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

2010 Interim Report

CONTENTS

Definitions

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

"Company" or "Shanshui Cement"	China Shanshui Cement Group Limited
"Group" or "Shanshui Group"	the Company and its subsidiaries
"Reporting Period"	1 January 2010 to 30 June 2010
"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
"Target Assets"	the assets owned by Chifeng Yuanhang Cement Company Limited ("Chifeng Yuanhang") in relation to the cement production and sales business
"Target Company"	a company to be established by Chifeng Yuanhang in the PRC which will hold all the Target Assets upon completion of the Reorganisation

(I) Company Profile

1. BOARD OF DIRECTORS

Executive Directors

ZHANG Caikui *(Chairman)*
DONG Chengtian
YU Yuchuan

Note: Mr. Li Yanmin resigned as a director of the Company effective from 5 March 2010.

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 PO Box 309, Ugland House Grand Cayman, KY 1-1104 Cayman Islands
(3)	Principal Place of Business		
	Principal Place of Business in China	:	Sunnsy Industrial Park, Gushan Town, Changqing District, Jinan, Shandong, China
	Principal Place of Business in Hong Kong	:	Room 2609, 26/F, Tower 2, Lippo Centre, 89 Queensway, Admiralty, Hong Kong
(4)	Contact details of the Company		
	Telephone	:	+86-531-8836 0218 +852-2525 7918
	Fax	:	+86-531-8836 0218 +852-2525 7998
	E-mail address	:	ir@shanshuigroup.com
(5)	Website	:	www.shanshuigroup.com
(6)	Authorised Representatives	:	ZHANG Caikui, ZHANG Bin
(7)	Alternate Authorised Representative	:	LI Cheung Hung
(8)	Joint Company Secretaries	:	ZHANG Bin, LI Cheung Hung – ACIS, ACS, FCPA, FAIA
(9)	Qualified Accountant	:	LI Cheung Hung – ACIS, ACS, FCPA, FAIA
(10)	Principal Bankers	:	China Merchants Bank China Construction Bank Corporation
(11)	Listing Date	:	4 July 2008
(12)	Website for publication of this report	:	www.shanshuigroup.com
(13)	Stock Exchange on which the Company's shares are listed	:	The Hong Kong Stock Exchange
(14)	Stock code	:	00691
(15)	Stock Short Name	:	Shanshui Cement
(16)	Hong Kong Share Registrar and Transfer Office	:	Computershare Hong Kong Investor Services Limited
	Address	:	Rooms 1712-1716, 17/F Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
(17)	Legal Advisers		
	as to PRC laws	:	Commerce & Finance Law Offices
	as to Hong Kong laws	:	Norton Rose Hong Kong
(18)	Auditor	:	KPMG

(II) Key Data

1. KEY FINANCIAL DATA

(Unit: RMB'000)

	January to June 2010	January to June 2009
Revenue	**4,723,654**	3,869,002
Gross profit	**966,997**	833,202
Gross profit margin	**20.5%**	21.5%
Profit from operations	**714,316**	550,350
Profit margin from operations	**15.1%**	14.2%
Profit before tax	**543,620**	406,834
Pre-tax profit margin	**11.5%**	10.5%
Profit attributable to equity shareholders of the Company	**403,656**	309,975
Basic earnings per share (RMB)	**0.14**	0.11
Net cash generated from operating activities	**379,443**	430,980

	30 June 2010	31 December 2009
Total assets	**16,586,727**	14,609,163
Total liabilities	**11,142,464**	9,380,035
Equity attributable to equity shareholders of the Company	**5,322,664**	5,160,193

2. KEY BUSINESS DATA

	January to June 2010	January to June 2009
Sales volume of cement ('000 tonnes)	**15,418**	12,737
Sales volume of clinker ('000 tonnes)	**5,562**	3,809
Unit selling price of cement (RMB/tonne)	**220.9**	227.8
Unit selling price of clinker (RMB/tonne)	**186.7**	187.7

(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

As of 30 June 2010, our authorised share capital was US$100,000,000 divided into 10,000,000,000 shares of par value of US$0.01 each.

As of 31 December 2009, the Company has issued a total of 2,803,304,000 Shares.

On 21 September 2007, the Company issued convertible notes in the principal amounts of US$2,200,000 to International Finance Corporation. The maturity date of the convertible notes is 2 July 2011. The number of conversion Shares shall convert into 12,646,200 Shares at a price of approximately US$0.17 or approximately HK$1.32. During the Reporting Period, such convertible notes have not been converted.

During the Reporting Period, the Company has not issued any additional Shares.

2. SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As of 30 June 2010, 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[(1)]	Nature of interests	Percentage of Shares in issue[(2)]
China Shanshui Investment Company Limited	871,736,400(L)[(3)]	Beneficial owner	31.10%
Morgan Stanley Private Equity Asia, L.L.C.[(4)]	246,670,280(L)	Interest in controlled corporations	8.80%
Morgan Stanley Private Equity Asia, Inc[(4)]	246,670,280(L)	Interest in controlled corporations	8.80%
Morgan Stanley Private Equity Asia, LP	222,315,971(L)	Interest in controlled corporations	7.93%
MS Cement IV Limited[(5)]	152,585,282(L)	Interest in controlled corporations	5.44%
Morgan Stanley Private Equity Asia III, LP[(5)]	152,585,282(L)	Interest in controlled corporations	5.44%
Morgan Stanley Private Equity Asia III, L.L.C.[(5)]	152,585,282(L)	Interest in controlled corporations	5.44%

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

Name of shareholder	Number of Ordinary Shares interested[1]	Nature of interests	Percentage of Shares in issue[2]
Morgan Stanley Private Equity Asia III, Inc[5]	152,585,282(L)	Interest in controlled corporations	5.44%
Morgan Stanley Private Equity Holdings (Cayman) Limited[5]	152,585,282(L)	Interest in controlled corporations	5.44%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Limited[5]	152,585,282(L)	Interest in controlled corporations	5.44%
CCBI Cement Private Equity Limited[6]	217,828,084(L)	Nominee for another person	7.77%
CCB International Asset Management Limited[6]	217,828,084(L)	Investment manager	7.77%
CCB International Assets Management (Cayman) Limited[6]	217,828,084(L)	Interest in controlled corporations	7.77%
CCB International (Holdings) Limited[6]	217,828,084(L)	Beneficial owner	7.77%
CCB Financial Holdings Limited[6]	217,828,084(L)	Interest in controlled corporations	7.77%
CCB International Group Holdings Limited[6]	217,828,084(L)	Interest in controlled corporations	7.77%
China Construction Bank Corporation[6]	217,828,084(L)	Interest in controlled corporations	7.77%
Central Huijin Investment Limited[6]	217,828,084(L)	Interest in controlled corporations	7.77%
T.Rowe Price Associates, Inc. and its affiliates[7]	140,987,000(L)	Investment manager	5.02%
Prudential plc[8]	140,091,000(L)	Interest in controlled corporations	5.00%

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

Notes:

(1) The letter "L" denotes a long position in such Shares and the letter "S" denotes a short 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) On 28 September 2009, China Shanshui Investment Company Limited ("Shanshui Investment") and Wing Lung Bank Limited ("Wing Lung Bank") entered into a one-year-term loan agreement, pursuant to which, Shanshui Investment pledged 240,000,000 Shares of the Company to Wing Lung Bank. Pursuant to the same loan agreement, an additional 60,000,000 Shares were pledged to Wing Lung Bank on 1 February 2010; an additional 100,000,000 Shares were pledged to Wing Lung Bank on 10 May 2010; an additional 5,000,000 Shares were pledged to Wing Lung Bank on 31 May 2010. In compliance with all terms of the loan agreement, Shanshui Investment is still entitled to all rights attaching to such Shares.

On 28 September 2009, Shanshui Investment and UOB Kay Hian Finance Limited ("UOB Kay Hian") entered into a one-year-term loan agreement, pursuant to which, Shanshui Investment pledged 117,000,000 Shares of the Company to UOB Kay Hian. Pursuant to the same loan agreement, an additional 23,000,000 Shares were pledged to UOB Kay Hian on 9 February 2010; an additional 15,000,000 Shares were pledged to UOB Kay Hian on 31 May 2010. Such Shares were held under the name of UOB Kay Hian through the Hong Kong Stock Exchange's electronic trading platform. In compliance with all terms of the loan agreement, Shanshui Investment is still entitled to all rights attaching to such Shares.

On 30 September 2009, Shanshui Investment and CCBI Cement Private Equity Limited ("CCBI Cement") entered into a two-year-term loan agreement, pursuant to which, Shanshui Investment pledged 194,000,000 Shares of the Company to CCBI Cement. In compliance with all terms of the loan agreement, Shanshui Investment is still entitled to all rights attaching to such Shares.

(4) MS Cement II Limited ("MS II"), a limited liability company incorporated in the Cayman Islands, is controlled by Morgan Stanley Private Equity Asia, L.L.C. ("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 Morgan Stanley Private Equity Asia L.P. ("MSPEA"), a fund managed by the private equity arm of Morgan Stanley, 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.

(6) As stated in the form of disclosure of shareholder's interests submitted by Central Huijin Investment Limited on 5 October 2009 (the date of the relevant event set out in the form was 30 September 2009), these shares were held by CCBI Cement Private Equity Limited ("CCBI Cement") as nominee for another person, and CCBI Cement was in turn held directly or indirectly by CCB International Asset Management Limited, CCB International Assets Management (Cayman) Limited, CCB International (Holdings) Limited, CCB Financial Holdings Limited, CCB International Group Holdings Limited, China Construction Bank Corporation and Central Huijin Investment Limited (the "Companies"). Each of the Companies is deemed to be interested in the shares held by CCBI Cement.

(7) As stated in the form of disclosure of shareholder's interests submitted by T. Rowe Price Associates, Inc. and its affiliates on 27 January 2010 (the date of the relevant event set out in the form was 26 January 2010), these Shares were held via T. Rowe Price Associates, Inc. and its affiliates.

(8) As stated in the form of disclosure of shareholder's interests submitted by Prudential plc. on 19 May 2010 (the date of the relevant event set out in the form was 18 May 2010), these Shares were held via certain subsidiaries of Prudential plc..

Save as disclosed above, and so far as the Directors are aware, as of 30 June 2010, 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.

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.

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

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

As of 30 June 2010, 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:

		Number of shares held		Percentage of total share capital in issue as of
Name of Director	**Class of Shares**	**Corporate interests**	**Total**	**30 June 2010**
Zhang Caikui	Ordinary share	871,736,400(L)[(1)]	871,736,400	31.10%
		23,828,084(S)[(2)]		0.85%

Note:

(1) As of 30 June 2010, the 871,736,400 Shares were held by Shanshui Investment. Shanshui Investment is approximately 65.55% held by Mr. Zhang Caikui as a discretionary trustee and one of the beneficiaries of the Zhang Trust.

As mentioned in the section "Shareholdings of Substantial Shareholders" above, included in these 871,736,400 Shares are 405,000,000 Shares, 155,000,000 Shares and 194,000,000 Shares pledged to Wing Lung Bank, UOB Kay Hian and CCBI Cement respectively.

(2) Pursuant to a loan agreement entered into between Shanshui Investment and CCBI Cement on 30 September 2009, CCBI Cement was granted a purchase right by Shanshui Investment, pursuant to the full exercise of which CCBI Cement would obtain 23,828,084 Shares of the Company from Shanshui Investment. These Shares represent those 23,828,084 Shares which are subject to the aforesaid purchase rights.

Save as disclosed above, as of 30 June 2010, 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 RETIREMENT 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.

As of 29 December 2009, the Board of Directors received the resignation letter from LI Yanmin by reason of his retirement. As stated in the director's service contract signed by him with the Company on 14 June 2008, the Company shall be given at least three month's notice in writing before the resignation is to be effected; therefore, his resignation did not come into force. Subsequently, the Board of Directors discussed and agreed to shorten the abovementioned three month's notice and as such, Mr. LI Yanmin resigned from his duties as a director and deputy general manager and from other positions in the Group effective 5 March 2010. Details of his resignation are set out in the announcement of the Company dated 5 March 2010.

Pursuant to Clause 16.18 of the articles of association, Mr. YU Yuchuan, Mr. Homer SUN and Mr. SUN Jianguo retired as directors by rotation at the 2009 annual general meeting held on 19 May 2010, and all of them have been re-elected as directors of the Company thereat.

2. 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.

3. MODEL CODE

The Company has adopted a set of codes 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 during the Reporting Period.

4. EMPLOYEES AND THEIR REMUNERATION

As of 30 June 2010, the Group had a total of 14,901 employees. The aggregate remuneration of the employees for the Reporting Period was RMB222 million.

(V) Management Discussion and Analysis

1. OPERATING ENVIRONMENT AND INDUSTRY OVERVIEW

Since the beginning of 2010, the Chinese Government continued its proactive fiscal policy and moderately loose monetary policy to ensure the continuity and stability of existing policies. On the other hand, it constantly improved the relevance and flexibility of its policies in line with the development of new situations and conditions, sped up economic structural adjustment development, and curtailed the growth of high energy consumption, high emission industries and those industries with excess production capacity, thereby maintaining steady and rapid economic development.

The sustained implementation of the 4-trillion-yuan stimulus package, to accelerate the development of cities and towns and the urbanization of new villages, as well as the inclusion of the "Bring Building Materials to the Countryside" program into the 2010 No. 1 document (i.e. "Several Opinions on Strengthening the Efforts of Coordinative Urban-Rural Development and Further Consolidating the Basis of Agricultural and Rural Development") issued by the PRC central government have given a strong impetus to the cement demand on the market. Meanwhile, the No. 38 document (i.e. "Notice on Several Opinions on Curbing Overcapacity and Redundant Construction in Some Industries and Guiding the Sound Development of Industries") and No. 7 document (i.e. "Notice on Further Elimination of Obsolete Production Capacity") issued by the State Council will facilitate the effective control over the total cement production capacity and accelerate the phase-out of obsolete production capacity, and thereby allowing the advantage of cement production conglomerates using the new dry-process to manifest.

In the first half of 2010, China's GDP grew by 11.1%; its total fixed asset investment was RMB11,418.7 billion, representing a year-on-year increase of 25.0%; the Investment by real estate developers amounted to RMB1,974.7 billion, representing a year-on-year increase of 38.1% (source: National Bureau of Statistics).

In the first half of 2010, cement demand grew substantially and further improvement was noted in the industry performance. Total cement output throughout the country reached 848 million tonnes, representing a year-on-year increase of 17.5%. For the first five months, cement producers realized sales of RMB234.3 billion, representing a year-on-year increase of 24.7%, with a total profit of RMB13.4 billion, representing a year-on-year increase of 26.8% (source: Ministry of Industry and Information Technology of the PRC).

2. COMPANY'S BUSINESS REVIEW

In the first half of 2010, the Group accelerated development through construction of new production facilities and re-organization in accordance to its policy of "putting equal emphasis on development and management". On the other hand, it innovated its management mode and constantly strengthened internal control, thereby improving overall operation efficiency. During the reporting period, the Group's total sales of cement and clinkers were 20.98 million tonnes, representing a year-on-year increase of 26.8%. The Group's sales revenue amounted to RMB4,723,654,000, representing a year-on-year increase of 22.1%, and net profit for the period was RMB411,281,000, representing a year-on-year increase of 31.5%.

During the reporting period, the following projects had commenced operation:

Clinker production lines

Zaozhuang Chuangxin Shanshui Cement Company Limited ("Zaozhuang Chuangxin Shanshui") 4,000 t/d clinker production line (equipped with 6MW residual heat generation project)

Linqu Shanshui Cement Company Limited ("Linqu Shanshui") 4,000 t/d clinker production line (equipped with 9MW residual heat generation project)

Cement grinding lines

Yishui Chuangxin Shanshui Cement Company Limited ("Yishui Chuangxin Shanshui") 1 million tonne cement grinding production line

Qingdao Shanshui Jianxin Cement Company Limited ("Qingdao Shanshui Jianxin") 1 million tonne cement grinding production line

Weifang Shanshui Cement Company Limited ("Weifang Shanshui") 1 million tonne cement grinding production line

Weifang Binhai Shanshui Cement Company Limited ("Weifang Binhai Shanshui") 1 million tonne cement grinding production line

Caoxian Shanshui Cement Company Limited ("Caoxian Shanshui") 1 million tonne cement grinding production line

Panjin Shanshui Cement Company Limited ("Panjin Shanshui") 1 million tonne cement grinding production line

Yingkou Shanshui Cement Company Limited ("Yingkou Shanshui") 0.6 million tonne cement grinding production line

Tongliao Shanshui Gongyuan Cement Company Limited ("Tongliao Shanshui Gongyuan") 0.4 million tonne cement grinding production line

2. COMPANY'S BUSINESS REVIEW *(continued)*

In April, the Group acquired the entire equity interest in Tianjin Tianhui Cement Company Limited ("Tianjin Tianhui"), which had an annual cement production capacity of 0.6 million tonnes, and the 0.5-million-tonne technological upgrading project at Liaocheng Shanshui Cement Company Limited ("Liaocheng Shanshui") commenced operation. The above projects have added 2.56 million tonnes clinker production capacity and 8.10 million tonnes of cement production capacity. Additionally, the total installed capacity of residual heat power generators that had commenced operation in the first half of the year was 15 MW.

During the reporting period, the Group also entered into the Cooperation Framework Agreement with Chifeng Yuanhang, pursuant to which it had conditionally agreed to acquire an aggregate of not less than 80% equity interest in the Target Company to be established by Chifeng Yuanhang. Upon completion of the acquisition, it is expected that clinker production capacity will be increased by 1.60 million tonnes while the cement production capacity will be increased by 2.30 million tonnes.

After the commencement of operation of the newly constructed projects and upon the completion of the acquisition, the Group will further improve its market position, further strengthen its regional dominance and further increase its future profitability.

(I) Business analysis

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

(unit: RMB'000)

	January-June 2010		January-June 2009		**Sales**
Product	**Sales revenue**	**Sales proportion**	Sales revenue	Sales proportion	**revenue change**
Cement	**3,406,381**	**72.1%**	2,901,467	75.0%	17.4%
Clinker	**1,038,669**	**22.0%**	715,011	18.5%	45.3%
Others	**278,604**	**5.9%**	252,524	6.5%	10.3%
Total	**4,723,654**	**100.0%**	3,869,002	100.0%	22.1%

During the Reporting Period, the Group's sales revenue increased by 22.1% to RMB4.72 billion, principally attributable to an increase in cement sales volume driven by demand. With regards to revenue breakdown by products, cement revenue amounted to RMB3.41 billion, representing a year-on-year growth of 17.4%, and clinker revenue amounted to RMB1.04 billion, representing a year-on-year growth of 45.3%. All other revenue amounted to RMB280 million, representing a year-on-year growth of 10.3%.

2. COMPANY'S BUSINESS REVIEW *(continued)*

(I) Business analysis *(continued)*

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	The reporting period sales volume ('000 tonnes)	The corresponding period of last year sales volume ('000 tonnes)	Sales volume change	The reporting period unit selling price (RMB/tonne)	The corresponding period of last year unit selling price (RMB/tonne)	Unit selling price change
Cement	15,418	12,737	21.0%	220.9	227.8	-3.0%
Clinker	5,562	3,809	46.0%	186.7	187.7	-0.5%

During the Reporting Period, thanks to the continuous expansion of the scale of production, the extensive market presence of the Company, the phasing-out of obsolete cement capacity, and the sustained demand from infrastructure construction projects and the property development industry, the Company recorded an increase in sales volume of cement to 15.42 million tonnes, representing a year-on-year growth of 21.0%, while that of clinker increased to 5.56 million tonnes, representing a year-on-year growth of 46.0%. The unit selling price of cement decreased by 3.0% to RMB220.9 per tonne, due mainly to the decline of cement prices from when it peaked in the corresponding period of last year, while the unit selling price of clinker was RMB186.7 per tonne, which was slightly lower than that of the same period of last year.

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

Region	The reporting period unit selling price (RMB/tonne)	The corresponding period of last year unit selling price (RMB/tonne)	Change in selling price
Shandong Province	220.5	224.5	-1.8%
Northeastern China	223.1	249.5	-10.6%

2. 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 RMB220.5 per tonne, representing a year-on-year decrease of 1.8%, while that in Northeastern China was RMB223.1 per tonne, representing a year-on-year decrease of 10.6%, mainly due to the higher comparing basis during the same period of last year. The average unit selling price of cement in Northeastern China, however, was still higher than those of enterprises in Shandong area. With the Company expanding its market share in Northeastern China, our cement production enterprises in Northeastern China will contribute more profits to the Group in the near future.

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

	January-June 2010		January-June 2009		
	Sales volume ('000 tonnes)	**Sales proportion**	Sales volume ('000 tonnes)	Sales proportion	**Change in sales volume**
High grade cement	**7,915**	**51.3%**	5,531	43.4%	43.1%
Low grade cement	**7,503**	**48.7%**	7,206	56.6%	4.1%

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

During the Reporting Period, sales volume of high grade cement increased by 43.1% compared with the corresponding period of last year. This 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.

2. 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 2010 Sales revenue	January-June 2010 Sales proportion	January-June 2009 Sales revenue	January-June 2009 Sales proportion	Sales revenue change
Shandong Province	**3,993,146**	**84.5%**	3,386,141	87.5%	17.9%
Northeastern China	**730,508**	**15.5%**	482,861	12.5%	51.3%
Total	**4,723,654**	**100.0%**	3,869,002	100.0%	22.1%

Our cement production enterprises in Shandong province and Northeastern China performed well in the first half of 2010, with all key economic indicators showing significant improvement. Among such enterprises, those in Shandong province recorded sales revenue of RMB3.99 billion, accounting for 84.5% of the Group's total sales revenue in the first half of 2010, representing a year-on-year increase of 17.9%. Our enterprises in Northeastern China reported sales revenue of RMB731 million, representing a year-on-year growth of 51.3% and accounting for15.5% of the Group's total sales revenue in the first half of 2010.

(II) Profit analysis

1. Key profit and loss items and their respective changes

(Unit: RMB'000)

	January-June 2010	January-June 2009	Y-O-Y changes
Revenue	**4,723,654**	3,869,002	22.1%
Gross profit	**966,997**	833,202	16.1%
EBITDA	**1,086,000**	853,107	27.3%
Profit from operations	**714,316**	550,350	29.8%
Profit before taxation	**543,620**	406,834	33.6%
Profit for the period	**411,281**	312,730	31.5%
Profit attributable to equity shareholders of the Company	**403,656**	309,975	30.2%

2. 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 RMB4.72 billion, representing a year-on-year increase of 22.1%; profit from operations was RMB714 million, representing a year-on-year increase of 29.8%; profit for the period was RMB411 million, representing a year-on year increase of 31.5%; profit attributable to equity shareholders of the Company was RMB404 million, representing a year-on-year increase of 30.2%. The increase in profit was mainly due to higher sales volume and the Company's effective control over costs and expenses incurred during the period.

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

(Unit: RMB'000)

	January-June 2010		January-June 2009		**Change of**
		Proportion		Proportion	**proportion**
Cost of sales	**Amount**	**to revenue**	Amount	to revenue	**to revenue**
Raw materials	**849,473**	**18.0%**	846,047	21.9%	-3.9%
Coal	**1,425,882**	**30.2%**	957,269	24.7%	5.5%
Power	**645,835**	**13.7%**	539,039	13.9%	-0.2%
Depreciation and amortisation	**324,176**	**6.9%**	258,466	6.7%	0.2%
Others	**511,291**	**10.8%**	434,979	11.2%	-0.4%
Total cost of sales	**3,756,657**	**79.6%**	3,035,800	78.4%	1.2%

During the Reporting Period, costs were affected by the cold weather in the first quarter and significantly higher coal price in the first half of the year as compared to the corresponding period of the previous year. As such, the proportion of the Group's total cost of sales to revenue was 79.6%, representing a year-on-year increase of 1.2 percentage points, of which, the proportion of raw materials to revenue was 18.0%, a decline of 3.9 percentage points compared with same period last year, thanks to the further standardized procurement procedure, decreases in the purchase prices of part of the raw materials, and the use of alternative raw materials. The proportion of coal costs to revenue was 30.2%, representing a year-on-year increase of 5.5 percentage points. The Group's average unit purchase price of coal in the first half of 2010 increased by 17.5% to RMB676.5/tonne. Thanks to the technology reform conducted by the Group and the use of higher grade coal, the unit coal consumption recorded certain degree of decrease. As a result of that, the proportion of coal costs to sales revenue showed a relatively smaller increase compared to increase in purchase price of coal. During the first half of 2010, output of residual heat power generation increased by 37.8% to 423 million KWH on cost savings, reducing the clinker cost by approximately RMB156 million.

3. COMPANY'S FINANCIAL REVIEW

(I) Expenses during the period

(Unit: RMB'000)

	January-June 2010 Amount	January-June 2010 Proportion to sales revenue	January-June 2009 Amount	January-June 2009 Proportion to sales revenue	Proportion to sales revenue changes
Sales and marketing expenses	**86,664**	**1.8%**	92,871	2.4%	-0.6%
Administrative expenses	**234,320**	**5.0%**	236,612	6.1%	-1.1%
Finance costs	**170,651**	**3.6%**	143,516	3.7%	-0.1%
Total	**491,635**	**10.4%**	472,999	12.2%	-1.8%

During the Reporting Period, all expenses of the Group were controlled effectively. The proportion of sales and marketing expenses to sales revenue declined compared to the corresponding period of 2009, as a result of the beneficial effect of the increase in sales volumes. The proportion of administrative expenses to sales revenue declined by 1.1 percentage points as compared to the previous year, mainly due to the Group's launch of total budget management initiatives. The proportion of the Group's finance costs to sales revenue declined, primarily due to lower interest rates on its debt.

(II) Changes in balance sheet items

(Unit: RMB'000)

	As at 30 June 2010	As at 31 December 2009	Change
Non-current assets	**12,306,769**	11,302,282	8.9%
Current assets	**4,279,958**	3,306,881	29.4%
Total assets	**16,586,727**	14,609,163	13.5%
Current liabilities	**6,227,766**	4,969,934	25.3%
Non-current liabilities	**4,914,698**	4,410,101	11.4%
Total liabilities	**11,142,464**	9,380,035	18.8%
Minority interest	**121,599**	68,935	76.4%
Equity attributable to equity shareholders of the Company	**5,322,664**	5,160,193	3.1%
Total liabilities and equity	**16,586,727**	14,609,163	13.5%

3. COMPANY'S FINANCIAL REVIEW *(continued)*

(II) Changes in balance sheet items *(continued)*

As of 30 June 2010, the Group's total assets were RMB16.59 billion, total liabilities were RMB11.14 billion and its net assets were RMB5.44 billion. The net gearing ratio (net debts/(net debts + equity attributable to equity shareholders of the Company)) was 51.5%, representing an increase of 3.0 percentage points compared to the end of the previous year. The Group's total current assets were RMB4.28 billion, its total current liabilities were RMB6.23 billion, and its net current liabilities were RMB1.95 billion. The Group's estimated profits from future operations, its forecast cash flow for 2010, and the banking facilities granted to the Group are sufficient to satisfy capital requirements for the on-going needs of the sustained operations.

(III) Long-term and short-term bank loans and other loans

(Unit: RMB'000)

Term of borrowings	**As at 30 June 2010**	As at 31 December 2009
Short-term borrowings (including long-term borrowings with maturity within one year)	**2,622,426**	2,205,527
Long-term borrowings	**4,048,803**	3,538,832
Total	**6,671,229**	5,744,359

The Company's borrowings increased as a result of the funding required for the expansion of its business. As of 30 June 2010, the Company's total borrowings were RMB6.67 billion, an increase of RMB927 million as compared with 2009, of which long-term borrowings with maturity more than 1 year amounted to RMB4.05 billion and accounted for 60.7% of the Group's total borrowings, a decrease of 0.9 percentage point as compared with the beginning of the year.

3. COMPANY'S FINANCIAL REVIEW *(continued)*

(IV) Capital commitments outstanding at 30 June 2010 for having entered into production facility construction contracts, equipment purchase agreements and equity investment agreements but not provided for in the financial statements were as follows:

(Unit: RMB'000)

	As at 30 June 2010	As at 31 December 2009
Authorised and contracted	**1,268,287**	374,148
Authorised but not contracted	**1,818,191**	4,508,601
Total	**3,086,478**	4,882,749

As of 30 June 2010, the capital commitment authorised and contracted by the Group amounted to RMB1.27 billion, representing an increase of RMB894 million as compared with the beginning of the year. Furthermore, the capital commitment authorised but not contracted amounted to RMB1.82 billion, representing a decrease of RMB2.69 billion as compared with the beginning of the year.

(V) Net cash flow analysis

	January-June 2010	January-June 2009
Net cash generated from operating activities	**379,443**	430,980
Net cash used in investing activities	**-1,122,701**	-894,168
Net cash generated from financing activities	**897,956**	124,919
Net change in cash and cash equivalents	**154,698**	-338,269
Balance of cash and cash equivalents as at 1 January	**886,130**	1,248,414
Effect of foreign exchange rates changes	**-1,114**	-287
Balance of cash and cash equivalents as at 30 June	**1,039,714**	909,858

During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB379 million, representing a decrease of RMB52 million over the corresponding period of the previous year, which was mainly due to the increase in inventories and bill receivables resulting from the company's scale expansion. Additionally, as the Group continued to undertake a large number of construction projects, net cash used in investing activities amounted to RMB1.12 billion, representing an increase of RMB229 million compared to net cash used in investing activities during the same period of the previous year. Net cash generated from financing activities increased by RMB773 million to RMB898 million, which was due to an increase in the volume of loans.

4. OUTLOOK FOR THE SECOND HALF OF THE YEAR

In the second half of 2010, the Chinese government will make more efforts in adjusting the cement industry in accordance with its overall guidelines of "Change of the Development Mode and Adjustment of the Structure". Firstly, it is anticipated that the Government will speed up the phase-out of obsolete production capacity. According to the requirements of the "Notice on Furthering Elimination of Obsolete Production Capacity" and the "Notice on Further Efforts to Ensure the Accomplishment of the Eleventh Five-year Goal for Energy Preservation and Emission Reduction" issued by the State Council, MIIT announced, on 5 August, the name list of the cement producers with outdated capacity to be eliminated in 2010, involving a total of 107 million tonnes backward cement capacity to be phased out, which will greatly offset the impact from new supply coming through in the second half of the year. Secondly, the Government is expected to encourage mergers, acquisitions and restructuring by large-scale cement enterprises, and will gradually remove the regulatory obstacles hampering such mergers, acquisitions and restructuring. As such, our current presence in the Shandong and Liaoning markets and our entering into the Shanxi and Inner Mongolia markets will undoubtedly put the Group in an advantageous position to benefit from the adjustment of the cement industry.

In respect of market demand, the Group is of the view that major infrastructure projects, as part of the State's economic stimulus package initiated at the end of 2008, are currently in the peak of cement consumption. In addition, the government has increased its investments in the transformation of shanty regions and building of affordable homes, expedited the urbanization drive and the construction of new villages, and implemented the policy of "cement products going to the countryside" initially in Shandong on a trial basis. It is expected that the market demand for cement products will remain strong in the second half of the year.

In respect of cost, the National Development and Reform Commission issued a notice in late June 2010 on curbing the increase in coal prices. The Group is of the view that coal prices will stabilize in the second half of the year, which will help ease the cost pressure on the cement industry.

In the second half of 2010, the Group will continue to exert its competitive advantages in terms of established systems and mechanisms while adhering to the dual principles of setting up new plants and restructuring old ones, with a view towards accelerating its market presence in Shanxi, Inner Mongolia and Xinjiang while strengthening its leading position in Shandong and Liaoning. All these efforts are aimed at turning construction in progress into productivity as soon as possible, increasing the market share of the Group, and laying a solid foundation for its sustainable growth in the future. The Group expects that its capital expenditure will amount to RMB3 billion in the second half of the year, and plans for its total production capacity of cement to reach 65 million tonnes by 2010 and 80 million tonnes by 2011.

While improving its marketing network, the Group will proactively improve its internal management, implement Total Budget Management, regulate workflow and systems and enhance the supervision on internal audit, so as to further improve economic benefits and ensure the accomplishment of good operating results in 2010, thus creating better investment return for shareholders of the Company.

1. CORPORATE GOVERNANCE

The Group has established a sound corporate governance structure. The Board of Directors of the Company has put much emphasis on the establishment of the respective committees, and made further improvements in the terms of reference, means for performance of functions and working procedures of those committees during the reporting period.

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 has 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 continues to strengthen its investor relations management by gradually improving its investor communication mechanism. Disclosure of information to investors is made in a timely, complete, accurate and impartial manner. Insider trading, unauthorised disclosure of information and acts causing damages to the interest of other investors are strictly prohibited.

Based on the requirements of the Listing Rules of the Stock Exchange, the Company continues to enhance the information disclosure system and management rules and raise 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 2010.

3. ACQUISITIONS AND MAJOR JOINT VENTURE AGREEMENTS

(I) Acquisitions

1. Acquisition of business from Alu Kerqin Bayan Baote Cement Co., Ltd. ("AKBB Cement") in Inner Mongolia

On 7 January 2010, a 85% owned subsidiary of the Company, Alu Kerqin Qi Shanshui Cement Co., Ltd. entered into an agreement with AKBB Cement for the acquisition of a group of net assets in AKBB Cement for an aggregate consideration of RMB73.13 million.

2. Acquisition of the entire equity interest in Tianjin Tianhui

On 10 April 2010, the Company exercised the Tianjin Tianhui Option to acquire the entire equity interest in Tianjin Tianhui. Pursuant to such exercise, the Equity Transfer Agreement was entered into between Shandong Shanshui Cement Group Co., Ltd. ("Shandong Shanshui"), a wholly-owned subsidiary of the Company, as the transferee and Jinan Shanshui Group Co., Ltd. ("Jinan Shanshui") and Jinan Shanshui Lixin Investment Development Co., Ltd. ("Shanshui Lixin") as the transferors. Please refer to the announcement issued by the Company on 12 April 2010 for details.

3. Acquisition of interest in cement business and assets in Inner Mongolia

On 16 May 2010, Shandong Shanshui, a wholly-owned subsidiary of the Company, entered into the Cooperation Framework Agreement with Chifeng Yuanhang, pursuant to which Shandong Shanshui had conditionally agreed to acquire in two stages from Chifeng Yuanhang an aggregate of not less than 80% equity interest in the Target Company which held the Target Assets. Please refer to the announcement issued by the Company on 18 May 2010 for details.

(II) Major joint venture agreements

1. Establishment of a joint venture, Jincheng Shanshui Cement Co., Ltd. ("Jincheng Shanshui"), in Shanxi

On 23 January 2010, Shanxi Shanshui Cement Co., Ltd. ("Shanxi Shanshui"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Yangcheng County Taiyue Cement Plant, pursuant to which the parties would invest RMB150 million jointly to establish Jincheng Shanshui to develop the cement business in Shanxi. Shanxi Shanshui would contribute 85% of the registered capital.

2. Establishment of a joint venture, Hequ County Zhong Tianlong Cement Co., Ltd. ("Hequ Zhong Tianlong"), in Shanxi

On 15 March 2010, Shanxi Shanshui, a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Mr. Guo Yongming and Mr. Liu Aiming, pursuant to which the parties would invest RMB80 million jointly to establish Hequ Zhong Tianlong to develop the cement business in Shanxi. Shanxi Shanshui would contribute 68% of the registered capital thereof.

3. Establishment of a joint venture, Lvliang Yilong Cement Co., Ltd. ("Lvliang Yilong"), in Shanxi

On 16 May 2010, Shanxi Shanshui, a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Mr. Li Maozhong, pursuant to which the parties would invest RMB170 million jointly to establish Lvliang Yilong to develop the cement business in Shanxi. Shanxi Shanshui would contribute 90% of the registered capital thereof.

3. ACQUISITIONS AND MAJOR JOINT VENTURE AGREEMENTS *(continued)*

(II) Major joint venture agreements *(continued)*

4. *Establishment of a joint venture, Huolinguole Shanshui Cement Co., Ltd. ("Huolinguole Shanshui"), in Tongliao, Inner Mongolia*

On 10 February 2010, Shandong Shanshui, a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Mr. Cui Haifeng and Mr. Gong Ziming, pursuant to which they would invest RMB20 million jointly to establish Huolinguole Shanshui to develop the cement business in Inner Mongolia. Shandong Shanshui would contribute 85% of the registered capital thereof. On 2 March 2010, Huolinguole Shanshui signed an agreement to acquire a group of net assets in Shengfeng Cement Manufacturing Co., Ltd for a total cash consideration of RMB14 million.

5. *Establishment of a new company, Balin Youqi Shanshui Cement Co., Ltd. ("Balin Youqi Shanshui"), in Chifeng, Inner Mongolia*

On 19 March 2010, Shandong Shanshui, a wholly-owned subsidiary of the Company, established its wholly-owned subsidiary, Balin Youqi Shanshui, in Balin Youqi, with a registered capital of RMB20 million, to develop the cement business in Inner Mongolia.

6. *Establishment of a joint venture, Dong'e Shanshui Dongchang Cement Co., Ltd. ("Dong'e Shanshui"), in Liaocheng, Shandong*

On 1 February 2010, Shandong Shanshui, a wholly-owned subsidiary of the Company, established a joint venture, Dong'e Shanshui in Liaocheng, Shandong with Dong'e Dongchang Cement Co., Ltd. ("Dongchang Cement") to improve the layout of the cement market in Shandong. The registered capital of Dong'e Shanshui is RMB100 million, of which Shandong Shanshui and Dongchang Cement will contribute 49% and 51% respectively. According to the agreement by the parties, there will be no change in the shareholding percentage of the joint venture within three years of the date of its establishment. Subsequently, the percentage held by Shandong Shanshui and Dongchang Cement shall be changed to 51% and 49% respectively.

7. *Establishment of a new company, Laoling Shanshui Cement Co., Ltd. ("Laoling Shanshui") in Dezhou, Shandong*

On 9 February 2010, Shandong Shanshui, a wholly-owned subsidiary of the Company, established its wholly-owned subsidiary, Laoling Shanshui, with a registered capital of RMB30 million, to improve the layout of the cement market in Shandong.

4. CONTINUING CONNECTED TRANSACTIONS

On 14 June 2008, the Company entered into a framework agreement (the "Framework Agreement") with 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.

In 2008, coal prices boosted the substantial rise in clinker prices, causing the connected transaction between the Company and Tianjin Tianhui to amount to approximately RMB55,435,611, which exceeded the annual caps under the Framework Agreement. Under the Listing Rule 14A.40, the Company published an announcement on 30 March 2009; at the same time, it also adjusted the annual caps of transaction value for 2009 and 2010 to RMB71 million and RMB77 million respectively. Based on these annual caps, as each of the relevant percentage ratios will be less than 2.5% on an annual basis, transactions in financial years 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.

During the period from 1 January 2010 up to 10 April 2010, the transaction value under the Framework Agreement between the Group and Tianjin Tianhui was RMB11,497,000, not exceeding the relevant cap.

5. 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. During the Reporting Period, the Company had not granted any share option.

6. 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 2010 prepared in accordance with IFRS, and reviewed the unaudited interim results of the Group for the six months ended 30 June 2010.

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

For the six months ended 30 June 2010 – Unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2010	2009
	Note	**RMB'000**	RMB'000
Revenue	3, 4&5	**4,723,654**	3,869,002
Cost of sales		**(3,756,657)**	(3,035,800)
Gross profit		**966,997**	833,202
Other revenue	6	**66,713**	43,761
Other net income	6	**1,590**	2,870
Selling and marketing expenses		**(86,664)**	(92,871)
Administrative expenses		**(234,320)**	(236,612)
Profit from operations		**714,316**	550,350
Finance costs	7	**(170,651)**	(143,516)
Share of losses of an associate		**(45)**	–
Profit before taxation		**543,620**	406,834
Income tax	8	**(132,339)**	(94,104)
Profit for the period		**411,281**	312,730
Attributable to:			
Equity shareholders of the Company		**403,656**	309,975
Non-controlling interests		**7,625**	2,755
Profit for the period		**411,281**	312,730
Earnings per share	10		
Basic		**0.14**	0.11
Diluted		**0.14**	0.11

The notes on pages 33 to 62 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 23.

(VII) Interim Financial Statements (Unaudited)

Consolidated statement of comprehensive income

For the six months ended 30 June 2010 – Unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2010	2009
	Note	**RMB'000**	RMB'000
Profit for the period		**411,281**	312,730
Other comprehensive income for the period (after tax and reclassification adjustments):			
Exchange differences on translation of:			
financial statements of overseas operations		**31**	(6,070)
Available-for-sales securities:			
net movement in fair value reserve	9	**(2,922)**	3,736
Total comprehensive income for the period		**408,390**	310,396
Attributable to:			
Equity shareholders of the Company		**400,765**	307,641
Non-controlling interests		**7,625**	2,755
Total comprehensive income for the period		**408,390**	310,396

The notes on pages 33 to 62 form part of this interim financial report.

(VII) Interim Financial Statements (Unaudited)

Consolidated balance sheet

At 30 June 2010 – Unaudited
(Expressed in Renminbi)

	Note	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Non-current assets			
Fixed assets	11		
– Property, plant and equipment		**9,570,917**	8,695,576
– Interests in leasehold land held for own use under operating leases		**1,535,807**	1,451,568
		11,106,724	10,147,144
Intangible assets		**310,197**	333,165
Other long-term assets	12	**113,055**	119,759
Goodwill		**639,160**	595,498
Investment in an associate		**29,355**	–
Other financial assets		**8,270**	12,166
Deferred tax assets		**100,008**	94,550
		12,306,769	11,302,282
Current assets			
Inventories	13	**1,195,938**	840,345
Trade and bills receivable	14	**1,051,315**	703,877
Other receivables and prepayments	15	**963,288**	834,615
Pledged bank deposits	16	**29,703**	41,914
Cash and cash equivalents	17	**1,039,714**	886,130
		4,279,958	3,306,881
Current liabilities			
Short-term and current portion of interest-bearing borrowings	18(a)	**2,564,500**	2,147,000
Current portion of loans from equity shareholders	18(b)	**57,926**	58,527
Trade and bills payable	19	**1,558,536**	1,345,619
Other payables and accrued expenses	20	**1,912,125**	1,309,017
Current taxation		**133,308**	108,038
Obligation under finance leases		**1,371**	1,733
		6,227,766	4,969,934
Net current liabilities		**(1,947,808)**	(1,663,053)
Total assets less current liabilities		**10,358,961**	9,639,229

The notes on pages 33 to 62 form part of this interim financial report.

(VII) Interim Financial Statements (Unaudited)

Consolidated balance sheet

At 30 June 2010 – Unaudited
(Expressed in Renminbi)

	Note	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Non-current liabilities			
Interest-bearing borrowings, less current portion	18(a)	**3,866,500**	3,361,000
Loans from equity shareholders, less current portion	18(b)	**182,303**	177,832
Convertible notes	18(c)	**11,438**	10,859
Obligation under finance leases		**6,341**	6,337
Defined benefit obligations		**180,686**	184,564
Deferred income	21	**322,779**	311,195
Long-term payables	22	**268,139**	274,738
Deferred tax liabilities		**76,512**	83,576
		4,914,698	4,410,101
NET ASSETS		**5,444,263**	5,229,128
CAPITAL AND RESERVES			
Share capital		**192,355**	192,355
Reserves		**5,130,309**	4,967,838
Total equity attributable to equity shareholders of the Company		**5,322,664**	5,160,193
Non-controlling interests		**121,599**	68,935
TOTAL EQUITY		**5,444,263**	5,229,128

The notes on pages 33 to 62 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 2010 – Unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Statutory reserves	Other reserves	Exchange reserves	Fair value reserve	Retained profits	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2009	185,372	3,299,353	232,788	404,244	(24,824)	3,396	460,242	4,560,571	44,978	4,605,549
Changes in equity for the six months ended 30 June 2009:										
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
Balance at 30 June 2009 and 1 July 2009	192,355	3,433,022	232,384	346,457	(30,894)	7,132	581,565	4,762,021	47,733	4,809,754
Changes in equity for the six months ended 31 December 2009:										
Non-controlling interests in new subsidiary	–	–	–	–	–	–	–	–	11,470	11,470
Transfer between reserves	–	–	109,446	–	–	–	(109,446)	–	–	–
Total comprehensive income for the period	–	–	–	–	6,293	297	391,582	398,172	9,732	407,904
Balance at 31 December 2009	192,355	3,433,022	341,830	346,457	(24,601)	7,429	863,701	5,160,193	68,935	5,229,128
Balance at 1 January 2010	**192,355**	**3,433,022**	**341,830**	**346,457**	**(24,601)**	**7,429**	**863,701**	**5,160,193**	**68,935**	**5,229,128**
Changes in equity for the six months ended 30 June 2010:										
Non-controlling interests in new subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**45,039**	**45,039**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**–**	**–**	**(238,294)**	**(238,294)**	**–**	**(238,294)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**31**	**(2,922)**	**403,656**	**400,765**	**7,625**	**408,390**
Balance at 30 June 2010	**192,355**	**3,433,022**	**341,830**	**346,457**	**(24,570)**	**4,507**	**1,029,063**	**5,322,664**	**121,599**	**5,444,263**

The notes on pages 33 to 62 form part of this interim financial report.

(VII) Interim Financial Statements (Unaudited)

Condensed consolidated cash flow statement

For the six months ended 30 June 2010 – Unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2010	2009
	Note	**RMB'000**	RMB'000
Cash generated from operations		**498,061**	560,424
Tax paid		**(118,618)**	(129,444)
Net cash generated from operating activities		**379,443**	430,980
Net cash used in investing activities		**(1,122,701)**	(894,168)
Net cash generated from financing activities		**897,956**	124,919
Net increase/(decrease) in cash and cash equivalents		**154,698**	(338,269)
Cash and cash equivalents at 1 January	17	**886,130**	1,248,414
Effect of foreign exchange rates changes		**(1,114)**	(287)
Cash and cash equivalents at 30 June	17	**1,039,714**	909,858

The notes on pages 33 to 62 form part of this interim financial report.

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 20 August 2010.

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 2009, except for the accounting policy changes that are expected to be reflected in the 2010 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 RMB1,947,808,000 as at 30 June 2010. 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 2009.

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 2009 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 International Financial Reporting Standards ("IFRSs"). IFRSs include IAS and related interpretations.

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 2009 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 2009 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 9 April 2010.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and one new Interpretation 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 3 (revised 2008), *Business combinations*
- Amendments to IAS 27, *Consolidated and separate financial statements*
- Amendments to IAS 39, *Financial instruments: Recognition and measurement – eligible hedged items*
- Improvements to IFRSs (2009)

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendments to IAS 39 have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to IFRS 3 and IAS 27 have no material effect on the Group's financial statements as the transactions costs incurred in connection with its business combinations entered during the current period is immaterial and there is no requirement to restate the amounts recorded in respect of previous such transactions.

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

- The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:

  – Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  – Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

- In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in IFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of IAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

  - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

  - If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to IFRS 5, if at the balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in IFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to IFRS 3 and IAS 27, and as a result of amendments to IAS 28, Investments in associates, the following policies will be applied as from 1 January 2010:

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

– If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

– If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in IFRS 3 and IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to IAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in IAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

- As a result of the amendment to IAS 17, Leases, arising from the "Improvements to IFRSs (2009)" omnibus standard, the group has re-evaluated the classification of its interests in leasehold land as to whether, in the group's judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the group is in a position economically similar to that of a purchaser. The group has concluded that the classification of such leases as operating leases continues to be appropriate.

Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

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. 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 three 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.
- Shanxi Province – subsidiaries operated and located in the Shanxi Province of the PRC.

(a) Segment results

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 attributable to each reportable segment on the following bases:

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.

3 SEGMENT REPORTING *(continued)*

(a) Segment results *(continued)*

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.

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 2010				Six months ended 30 June 2009		
	Shandong Province RMB'000	**Northeastern China RMB'000**	**Shanxi Province RMB'000**	**Total RMB'000**	Shandong Province RMB'000	Northeastern China RMB'000	Total RMB'000
Revenue from external customers	**3,992,923**	**730,508**	**223**	**4,723,654**	3,386,141	482,861	3,869,002
Inter-segment revenue	**23,054**	**–**	**–**	**23,054**	45,300	324	45,624
Reportable segment revenue	**4,015,977**	**730,508**	**223**	**4,746,708**	3,431,441	483,185	3,914,626
Reportable segment profit/(loss) (adjusted profit/(loss) before taxation)	**691,384**	**44,234**	**(4,154)**	**731,464**	559,738	2,658	562,396

3 SEGMENT REPORTING *(continued)*

(b) Reconciliations of reportable segment revenues and profit or loss.

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	**4,746,708**	3,914,626
Elimination of inter-segment revenue	**(23,054)**	(45,624)
Consolidated turnover	**4,723,654**	3,869,002

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Profit		
Reportable segment profit	**731,464**	562,396
Elimination of inter-segment profits	**(3,658)**	(4,646)
Reportable segment profit derived from group's external customers	**727,806**	557,750
Unallocated finance costs	**(146,166)**	(105,133)
Unallocated head office and corporate expenses	**(38,020)**	(45,783)
Consolidated profit before taxation	**543,620**	406,834

4 REVENUE

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Sale of cement and clinker	**4,445,050**	3,616,478
Sale of other products and rendering of services	**278,604**	252,524
	4,723,654	3,869,002

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.

6 OTHER REVENUE AND NET INCOME

		Six months ended 30 June	
		2010	2009
	Note	**RMB'000**	RMB'000
Other revenue			
Interest income on bank deposits		**2,846**	2,317
Government grants	(i)	**55,421**	36,747
Amortisation of deferred income		**8,446**	4,697
		66,713	43,761
Other net income			
Net foreign exchange loss		**(153)**	(43)
Net gain from disposal of fixed assets		**1,365**	293
Penalty income		**591**	271
Others		**(213)**	2,349
		1,590	2,870

Notes:

(i) Government grants totalling RMB41,360,000 and RMB23,145,000 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 2010 and 2009 respectively. The remaining amounts mainly represent various unconditional government subsidies received from finance bureaux to encourage companies invested in the respective regions.

7 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Note	Six months ended 30 June 2010 RMB'000	2009 RMB'000
Interest on borrowings		**165,345**	153,219
Less: capitalised interest expense	(i)	**(14,902)**	(29,616)
Net interest expense		**150,443**	123,603
Unwinding of discount	(ii)	**19,475**	22,232
Bank charges		**491**	528
Interest rate swaps		**–**	(3,090)
Finance charges on obligations under finance lease		**242**	243
		170,651	143,516

Notes:

(i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 5.60% and 5.69% for the six months ended 30 June 2010 and 2009 respectively.

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

	Note	Six months ended 30 June 2010 RMB'000	2009 RMB'000
Convertible notes	18(c)	**640**	3,663
Defined benefit plans		**3,327**	3,053
Acquisition consideration payable		**15,508**	15,516
		19,475	22,232

7 PROFIT BEFORE TAXATION *(continued)*

(b) Other items

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Depreciation	**335,297**	263,009
Amortisation		
– intangible assets	**29,683**	26,998
Operating lease charges	**8,376**	3,401
Impairment losses provided		
– trade receivables	**5,176**	1,297
– other receivables	**–**	5,691
Inventory write-down and losses net off reversals	**(11,017)**	1,828

8 INCOME TAX

(a) Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Current tax expenses		
Provision for the PRC income tax	**143,887**	109,499
Deferred taxation		
Origination and reversal of temporary differences	**(11,548)**	(15,395)
	132,339	94,104

(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 2010 and 2009.

8 INCOME TAX *(continued)*

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

(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 Corporate Income Tax at a rate of 25% during the six months ended 30 June 2010 (corresponding period in 2009: 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 corporates and are entitled to a tax grandfathering period during which they are fully exempted from the PRC Corporate Income Tax for two years starting from its first tax profit-making year, followed by a 50% reduction in the PRC Corporate Income Tax rate for the next three years.

The year 2010 is the fifth profit-making year of Kangda Products, Kangda Mining, Shandong Shanshui, Pingyin Shanshui and Anqiu Shanshui, therefore, the applicable Corporate Income Tax rate for the six months ended 30 June 2010 is 12.5% (corresponding period in 2009: 12.5%). The year 2010 is the third profit-making year of Kangda Cement, therefore, the applicable Corporate Income Tax rate for the six months ended 30 June 2010 is 12.5% (corresponding period in 2009: Nil).

(iv) According to the new Corporate Income Tax law and its implementation rules, 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 commenced from 1 January 2008. Accordingly, the year 2010 is the first 50% tax rate reduction year for Kangda Cement, and the applicable Corporate Income Tax rate for the six months ended 30 June 2010 is 12.5% (corresponding period in 2009: Nil).

9 OTHER COMPREHENSIVE INCOME

(a) Available-for-sale securities

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Changes in fair value recognised during the period	**(2,922)**	3,736
Net movement in the fair value reserve during the period recognised in other comprehensive income	**(2,922)**	3,736

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2010 is based on the profit attributable to equity shareholders of the Company for the period of RMB403,656,000 (corresponding period in 2009: RMB309,975,000) and the weighted average number of ordinary shares of 2,803,304,000 (corresponding period in 2009: 2,735,092,000) in issue during the period, calculated as follows:

	Six months ended 30 June	
	2010	2009
Issued and issuable ordinary shares at 1 January	**2,803,304,000**	2,700,986,000
Effect of the conversion of the convertible notes	**–**	34,106,000
Weighted average number of ordinary shares at 30 June	**2,803,304,000**	2,735,092,000

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2010 is based on the profit attributable to ordinary equity shareholders of the Company of RMB404,296,000 (corresponding in 2009: RMB313,638,000) and the weighted average number of 2,815,950,200 ordinary shares (corresponding period in 2009: 2,747,738,200), calculated as follows:

10 EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share *(continued)*

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Profit attributable to equity shareholders of the Company (basic)	**403,656**	309,975
Unwinding of discount on convertible notes	**640**	3,663
Profit attributable to equity shareholders of the Company (diluted)	**404,296**	313,638

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

	Six months ended 30 June	
	2010	2009
Weighted average number of ordinary shares (basic)	**2,803,304,000**	2,735,092,000
Effect of conversion of the convertible notes	**12,646,200**	12,646,200
Weighted average number of ordinary shares (diluted)	**2,815,950,200**	2,747,738,200

11 FIXED ASSETS

During the six months ended 30 June 2010, the addition of fixed assets of the Group amounted to RMB1,126,542,000 (corresponding period in 2009: RMB682,546,000). Fixed assets valued at RMB173,936,000 were acquired through business combination (see Note 24). Items of fixed assets with net book value totaling RMB5,601,000 were disposed of during the six months ended 30 June 2010 (corresponding period in 2009: RMB5,311,000), resulting in a gain on disposal of RMB1,365,000 (corresponding period in 2009: RMB293,000).

12 OTHER LONG-TERM ASSETS

	2010
	RMB'000
Cost	
At 1 January/30 June	**138,084**
Accumulated amortisation	
At 1 January	**(18,325)**
Amortisation for the period	**(6,704)**
At 30 June	**(25,029)**
Carrying amount	**113,055**

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 2010 RMB'000	At 31 December 2009 RMB'000
Raw materials	**438,022**	295,805
Semi-finished goods	**255,771**	144,230
Finished goods	**282,713**	225,682
Spare parts	**219,432**	174,628
	1,195,938	840,345

14 TRADE AND BILLS RECEIVABLE

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Bills receivable	**599,058**	302,440
Trade debtors	**491,287**	435,291
Less: allowance for doubtful debts	**(39,030)**	(33,854)
	1,051,315	703,877

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 2010 RMB'000	At 31 December 2009 RMB'000
Current	**920,194**	630,247
Less than 3 month past due	**46,364**	27,552
3 to 6 months past due	**31,218**	20,287
6 to 12 months past due	**31,871**	7,008
More than 12 months past due	**21,668**	18,783
Amount past due	**131,121**	73,630
	1,051,315	703,877

Generally, the Group requires full payment upon delivery of goods for sale 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 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.

15 OTHER RECEIVABLES AND PREPAYMENTS

	Note	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Prepayments for raw materials		**159,643**	106,220
Prepayments for long-lived assets	(i)	**340,614**	358,840
VAT recoverables		**192,206**	140,383
Amount due from related parties	27(b)	**3,447**	8,140
Amount due from third parties	(ii)	**160,908**	165,272
Deposits paid		**54,518**	9,640
Others		**51,952**	46,120
		963,288	834,615

Notes:

(i) As at 30 June 2010, prepayment for long-lived assets totalling RMB340,614,000 (31 December 2009: RMB358,840,000) includes prepayments for construction of plant and equipment of RMB269,781,000 (31 December 2009: 256,041,000) and prepayments for acquisition of land use rights of RMB35,146,000 (31 December 2009: RMB67,326,000).

(ii) The balance as at 30 June 2010 mainly represents amounts due from third parties of Liaoyang Qianshan Cement Co., Ltd. ("Qianshan Cement"), Jining Cement Co., Ltd. ("Jining Cement"), Kangda Cement and Kangda Mining and Kangda Products ("Kangda Cement Group"), Dalian Shanshui Cement Co., Ltd. and Qingdao Hengtai Co., Ltd. ("Qingdao Hengtai").

16 PLEDGED BANK DEPOSITS

Pledged bank deposits in the amounts of RMB29,703,000 (31 December 2009: RMB41,914,000) were related to the bank guarantee facilities granted to the Group.

17 CASH AND CASH EQUIVALENTS

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Cash at bank and in hand	**1,039,714**	886,130

18 LOANS AND BORROWINGS

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

	Note	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Long-term interest-bearing borrowings:			
Bank loans – Secured	(i)	**460,000**	640,000
Bank loans – Unsecured	(ii)	**5,101,000**	4,148,000
Loan from government – Unsecured	(iii)	**10,000**	10,000
		5,571,000	4,798,000
Less: Current portion of long-term bank loans		**(1,704,500)**	(1,437,000)
Interest-bearing borrowings, less current portion		**3,866,500**	3,361,000

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

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
After one year but within two years	**1,793,000**	1,313,000
After two years but within five years	**2,028,500**	2,003,000
After five years	**45,000**	45,000
Total	**3,866,500**	3,361,000

	Note	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Short-term interest-bearing borrowings:			
Bank loans – Secured	(i)	**20,000**	100,000
Bank loans – Unsecured	(ii)	**840,000**	610,000
		860,000	710,000
Add: Current portion of long-term bank loans		**1,704,500**	1,437,000
Short-term and current portion of interest-bearing borrowings:		**2,564,500**	2,147,000

18 LOANS AND BORROWINGS *(continued)*

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

Notes:

(i) The loans are pledged by certain items of property, plant and equipment and land use rights.

(ii) Loans of RMB259,000,000 (31 December 2009: RMB383,000,000) are guaranteed by a third party.

(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) Current and long-term bank loans bear annual interest rates ranging from 4.78% to 5.75% and 4.86% to 5.94% for the six months ended 30 June 2010 (corresponding period in 2009: 5.31% to 5.75% and 4.86% to 7.56%) respectively.

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.

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 RMB80,000,000 (31 December 2009: RMB285,000,000) as at 30 June 2010. The Group obtained confirmations from the relevant banks dated 29 June 2010 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 2010, Qianshan Cement had past due bank loans totalling RMB140,000,000 (31 December 2009: RMB140,000,000). The Group is working with these lenders to restructure the outstanding loans and interest payments.

18 LOANS AND BORROWINGS *(continued)*

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

	Note	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Long-term loans from equity shareholders			
– Secured	(i)	**240,229**	236,359
Less: Current portion of loans from equity shareholders		**(57,926)**	(58,527)
Loans from equity shareholders, less current portion		**182,303**	177,832

Notes:

(i) Anqiu Shanshui, Pingyin Shanshui and Weihai Shanshui Cement Co., Ltd. ("Weihai Shanshui") entered into loan agreements with one of the Company's equity shareholders, International Finance Corporation ("IFC"), totalling USD55,000,000 in 2006 and 2009 respectively.

The loans bear interest at London Inter Bank Offered Rate ("LIBOR") plus rates at 2.00% and 2.75% per annum respectively and are repayable bi-annually from 2008 to 2015. 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 2010	**10,859**	**147,639**	**158,498**
Interest charged	**640**	**–**	**640**
Foreign exchange gain	**(61)**	**–**	**(61)**
At 30 June 2010	**11,438**	**147,639**	**159,077**

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.

18 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 out of four notes holders, namely MS Cement Limited, MS Cement II Limited and CDH Cement Limited, 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.

19 TRADE AND BILLS PAYABLE

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

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Within 3 months	**1,179,285**	1,028,671
Over 3 months but less than 6 months	**138,398**	60,760
Over 6 months but less than 12 months	**133,181**	128,526
Over 12 months	**107,672**	127,662
	1,558,536	1,345,619

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20 OTHER PAYABLES AND ACCRUED EXPENSES

	Note	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Customer deposits and receipts in advance	(i)	**663,649**	390,344
Accrued payroll and welfare		**133,390**	137,620
Taxes payable other than income tax		**111,384**	91,391
Staff compensation and termination provisions		**174,286**	175,589
Amount due to related parties	27(b)	**485**	309
Payable to third parties of acquired subsidiaries		**134,667**	128,064
Current portion of long-term payables		**203,802**	182,593
Other accrued expenses and payables		**252,168**	203,107
Dividend payable		**238,294**	–
		1,912,125	1,309,017

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.

21 DEFERRED INCOME

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
At 1 January	**311,195**	296,323
Additions	**20,030**	27,734
Recognised in consolidated income statement	**(8,446)**	(12,862)
At 30 June/31 December	**322,779**	311,195

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.

22 LONG-TERM PAYABLES

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Acquisition consideration payable (Note)	**231,652**	236,068
Others	**36,487**	38,670
	268,139	274,738

Note: The balance represents the consideration payable for the acquisition of Kangda Cement Group and Qingdao Hengtai. The consideration is payable over a period of four years and twenty years respectively. The amount has been discounted to present value as at 30 June 2010.

23 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	
	2010 RMB'000	2009 RMB'000
Final dividend in respect of the previous financial year, approved during the interim period	**238,294**	188,652
Final dividend in respect of the previous financial year, paid during the interim period	**–**	169,907

Pursuant to the shareholders' approval at the Annual General Meeting on 19 May 2010, a final dividend of HKD0.097 per share totalling HKD273,147,169.40 (inclusive of applicable tax, equivalent to RMB238,293,591) in respect of the year ended 31 December 2009 was approved on 19 May 2010.

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24 ACQUISITIONS

The Group acquired the equity interests of the following entities engaged in cement business in Shanxi Province, Inner Mongolia Autonomous Region and Tianjin city during the six months ended 30 June 2010. The acquisition is expected to provide the Group with an increased market share in the respective regions. The fair value of net identifiable assets of the acquirees is determined based on a preliminary valuation carried out by a qualified independent valuer, Jones Lang LaSalle Sallmanns Limited. The fair value has been determined on a provisional basis and is subject to change pending finalisation of the valuation. The finalisation of the valuation could affect the amounts assigned to the assets and the related depreciation/amortisation charges for these assets and the amount of goodwill/discount recognised.

From the date of acquisition to 30 June 2010, the acquirees contributed revenue of RMB37,684,000 and net profit of RMB1,810,000. If the acquisition had occurred on 1 January 2010, management estimates that consolidated revenue would have been RMB4,736,975,000 and consolidated profit for the period would have been RMB410,353,000.

Name of company	Voting right	Date of acquisition	Principal activities
Alu Kerqin Bayan Baote Cement Co., Ltd. ("AKBB Cement") 阿魯科爾沁巴彥包特水泥有限公司	Note (a)	7 January 2010	Production and sale of cement and clinker
Shengfeng Cement Manufacturing Co., Ltd ("Shengfeng Cement") 聖豐水泥製造有限公司	Note (b)	2 March 2010	Production and sale of cement
Hequ Zhongtianlong Cement Co., Ltd 河曲縣中天隆水泥有限公司	68%	9 April 2010	Production and sale of cement and clinker
Tianjin Tianhui Cement Co., Ltd ("Tianjin Tianhui") 天津天輝水泥有限公司	100%	10 April 2010	Production and sale of cement
Lvliang Yilong Cement Co., Ltd 呂梁億龍水泥有限公司	90%	25 May 2010	Production and sale of cement and clinker

Notes:

(a) Acquisition of business from AKBB Cement

On 7 January 2010, a 85% owned subsidiary of the Group, Alu Kerqin Qi Shanshui Cement Co., Ltd. ("Alu Kerqin Cement") entered into an agreement with AKBB Cement for the acquisition of a group of net assets in AKBB Cement for an aggregate consideration of RMB73.13 million. The Group of net assets acquired constituted a business and therefore is accounted for as business combination in accordance with IFRS 3, "Business Combination".

(b) Acquisition of business from Shengfeng Cement

On 2 March 2010, a 85% owned subsidiary of the Group, Huolinguole Shanshui Cement Co., Ltd. signed an agreement to acquire a group of net assets in Shengfeng Cement for a total cash consideration of RMB14,000,000. The Group of net assets acquired constituted a business and therefore is accounted for as business combination in accordance with IFRS 3, "Business Combination".

24 ACQUISITIONS *(continued)*

The acquisition 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	175,236	(1,300)	173,936
Cash and cash equivalents	64,475	–	64,475
Intangible assets	191	2,326	2,517
Trade and other receivables	55,934	–	55,934
Inventories	16,499	–	16,499
Prepayment	15,016	–	15,016
Trade and other payables	(154,833)	–	(154,833)
Net identifiable assets	172,518	1,026	173,544
Non-controlling interests arising on business combination			(19,538)
Goodwill arising on acquisition			43,662
Total purchase consideration			197,668
Satisfied by:			
Consideration payable			139,768
Cash paid			57,900
			197,668
Cash flow in respect of the acquisition:			
Cash paid by the group			57,900
Cash contributed by the non-controlling interests			5,600
Less: Cash acquired			(64,475)
Net cash inflow in respect of the acquisition			(975)

25 COMMITMENTS

(a) Capital commitments

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

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Contracted for	**1,268,287**	374,148
Authorised but not contracted for	**1,818,191**	4,508,601
	3,086,478	4,882,749

(b) Operating lease commitments

At 30 June 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Within 1 year	**16,935**	15,924
After 1 year but within 2 years	**16,876**	15,864
After 2 year but within 5 years	**48,297**	45,805
After 5 years	**155,283**	133,031
	237,391	210,624

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.

26 CONTINGENT LIABILITIES

The Group entered into reciprocal guarantee contracts with Shandong Gold Group Co., Ltd. ("Shandong Gold") to act as guarantor for each other on certain banking facilities. The above guarantee contracts have expired on 8 January 2010. Notwithstanding the expiration of the guarantee contracts, the Group is still considered as guarantor for guarantee granted by the Group on banking facilities offered to Shandong Gold prior to 8 January 2010 and remain outstanding as at 30 June 2010. The directors of the Company considered that the related credit risk is low and the maximum exposure relating to financial guarantees issued by the Group as at 30 June 2010 was RMB130,000,000 (31 December 2009: RMB1,500,000,000).

27 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions

		Six months ended 30 June	
	Note	**2010** **RMB'000**	2009 RMB'000
Recurring transactions			
Sales:			
– Tianjin Tianhui	(i)	**11,497**	16,326
Rental income:			
– Shanshui Jinzhu Powder Co., Ltd. ("Jinzhu Powder")		**373**	68
– Shanshui Stanford New Building Materials Co., Ltd. ("Stanford")		**279**	279
		652	347
Brand royalty income:			
– Tianjin Tianhui	(ii)	**49**	140
Management fees:			
– Tianjin Tianhui	(iii)	**25**	153
Non-recurring transactions			
Advances to:	(iv)		
– China Shanshui Investment Co., Ltd ("Shanshui Investment")		**–**	761
– Jinan Shanshui		**850**	1,341
– Stanford		**10**	–
		860	2,102
Drawdown of loan from:			
– IFC	(v)	**34,135**	–
Repayment of loans and related interests to:			
– IFC	18(b)	**33,836**	32,672

27 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions *(continued)*

Notes:

(i) This represents sale 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. On 10 April 2010, Tianjin Tianhui became a wholly-owned subsidiary of the Group and its transactions with the Group since 10 April 2010 were eliminated on consolidation.

(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 ton of cement produced by Tianjin Tianhui. The latter produced 48,997 tons of cement during the period from 1 January 2010 to 9 April 2010.

(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 amount represents the total management fees payable by Tianjin Tianhui to Shandong Shanshui for the period from 1 January 2010 to 9 April 2010.

(iv) These transactions represent advances to related parties, which are unsecured, interest-free and have no fixed terms of repayment.

(v) Weihai Shanshui entered into loan agreement of USD5,000,000 with IFC in 2009, and the loan was fully drawdown in January 2010. The loan bears interest at LIBOR plus 2.75% per annum and is repayable bi-annually from 2010 to 2015. See note 18(b) for more details.

27 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Balances with related parties

	Note	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Other receivables due from:			
– Tianjin Tianhui		–	4,480
– Stanford		145	1,018
– Jinzhu Powder		355	541
– Shanshui Investment		756	760
– Jinan Shanshui		850	–
– Jinan Shanshui Group Property Development Co., Ltd.		1,341	1,341
	(i)	3,447	8,140
Customer deposits and receipts in advance from:			
– Tianjin Tianhui	(i)	–	51
Other payable due to:			
– IFC		208	258
– Jinan Shanshui		277	–
		485	258
Loans due to:			
– IFC		240,229	236,359
Liability portion of convertible notes due to:			
– IFC		11,438	10,859

Notes:

(i) The balances are unsecured, interest free and have no fixed terms of repayments.

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27 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Key management personnel remuneration

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

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

	Six months ended 30 June	
	2010	2009
Salary, allowances and other benefits	**5,778**	9,843
Contribution to defined contribution retirement plans	**104**	70
	5,882	9,913

28 COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to current period's presentation.