standard regarding securities transactions by the Directors as set out in the Model Code since the Listing.

### 5. EMPLOYEES AND THEIR REMUNERATION

As at 30 June 2009, the Group had a total of 14,507 employees. RMB213.80 million was the aggregate remuneration of the employees for the Reporting Period.

## (V) Management Discussion and Analysis

### I. OPERATING ENVIRONMENT AND INDUSTRY OVERVIEW

Since 2009, in order to battle the global financial crisis and achieve the objectives “to expand domestic demand and maintain growth”, the PRC has fully implemented the RMB4 trillion stimulus package. As a result, GDP increased by 7.1% in the first half of the year, indicating that the national economy was on the right track to stabilisation and recovery. The cement industry will benefit significantly as an investment-driven industry. The cement production volume of the PRC reached 734.62 million tonnes in the first half of the year, representing a year-on-year increase of 14.9%. Such growth rate increased by 6.2 percentage points compared to the corresponding period of the previous year. In the first five months, the cement industry achieved a profit of RMB10.3 billion, representing a year-on-year increase of 21%. (Source: National Bureau of Statistics, MIIT)

Shandong Province and Liaoning Province, the two core target markets where the operations of Shanshui Group are based, implemented investment plans of RMB1.6 trillion and RMB1.3 trillion respectively this year, and achieved GDP growth of 9.95% and 11.5% respectively in the first half of the year. Both of these growth rates were higher than the average level in the PRC. Shanshui Group further increased its market share by taking full advantage of its regional competitive edge. Total sales volume of cement and clinker achieved a stable year-on-year increase of 6.19% against the background of the global financial crisis.

Shanshui Group was active in tendering national key projects while further strengthening both urban and rural markets. In particular, Shanshui Group won all tenders in relation to key projects within its market coverage, namely, the Beijing-Shanghai Express Railway and Haiyang Nuclear Power Project. The proportion of sales of high-end cement increased by 6.27% compared with the corresponding period of the previous year.

During the period, Shanshui Group further reduced its production cost by strengthening internal control and implementing technology reforms aimed at saving energy, exploiting opportunities and reducing consumption. In particular, the output of residual heat power generation was 307 million KWH, representing an increase of 108 million KWH or 54.27% compared with the corresponding period of the previous year.

Given the favourable macro economic environment and fuelled with increased sales volume and selling price as well as reduced costs, in the first three months of the year, Shanshui Group had overcome its history of not making a profit in the first quarter of the previous years and made a good start this year. In the first half of the year, the Group realised a net profit of RMB313 million, representing a year-on-year increase of 107.38%. Such growth rate far exceeded the average profit growth rate of the cement industry in the PRC.

## (V) Management Discussion and Analysis

### II. COMPANY'S BUSINESS REVIEW

As at 30 June 2009, among the major investment projects in 2008, the 4600t/d clinker production line of Yishui Shanshui Cement Company Limited ("Yishui Shanshui"), the 4000t/d clinker production line of Dalian Shanshui Cement Company Limited ("Dalian Shanshui"), the 1 million tonnes cement grinding line of Weihai Shanshui Cement Company Limited ("Weihai Shanshui") (Phase II), the 1 million tonnes cement grinding line of Qingdao Shanshui Chuangxin Cement Company Limited ("Qingdao Shanshui Chuangxin"), the 1 million tonnes cement grinding line of Liaoyang Qianshan Cement Company Limited ("Qianshan Cement") and the 1 million tonnes cement grinding line of Dalian Shanshui (Phase I) had all commenced operation. In addition, the total installed capacity of residual heat power generators which had commenced operation in the first half of the year was 58,500 KW. After the commencement of operation of those projects, the Company's scale of production has further expanded, and its structure further improved. In particular, the gradual commencement of production of the new dry-process clinker production line, cement grinding line and residual heat power generator in Liaoning Province contributed to the substantial reduction in energy consumption per unit of product which in turn significantly lowered the unit cost of products.

During the first half of 2009, the Group closely monitored the macroeconomic environment and market changes, and strived to improve the utilisation rates of its operating production lines and residual heat power generation facilities, increase its sales volume and reduce costs. As a result, the Group's overall operational quality has improved steadily. During the Reporting Period, the Group recorded year-on-year increase in sales volumes of clinker and cement, operational income and profit.

For the first half of 2009, the Group's sales revenue amounted to RMB3,869 million, a year-on-year growth of 14.74%. Profit for the period recorded a year-on-year growth of 107.38% to RMB312.73 million, with net profit margin at 8.08%.

#### (I) Business analysis

##### 1. Sales revenue analysis together with the respective year-on-year changes

(unit: RMB'000)

Product	January-June 2009		January-June 2008		Sales revenue Y-O-Y change (%)
	Revenue	Sales Proportion (%)	Revenue	Sales Proportion (%)	
Cement	2,901,467	74.99	2,587,756	76.74	12.12
Clinker	715,011	18.48	618,519	18.34	15.60
Others	252,524	6.53	165,750	4.92	52.35
Total	3,869,002	100.00	3,372,025	100.00	14.74

## (V) Management Discussion and Analysis

### II. COMPANY'S BUSINESS REVIEW (Continued)

#### (I) Business analysis (Continued)

##### 1. Sales revenue analysis together with the respective year-on-year changes – continued

During the Reporting Period, the growth in sales revenue of the Group was mainly attributable to the increase in selling price and sales volume. In terms of the revenue breakdown by products, the revenue from clinker amounted to RMB715 million, representing a year-on-year growth of 15.60%, while the revenue from cement amounted to RMB2.901 billion, representing a year-on-year growth of 12.12%. Other income amounted to RMB253 million, representing a year-on-year growth of 52.35%.

##### 2. Sales volume, unit selling price of products and their year-on-year changes

###### (1) Comparison of sales volume and unit selling price for the Group

Product	Sales volume	Sales volume	Sales volume	Unit selling price	Unit selling price	Unit selling price
	('000 tonnes)	('000 tonnes)	Y-O-Y change (%)	(RMB/tonne)	(RMB/tonne)	Y-O-Y change (%)
	1H 2009	1H 2008		1H 2009	1H 2008	
Cement	<b>12,737</b>	12,456	2.26	<b>227.80</b>	207.75	9.65
Clinker	<b>3,809</b>	3,125	21.89	<b>187.72</b>	197.93	-5.16

During the Reporting Period, the sales volume of the Company's cement amounted to 12.737 million tonnes, representing a year-on-year growth of 2.26%, while that of clinker amounted to 3.809 million tonnes, representing a year-on-year growth of 21.89%. The overall increase in sales volume and cement price was mainly attributable to the sustained growth in infrastructure construction projects in China and the phase-out of obsolete capacity in the first half of 2009.

###### (2) Comparison of unit selling price of cement between Shandong and Northeastern China

Region	Unit selling price	Unit selling price	Y-O-Y change in
	(RMB/tonne)	(RMB/tonne)	selling price (%)
	1H 2009	1H 2008	
Shandong province	<b>224.47</b>	203.70	10.20
Northeastern China	<b>249.51</b>	232.59	7.27

## (V) Management Discussion and Analysis

### II. COMPANY'S BUSINESS REVIEW (Continued)

#### (I) Business analysis (Continued)

##### 2. Sales volume, unit selling price of products and their year-on-year changes – continued

##### (2) Comparison of unit selling price of cement between Shandong and Northeastern China – continued

During the Reporting Period, the average unit selling price of cement in Shandong area was RMB224.47 per tonne, representing a year-on-year increase of 10.20%, while that in Northeastern China was RMB249.51 per tonne, representing a year-on-year increase of 7.27%. The selling prices in both regions were higher than those of the previous year. The average unit selling price of cement in Northeastern China, however, was notably higher than those of enterprises in Shandong area. With the Company's commencement of cement production using the new suspension preheater dry process in Northeastern China, thus gradually reducing costs and expanding our market share, our cement production enterprises in Northeastern China will contribute more profits to the Group in the second half of the year and in the near future.

##### (3) Comparison of sales volume and sales proportion between high and low grade cement products

	The Reporting period		The corresponding period of the previous year		Change in sales proportion (%)
	Sales volume ('000 tonnes)	Sales proportion (%)	Sales volume ('000 tonnes)	Sales proportion (%)	
High grade cement	5,531	43.42	4,627	37.15	6.27
Low grade cement	7,206	56.58	7,829	62.85	-6.27

Note: High grade cement refers to products with compressive strength equal to or higher than 42.5 megapascals (MPa).

During the Reporting Period, sales proportion of high grade cement was 43.42%, representing a year-on-year increase of 6.27 percentage points, which was mainly attributable to the strong demand for high quality cement due to the government's substantial investments in infrastructure projects, as well as the ideal market presence of the Group.

## (V) Management Discussion and Analysis

### II. COMPANY'S BUSINESS REVIEW (Continued)

#### (I) Business analysis (Continued)

##### 3. Analysis of sales revenue by region and the respective year-on-year changes

(Unit: RMB'000)

Region	January-June 2009		January-June 2008		Sales revenue Y-O-Y change (%)
	Revenue	Sales Proportion (%)	Revenue	Sales Proportion (%)	
Shandong Province	3,386,141	87.52	2,960,759	87.80	14.37
Northeastern China	482,861	12.48	411,266	12.20	17.41
Total	3,869,002	100.00	3,372,025	100.00	14.74

Our cement production enterprises in Shandong province and Northeastern China were running pretty well, with all key economic technical indicators showing significant improvement. Among such enterprises, those in Shandong province generated sales revenue of RMB3.386 billion, accounting for 87.52% of the Group's total sales revenue in the first half of 2009, representing a year-on-year increase of 14.37%. Our enterprises in Northeastern China reported a sales revenue of RMB483 million, accounting for 12.48% of the Group's total sales revenue in the first half of 2009, representing a year-on-year growth of 17.41%.

#### (II) Profit Analysis

##### 1. Key profit and loss items and their respective changes

(Unit: RMB'000)

	January-June 2009	January-June 2008	Y-o-y changes (%)
Revenue	3,869,002	3,372,025	14.74
Gross profit	833,202	665,044	25.29
Profit from operations	550,350	384,116	43.28
Profit before taxation	406,834	197,572	105.92
Profit for the period	312,730	150,797	107.38
Profit attributable to equity holders of the company	309,975	155,132	99.81

## (V) Management Discussion and Analysis

### II. COMPANY'S BUSINESS REVIEW (Continued)

#### (II) Profit Analysis (Continued)

##### 1. Key profit and loss items and their respective changes – continued

During the Reporting Period, the Group recorded sales revenue of RMB3,869 million, representing a year-on-year increase of 14.74%; profit from operations was RMB550 million, representing a year-on-year increase of 43.28%; profit for the period was RMB313 million, representing a year-on-year increase of 107.38%; profit attributable to equity shareholders of the Company was RMB310 million, representing a year-on-year increase of 99.81%. The increase in profit was mainly due to higher selling price for cement and effective cost control.

##### 2. Comparison analysis of the proportion of cost of sales to revenue

(Unit: RMB'000)

Cost of sales	January-June 2009		January-June 2008		Change of proportion to revenue (%)
	Amount	Proportion to revenue (%)	Amount	Proportion to revenue (%)	
Raw materials	846,047	21.87	677,552	20.09	1.77
Coal	957,269	24.74	963,342	28.57	-3.83
Power	539,039	13.93	491,676	14.58	-0.65
Depreciation and amortisation	258,466	6.68	200,469	5.95	0.74
Others	434,979	11.24	373,942	11.09	0.15
<b>Total cost of sales</b>	<b>3,035,800</b>	<b>78.46</b>	<b>2,706,981</b>	<b>80.28</b>	<b>-1.82</b>

During the Reporting Period, the proportion of the Group's total cost of sales to revenue was 78.46%, representing a year-on-year decrease of 1.82 percentage points, of which, the proportion of coal expenses to revenue was 24.74%, representing a year-on-year decrease of 3.83 percentage points. Although the Group recorded a slight increase in average unit purchase price of coal to RMB575.64/tonne in the first half of 2009 compared to the corresponding period of previous year, the Company benefited from the further reduction in coal consumption per unit of output of the existing production lines in Shandong province and the inauguration of the new dry process clinker production lines in Liaoning province which significantly reduced coal consumption per unit of output, and so the proportion of coal expenses to sales revenue recorded a significant decrease.

On cost savings, the residual heat power generation stations under construction or on trial running by late 2008 gradually commenced operation in the period. During the first half of 2009, output of residual heat power generation was 307 million KWH, and the power cost savings were approximately RMB0.39/KWH, reducing the clinker cost by approximately RMB121.08 million.



## (V) Management Discussion and Analysis

### III. COMPANY'S FINANCIAL REVIEW

#### 1. Expenses during the period

(Unit: RMB'000)

	1H 2009	1H 2008	Proportion to sales revenue 1H 2009 (%)	Proportion to sales revenue 1H 2008 (%)	Proportion to sales y-o-y Changes (%)
Sales and marketing expenses	92,871	85,863	2.40	2.55	-0.15
Administrative expenses	236,612	235,907	6.12	7.00	-0.88
Interest expenses	143,516	186,544	3.71	5.53	-1.82
Total	472,999	508,314	12.23	15.08	-2.85

During the Reporting Period, all expenses of the Group were controlled efficiently. The proportion of sales and marketing expenses to sales revenue declined compared to 2008, as a result of the beneficial effect of the higher growth of sales volumes. The proportion of administrative expenses to sales revenue declined compared to the previous year, mainly due to the beneficial effect of systematically consolidating the businesses acquired and the efficient cost control conducted by the Company. The proportion of interest expenses to sales revenue declined, primarily due to lower interest rates on the Company's debt.

#### 2. Changes in balance sheet items

(Unit: RMB'000)

	As at 30 June 2009	As at 31 December 2008	Changes (%)
Non-current assets	10,435,967	9,666,557	7.96
Current assets	3,158,373	3,106,060	1.68
Total assets	13,594,340	12,772,617	6.43
Current liabilities	5,365,522	5,185,577	3.47
Non-current liabilities	3,419,064	2,981,491	14.68
Minority interest	47,733	44,978	6.13
Equity attributable to equity shareholders of the Company	4,762,021	4,560,571	4.42
Total liabilities and equity	13,594,340	12,772,617	6.43

## (V) Management Discussion and Analysis

### III. COMPANY'S FINANCIAL REVIEW (Continued)

#### 2. Changes in balance sheet items (Continued)

As at 30 June 2009, the Group's total assets were RMB13,594 million, total liabilities were RMB8,785 million and its net assets were RMB4,809 million. The gearing ratio (net debts/(net debts + equity attributable to equity shareholders of the Company)) was 46.72%, an increase of 3.17 percentage points compared to the end of the previous year. The Group's total current assets were RMB3,158 million, its total current liabilities were RMB5,366 million, and its net current liabilities were RMB2,207 million. The Group's profits from future operations, its cash flow forecast for 2009, and the banking facilities granted to the Group, are sufficient to satisfy capital requirements for the on-going needs of the sustained operations.

#### 3. Long-term and short-term bank loans and other loans

(Unit: RMB'000)

	As at 30 June 2009	As at 31 December 2008
<b>Term of borrowings</b>		
Short-term borrowings (including long-term borrowings with maturity within one year)	<b>2,646,854</b>	2,766,374
Long-term borrowings	<b>2,437,968</b>	2,001,059
Total	<b>5,084,822</b>	4,767,433

The Group's borrowings with maturity within 1 year amounted to RMB2,647 million and accounted for 52.05% of the Group's total borrowings, a 5.98 percentage point decrease compared with the beginning of 2009. Long-term borrowings with maturity of more than 1 year amounted to RMB2,438 million and accounted for 47.95% of the Group's total borrowings, a 5.98 percentage point increase compared with the beginning of 2009. As profit increased, the Company's capital structure remained healthy. The increase in the proportion of long-term borrowings has enhanced the asset liquidity of the Group.

## (V) Management Discussion and Analysis

### III. COMPANY'S FINANCIAL REVIEW (Continued)

#### 4. Capital commitments outstanding at 30 June 2009 for having entered into production facility construction contracts and equipment purchase agreements but not provided for in the financial statements were as follows:

	As at 30 June 2009	As at 31 December 2008
Authorised and contracted	380,612	371,303
Authorised but not contracted	273,266	279,861
Total	<u>653,878</u>	<u>651,164</u>

As at 30 June 2009, the Group had approved and signed the contracts amounting to RMB381 million, an increase of 9.309 million or 2.51% compared to the beginning of the year. Furthermore, the capital commitment of RMB273 million was approved by the Group but not yet signed.

#### 5. Net cash flow analysis

	January- June 2009	January- June 2008
Net cash generated from operating activities	430,980	887,757
Net cash used in investing activities	-894,168	-1,312,827
Net cash generated from financing activities	124,919	64,774
Net decrease in cash and cash equivalent	-338,269	-360,296
Cash and cash equivalents on 1 January	1,248,414	721,265
Effect of foreign exchange rates changes	-287	-7,793
Cash and cash equivalents on 30 June	<u>909,858</u>	<u>353,176</u>

From January to June of 2009, the Group's net cash generated from operating activities amounted to RMB431 million, representing a decrease of RMB457 million over the same period the previous year, which was mainly due to the increase in receivables during the period compared to the end of 2008 (the receivables during the same period of the previous year were less than those of 2007). The Group's net cash used in investing activities amounted to RMB894 million, representing a decrease of RMB419 million compared to net cash used in investing activities during the same period the previous year. The decrease was mainly due to the significant investments made by the Group in 2008, whereas in the first half of 2009, some of the new clinkers and cement production lines commenced production. Net cash generated from financing activities amounted to RMB125 million, representing an increase of RMB60 million over the same period of the previous year, which was mainly due to an increase in the volume of loans.

## (V) Management Discussion and Analysis

### IV. OUTLOOK FOR THE SECOND HALF OF THE YEAR

From the macroeconomic view, according to the national target of 8% growth in GDP, China will continue to implement a series of stimulus plans to promote its economic growth. In particular, the GDP and the investment in fixed assets in Shandong and Liaoning Provinces, both coastal provinces, will remain at a high level which will bring about high market demand for cement. Shanshui Group, as the largest cement business in Shandong and Liaoning Provinces, will therefore benefit. In addition, in the first half of the year, both sales volume and the selling price of cement of the Company recorded a year-on-year increase. According to the historical operating pattern of the cement industry, the sales volume, selling price and profit in the second half of a year will usually exceed those in the first half.

From the view of policies governing the cement industry, China will continue to speed up the elimination of obsolete production capacity. It is expected that obsolete cement production capacity will be reduced by 50 million tonnes by the end of the year, and the government will continue to support the development of large enterprises which will lead to further industry consolidation. In 2009, Shandong Province plans to eliminate 10.25 million tonnes of obsolete cement production capacity, and has promulgated "The Guiding Opinions on Restructuring and Revival of Cement and Bulk Cement Industry" (《水泥及散裝水泥工業調整振興指導意見》), which clearly states that the government will support Shanshui Group to consolidate the cement resources in the province. Liaoning Province will eliminate all obsolete production capacity of cement by the end of 2010, and has promulgated "The Guiding Opinions on Accelerating the Structural Adjustment of the Cement Industry in Liaoning Province" (《加快推進全省水泥工業結構調整指導意見》), which clearly states that the government will give top priority and support to large enterprises in respect of project approval, land use approval, environmental assessment and review, and grant of loans etc.. In addition, effective from 1 January 2009, China has implemented reform to value-added tax, allowing businesses to offset value-added tax payable on newly purchased equipment, which will help these businesses to reduce their investment cost, and enable those that have begun operation recently to operate efficiently as soon as possible.

## (V) Management Discussion and Analysis

### IV. OUTLOOK FOR THE SECOND HALF OF THE YEAR *(Continued)*

From the view of the production capacity of the Group, in the first half of the year, the clinker production lines of Yishui Shanshui (including residual heat power generation facilities) and Dalian Shanshui (including residual heat power generation facilities) and four cement grinding lines of Weihai Shanshui (Phase II), Qingdao Shanshui Chuangxin, Qianshan Cement and Dalian Shanshui (Phase I), which have started production, will achieve efficient production in the second half of 2009. The clinker production line with a daily capacity of 2,500 tonnes and the 1.2 million tonnes cement production line acquired from Jining City, Shandong in the first half of the year, and the 600,000 tonnes grinding station acquired from Pengfa Cement in Yingkou City, Liaoning which will be revamped into a 1 million tonnes grinding station, will also achieve efficient production in the second half. According to the strategy of “Consolidation in Shandong, expansion in Liaoning, and radiation to peripheral regions”, Shanshui Group is now speeding up the construction of three clinker production lines (including residual heat power generation facilities) in Liaoning Shanshui Gongyuan Cement Company Limited (“Gongyuan Cement”), Linqu Shanshui Cement Company Limited (“Linqu Shanshui”), and Zaozhuang Chuangxin Shanshui Cement Company Limited (“Zaozhuang Chuangxin Shanshui”); five cement grinding lines in Shenyang Shanshui Gongyuan Cement Company Limited (“Shenyang Shanshui”), Dalian Shanshui (Phase II), Dandong Shanshui Gongyuan Cement Company Limited (“Dandong Shanshui”) and Yishui Chuangxin Shanshui Cement Company Limited (“Yishui Chuangxin Shanshui”). Furthermore, Shanshui Group will endeavour to increase its market shares in the north and southwest of Shandong Province and proactively participate in the structure optimization of the cement industry in Liaoning Province, so as to improve its competitive edges in regional markets. Such increase in production capacity will support the continuous growth of the Group’s result.

From the view of the price of raw materials, the coal price, being the most important factor affecting our cost, is expected to stabilise or decline in the second half of the year which, supplemented by further contribution from our residual heat power generation facilities, will contribute to the continuous decline in the unit cost of clinker and cement of Shanshui Group, and the business’s profit margin will continue to improve.

In the second half of the year, Shanshui Group will continue the development of its sales network, further secure both urban and rural markets, and try to win more tenders for key national projects. In the meantime, the Group will also proactively conduct technology reforms in craftsmanship and equipment with a view of reducing cost and improving efficiency. At the same time, the Group will continue its successful measures from 2008 to establish professional investigation teams to conduct regular visits to subsidiaries and associates with a view to identify and solve technical and managerial problems, so as to improve the quality and efficiency of economic operations.

In conclusion, the Group will capitalise on the PRC Government’s policies of “securing growth, boosting domestic demand” and of supporting the development of large enterprises, to make our results more predictable and successful. Shanshui Group is very confident that in 2009 we can achieve a sound growth in results and hence create a better return for our shareholders.

## (VI) Major Events

### 1. CORPORATE GOVERNANCE

Since its listing on 4 July 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 will focus on implementation of workflow systems covering production management, equipment management, quality control, financial management, material procurement, sales management, investment project management and human resource management. In addition, the Company will also give full play to the Group's audit function, continue to enhance its internal audit and surveillance, and ensure efficient execution of the system through regular and irregular special audit, so as to improve the Company's operation standard.

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 will strengthen its investor relations management by gradually establishing a sound investor communication mechanism. Disclosure of information to investors was made in a timely, complete, accurate and impartial 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 continued to enhance 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 2009.

## (VI) Major Events

### 3. CONTINUED CONNECTED TRANSACTIONS

On 14 June 2008, the Company entered into a framework agreement (the “Framework Agreement”) with Tianjin Tianhui Cement Company Limited (the “Tianjin Tianhui”), to govern Tianjin Tianhui’s purchase of clinkers and other materials from the Group from time to time for a term from 4 July 2008, being the listing date, to 31 December 2010, for production purpose. The transaction under the Framework Agreement had a regular and continuous nature, and was incurred in the usual and ordinary course of the Group’s business. The Company 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 three years ending 31 December 2010.

As coal price boosted the substantial rise in clinker price, in 2008 the connected transaction between the Company and Tianjin Tianhui amounted to approximately RMB55,435,611, which exceeded the annual caps under the Framework Agreement. Under the Listing Rules 14A.40, the Company published an announcement on 30 March 2009, meanwhile, it also adjusted the annual caps of transaction value for 2009 and 2010, to RMB71,000,000 and RMB77,000,000 respectively. Based on these annual caps, as each of the relevant percentage ratio will be less than 2.5% on an annual basis, transactions in financial year 2009 and 2010 will only be subject to reporting and announcement requirements under the Listing Rules 14.A.45 to 14.A.47, but exempt from the independent shareholders’ approval requirement.

For the six months ended 30 June 2009, the value of transaction between the Group and Tianjin Tianhui was approximately RMB16,326,256.

### 4. 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 option.

### 5. AUDIT COMMITTEE

The audit committee comprises the three independent non-executive Directors of the Company who, together with the management, considered and approved the Group’s unaudited interim (half-year) financial statements for 2009 prepared in accordance with IFRS, and reviewed the unaudited interim results of the Group for the six months ended 30 June 2009.

## (VII) Interim Financial Statements (Unaudited) Consolidated income statement

For the six months ended 30 June 2009 – Unaudited (Expressed in Renminbi)

	Note	Six months ended 30 June	
		2009 RMB'000	2008 RMB'000
<b>Revenue</b>	3,4&5	<b>3,869,002</b>	3,372,025
Cost of sales		<b>(3,035,800)</b>	(2,706,981)
<b>Gross profit</b>		<b>833,202</b>	665,044
Other revenue	6	<b>43,761</b>	44,427
Other net income	6	<b>2,870</b>	(3,585)
Selling and marketing expenses		<b>(92,871)</b>	(85,863)
Administrative expenses		<b>(236,612)</b>	(235,907)
<b>Profit from operations</b>		<b>550,350</b>	384,116
Finance costs	7	<b>(143,516)</b>	(186,544)
<b>Profit before taxation</b>		<b>406,834</b>	197,572
Income tax	8	<b>(94,104)</b>	(46,775)
<b>Profit for the period</b>		<b>312,730</b>	150,797
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>309,975</b>	155,132
Minority interests		<b>2,755</b>	(4,335)
<b>Profit for the period</b>		<b>312,730</b>	150,797
<b>Earnings per share</b>	10		
Basic		<b>0.11</b>	0.08
Diluted		<b>0.11</b>	0.08

The notes on pages 29 to 58 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 22.



## (VII) Interim Financial Statements (Unaudited)

### Consolidated statement of comprehensive income

For the six months ended 30 June 2009 – Unaudited (Expressed in Renminbi)

	Note	Six months ended 30 June	
		2009 RMB'000	2008 RMB'000
<b>Profit for the period</b>		<b>312,730</b>	150,797
<b>Other comprehensive income for the period (after tax and reclassification adjustments):</b>			
Exchange differences on translation of: financial statements of overseas subsidiaries		<b>(6,070)</b>	5,692
Available-for-sales securities: net movement in fair value reserve	9	<b>3,736</b>	(6,216)
<b>Total comprehensive income for the period</b>		<b>310,396</b>	150,273
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>307,641</b>	154,645
Minority interests		<b>2,755</b>	(4,372)
<b>Total comprehensive income for the period</b>		<b>310,396</b>	150,273

The notes on pages 29 to 58 form part of this interim financial report.

## (VII) Interim Financial Statements (Unaudited) Consolidated balance sheet

At 30 June 2009 – Unaudited (Expressed in Renminbi)

	Note	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
<b>Non-current assets</b>			
Fixed assets	11		
– Property, plant and equipment		<b>7,956,514</b>	7,368,250
– Interests in leasehold land held for own use under an operating leases		<b>1,333,562</b>	1,269,533
		<b>9,290,076</b>	8,637,783
Intangible assets		<b>295,737</b>	285,462
Other long-term assets	12	<b>120,416</b>	133,166
Goodwill		<b>586,266</b>	500,746
Other financial assets		<b>11,769</b>	6,789
Deferred tax assets		<b>131,703</b>	102,611
		<b>10,435,967</b>	9,666,557
<b>Current assets</b>			
Inventories	13	<b>882,804</b>	890,619
Trade and bills receivable	14	<b>634,935</b>	351,781
Other receivables and prepayments	15	<b>679,089</b>	582,811
Pledged bank deposits	16	<b>51,687</b>	32,435
Cash and cash equivalents	16	<b>909,858</b>	1,248,414
		<b>3,158,373</b>	3,106,060
<b>Current liabilities</b>			
Short-term and current portion of interest-bearing borrowings	17(a)	<b>2,594,300</b>	2,713,800
Current portion of loans from equity shareholders	17(b)	<b>52,554</b>	52,574
Trade and bills payable	18	<b>1,181,395</b>	1,207,991
Other payables and accrued expenses	19	<b>1,405,604</b>	1,057,941
Current taxation		<b>130,568</b>	152,138
Obligation under finance leases		<b>1,101</b>	1,133
		<b>5,365,522</b>	5,185,577
<b>Net current liabilities</b>		<b>(2,207,149)</b>	(2,079,517)
<b>Total assets less current liabilities</b>		<b>8,228,818</b>	7,587,040

The notes on pages 29 to 58 form part of this interim financial report.

## (VII) Interim Financial Statements (Unaudited)

### Consolidated balance sheet

At 30 June 2009 – Unaudited (Expressed in Renminbi)

	Note	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
<b>Non-current liabilities</b>			
Interest-bearing borrowings, less current portion	17(a)	2,217,500	1,674,900
Loans from equity shareholders, less current portion	17(b)	210,211	236,582
Convertible notes	17(c)	10,257	89,577
Obligation under finance leases		6,725	7,050
Defined benefit obligations		190,909	194,630
Deferred income	20	291,626	296,323
Long-term payables	21	399,492	358,783
Deferred tax liabilities		92,344	123,646
		<b>3,419,064</b>	<b>2,981,491</b>
<b>NET ASSETS</b>			
		<b>4,809,754</b>	<b>4,605,549</b>
<b>CAPITAL AND RESERVES</b>			
Share capital		192,355	185,372
Reserves		4,569,666	4,375,199
<b>Total equity attributable to equity shareholders of the Company</b>			
		<b>4,762,021</b>	<b>4,560,571</b>
<b>Minority interests</b>			
		<b>47,733</b>	<b>44,978</b>
<b>TOTAL EQUITY</b>			
		<b>4,809,754</b>	<b>4,605,549</b>

The notes on pages 29 to 58 form part of this interim financial report.

## (VII) Interim Financial Statements (Unaudited)

### Consolidated statement of changes in equity

For the six months ended 30 June 2009 – Unaudited (Expressed in Renminbi)

	Attributable to equity shareholders of the Company							Total	Minority interests	Total equity
	Share capital	Share premium	Statutory reserves	Other reserves	Exchange reserves	Fair value reserve	Retained profits			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance 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
<b>Changes in equity for the six months ended 30 June 2008:</b>										
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	(677)	(677)
Liquidation of a dormant subsidiary	-	-	-	-	-	-	-	-	(6,197)	(6,197)
Dividends approved in respect of the previous year	-	-	-	-	-	-	(205,755)	(205,755)	-	(205,755)
Total comprehensive income for the period	-	-	-	-	5,692	(6,179)	155,132	154,645	(4,372)	150,273
<b>Balance at 30 June 2008 and 1 July 2008</b>	<b>244</b>	<b>1,765,499</b>	<b>145,132</b>	<b>404,244</b>	<b>(4,202)</b>	<b>5,793</b>	<b>163,673</b>	<b>2,480,383</b>	<b>30,239</b>	<b>2,510,622</b>
<b>Changes in equity for the six months ended 31 December 2008:</b>										
Issue of shares	185,128	1,533,854	-	-	-	-	-	1,718,982	-	1,718,982
Increase in minority interests attributable to subsidiaries	-	-	-	-	-	-	-	-	550	550
Transfer between reserves	-	-	87,656	-	-	-	(87,656)	-	-	-
Total comprehensive income for the period	-	-	-	-	(20,622)	(2,397)	384,225	361,206	14,189	375,395
<b>Balance at 31 December 2008</b>	<b>185,372</b>	<b>3,299,353</b>	<b>232,788</b>	<b>404,244</b>	<b>(24,824)</b>	<b>3,396</b>	<b>460,242</b>	<b>4,560,571</b>	<b>44,978</b>	<b>4,605,549</b>
<b>Balance at 1 January 2009</b>	<b>185,372</b>	<b>3,299,353</b>	<b>232,788</b>	<b>404,244</b>	<b>(24,824)</b>	<b>3,396</b>	<b>460,242</b>	<b>4,560,571</b>	<b>44,978</b>	<b>4,605,549</b>
<b>Changes in equity for the six months ended 30 June 2009:</b>										
Conversion of convertible notes	6,983	133,669	-	(57,787)	-	-	-	82,865	-	82,865
Use of reserves	-	-	(404)	-	-	-	-	(404)	-	(404)
Dividends approved in respect of the previous year	-	-	-	-	-	-	(188,652)	(188,652)	-	(188,652)
Total comprehensive income for the period	-	-	-	-	(6,070)	3,736	309,975	307,641	2,755	310,396
<b>Balance at 30 June 2009</b>	<b>192,355</b>	<b>3,433,022</b>	<b>232,384</b>	<b>346,457</b>	<b>(30,894)</b>	<b>7,132</b>	<b>581,565</b>	<b>4,762,021</b>	<b>47,733</b>	<b>4,809,754</b>

The notes on pages 29 to 58 form part of this interim financial report.

## (VII) Interim Financial Statements (Unaudited) Condensed consolidated cash flow statement

For the six months ended 30 June 2009 – Unaudited (Expressed in Renminbi)

	Note	Six months ended 30 June	
		2009 RMB'000	2008 RMB'000
Cash generated from operations		560,424	917,019
Tax paid		(129,444)	(29,262)
Net cash generated from operating activities		430,980	887,757
Net cash used in investing activities		(894,168)	(1,312,827)
Net cash generated from financing activities		124,919	64,774
Net decrease in cash and cash equivalents		(338,269)	(360,296)
Cash and cash equivalents at 1 January	16	1,248,414	721,265
Effect of foreign exchange rates changes		(287)	(7,793)
Cash and cash equivalents at 30 June	16	909,858	353,176

The notes on pages 29 to 58 form part of this interim financial report.

## (VII) Interim Financial Statements (Unaudited) Notes to the unaudited interim financial report

*(Expressed in Renminbi unless otherwise indicated)*

### 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 2009.

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 2008, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

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 RMB2,207,149,000 as at 30 June 2009. Based on future projections of the Group’s profits and cash inflows from operations and the ability of the Group to obtain continued bank financing 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 2008.

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 2008 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.

## (VII) Interim Financial Statements (Unaudited) Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 1 Basis of preparation (Continued)

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 2008 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 2008 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 April 2009.

### 2 Changes in accounting policies

The IASB has issued one new IFRS, a number of amendments to IFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 8, *Operating segments*
- IAS 1 (revised 2007), *Presentation of financial statements*
- Improvements to IFRSs (2008)
- Amendments to IAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to IFRS 7, *Financial instruments: disclosures – improving disclosures about financial instruments*
- IAS 23 (revised 2007), *Borrowing costs*

The amendments to IAS 23 and IAS 27 and Improvements to IFRSs (2008) have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

*(Expressed in Renminbi unless otherwise indicated)*

#### 2 Changes in accounting policies *(Continued)*

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see Note 3). As this is the first period in which the Group has presented segment information in accordance with IFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.
- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

#### 3 Segment reporting

As the Group operates in a single business, the manufacturing and trading of cement and clinker 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. On first-time adoption of IFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. Each reportable segment has aggregated those operating segments which located in the geographical areas.

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



## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 3 Segment reporting (Continued)

##### (a) Segment results, assets and liabilities

In accordance with IFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible and intangible assets, deferred tax assets, current assets with the exception of investments in financial assets and other corporate assets which are unallocated to an individual reportable segment. Segment liabilities include trade creditors, accruals and bills payable attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments with the exception of certain bank borrowings and other corporate liabilities which are unallocated to an individual reportable segment.

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.

The measure used for reporting segment profit is "adjusted profit before taxation". To arrive at adjusted profit before taxation the Group's profits are further adjusted for items not specifically attributed to an individual reportable segment, such as directors' remuneration, auditors' remuneration, finance costs in relation to the unallocated bank borrowings and other head office or corporate administration expenses.

In addition to receiving segment information concerning adjusted profit before taxation, management is provided with segment information concerning revenue, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 3 Segment reporting (Continued)

#### (a) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Six months ended 30 June 2009			Six months ended 30 June 2008		
	Shandong Province RMB'000	Northeastern China RMB'000	Total RMB'000	Shandong Province RMB'000	Northeastern China RMB'000	Total RMB'000
Revenue from external customers	3,386,141	482,861	3,869,002	2,960,759	411,266	3,372,025
Inter-segment revenue	45,300	324	45,624	206	4,033	4,239
<b>Reportable segment revenue</b>	<b>3,431,441</b>	<b>483,185</b>	<b>3,914,626</b>	<b>2,960,965</b>	<b>415,299</b>	<b>3,376,264</b>
<b>Reportable segment profit (adjusted profit before taxation)</b>	<b>559,738</b>	<b>2,658</b>	<b>562,396</b>	<b>400,550</b>	<b>(28,877)</b>	<b>371,673</b>
	As at 30 June 2009			As at 31 December 2008		
	Shandong Province RMB'000	Northeastern China RMB'000	Total RMB'000	Shandong Province RMB'000	Northeastern China RMB'000	Total RMB'000
<b>Reportable segment assets</b>	<b>8,623,486</b>	<b>3,804,881</b>	<b>12,428,367</b>	<b>7,816,134</b>	<b>3,291,329</b>	<b>11,107,463</b>
<b>Reportable segment liabilities</b>	<b>3,557,449</b>	<b>1,675,180</b>	<b>5,232,629</b>	<b>2,484,226</b>	<b>1,389,648</b>	<b>3,873,874</b>

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 3 Segment reporting (Continued)

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

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
<b>Revenue</b>		
Reportable segment revenue	3,914,626	3,376,264
Elimination of inter-segment revenue	(45,624)	(4,239)
Consolidated turnover	<u>3,869,002</u>	<u>3,372,025</u>

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
<b>Profit</b>		
Reportable segment profit	562,396	371,673
Elimination of inter-segment profits	(4,646)	(209)
Reportable segment profit derived from group's external customers	557,750	371,464
Unallocated finance costs	(105,133)	(135,277)
Unallocated head office and corporate expenses	(45,783)	(38,615)
Consolidated profit before taxation	<u>406,834</u>	<u>197,572</u>

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
	<b>Assets</b>	
Reportable segment assets	12,428,367	11,107,463
Elimination of inter-segment profit	(4,646)	(9,884)
Elimination of inter-segment receivables	(24,750)	–
Unallocated head office and corporate assets	<u>1,195,369</u>	<u>1,675,038</u>
Consolidated total assets	<u>13,594,340</u>	<u>12,772,617</u>

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 3 Segment reporting (Continued)

#### (b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities (Continued)

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
<b>Liabilities</b>		
Reportable segment liabilities	5,232,629	3,873,874
Elimination of inter-segment payables	(24,750)	–
	<b>5,207,879</b>	3,873,874
Unallocated bank borrowings	2,731,179	3,119,800
Unallocated head office and corporate liabilities	845,528	1,173,394
	<b>8,784,586</b>	8,167,068

### 4 Revenue

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Sales of cement and clinker	3,616,478	3,206,275
Sales of other products and rendering of services	252,524	165,750
	<b>3,869,002</b>	3,372,025

### 5 Seasonality of operations

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

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 6 Other revenue and net income

	Note	Six months ended 30 June	
		2009 RMB'000	2008 RMB'000
<b>Other revenue</b>			
Interest income on bank deposits		2,317	4,451
Dividend income from other investments		–	175
Government grants	(i)	36,747	39,801
Amortisation of deferred income		4,697	–
		<b>43,761</b>	<b>44,427</b>
<b>Other net income</b>			
Net foreign exchange (loss)/gain		(43)	13,922
Net gain/(loss) from sale of fixed assets		293	(18,126)
Penalty income/(expenses)		271	(1,409)
Others		2,349	2,028
		<b>2,870</b>	<b>(3,585)</b>

Notes:

- (i) Government grants totalling RMB23,145,000 and RMB31,760,000 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 2009 and 2008 respectively. The remaining amounts mainly represent various unconditional 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) Finance costs

	Note	Six months ended 30 June	
		2009 RMB'000	2008 RMB'000
Interest on interest-bearing borrowings		153,219	164,478
Less: capitalised interest expense	(i)	(29,616)	(20,769)
Net interest expense		123,603	143,709
Unwinding of discount	(ii)	22,475	26,872
Bank charges		528	3,165
Interest rate swaps		(3,090)	12,798
		<b>143,516</b>	<b>186,544</b>

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 7 Profit before taxation (Continued)

##### (a) Finance costs (Continued)

Notes:

- (i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 5.69% and 6.18% for the six months ended 30 June 2009 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	
	2009 RMB'000	2008 RMB'000
Convertible notes (Note 17(c))	3,663	4,820
Defined benefit plans	3,053	4,022
Acquisition consideration payable	15,759	18,030
	22,475	26,872

##### (b) Other items

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Depreciation	263,009	231,758
Amortisation		
– intangible assets	26,998	25,199
Operating lease charges	3,401	2,971
Impairment losses provided		
– trade receivables	1,297	220
– other receivables	5,691	–
Inventory write-down and losses net off reversals	1,828	–
Cost of inventories	3,035,800	2,706,981
(Gain)/loss from disposal of fixed assets	(293)	18,126

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 8 Income tax

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

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>RMB'000</b>	RMB'000
<b>Current tax expenses</b>		
Provision for the PRC income tax	<b>109,499</b>	42,434
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	<b>(15,395)</b>	4,341
	<b>94,104</b>	46,775

- (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 2009 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 2009 (corresponding period in 2008: 25%), except for the following:

Continental (Shandong) Cement Corporation ("Kangda Cement"), Continental (Shandong) Cement Products Manufacturing Corporation ("Kangda Products") and Continental (Shandong) Cement Mining Corporation ("Kangda Mining"), Shandong Shanshui Cement Group Co., Ltd. ("Shandong Shanshui"), Pingyin Shanshui Cement Co., Ltd. ("Pingyin Shanshui") and Anqiu Shanshui Cement Co., Ltd. ("Anqiu Shanshui") 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 2009 is the fourth profit-making year of Kangda Products, Kangda Mining, Shandong Shanshui, Pingyin Shanshui and Anqiu Shanshui, therefore, the applicable enterprise income tax rate for the six months ended 30 June 2009 is 12.5% (corresponding period in 2008: 12.5%). The year 2009 is the second profit-making year of Kangda Cement, therefore, the applicable enterprise income tax rate for the six months ended 30 June 2009 is 0% (corresponding period in 2008: 0%).

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 8 Income tax (Continued)

##### (a) Taxation in the consolidated income statement represents: (Continued)

- (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 2009 is the second tax exemption year for Kangda Cement.

#### 9 Other comprehensive income

##### (a) Available-for-sale securities

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Changes in fair value recognised during the period	<b>(3,736)</b>	6,216
Net movement in the fair value reserve during the period recognised in other comprehensive income	<b>(3,736)</b>	6,216

#### 10 Earnings per share

##### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2009 is based on the profit attributable to equity shareholders of the Company for the period of RMB309,975,000 (corresponding period in 2008: RMB155,132,000) and the weighted average number of ordinary shares of 2,735,092,000 (corresponding period in 2008: 1,952,520,000 after taking into account of the capitalisation issue as if the shares were outstanding throughout the period) in issue during the period, calculated as follows:

	Six months ended 30 June	
	2009	2008
Issued and issuable ordinary shares at 1 January	<b>2,700,986,000</b>	1,952,520,000
Effect of the conversion of the convertible notes	<b>34,106,000</b>	–
Weighted average number of ordinary shares at 30 June	<b>2,735,092,000</b>	1,952,520,000



## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 10 Earnings per share (Continued)

##### (b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2009 is based on the profit attributable to ordinary equity shareholders of the Company of RMB313,638,000 (corresponding in 2008: RMB159,952,000) and the weighted average number of 2,747,738,200 ordinary shares (corresponding period in 2008: 2,067,484,200), calculated as follows:

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

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Profit attributable to equity shareholders of the Company (basic)	309,975	155,132
Unwinding of discount on convertible notes	3,663	4,820
Profit attributable to equity shareholders of the Company (diluted)	<b>313,638</b>	159,952

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

	Six months ended 30 June	
	2009	2008
Weighted average number of ordinary shares (basic)	2,735,092,000	1,952,520,000
Effect of conversion of the convertible notes	12,646,200	114,964,200
Weighted average number of ordinary shares (diluted)	<b>2,747,738,200</b>	2,067,484,200

#### 11 Fixed assets

During the six months ended 30 June 2009, the addition of fixed assets of the Group amounted to RMB682,546,000 (corresponding period in 2008: RMB841,620,000). Fixed assets valued at RMB238,067,000 were acquired through business combination (see Note 23). Items of fixed assets with net book value totaling RMB5,311,000 were disposed of during the six months ended 30 June 2009 (corresponding period in 2008: RMB36,651,000), resulting in a gain on disposal of RMB293,000 (corresponding period in 2008: loss on disposal of RMB18,126,000).

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 11 Fixed assets (Continued)

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 RMB28,215,000 as at 30 June 2009 (31 December 2008: RMB21,674,000).

Certain fixed assets with an aggregate carrying amount of RMB1,427,524,000 as at 30 June 2009 (31 December 2008: RMB1,497,647,000), are pledged to secure bank loans (see note 17) granted to the Group.

#### 12 Other long-term assets

	2009 RMB'000
<b>Cost</b>	
At 1 January/30 June	<b>138,084</b>
<b>Accumulated amortisation and impairment</b>	
At 1 January	<b>(4,918)</b>
Amortisation for the period	<b>(12,750)</b>
At 30 June	<b>(17,668)</b>
<b>Carrying amount</b>	<b>120,416</b>

In December 2007, China Pioneer Cement (Hong Kong) Company Limited entered into a service agreement (the "Service Agreement") with China Northeastern Building Materials Consulting Limited ("Northeastern Consulting") for HKD150,000,000. Under the Service Agreement, Northeastern Consulting will provide the Group with various services from 1 January 2008 to 31 December 2019. The amounts are amortised over the effective period of various services as stated in the Service Agreement.

#### 13 Inventories

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Raw materials	<b>386,038</b>	371,645
Semi-finished goods	<b>106,018</b>	79,669
Finished goods	<b>222,534</b>	308,427
Spare parts	<b>168,214</b>	130,878
	<b>882,804</b>	890,619

During six months ended 30 June 2009, RMB1,900,000 (corresponding period in 2008: Nil) has been recognised as a reduction in the amount of inventories to write down the inventories to estimated net realisable value.

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 14 Trade and bills receivable

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Bills receivable	215,775	94,638
Trade debtors	441,669	279,677
Less: allowance for doubtful debts	<u>(22,509)</u>	<u>(22,534)</u>
	<u>634,935</u>	<u>351,781</u>

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 2009 RMB'000	At 31 December 2008 RMB'000
Current	494,526	265,750
Less than 3 month past due	68,031	39,855
Over 3 months but less than 6 months	28,486	23,265
Over 6 months but less than 12 months	22,334	13,590
Over 12 months	<u>21,558</u>	<u>9,321</u>
	<u>634,935</u>	<u>351,781</u>

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good credit track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 15 Other receivables and prepayments

		At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Prepayments for raw materials		146,715	126,509
Prepayments for long-lived assets	(i)	247,575	224,771
VAT recoverables		91,827	53,792
Financial guarantee received		16,725	33,450
Amount due from related parties	(ii)	8,814	5,897
Amount due from third parties	(iii)	157,964	131,814
Others		9,469	6,578
		<b>679,089</b>	<b>582,811</b>

Notes:

- (i) As at 30 June 2009, prepayment for long-lived assets totalling RMB247,575,000 (31 December 2008: RMB224,771,000) includes prepayments for construction of plant and equipment of RMB189,120,000 (31 December 2008: 183,520,000) and prepayments for acquisition of land use rights of RMB58,455,000 (31 December 2008: RMB31,251,000).
- (ii) Amount due from related parties mainly represents receivables from sales of clinker and raw materials, advances to related parties and uncollected rental fees. The receivables are unsecured, interest free and recoverable on demand. As at 30 June 2009, amount due from related parties totalling RMB8,814,000 (31 December 2008: RMB5,897,000) includes receivables arising from sales of clinker and raw materials of RMB4,575,000 (31 December 2008: 4,171,000), advances to related parties of RMB2,102,000 (31 December 2008: Nil), uncollected rental fee of RMB1,207,000 (31 December 2008: RMB1,090,000), and trademark fees and management fees of RMB930,000 (31 December 2008: RMB636,000). Further details are set out in Note 25(b).
- (iii) The balance as at 30 June 2009 mainly represents amounts due from third parties of Liaoyang Qianshan Cement Co., Ltd. ("Qianshan Cement") and Kangda Cement, Kangda Mining and Kangda Products ("Kangda Cement Group").

#### 16 Cash at bank and in hand

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Cash at bank and in hand	909,859	1,248,414
Pledged bank deposits	51,687	32,435
	<b>961,546</b>	<b>1,280,849</b>
Less: Pledged bank deposits	<b>(51,687)</b>	<b>(32,435)</b>
Cash and cash equivalents	<b>909,859</b>	<b>1,248,414</b>

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 17 Loans and borrowings

(a) The analysis of the carrying amount of interest-bearing borrowings is as follows:

	Note	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
<b>Long-term interest-bearing borrowings:</b>			
Bank loans – Secured	(i)	3,294,800	2,436,700
Bank loans – Unsecured	(ii)	300,000	300,000
Loan from government – Unsecured	(iii)	10,000	10,000
		<u>3,604,800</u>	<u>2,746,700</u>
Less: Current portion of long-term bank loans	(i)	(1,387,300)	(1,071,800)
		<u>2,217,500</u>	<u>1,674,900</u>
<b>Interest-bearing borrowings, less current portion</b>			

The long-term borrowings less current portion were repayable as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
After one year but within two years	1,473,000	1,098,900
After two years but within five years	642,227	568,727
After five years	102,273	7,273
	<u>2,217,500</u>	<u>1,674,900</u>
Total		

	Note	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
<b>Short-term interest-bearing borrowings:</b>			
Bank loans – Secured	(iv)	1,107,000	1,342,000
Bank loans – Unsecured	(ii)	100,000	300,000
		<u>1,207,000</u>	<u>1,642,000</u>
Add: Current portion of long-term bank loans	(i)	1,387,300	1,071,800
		<u>2,594,300</u>	<u>2,713,800</u>
<b>Short-term and current portion of interest-bearing borrowings</b>			

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

*(Expressed in Renminbi unless otherwise indicated)*

#### 17 Loans and borrowings *(Continued)*

**(a) The analysis of the carrying amount of interest-bearing borrowings is as follows:**  
*(Continued)*

Notes:

- (i) Loans of RMB44,500,000 as at 31 December 2008 secured by Jinan Shanshui Group Co., Ltd. ("Jinan Shanshui") as disclosed in Note 25(b), which had been repaid in June 2009. Loans of RMB636,500,000 (31 December 2008: RMB652,000,000) as at 30 June 2009 were guaranteed by third party. Other balances were either pledged by certain items of property, plant and equipment and land use rights, or guaranteed by companies within the Group.
- (ii) Non-current bank loans with amount of RMB300,000,000 (31 December 2008: RMB300,000,000) and current bank loans with amount of RMB100,000,000 (31 December 2008: RMB300,000,000) are borrowed on credit.
- (iii) The government loan was received by Liaoning Shanshui Gongyuan Cement Co., Ltd. ("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) The current secured bank loans as at 30 June 2009 were pledged by certain items of property, plant and equipment and land use rights, or guaranteed by companies within the Group.
- (v) Current secured and current unsecured bank loans carried annual interest rates ranging from 5.31% to 7.47% for the six months ended 30 June 2009 (corresponding period in 2008: 6.39% to 8.75%).

Some of the Group's banking facilities are subject to the fulfilment of covenants relating to certain subsidiaries' balance sheet ratios or the aggregate external guarantee limit, 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 2009, the balance sheet ratio of certain subsidiaries and the aggregate external guarantee provided by a subsidiary exceeded certain limits set out in the covenant of the loan agreements. The relevant outstanding loan balance was RMB385,000,000 (31 December 2008: RMB255,000,000) as at 30 June 2009. The directors confirmed that the breaches of the ratio and guarantee would not trigger early repayment of these loans.

Qianshan Cement was acquired by the Group on 28 December 2007. At 30 June 2009, Qianshan Cement had past due bank loans totalling RMB209,000,000 (31 December 2008: RMB209,000,000). The Group is working with these lenders to restructure the outstanding loans and interest payments.

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 17 Loans and borrowings (Continued)

(b) The analysis of the carrying amount of loans from equity shareholders is as follows:

	Note	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Long-term loans from equity shareholders			
– Secured	(i)	262,765	289,156
Less: Current portion of loans from equity shareholders		(52,554)	(52,574)
Loans from equity shareholders, less current portion		210,211	236,582

Notes:

- (i) Anqiu Shanshui and Pingyin Shanshui entered into loan agreements with one of the Company's equity shareholders, International Finance Corporation, totalling USD50,000,000 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 items of fixed assets of the subsidiaries.

#### (c) Convertible notes

	Liability portion RMB'000	Equity portion RMB'000	Total RMB'000
At 1 January 2009	89,577	64,774	154,351
Interest charged	3,663	–	3,663
Foreign exchange gain	(118)	–	(118)
Conversion of convertible notes	(82,865)	(57,787)	(140,652)
At 30 June 2009	10,257	6,987	17,244

On 30 November 2005, China Shanshui Cement Group (Hong Kong) Company Limited signed a convertible notes purchase agreement with the minority equity shareholders which agreed to issue convertible notes amounting to USD20,000,000 to the minority equity shareholders (the "notes holders"). The convertible notes were issued by the Company on 21 September 2007 with zero coupon rate.

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

*(Expressed in Renminbi unless otherwise indicated)*

#### 17 Loans and borrowings *(Continued)*

##### (c) *Convertible notes (Continued)*

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 (enlarged to 114,964,200 shares after the capitalisation issues) of USD0.01 each at a conversion price of USD104.4 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.

Three notes holders, which are MS Cement Limited, MS Cement II Limited and CDH Cement Limited, were fully converted their convertible notes on 30 April 2009. A total of 102,318,000 ordinary shares of USD0.01 each were allotted and issued to these minority equity shareholders.

#### 18 Trade and bills payable

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

	<b>At 30 June 2009 RMB'000</b>	At 31 December 2008 RMB'000
Within 3 months	<b>794,600</b>	955,504
Over 3 months but less than 6 months	<b>212,727</b>	113,937
Over 6 months but less than 12 months	<b>92,626</b>	36,195
Over 12 months	<b>81,442</b>	102,355
	<b><u>1,181,395</u></b>	<u>1,207,991</u>



## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 19 Other payables and accrued expenses

	Note	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Financial guarantee issued		16,725	33,450
Customer deposits and receipts in advance	(i)	472,313	190,529
Accrued payroll and welfare		153,758	182,639
Taxes payable other than income tax		119,023	57,247
Staff compensation and termination provisions		184,900	206,088
Amount due to related parties		726	5,154
Payable to third parties of acquired subsidiaries	(ii)	189,302	114,000
Acquisition consideration payable	(iii)	13,415	23,415
Lease prepayment payable	(iv)	22,861	23,308
Interest rate swaps	(v)	48	2,949
Construction retention payable		22,163	17,221
Water and electricity expenses		32,903	19,789
Accrued interest expenses		26,029	36,022
Current portion of long-term payables		52,950	52,950
Other accrued expenses and payables	(vi)	98,488	93,180
		<b>1,405,604</b>	<b>1,057,941</b>

#### 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 acquired subsidiaries, which mainly consists of payable to a third party of Qianshan Cement of RMB41,600,000 (31 December 2008: RMB48,758,000), and current account with former related parties and third parties of Kangda Cement Group of RMB61,136,000 (31 December 2008: RMB61,136,000), and Jining Shanshui Cement Company Limited ("Jining Cement", see Note 23(b)) of RMB86,566,000 (31 December 2008: Nil).
- (iii) The balance as at 30 June 2009 mainly represents acquisition consideration payable for Kangda Cement Group of RMB4,163,000 (31 December 2008: 4,163,000), Qianshan Cement of RMB9,252,000 (31 December 2008: RMB9,252,000) and Gongyuan Cement of Nil (31 December 2008: RMB10,000,000).
- (iv) This represents the unpaid balance for the land lease prepayments.
- (v) The balance of interest rate swaps as at 30 June 2009 represents the fair value for contract with the Agricultural Bank of China at RMB48,000 (31 December 2008: RMB2,949,000) deficit. The contract was entered for investment purpose and matures on 1 December 2010.
- (vi) Other accrued expenses and payables represent balance of miscellaneous payables, such as accrued transportation expenses, repair and maintenance payable and rental fees.

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 20 Deferred income

	2009 RMB'000	2008 RMB'000
At 1 January	296,323	39,886
Additions	–	260,707
Recognised in consolidated income statement	<u>(4,697)</u>	<u>(4,270)</u>
At 30 Jun/31 Dec	<u>291,626</u>	<u>296,323</u>

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.

#### 21 Long-term payables

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Acquisition consideration payable (Note)	386,307	345,937
Others	<u>13,185</u>	<u>12,846</u>
	<u>399,492</u>	<u>358,783</u>

Note: The balance represents the consideration payable for the acquisition of Kangda Cement Group and Qingdao Hengtai Cement Co., Ltd. ("Qingdao Hengtai"). The nominal value of consideration are RMB465,585,000 and RMB47,721,618 and are payable over a period of four years and twenty years respectively. The amount has been discounted to present value as at 30 June 2009.

#### 22 Capital, reserves and dividends

##### (a) Dividends

Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period	<u>188,652</u>	<u>205,755</u>
Final dividend in respect of the previous financial year, paid during the following interim period	<u>169,907</u>	<u>205,755</u>

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 22 Capital, reserves and dividends (Continued)

##### (a) Dividends (Continued)

Pursuant to the shareholders' approval at the Annual General Meeting on 5 June 2009, a final dividend of HKD0.076 per share totalling HKD214,012,215.20 (inclusive of applicable tax, equivalent to RMB188,651,768) in respect of the year ended 31 December 2008 was approved on 5 June 2009.

Pursuant to the "Enterprise Income Tax Law of the People's Republic of China" (the "Enterprise Income Tax Law") and the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China" (the "Implementation Rules"), both implemented in 2008, the Company is likely to be required to withhold and pay enterprise income tax for its non-resident enterprise shareholders to whom the Company pays the dividends for the year ended 31 December 2008.

Pursuant to the Enterprise Income Tax Law and the Implementation Rules, the Company withheld 10% enterprise income tax of RMB18,744,439 when it distributed the dividends for the year ended 31 December 2008 to its non-resident enterprise shareholders. Accordingly, the final dividends for the year ended 31 December 2008 of RMB169,907,329, after deducting the withholding tax effects, had been fully paid out to the shareholders of the Company on 26 June 2009.

Till now, the Company is in the process to negotiate with the relevant PRC tax authorities. If the relevant PRC tax authorities finally determined that the Enterprise Income Tax Law and the Implementation Rules are not applicable to the Company, and hence no enterprise income tax should have been withheld, the Company will procure such tax of RMB18,744,439 to be refunded to the relevant non-resident enterprise shareholders whose tax had been withheld pursuant to the arrangement above.

#### 23 Acquisitions

The Group acquired the equity interests of the following entities engaged in cement business in Shandong Province from independent third parties during the six months ended 30 June 2009. The valuation for fixed assets and intangible assets of the acquirees are performed by Jones Lang LaSalle Sallmanns Limited, which is a qualified independent valuer registered in Hong Kong.

During the six months ended 30 June 2009, the Group acquired the following cement related businesses:

Name of company	Note	Voting right	Date of acquisition	Principal activities	Fair value of the acquirees at date of acquisition
					RMB'000
Qingdao Hengtai	(a)	100%	27 March 2009	Production and sales of cement	20,988
Jining Cement	(b)	100%	20 May 2009	Production and sales of cement and clinker	104,681

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 23 Acquisitions (Continued)

##### (a) Acquisition of Qingdao Hengtai

On 27 March 2009, the Group signed an agreement to acquire the entire equity interests in Qingdao Hengtai for a cash consideration of RMB50,271,618 payable over 20 years.

In the three months to 30 June 2009 Qingdao Hengtai contributed revenue of RMB5,055,000 and a loss of RMB120,000. If the acquisition had occurred on 1 January 2009, management estimates that consolidated revenue would have been RMB3,870,250,000 and consolidated profit for the period would have been RMB312,064,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2009.

The acquisition of Qingdao Hengtai had the following effect on the Group's assets and liabilities as at the date of acquisition:

	Pre-acquisition carrying amount	Fair value adjustment	Recognised values on acquisition
	RMB'000	RMB'000	RMB'000
Fixed assets	566	11,012	11,578
Deferred tax assets	318	11,930	12,248
Cash and cash equivalent	73	–	73
Inventories	1,090	–	1,090
Trade and other receivables	4,751	–	4,751
Trade and other payables	(5,999)	–	(5,999)
Deferred tax liabilities	–	(2,753)	(2,753)
	<u>799</u>	<u>20,189</u>	
Net identifiable assets and liabilities			20,988
Goodwill arising on acquisition			<u>7,259</u>
Total purchase consideration (including direct acquisition cost of RMB750,000)			<u>28,247</u>
Satisfied by:			
Consideration payable (Note)			28,247
Less: Cash acquired			<u>(73)</u>
Net cash outflow in respect of the acquisitions			<u>28,174</u>

## (VII) Interim Financial Statements (Unaudited) Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 23 Acquisitions (Continued)

#### (a) Acquisition of Qingdao Hengtai (Continued)

Note: The consideration payable consists of discounted acquisition consideration payable totalling RMB27,497,507, and professional fees of RMB750,000 which is directly attributable to this acquisition. The present value of deferred consideration is discounted using prevailing market interest rate for a long-term loan repayable per month over a twenty-year period. The nominal value of this deferred consideration is RMB50,271,618 as at the date of acquisition and is denominated in RMB.

#### (b) Acquisition of Jining Cement

On 20 May 2009, the Group signed an agreement to acquired the entire equity interests in Jining Cement for a total cash consideration of RMB180,572,000 (RMB7,894,000 for the purchase of equity interest and RMB172,678,000 for payment of predecessor equity shareholders' loan to Jining Cement).

In the one month to 30 June 2009 Jining Cement contributed revenue of RMB658,000 and a loss of RMB5,753,000. If the acquisition had occurred on 1 January 2009, management estimates that there would be no change in consolidated revenue and consolidated profit for the period would have been RMB311,681,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2009.

The acquisition of Jining Cement had the following effect on the Group's assets and liabilities as at the date of acquisition:

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 23 Acquisitions (Continued)

##### (b) Acquisition of Jining Cement (Continued)

	Pre-acquisition carrying amount	Fair value adjustment	Recognised values on acquisition
	RMB'000	RMB'000	RMB'000
Fixed assets	320,124	(93,635)	226,489
Intangible assets	–	1,850	1,850
Deferred tax assets	13,281	23,929	37,210
Cash and cash equivalent	3	–	3
Inventories	8,167	(2,082)	6,085
Trade and other receivables	1,919	–	1,919
Current portion of interest-bearing borrowing	(101,935)	–	(101,935)
Trade and other payables	(66,478)	–	(66,478)
Deferred tax liabilities	–	(462)	(462)
Net identifiable assets and liabilities	<u>175,081</u>	<u>(70,400)</u>	104,681
Goodwill arising on acquisition			<u>78,261</u>
Total purchase consideration (including direct acquisition cost of RMB2,370,000)			<u>182,942</u>
Satisfied by:			
Cash paid			152,365
Consideration payable (Note)			30,577
Less: Cash acquired			<u>(3)</u>
Net cash outflow in respect of the acquisitions			<u>182,939</u>

Note: The consideration payable consists of RMB29,577,000 in respect of loans and borrowings and RMB1,000,000 professional fee payable which is directly attributable to this acquisition.

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 24 Commitments

##### (a) Capital commitments

Capital commitments outstanding not provided for in the interim financial report were as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Authorised and contracted for	380,612	371,303
Authorised but not contracted for	273,266	279,861
	<u>653,878</u>	<u>651,164</u>

##### (b) Operating lease commitments

At 30 June 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Within 1 year	15,806	15,756
After 1 year but within 2 years	15,836	15,849
After 2 years but within 5 years	45,716	46,582
After 5 years	164,452	154,601
	<u>241,810</u>	<u>232,788</u>

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.

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 25 Material related party transactions

##### (a) Transactions

		Six months ended 30 June	
		2009	2008
Note		RMB'000	RMB'000
<b>Recurring transactions</b>			
<b>Sales:</b>			
	– Tianjin Tianhui Cement Co., Ltd. ("Tianjin Tianhui")	(i) <u>16,326</u>	<u>19,287</u>
<b>Rental income:</b>			
	– Shanshui Jinzhu Powder Co., Ltd. ("Jinzhu Powder")	68	68
	– Shanshui Stanford New Building Materials Co., Ltd. ("Stanford")	<u>279</u>	<u>279</u>
		<u>347</u>	<u>347</u>
<b>Brand royalty income:</b>			
	– Tianjin Tianhui	(ii) <u>140</u>	<u>–</u>
<b>Management fees:</b>			
	– Tianjin Tianhui	(iii) <u>153</u>	<u>–</u>
<b>Non-recurring transactions</b>			
<b>Advances to:</b>			
	– China Shanshui Investment Co., Ltd ("Shanshui Investment")	761	–
	– Jinan Shanshui	<u>1,341</u>	<u>–</u>
		<u>2,102</u>	<u>–</u>
<b>Financing to:</b>			
	– Shanshui Investment	–	<u>35,849</u>
<b>Repayment of loans and related interests from:</b>			
	– Shanshui Investment	–	<u>36,079</u>
<b>Repayment of loans and related interests to:</b>			
	– International Finance Corporation ("IFC")	17(b) <u>32,672</u>	<u>52,576</u>



## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 25 Material related party transactions (Continued)

##### (a) Transactions (Continued)

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) The Group entered into a trademark licence agreement with Tianjin Tianhui in 2008. The agreement allows Tianjin Tianhui to use the Shanshui Dongyue brand for a trademark fee of RMB1 per tonne of cement produced by Tianjin Tianhui. The latter produced 140,373 tonnes of cement during the six months ended 30 June 2009.
- (iii) Pursuant to the management agreement between Tianjin Tianhui and Shandong Shanshui, Shandong Shanshui is entitled to an annual management fee of RMB100,000 plus 5% share of the annual gross profits of Tianjin Tianhui. This represents the total management fees of Shandong Shanshui for the six months ended 30 June 2009.
- (iv) These transactions represent advances to related parties, which are unsecured, interest-free and have no fixed terms of repayment.

##### (b) Balances with related parties

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
<b>Other receivables due from:</b>		
– Tianjin Tianhui	5,318	3,717
– Stanford	1,158	1,277
– Jinzhu Powder	237	169
– Shanshui Investment	760	734
– Jinan Shanshui	1,341	–
	<u>8,814</u>	<u>5,897</u>
<b>Customer deposits and receipts in advance from:</b>		
– Tianjin Tianhui	360	46

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 25 Material related party transactions (Continued)

##### (b) Balances with related parties (Continued)

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
<b>Other payable due to:</b>		
– IFC	366	5,108
<b>Loans due to:</b>		
– IFC	262,765	289,156
<b>Liability portion of convertible notes due to:</b>		
– MS Cement Limited	–	45,408
– MS Cement II Limited	–	15,918
– CDH Cement Limited	–	18,398
– IFC	10,257	9,853
	<b>10,257</b>	<b>89,577</b>
<b>Outstanding bank loans secured by:</b>		
– Jinan Shanshui	–	44,500

##### (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	
	2009	2008
Salary, allowances and other benefits	9,843	7,898
Contribution to defined contribution retirement plans	70	84
	<b>9,913</b>	<b>7,982</b>

#### 26 Non-adjusting post balance sheet event

On 10 July 2009, Shandong Shanshui entered into an equity transfer agreement with independent third parties for the acquisition of the entire equity interests in Yingkou Pengfa Cement Company Limited ("Yingkou Cement") for an aggregate consideration of RMB20.91 million. Yingkou Cement is located in Yingkou City, Liaoning Province and is principally engaged in the production and sales of cement. Yingkou Cement obtained the revised business licence (No. 210881004012529) on 24 July 2009 issued by Gaizhou City Administration of Industry and Commerce and changed its name to Yingkou Shanshui Cement Company Limited on the same date.

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 27 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2009

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 2009 and which have not been adopted in this interim financial report.

	<b>Effective for accounting periods beginning on or after</b>
Revised IAS 27, <i>Consolidated and separate financial statements</i>	1 July 2009
Amendments to IAS 39, <i>Financial instruments: recognition and measurement – eligible hedged items</i>	1 July 2009
IFRIC 17, <i>Distributions of non-cash assets to owners</i>	1 July 2009
Revised IFRS 3, <i>Business combination</i>	Applied to business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 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.

#### 28 Comparative figures

As a result of the application of IAS 1 (revised 2007), Presentation of financial statements, and IFRS 8, Operating segments, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in Note 2.