



# 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

## *2014 Interim Report*



# CONTENTS

Definitions . . . . .	2
(I) Company Profile . . . . .	3
(II) Key Data . . . . .	5
(III) Changes in Share Capital and Shareholdings of Substantial Shareholders and the Directors . . . . .	6
(IV) Basic Information on Directors, Senior Management and Employees . . . . .	11
(V) Management Discussion and Analysis . . . . .	12
(VI) Major Events . . . . .	25
(VII) Interim Financial Statements (Unaudited) . . . . .	26

# 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 2014 to 30 June 2014
“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)
“Articles of Association”	the articles of association of the Company
“clinker”	a semi-finished product in the cement production process
“RMB”	Renminbi
“PRC”	The People’s Republic of China
“Shandong Region”	Shandong Province and the nearby areas in which the Company’s business operate, including Hebei Province, Henan Province, Tianjin etc.
“Northeast Region”	Liaoning Province and the nearby areas in which the Company’s business operate, including Eastern part of Inner Mongolia, Jilin Province etc.
“Shanxi Region”	Shanxi Province and the nearby areas in which the Company’s business operate, including Shaanxi Province etc.
“Xinjiang Region”	the areas in Kashi, Xinjiang in which the Company’s business operate

# (I) Company Profile

## 1. BOARD OF DIRECTORS

### Executive Directors

ZHANG Bin (*Chairman and General Manager*)

ZHANG Caikui

LI Cheung Hung

### Non-Executive Directors

XIAO Yu

### Independent Non-Executive Directors

WANG Jian

HOU Huailiang

WU Xiaoyun

*Note: Ms. WU Xiaoyun was appointed as an Independent Non-Executive Director on 16 May 2014.*

### Audit Committee

WANG Jian (*Chairman*)

HOU Huailiang

WU Xiaoyun

### Remuneration Committee

WANG Jian (*Chairman*)

HOU Huailiang

WU Xiaoyun

### Executive Committee

ZHANG Bin (*Chairman*)

ZHANG Caikui

LI Cheung Hung

### Nomination Committee

ZHANG Bin (*Chairman*)

HOU Huailiang

WU Xiaoyun

# (I) Company Profile

## 2. COMPANY PROFILE

- |  |   |   |
|--|---|---|
| (1) Company Name   | : | 中國山水水泥集團有限公司  |
| Company Name in Chinese                                      | : | 中國山水水泥集團有限公司  |
| Official English name of the Company                         | : | CHINA SHANSHUI CEMENT GROUP LIMITED   |
| (2) Registered Office  | : | Offices of Maples Corporate Services Limited<br>PO Box 309, Ugland House<br>Grand Cayman, KY 1-1104<br>Cayman Islands |
| (3) Principal Place of Business                              | : | Sunnsy Industrial Park, Gushan Town,<br>Changqing District, Jinan, Shandong, China                                    |
| Principal Place of Business in China                         | : | Room 2609, 26/F, Tower 2, Lippo Centre,<br>89 Queensway, Admiralty, Hong Kong   |
| Principal Place of Business in 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 Bin, ZHANG Caikui   |
| (7) Alternate Authorised Representative                      | : | LI Cheung Hung  |
| (8) Joint Company Secretary                                  | : | ZHANG Bin, LI Cheung Hung – FCPA, FCIS  |
| (9) Qualified Accountant                                     | : | LI Cheung Hung – FCPA, FCIS   |
| (10) Principal Bankers                                       | : | China Merchants Bank<br>China Construction Bank Corporation<br>Bank of China  |
| (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  | : | 691   |
| (15) Stock Short Name  | : | Shanshui Cement   |
| (16) Hong Kong Share Registrar and Transfer Office           | : | Computershare Hong Kong Investor Services Limited   |
| Address  | : | Shops 1712-1716, 17/F<br>Hopewell Centre,<br>183 Queen's Road East,<br>Wanchai,<br>Hong Kong                          |
| (17) Legal Advisers  | : | Commerce & Finance Law Offices  |
| as to PRC laws   | : | Norton Rose Fulbright Hong Kong   |
| as to Hong Kong laws   | : | Cleary Gottlieb Steen & Hamilton LLP  |
| (18) Auditor   | : | KPMG  |



## (II) Key Data

### 1. KEY FINANCIAL DATA

(Unit: RMB'000)

	January to June 2014	January to June 2013
Revenue	<b>7,348,965</b>	7,068,664
Gross profit	<b>1,533,576</b>	1,601,634
Gross profit margin	<b>20.9%</b>	22.7%
Profit from operations	<b>856,391</b>	1,035,166
Profit margin from operations	<b>11.7%</b>	14.6%
EBITDA	<b>1,520,710</b>	1,655,942
EBITDA margin	<b>20.7%</b>	23.4%
Net profit	<b>151,652</b>	360,349
Profit attributable to equity shareholders of the Company	<b>167,863</b>	347,635
Basic earnings per share (RMB)	<b>0.06</b>	0.12
Net cash generated from operating activities	<b>785,966</b>	228,345
	<b>30 June 2014</b>	31 December 2013
Total assets	<b>34,726,999</b>	32,236,396
Total liabilities	<b>24,761,746</b>	22,269,670
Equity attributable to equity shareholders of the Company	<b>9,154,411</b>	9,245,952
Net gearing ratio	<b>61.2%</b>	60.4%

### 2. KEY BUSINESS DATA

	January to June 2014	January to June 2013
Sales volume of cement ('000 tonnes)	<b>24,355</b>	22,975
Sales volume of clinker ('000 tonnes)	<b>4,508</b>	4,203
Sales volume of concrete ('000 m <sup>3</sup> )	<b>1,636</b>	965
Unit selling price of cement (RMB/tonne)	<b>240.3</b>	250.5
Unit selling price of clinker (RMB/tonne)	<b>202.6</b>	190.8
Unit selling price of concrete (RMB/m <sup>3</sup> )	<b>302.4</b>	293.8

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

### 1. CHANGES IN SHARE CAPITAL

As of 30 June 2014, our authorised share capital was US\$100,000,000 divided into 10,000,000,000 Shares of par value of US\$0.01 each.

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

As of 30 June 2014, the Company has issued a total of 2,815,950,200 Shares.

### 2. SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As of 30 June 2014, 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 would be required to be recorded in the register maintained under section 336 of the SFO, were as follows:

Name of shareholder	Number of Ordinary Shares interested <sup>(1)</sup>	Nature of interests	Percentage of Shares in issue
China Shanshui Investment Company Limited	847,908,316(L)	Beneficial owner	30.11%
Asia Cement Corporation <sup>(2)</sup>	337,932,000(L)	Interests of corporations controlled by substantial shareholder	12.00%
Hillhouse Capital Management, Ltd. <sup>(3)</sup>	283,499,000(L)	Investment manager	10.07%
Gaoling Fund,L.P <sup>(4)</sup>	282,328,000(L)	Beneficial owner	10.03%
Prudential plc. <sup>(5)</sup>	169,849,000(L)	Interests of corporations controlled by substantial shareholder	6.03%
T. Rowe Price Associates Inc. and its affiliates <sup>(6)</sup>	168,692,000(L)	Beneficial owner	5.99%
Deutsche Bank Aktiengesellschaft <sup>(7)</sup>	149,037,000(L)	Person having a security interest in shares	5.29%
	11,260,600(L)	Custodian corporation/ approved lending agent	0.40%
	6,271,000(L)	Investment manager	0.22%
	6,245,316(S)	Beneficial owner	0.22%
	1,014,000(L)	Investment manager	0.04%

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

Notes:

- (1) The letter "L" denotes a long position in such Shares, the letter "S" denotes a short position in such Shares.
- (2) As stated in the form of disclosure of shareholder's interests submitted by Asia Cement Corporation on 26 June 2014 (the date of the relevant event set out in the form was 25 June 2014), these Shares were held via Asia Cement Corporation and its affiliates.
- (3) As stated in the form of disclosure of shareholder's interests submitted by Hillhouse Capital Management, Ltd on 11 June 2014 (the date of the relevant event set out in the form was 6 June 2014), these Shares were held via Hillhouse Capital Management, Ltd and its affiliates.
- (4) As stated in the form of disclosure of shareholder's interests submitted by Gaoling Fund, L.P. on 17 June 2014 (the date of the relevant event set out in the form was 12 June 2014), these Shares were held via Gaoling Fund, L.P. and its affiliates.
- (5) As stated in the form of disclosure of shareholder's interests submitted by Prudential plc on 12 June 2014 (the date of the relevant event set out in the form was 10 June 2014), these Shares were held via Prudential plc and its affiliates.
- (6) As stated in the form of disclosure of shareholder's interests submitted by T. Rowe Price Associates Inc. and its affiliates on 24 January 2014 (the date of the relevant event set out in the form was 22 January 2014), T. Rowe Price Associates Inc. and its affiliates are the beneficial owners of these Shares.
- (7) As stated in the form of disclosure of shareholder's interests submitted by Deutsche Bank Aktiengesellschaft on 6 February 2014 (the date of the relevant event set out in the form was 31 January 2014), these Shares were held via Deutsche Bank Aktiengesellschaft and its affiliates.

Save as disclosed above, and so far as the Directors are aware, as of 30 June 2014, 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 the Directors

### 4. SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on 14 June 2008. The options for subscription of 7,300,000 Shares were granted by the Company on 25 May 2011, and the closing price of the Shares as at the date of grant was HK\$7.83 per Share. Details of the options are set out as follows:

Type of Grantee	Date of grant	Granted	Vesting period	Exercise price	Exercised during the Reporting Period	Lapsed during the Reporting Period	Cancelled during the Reporting Period	Expired during the Reporting Period	Not yet exercised during the Reporting Period
ZHANG Bin, <i>Executive Director</i>	25 May 2011	Options for subscription of 5,000,000 Shares	Nil	HK\$7.90	Nil	Nil	Nil	Nil	Options for subscription of 5,000,000 Shares
LI Cheung Hung, <i>Executive Director</i>	25 May 2011	Options for subscription of 200,000 Shares	Nil	HK\$7.90	Nil	Nil	Nil	Nil	Options for subscription of 200,000 Shares
XIAO Yu <i>Non-Executive Director</i>	25 May 2011	Options for subscription of 100,000 Shares	Nil	HK\$7.90	Nil	Nil	Nil	Nil	Options for subscription of 100,000 Shares
Employees	25 May 2011	Options for subscription of 2,000,000 Shares	Nil	HK\$7.90	Nil	Nil	Nil	Nil	Options for subscription of 2,000,000 Shares
<b>Total number of options granted and accepted</b>		Options for subscription of 7,300,000 Shares			Nil	Nil	Nil	Nil	Options for subscription of 7,300,000 Shares

### Summary of the principal terms of the Share Option Scheme

The purpose of the Share Option Scheme is to provide an incentive for the Qualified Participants (as defined below) to work with commitment towards enhancing the value of our Company and the Shares for the benefit of our Shareholders, and to retain and attract calibres and working partners whose contributions are or may be beneficial to the growth and development of our Group.

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

Subject to the terms of the Share Option Scheme, the board of directors of our Company (the "Board") may at its discretion grant options to (i) any executive director, or employee (whether full time or part time) of our Company, any member of our Group or any entity in which any member of our Group holds an equity interest ("Invested Entity"); (ii) any non-executive director (including independent non-executive director) of our Company, any member of our Group or any Invested Entity; (iii) any supplier of goods or services to our Company, any member of our Group or any Invested Entity; (iv) any customer of our Company, any member of our Group or any Invested Entity; and (v) any such person (including but not limited to consultant, adviser, contractor, business partner or service provider of our Company or any member of our Group or any Invested Entity) who in the absolute discretion of the Board has contributed or will contribute to our Group (collectively "Qualified Participants").

The Shares that will be issued upon full exercise of the options currently granted under the Share Option Scheme are 7,300,000 Shares, representing approximately 0.26% of our share capital in issue (2,815,950,200 Shares) as of 30 June 2014.

Unless approved by our Shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that grantee on exercise of his options during any 12-month period exceeding 1% of the total Shares then in issue.

The validity of the options granted by the Board on 25 May 2011 shall be ten years from 25 May 2011.

The price at which the Shares may be subscribed upon exercise of an option granted shall be at least the highest of: (i) the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets on the date of grant (and which must be a business day); (ii) the average of the closing prices of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Shares.

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

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

As of 30 June 2014, 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, pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 of the Listing Rules of the Stock Exchange, were as follows:

Name of Director	The Company/ Name of Associated Corporations	Nature of Interests	Number of Shares Interested <sup>(1)</sup>	Percentage of shares in issue as of 30 June 2014
ZHANG Caikui	The Company	Interest in a controlled corporation	847,908,316 (L) <sup>(2)</sup>	30.11%
ZHANG Bin	The Company	Beneficial owner	5,000,000 (L) <sup>(3)</sup>	0.18%
LI Cheung Hung	The Company	Beneficial owner	200,000 (L) <sup>(4)</sup>	0.007%
XIAO Yu	The Company	Beneficial owner	100,000 (L) <sup>(5)</sup>	0.004%

Notes:

- (1) The Letter "L" donates a long position in such Shares.
- (2) The 847,908,316 Shares were held by China Shanshui Investment Company Limited ("Shanshui Investment"). Mr. ZHANG Caikui as a discretionary trustee holds, and has the absolute discretion to manage and control, more than 50% of the shares of Shanshui Investment. Therefore, Mr. ZHANG Caikui is deemed under the SFO to be interested in all the Shares registered in the name of Shanshui Investment.
- (3) The 5,000,000 Shares are the Shares to be issued upon full exercise of the options granted to Mr. ZHANG Bin on 25 May 2011. For details, please refer to Section 4 "Share Option Scheme" of this Chapter.
- (4) The 200,000 Shares are the Shares to be issued upon full exercise of the options granted to Mr. LI Cheung Hung on 25 May 2011. For details, please refer to Section 4 "Share Option Scheme" of this Chapter.
- (5) The 100,000 Shares are the Shares to be issued upon full exercise of the options granted to Mr. XIAO Yu on 25 May 2011. For details, please refer to Section 4 "Share Option Scheme" of this Chapter.

Save as disclosed above, as of 30 June 2014, 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**

Pursuant to Clause 16.18 of the articles of association, Mr. ZHANG Caikui, Mr. LI Cheung Hung and Mr. HOU Huailiang retired as directors by rotation at the 2013 annual general meeting held on 16 May 2014. Mr. ZHANG Caikui, Mr. LI Cheung Hung and Mr. HOU Huailiang have been re-elected as directors of the Company.

The 2013 annual general meeting approved the resignations of Mr. JIAO Shuge and Mr. WANG Yanmou as well as the appointment of Ms. WU Xiaoyun as Independent Non-Executive Director of the Company.

### **2. CODE ON CORPORATE GOVERNANCE PRACTICES**

During the Reporting Period, with the exception of combined roles of Chairman and General Manager were assigned to Mr. ZHANG Bin, the Board of the Company was not aware of any information which would indicate that the Company did not comply with Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules of the Stock Exchange.

The Board of Directors believes that no separation of the roles of Chairman and General Manager is favourable to the leadership structure and values of shareholders. Mr. ZHANG Bin has participated in the Group's strategic planning and management since he joined the Group in 2006 and therefore he has comprehensive understanding of the Group's structure and operations. He has also been acquainted with the rules of capital market and has nearly 10 years of experience in cement industry. The Board has exercised discretion for such arrangement based on his knowledge and experience of the Group.

### **3. MODEL CODE**

The Company has adopted a set of codes of practice with standards not lower than those prescribed in the Model Code for Securities Transactions by Directors of Listed Issuers ("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 2014, the Group had a total of 23,198 employees. The aggregate remuneration of the employees for the Reporting Period was RMB610 million.

## (V) Management Discussion and Analysis

### 1. OPERATING ENVIRONMENT AND INDUSTRY OVERVIEW

Since the beginning of the year, the Chinese government has carried out reform and innovation in each sector and each segment of economic and social development, and continually adopted proactive fiscal policy and prudent monetary policy, so as to achieve stable overall economic growth. In the first half of 2014, China's GDP totalled RMB26.9 trillion, representing a year-on-year growth of 7.4%. In the first half of the year, fixed assets investment amounted to RMB21.3 trillion, representing a year-on-year nominal growth of 17.3% with a decrease of 0.3 percentage point in growth rate in the second quarter as compared with the first quarter. As a major driver of cement demand, real estate industry showed a sluggish growth. In the first half of the year, total investment in real estate development amounted to 4,201.9 billion, representing a year-on-year nominal growth of 14.1% with a decrease of 2.7 percentage points in growth rate in the second quarter as compared with the first quarter. Floor area of houses newly started construction decreased by 16.4% year-on-year, and gross floor area of commercial houses available for sale increased by 24.5% year-on-year at the end of June. **(Source: National Bureau of Statistics of China)**

Since 2012, affected by the slow down in China's economic growth, decrease in the growth rate of fixed assets investment, especially decrease in the growth rate of investment in real estate development, the demand of cement in the market went weak. In particular, the imbalance between supply and demand of cement became more obvious, bringing a decline in product price and decrease of profitability in the entire industry. In the first half of 2014, national total cement output was 1,144 million tonnes, representing a year-on-year increase of 3.6% with a decrease of 6.1 percentage points in growth rate year-on-year, and the growth rate of cement output in the first half of the year marked a new historical low for the same period in the century. The cement industry in China recorded a profit of RMB34.2 billion. In general, the profitability of cement enterprises in South China is higher than those in North China, particularly the cement price in North and Northeast China recorded substantial drop which resulted in significant decrease in profitability. **(Source: Digital Cement)**

## (V) Management Discussion and Analysis

### 2. COMPANY'S BUSINESS REVIEW

In the first half of 2014, the Group speeded up the development of its core cement business while getting well-prepared for the in-depth expansion on the industrial product chain, improving, refining fundamental internal management and enhancing the quality of production, operation and keeping sustainable profitability.

During the Reporting Period, the following projects were put into operation or being acquired by the Company:

	<b>Added clinker capacity (Million Tonnes)</b>	<b>Added cement capacity (Million Tonnes)</b>
<b>Completed Line</b>		
3,200t/d clinker production line project of Alu Kerqin Qi Shanshui Cement Co., Ltd	1.02	–
Cement grinding production line of Yingjisha Shanshui Cement Co., Ltd. with an annual output of 1 million tonnes	–	1.0
<b>Subtotal</b>	<b>1.02</b>	<b>1.0</b>
<b>Acquired Line</b>		
Cement grinding production line of Shenmu Meijian Cement Co., Ltd. with an annual output of 1.8 million tonnes	–	1.8
Cement grinding production line of Shanxi Yongzhongsheng Environmental Co., Ltd. with an annual output of 0.6 million tonnes	–	0.6
<b>Subtotal</b>	<b>–</b>	<b>2.4</b>
<b>Total added capacity</b>	<b>1.02</b>	<b>3.4</b>

As at 30 June 2014, the Group had a total production capacity of 97.60 million tonnes of cement, 46.37 million tonnes of clinker and 16.80 million cubic meters of concrete.

During the Reporting Period, the Group's total sales of cement and clinker were 28.86 million tonnes, representing a year-on-year increase of 6.2%; sales volume of concrete was 1.64 million cubic meters, representing a year-on-year increase of 69.5%; sales revenue was RMB7,349 million, representing a year-on-year increase of 4.0%; and the profit for the period was RMB152 million, representing a year-on-year decline of 57.9%.



## (V) Management Discussion and Analysis

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

#### (I) Business analysis

##### 1. Sales revenues and their respective year-on-year changes

(Unit: RMB'000)

Product	January-June 2014		January-June 2013		Sales revenue Year-on- year change
	Sales revenue	Sales proportion	Sales revenue	Sales proportion	
Cement	<b>5,851,799</b>	<b>79.6%</b>	5,756,370	81.5%	1.7%
Clinker	<b>913,505</b>	<b>12.5%</b>	801,901	11.3%	13.9%
Concrete	<b>494,656</b>	<b>6.7%</b>	283,500	4.0%	74.5%
Others	<b>89,005</b>	<b>1.2%</b>	226,893	3.2%	-60.8%
Total	<b><u>7,348,965</u></b>	<b><u>100.0%</u></b>	<u>7,068,664</u>	<u>100.0%</u>	<u>4.0%</u>

During the Reporting Period, the Company's sales revenue increased by 4.0% to RMB7,349 million. With regard to revenue breakdown by products, cement revenue amounted to RMB5,852 million, representing a year-on-year growth of 1.7%, and clinker revenue amounted to RMB914 million, representing a year-on-year growth of 13.9%. The revenue from concrete amounted to RMB495 million, representing a year-on-year growth of 74.5%.

## (V) Management Discussion and Analysis

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

#### (I) Business analysis *(continued)*

##### 2. Sales volume, unit selling prices and their respective 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	24,355	22,975	6.0%	240.3	250.5
Clinker	4,508	4,203	7.3%	202.6	190.8	6.2%
Concrete	1,636	965	69.5%	302.4	293.8	2.9%

During the Reporting Period, the sales volume of cement of the Company amounted to 24.36 million tonnes, representing a year-on-year growth of 6.0%, the sales volume of clinker increased to 4.51 million tonnes, representing a year-on-year growth of 7.3%. The unit selling price of cement decreased by 4.1% to RMB 240.3 per tonne, while the unit selling price of clinker increased by 6.2% to RMB202.6 per tonne. The sales volume of concrete increased to 1.64 million cubic meter, representing a year-on-year growth of 69.5%. The unit selling price of concrete increased by 2.9% to RMB 302.4/m<sup>3</sup>.

###### (2) Comparison of unit selling price of cement between regions

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 Region	240.6	243.7	-1.3%
Northeast Region	246.9	274.0	-9.9%
Shanxi Region	209.9	218.6	-4.0%
Xinjiang Region	233.7	228.6	2.2%

# (V) Management Discussion and Analysis

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

### (I) Business analysis *(continued)*

#### 2. Sales volume, unit selling prices and their respective year-on-year changes *(continued)*

##### (2) Comparison of unit selling price of cement between regions *(continued)*

During the Reporting Period, the average unit selling price of cement of our operating companies in Shandong Region was RMB240.6 per tonne, representing a year-on-year decrease of 1.3%, that in Northeast Region was RMB246.9 per tonne, representing a year-on-year decrease of 9.9%, that in Shanxi Region was RMB209.9 per tonne, representing a year-on-year decrease of 4.0%, and that in Xinjiang Region was RMB233.7 per tonne, representing a year-on-year increase of 2.2%.

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

	January-June 2014		January-June 2013		Change in sales volume
	Sales Volume ( <i>'000 tonnes</i> )	Sales proportion	Sales Volume ( <i>'000 tonnes</i> )	Sales proportion	
High grade cement	<b>16,069</b>	<b>66.0%</b>	14,641	63.7%	9.8%
Low grade cement	<b>8,286</b>	<b>34.0%</b>	8,334	36.3%	-0.6%

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 was 16.07 million tonnes, representing a year-on-year increase of 9.8%, and sales volume of low grade cement was 8.3 million tonnes, representing a year-on-year decrease of 0.6%.

## (V) Management Discussion and Analysis

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

#### (I) Business analysis *(continued)*

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

(Unit: RMB'000)

Region	January-June 2014		January-June 2013		Sales revenue change
	Sales revenue	Sales proportion	Sales revenue	Sales proportion	
Shandong Region	5,112,832	69.6%	4,719,789	66.8%	8.3%
Northeast Region	1,691,217	23.0%	1,897,157	26.8%	-10.9%
Shanxi Region	369,446	5.0%	317,967	4.5%	16.2%
Xinjiang Region	175,470	2.4%	133,751	1.9%	31.2%
Total	<u>7,348,965</u>	<u>100.0%</u>	<u>7,068,664</u>	<u>100.0%</u>	<u>4.0%</u>

Our operating companies in Shandong Region recorded sales revenue of RMB5,113million, accounting for 69.6% of the Group's total sales revenue in the first half of 2014, representing a year-on-year increase of 8.3%. Our operating companies in Northeast Region reported sales revenue of RMB1,691million, accounting for 23.0% of the Group's total sales revenue in the first half of 2014 and representing a year-on-year decrease of 10.9%. The commencement of operations for operating companies in Shanxi and Xinjiang will make more contributions to the Group's sales revenue.

#### (II) Profit analysis

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

(Unit: RMB'000)

	January-June 2014	January-June 2013	Y-O-Y change
Revenue	7,348,965	7,068,664	4.0%
Gross profit	1,533,576	1,601,634	-4.2%
EBITDA	1,520,710	1,655,942	-8.2%
Profit from operations	856,391	1,035,166	-17.3%
Profit before taxation	301,253	579,888	-48.0%
Profit for the period	151,652	360,349	-57.9%
Profit attributable to equity shareholders of the Company	<u>167,863</u>	<u>347,635</u>	<u>-51.7%</u>

## (V) Management Discussion and Analysis

### 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 RMB7,349 million, representing a year-on-year increase of 4.0%; profit from operations was RMB856 million, representing a year-on-year decrease of 17.3%; profit for the period was RMB152 million, representing a year-on-year decrease of 57.9%; profit attributable to equity shareholders of the Company was RMB168 million, representing a year-on-year decrease of 51.7%. The decrease in profit was mainly due to the fall of selling prices.

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

(Unit: RMB'000)

Cost of sales	January-June 2014		January-June 2013		Change of proportion to revenue
	Amount	Proportion to revenue	Amount	Proportion to revenue	
Raw materials	1,841,064	25.1%	1,679,210	23.8%	1.3P.Pt.
Coal	1,519,316	20.7%	1,472,475	20.8%	-0.1P.Pt.
Power	853,360	11.6%	928,470	13.1%	-1.5P.Pt.
Depreciation and amortisation	534,007	7.3%	458,572	6.5%	0.8P.Pt.
Others	1,067,642	14.5%	928,303	13.1%	1.4P.Pt.
Total cost of sales	<u>5,815,389</u>	<u>79.1%</u>	<u>5,467,030</u>	<u>77.3%</u>	<u>1.8P.Pt.</u>

During the Reporting Period, the proportion of the Group's total cost of sales to revenue was 79.1%, representing an increase of 1.8 percentage points compared with same period last year. Of which, the proportion of raw materials costs to revenue was 25.1%, an increase of 1.3 percentage points compared with same period last year. The proportion of coal costs to revenue was 20.7%, a decrease of 0.1 percentage points compared with same period last year. The Group's average unit purchase price of coal in the first half of 2014 decreased by 5.3% to RMB546.4/tonne compared with same period last year. As for cost reduction, output of residual heat power generation was 532 million KWH in the first half of 2014, thus reducing the cost of clinker by RMB205 million.

## (V) Management Discussion and Analysis

### 3. COMPANY'S FINANCIAL REVIEW

#### (I) Expenses during the period

(Unit: RMB'000)

	January-June 2014		January-June 2013		Proportion to sales revenue changes
	Amount	Proportion to sales revenue	Amount	Proportion to sales revenue	
Sales and marketing expenses	214,190	2.9%	177,938	2.5%	0.4P.Pt.
Administrative expenses	572,780	7.8%	530,440	7.5%	0.3P.Pt.
Finance costs	560,070	7.6%	468,977	6.6%	1.0P.Pt.
<b>Total</b>	<b>1,347,040</b>	<b>18.3%</b>	<b>1,177,355</b>	<b>16.6%</b>	<b>1.7P.Pt.</b>

During the Reporting Period, the proportion of sales and marketing expenses to sales revenue increased by 0.4 percentage points compared with the corresponding period of 2013. The proportion of administrative expenses to sales revenue increased by 0.3 percentage points as compared with same period last year. In addition, the proportion of the Group's finance costs to sales revenue increased by 1.0 percentage points compared with the corresponding period of 2013.

#### (II) Changes in balance sheet items

(Unit: RMB'000)

	As at 30 June 2014	As at 31 December 2013	Change
Non-current assets	26,045,075	24,992,311	4.2%
Current assets	8,681,924	7,244,085	19.8%
<b>Total assets</b>	<b>34,726,999</b>	<b>32,236,396</b>	<b>7.7%</b>
Current liabilities	11,121,036	12,047,157	-7.7%
Non-current liabilities	13,640,710	10,222,513	33.4%
<b>Total liabilities</b>	<b>24,761,746</b>	<b>22,269,670</b>	<b>11.2%</b>
Minority interest	810,842	720,774	12.5%
Equity attributable to equity shareholders of the Company	9,154,411	9,245,952	-1.0%
<b>Total liabilities and equity</b>	<b>34,726,999</b>	<b>32,236,396</b>	<b>7.7%</b>



## (V) Management Discussion and Analysis

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

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

As of 30 June 2014, the Group's total assets were RMB34,727 million, total liabilities were RMB24,762 million and its net assets were RMB9,965 million. The net gearing ratio (net debts/(net debts + total equity)) was 61.2%, representing an increase of 0.8 percentage points compared with the end of the previous year. The Group's total current assets were RMB8,682 million, its total current liabilities were RMB11,121 million, and its net current liabilities were RMB2,439 million. The Group's estimated 2014 fund from operations, the banking facilities granted and net proceeds derived from issuance of Medium-term Notes and Short-term financing bills are sufficient to satisfy the capital requirements for 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 2014	As at 31 December 2013
Short-term borrowings (including long-term borrowings with maturity within one year)	<b>4,834,537</b>	6,875,818
Long-term borrowings	<b>13,009,867</b>	9,614,005
Total	<b>17,844,404</b>	16,489,823

The Company's borrowings increased as a result of the capital needs for the expansion of its business. As of 30 June 2014, the Company's total borrowings were RMB17,844 million, an increase of RMB1,355 million as compared with the end of 2013. Of which, long-term borrowings with maturity more than 1 year amounted to RMB13,010 million and accounted for 72.9% of the Group's total borrowings.

## (V) Management Discussion and Analysis

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

#### (IV) Capital expenditures

During the Reporting Period, the capital expenditures of the Group were approximately RMB1,288 million, which were mainly used as the investments in the construction of and acquisition of cement and clinker production lines.

Capital commitments outstanding at 30 June 2014 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)

	<b>As at 30 June 2014</b>	As at 31 December 2013
Authorised and contracted for	<b>737,374</b>	1,764,839
Authorised but not contracted for	<b>597,245</b>	1,278,457
Total	<b>1,334,619</b>	3,043,296

As of 30 June 2014, the capital commitment authorised and contracted by the Group amounted to RMB737 million, representing an decrease of RMB1,027 million as compared with the beginning of the year. Furthermore, the capital commitment authorised but not contracted amounted to RMB597 million, representing an decrease of RMB681 million as compared with the beginning of the year.

## (V) Management Discussion and Analysis

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

#### (V) Net cash flow analysis

(Unit: RMB'000)

	<b>January-June 2014</b>	January-June 2013
Net cash generated from operating activities	<b>785,966</b>	228,345
Net cash used in investing activities	<b>(1,247,053)</b>	(1,532,876)
Net cash generated from financing activities	<b>1,337,525</b>	1,765,263
Net change in cash and cash equivalents	<b>876,438</b>	460,732
Balance of cash and cash equivalents as at 1 January	<b>1,277,369</b>	1,083,220
Effect of foreign exchange rates change	<b>714</b>	5,881
Balance of cash and cash equivalents as at 30 June	<b>2,154,521</b>	1,549,833

During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB786 million, representing an increase of RMB558 million over the corresponding period of the previous year. Net cash used in investing activities amounted to RMB1,247 million, representing a decrease of RMB286 million in negative net cash flow compared with the same period of the previous year. Net cash generated from financing activities decreased by RMB428 million to RMB1,338 million over the corresponding period of the previous year.

## (V) Management Discussion and Analysis

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

Looking forward to the operating environment in the second half of the year, we consider the favorable factors and unfavorable factors will coexist, and the supply-demand dynamics will not be improved significantly. On one side, the Chinese government has launched a series of measures to promote the economic development with pertinence, in particular, the acceleration of the construction of transportation infrastructure such as railways and roads, will effectively boost the demand of cement. However, we should notice that fixed assets investment in the entire society and investment in real estate development have been obviously reduced year-on-year, the problem of overcapacity in cement industry is unlikely to be solved in the short time.

At present, the growth rate of cement demand slows down and the industry faces severe overcapacity. The Company believes this is a good opportunity for large cement enterprises to lay solid foundations for their sustainable profitability in the future by capitalizing on their advantages on management, brand, market presence and scale. Given the foregoing background, the Company will focus on the following tasks in the second half of the year:

1. **Stabilize price and focus on customer segmentation, in order to increase market sales volume.** Under low-price circumstances, increasing sales volume is an important tool to maintain profitability for the Company. In the second half of the year, starting from Shandong Region, the Company will further enhance its customer information system, fully leverage on its advantages in sales network and direct sales mode, and improve its services in pre-sales, sales and after-sales, so as to increase market sales volume base on stable price and achieve the sales objective of the entire year.
2. **Strictly control the cost and implement benchmark management to enhance competitiveness.** In the second half of the year, the Company will execute comprehensive and profound monitoring in its core business regions such as Shandong, Liaoning and Shanxi, take implementation of benchmark management as the main measure, and highlight on the assessment on technical indicators (coal consumption, power consumption and maintenance fees) and profit indicators, for the sake of enhancing internal management and execution efficiency, increasing market bargaining power, and promoting the stable growth in economic benefit of the Company.

## (V) Management Discussion and Analysis

### 4. OUTLOOK FOR THE SECOND HALF OF THE YEAR *(continued)*

3. **Perform regular assessment, adopt different policies and prevent operational risks.**  
In the second half of the year, the Company will focus on budget management, improve the decomposition, execution, monitoring and appraisal mechanism of monthly operating budget, establish a system comprising of daily monitoring, weekly inspection, ten-day appraisal and monthly assessment, so as to strengthen the directive function of financial data in the course of production and operation, make the production and operation decisions more scientific and effective, and further enhance the economic quality of operation of the Company.
4. **Conform to the current situation, enhance quality and efficiency, and optimize strategic layout.** The cement industry faces the problem of severe overcapacity and intensive competition, which cannot be solved over a short period of time. Given the foregoing background, the Company will conform to the policies of cement industry in China, carry out strategic research within existing market coverage, and reserve projects for cement as well as upstream and downstream industrial product chains. Meanwhile, the Company will increase its investment in the research of transformation and upgrading, such as energy-saving and environmental protection in cement industry, and make adequate preparation in technology and talent reserves for building a solid foundation of comprehensive competitive edge in the future.

In conclusion, Shanshui Group will deal with all difficulties by taking effective measures, to strive for fruitful returns to our investors for their continued trust and support.

## (VI) Major Events

### 1. CORPORATE GOVERNANCE

The Group has established a sound corporate governance structure. During the Reporting Period, the Board of Directors and its subordinated specialised committees have performed their respective duties according to their scopes of work and working procedures.

Based on the guidance from the Stock Exchange relating to the internal control of listed companies, the Company will continue to focus on implementation of workflow systems covering production management, equipment management, quality control, financial management, procurement management, sales management, project management and human resource management. In addition, the Company will also give full play to the Group's Audit Department, 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 policy and procedures 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 2014.

### 3. CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, the Company has no continuing connected transaction.

### 4. 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 2014 prepared in accordance with IFRS, and reviewed the unaudited interim results of the Group for the six months ended 30 June 2014.



## (VII) Interim Financial Statements (Unaudited)

### Consolidated statement of profit or loss

For the six months ended 30 June 2014 – Unaudited  
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2014 RMB'000	2013 RMB'000
<b>Revenue</b>	3&4	<b>7,348,965</b>	7,068,664
Cost of sales		<b>(5,815,389)</b>	(5,467,030)
<b>Gross profit</b>		<b>1,533,576</b>	1,601,634
Other revenue	5	<b>116,554</b>	149,873
Other net expenses	5	<b>(6,769)</b>	(7,963)
Selling and marketing expenses		<b>(214,190)</b>	(177,938)
Administrative expenses		<b>(572,780)</b>	(530,440)
<b>Profit from operations</b>		<b>856,391</b>	1,035,166
Finance costs	6	<b>(560,070)</b>	(468,977)
Share of profits less losses of associates		<b>4,932</b>	13,699
<b>Profit before taxation</b>		<b>301,253</b>	579,888
Income tax	7	<b>(149,601)</b>	(219,539)
<b>Profit for the period</b>		<b>151,652</b>	360,349
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>167,863</b>	347,635
Non-controlling interests		<b>(16,211)</b>	12,714
<b>Profit for the period</b>		<b>151,652</b>	360,349
<b>Earnings per share</b>	9		
Basic		<b>0.06</b>	0.12
Diluted		<b>0.06</b>	0.12

The notes on pages 32 to 56 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 21.

## (VII) Interim Financial Statements (Unaudited)

### Consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 June 2014 – Unaudited  
(Expressed in Renminbi)

	Note	<b>Six months ended 30 June</b>	
		<b>2014</b> <b>RMB'000</b>	2013 RMB'000
<b>Profit for the period</b>		<b>151,652</b>	360,349
<b>Other comprehensive (expenses)/income for the period (after tax and reclassification adjustments):</b>			
Item that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit obligations		–	(23,680)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		<b>(53,481)</b>	47,833
Available-for-sales securities: net movement in fair value reserve	8	<b>38</b>	(837)
<b>Other comprehensive (expenses)/income for the period</b>		<b>(53,443)</b>	23,316
<b>Total comprehensive income for the period</b>		<b>98,209</b>	383,665
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>114,420</b>	370,951
Non-controlling interests		<b>(16,211)</b>	12,714
<b>Total comprehensive income for the period</b>		<b>98,209</b>	383,665

The notes on pages 32 to 56 form part of this interim financial report.

## (VII) Interim Financial Statements (Unaudited)

### Consolidated statement of financial position

At 30 June 2014 – Unaudited  
(Expressed in Renminbi)

	Note	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
<b>Non-current assets</b>			
Fixed assets	10		
– Property, plant and equipment		<b>19,688,696</b>	18,945,634
– Interests in leasehold land held for own use under operating leases		<b>2,477,648</b>	2,458,855
		<b>22,166,344</b>	21,404,489
Intangible assets		<b>459,106</b>	464,230
Goodwill		<b>2,335,376</b>	2,323,762
Other financial assets		<b>525,734</b>	500,183
Interest in associates		<b>322,833</b>	80,472
Deferred tax assets		<b>235,682</b>	219,175
		<b>26,045,075</b>	24,992,311
<b>Current assets</b>			
Inventories	11	<b>1,914,517</b>	1,966,096
Trade and bills receivable	12	<b>2,646,480</b>	2,019,954
Other receivables and prepayments	13	<b>1,894,919</b>	1,900,031
Pledged bank deposits	14	<b>71,487</b>	80,635
Cash and cash equivalents	14	<b>2,154,521</b>	1,277,369
		<b>8,681,924</b>	7,244,085
<b>Current liabilities</b>			
Short-term bank loans	15	<b>2,284,392</b>	2,909,685
Current portion of other borrowings	16	<b>1,050,626</b>	1,570,768
Current portion of long-term bonds	17	<b>1,499,519</b>	2,395,365
Trade and bills payable	18	<b>3,660,576</b>	3,179,446
Other payables and accrued expenses	19	<b>2,290,113</b>	1,847,898
Dividend payable	21(a)	<b>205,961</b>	–
Current portion of obligation under finance leases		<b>11,692</b>	12,844
Current taxation		<b>118,157</b>	131,151
		<b>11,121,036</b>	12,047,157
<b>Net current liabilities</b>		<b>(2,439,112)</b>	(4,803,072)
<b>Total assets less current liabilities</b>		<b>23,605,963</b>	20,189,239

The notes on pages 32 to 56 form part of this interim financial report.

## (VII) Interim Financial Statements (Unaudited)

### Consolidated statement of financial position

At 30 June 2014 – Unaudited  
(Expressed in Renminbi)

	Note	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
<b>Non-current liabilities</b>			
Long-term bank loans	15	3,845,127	2,963,980
Other borrowings less current portion	16	32,000	58,080
Long-term bonds less current portion	17	9,132,740	6,591,945
Obligation under finance lease		13,986	18,826
Defined benefit obligations		158,429	159,210
Deferred income	20	308,552	317,151
Long-term payables		83,149	38,580
Deferred tax liabilities		66,727	74,741
		<u>13,640,710</u>	<u>10,222,513</u>
<b>NET ASSETS</b>		<u>9,965,253</u>	<u>9,966,726</u>
<b>CAPITAL AND RESERVES</b>			
Share capital: nominal value		193,198	193,198
Other statutory capital reserves		3,451,085	3,451,085
Share capital and other statutory capital reserves		3,644,283	3,644,283
Other reserves		5,510,128	5,601,669
<b>Total equity attributable to equity shareholders of the Company</b>		<u>9,154,411</u>	<u>9,245,952</u>
<b>Non-controlling interests</b>		<u>810,842</u>	<u>720,774</u>
<b>TOTAL EQUITY</b>		<u>9,965,253</u>	<u>9,966,726</u>

The notes on pages 32 to 56 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 2014 – Unaudited  
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
	Share capital	Other statutory capital reserves	Statutory reserves	Other reserves	Exchange reserves	Fair value reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at 1 January 2013</b>	193,198	3,451,085	962,395	199,126	8,361	4,004	3,832,680	8,650,849	745,653	9,396,502
<b>Changes in equity for the six months ended 30 June 2013:</b>										
Profit for the period	-	-	-	-	-	-	347,635	347,635	12,714	360,349
Other comprehensive (expenses)/income	-	-	-	-	47,833	(837)	(23,680)	23,316	-	23,316
Total comprehensive (expenses)/income for the period	-	-	-	-	47,833	(837)	323,955	370,951	12,714	383,665
Increase in non-controlling interests attributable to acquisition of subsidiaries	-	-	-	-	-	-	-	-	38,124	38,124
Acquisition of non-controlling interests	-	-	-	(7,846)	-	-	-	(7,846)	(14,781)	(22,627)
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(3,664)	(3,664)
Dividends approved in respect of the previous years	-	-	-	-	-	-	(522,680)	(522,680)	-	(522,680)
<b>Balance at 30 June 2013</b>	193,198	3,451,085	962,395	191,280	56,194	3,167	3,633,955	8,491,274	778,046	9,269,320
<b>Balance at 1 January 2014</b>	193,198	3,451,085	1,070,552	190,112	120,810	2,945	4,217,250	9,245,952	720,774	9,966,726
<b>Changes in equity for the six months ended 30 June 2014:</b>										
Profit for the period	-	-	-	-	-	-	167,863	167,863	(16,211)	151,652
Other comprehensive (expenses)/income	-	-	-	-	(53,481)	38	-	(53,443)	-	(53,443)
Total comprehensive (expenses)/income for the period	-	-	-	-	(53,481)	38	167,863	114,420	(16,211)	98,209
Increase in non-controlling interests attributable to acquisition of subsidiaries	-	-	-	-	-	-	-	-	121,062	121,062
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(14,783)	(14,783)
Dividends approved in respect of the previous years	-	-	-	-	-	-	(205,961)	(205,961)	-	(205,961)
<b>Balance at 30 June 2014</b>	193,198	3,451,085	1,070,552	190,112	67,329	2,983	4,179,152	9,154,411	810,842	9,965,253

The notes on pages 32 to 56 form part of this interim financial report.

## (VII) Interim Financial Statements (Unaudited)

### Condensed consolidated cash flow statement

For the six months ended 30 June 2014 – Unaudited  
(Expressed in Renminbi)

	Note	<b>Six months ended 30 June</b>	
		<b>2014</b> <b>RMB'000</b>	2013 RMB'000
<b>Cash generated from operations</b>		<b>973,095</b>	530,526
<b>Tax paid</b>		<b>(187,129)</b>	(302,181)
<b>Net cash generated from operating activities</b>		<b>785,966</b>	228,345
<b>Investing activities</b>			
Payment of purchase of long-term assets		<b>(1,204,474)</b>	(1,511,670)
Acquisition of subsidiaries, net of cash acquired		<b>(83,482)</b>	(48,401)
Others		<b>40,903</b>	27,195
<b>Net cash used in investing activities</b>		<b>(1,247,053)</b>	(1,532,876)
<b>Financing activities</b>			
Proceeds from new loans and borrowings		<b>2,015,000</b>	1,697,061
Proceeds from issue of long-term bonds		<b>2,500,000</b>	1,775,830
Repayment of loans and borrowings		<b>(3,210,100)</b>	(1,693,899)
Others		<b>32,625</b>	(13,729)
<b>Net cash generated from financing activities</b>		<b>1,337,525</b>	1,765,263
<b>Net increase in cash and cash equivalents</b>		<b>876,438</b>	460,732
<b>Cash and cash equivalents at 1 January</b>	14	<b>1,277,369</b>	1,083,220
<b>Effect of foreign exchange rates changes</b>		<b>714</b>	5,881
<b>Cash and cash equivalents at 30 June</b>	14	<b>2,154,521</b>	1,549,833

The notes on pages 32 to 56 form part of this interim financial report.



# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 (“IAS 34”) “*Interim financial reporting*”, issued by the International Accounting Standards Board (“IASB”). It was authorised for issuance on 22 August 2014.

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 consolidated financial statements for the year ended 31 December 2013, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

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.

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 2013 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”).

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 2013 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 2013 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 21 March 2014.

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 2 CHANGES IN ACCOUNTING POLICIES

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

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- IFRIC 21, *Levies*

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

#### **Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities**

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as the Company does not qualify to be an investment entity.

#### **Amendments to IAS 32, Offsetting financial assets and financial liabilities**

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have any material impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

#### **Amendments to IAS 36, Recoverable amount disclosures for non-financial assets**

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The amendments do not have any material impact on the Group's interim financial report.

#### **IFRIC 21, Levies**

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an material impact on the Group's interim financial report as the guidance is consistent with the Group's existing accounting policies.

# (VII) Interim Financial Statements (Unaudited)

## 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, clinker and concrete in the PRC, the Group's risk and rates of return are affected predominantly by differences in the areas it operates.

The Group manages its businesses by geographical areas. 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 four 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 and Shaanxi Province of the PRC.
- Xinjiang Region – subsidiaries operated and located in the Kashi area of Xinjiang Uygur Autonomous Region 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:

Segment assets include all tangible, intangible assets and current assets, investments in financial assets and other corporate assets. Segment liabilities include trade and bills payable and other payables and accrued expenses and bank borrowings managed directly by the segments.

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.

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 3 SEGMENT REPORTING (Continued)

#### (a) Segment results (Continued)

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 share of profits less losses of an associate, directors’ remuneration, auditors’ remuneration, finance costs in relation to the unallocated bank loans, long-term bonds and other head office or corporate administration expenses.

In addition to receiving segment information concerning adjusted profit before taxation, management is provided with segment information concerning revenue, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses 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.

	2014					2013				
	Shandong	Northeastern	Shanxi	Xinjiang	Total	Shandong	Northeastern	Shanxi	Xinjiang	Total
	Province	China	Province	Region		Province	China	Province	Region	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
For the six months ended										
Revenue from external customers	5,112,832	1,691,217	369,446	175,470	7,348,965	4,719,789	1,897,157	317,967	133,751	7,068,664
Inter-segment revenue	60,439	-	-	-	60,439	52,649	-	-	-	52,649
<b>Reportable segment revenue</b>	<b>5,173,271</b>	<b>1,691,217</b>	<b>369,446</b>	<b>175,470</b>	<b>7,409,404</b>	<b>4,772,438</b>	<b>1,897,157</b>	<b>317,967</b>	<b>133,751</b>	<b>7,121,313</b>
<b>Reportable segment profit (adjusted profit before taxation)</b>	<b>779,243</b>	<b>91,818</b>	<b>(52,414)</b>	<b>424</b>	<b>819,071</b>	<b>758,884</b>	<b>191,855</b>	<b>40,253</b>	<b>3,161</b>	<b>994,153</b>
Impairment of plant and machinery	5	-	-	-	5	3,142	-	-	-	3,142
As at 30 June/31 December										
<b>Reportable segment assets</b>	<b>13,573,176</b>	<b>10,023,141</b>	<b>5,891,820</b>	<b>954,413</b>	<b>30,442,550</b>	<b>12,871,098</b>	<b>9,832,065</b>	<b>5,265,391</b>	<b>944,367</b>	<b>28,912,921</b>
<b>Reportable segment liabilities</b>	<b>3,790,275</b>	<b>2,194,572</b>	<b>822,824</b>	<b>411,043</b>	<b>7,218,714</b>	<b>3,547,146</b>	<b>1,925,583</b>	<b>774,134</b>	<b>434,147</b>	<b>6,681,010</b>

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 3 SEGMENT REPORTING (Continued)

#### (b) Reconciliations of reportable segment profit or loss

	<u>Six months ended 30 June</u>	
	<b>2014</b> RMB'000	2013 RMB'000
<b>Profit</b>		
Reportable segment profit	<b>819,071</b>	994,153
Elimination of inter-segment profits	<b>(2,913)</b>	(4,825)
	<b>816,158</b>	989,328
Reportable segment profit derived from group's external customers	<b>816,158</b>	989,328
Share of profits less losses of associates	<b>4,932</b>	13,699
Unallocated finance costs	<b>(494,555)</b>	(374,640)
Unallocated head office and corporate expenses	<b>(25,282)</b>	(48,499)
	<b>301,253</b>	579,888
Consolidated profit before taxation	<b>301,253</b>	579,888

### 4 SEASONALITY OF OPERATIONS

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

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 5 OTHER REVENUE AND OTHER NET EXPENSES

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
<i>Other revenue</i>		
Interest income on bank deposits	6,177	15,248
Interest income on loans due from third parties	14,074	9,972
Interest income on loans to an associate	2,408	1,706
Government grants	69,039	80,072
Amortisation of deferred income	8,845	8,434
Net foreign exchange gain	–	34,441
Others	16,011	–
	116,554	149,873
<i>Other net expenses</i>		
Net gain/(losses) from disposal of fixed assets	964	(2,224)
Net foreign exchange loss	(4,935)	–
Penalty expenses	(1,246)	(109)
Impairment losses on fixed assets	(5)	(3,142)
Others	(1,547)	(2,488)
	(6,769)	(7,963)

### 6 PROFIT BEFORE TAXATION

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

#### (a) Finance costs

	Note	Six months ended 30 June	
		2014 RMB'000	2013 RMB'000
Interest on bank loans, other borrowings and long-term bonds		610,140	522,084
Less: capitalised interest expenses	(i)	(90,896)	(83,566)
Net interest expenses		519,244	438,518
Unwinding of discount	(ii)	5,947	5,087
Bank charges		33,698	23,706
Finance charges on obligations under finance lease		1,181	1,666
		560,070	468,977



# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 6 PROFIT BEFORE TAXATION (Continued)

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

Notes:

- (i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 6.92% and 5.60% for the six months ended 30 June 2014 and 2013 respectively.
- (ii) This item represents the unwinding of discount for the following liabilities using the effective interest rate:

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
Defined benefit plans	<b>3,515</b>	3,250
Acquisition consideration payable	<b>2,432</b>	1,837
	<b>5,947</b>	5,087

#### (b) Other items

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
Depreciation	<b>597,455</b>	523,131
Amortisation		
– land lease premium	<b>28,915</b>	28,847
– intangible assets	<b>33,017</b>	34,777
– other long-term assets	<b>–</b>	20,322



# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 7 INCOME TAX

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

	<u>Six months ended 30 June</u>	
	2014 RMB'000	2013 RMB'000
<b>Current tax expenses</b>		
Provision for the PRC income tax	174,135	219,627
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	(24,534)	(88)
	<u>149,601</u>	<u>219,539</u>

- (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 2014 and 2013.
- (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 2014.

### 8 OTHER COMPREHENSIVE INCOME

#### Available-for-sale securities

	<u>Six months ended 30 June</u>	
	2014 RMB'000	2013 RMB'000
Changes in fair value recognised during the period	38	(837)
Net movement in the fair value reserve during the period recognised in other comprehensive income	<u>38</u>	<u>(837)</u>

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 9 EARNINGS PER SHARE

#### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2014 is based on the profit attributable to ordinary equity shareholders of the Company for the period of RMB167,863,000 (corresponding period in 2013: RMB347,635,000) and the weighted average number of ordinary shares of 2,815,950,200 (corresponding period in 2013: 2,815,950,200) in issue during the period.

#### (b) Diluted earnings per share

On 25 May 2011, the Company had granted 7,300,000 ordinary share options to certain directors and employees, which was vested immediately after granted. These options were not included in the calculation of diluted earnings per share because they are antidilutive for the six months ended 30 June 2014 and 2013. Accordingly, diluted earnings per share are the same as the basic earnings per share.

### 10 FIXED ASSETS

During the six months ended 30 June 2014, the addition of fixed assets of the Group amounted to RMB1,158,646,000 (corresponding period in 2013: RMB1,658,981,000). Fixed assets valued at RMB235,913,000 were acquired through business combination (see Note 22). Items of fixed assets with net book value totaling RMB6,330,000 were disposed of during the six months ended 30 June 2014 (corresponding period in 2013: RMB5,469,000), resulting in a gain on disposal of RMB964,000 (corresponding period in 2013: loss on disposal of RMB2,224,000).

### 11 INVENTORIES

	<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
Raw materials	<b>625,747</b>	646,878
Semi-finished goods	<b>405,536</b>	449,736
Finished goods	<b>315,523</b>	352,271
Spare parts	<b>567,711</b>	517,211
	<b>1,914,517</b>	1,966,096

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 12 TRADE AND BILLS RECEIVABLE

	<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
Bills receivable	<b>1,349,293</b>	1,047,473
Trade debtors	<b>1,354,781</b>	1,051,543
Less: allowance for doubtful debts	<b>(57,594)</b>	(79,062)
	<b>2,646,480</b>	2,019,954

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable, based on the invoice date and net of allowance for doubtful debts, is as follows:

	<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
Within 3 months	<b>2,103,164</b>	1,636,259
3 to 6 months	<b>194,310</b>	161,876
6 to 12 months	<b>193,663</b>	102,231
Over 12 months	<b>155,343</b>	119,588
	<b>2,646,480</b>	2,019,954

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

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 an average of 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.

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 13 OTHER RECEIVABLES AND PREPAYMENTS

		<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
	Note		
Prepayments for raw materials		<b>86,634</b>	66,692
Prepayments for long-lived assets		<b>582,506</b>	601,334
VAT recoverable		<b>513,162</b>	561,244
Amount due from related parties	25(b)	<b>12,164</b>	22,149
Amount due from third parties		<b>571,293</b>	612,178
Loans to third parties		<b>67,507</b>	–
Others		<b>61,653</b>	36,434
		<b><u>1,894,919</u></b>	<u>1,900,031</u>

#### 14 CASH AND CASH EQUIVALENTS

		<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
	Note		
Cash at bank and in hand		<b>2,154,521</b>	1,277,369
Pledged bank deposits	(i)	<b>71,487</b>	80,635
		<b>2,226,008</b>	1,358,004
Less: Pledged bank deposits		<b>(71,487)</b>	(80,635)
Cash and cash equivalents		<b><u>2,154,521</u></b>	<u>1,277,369</u>

Note:

- (i) Cash deposits of RMB71,487,000 as at 30 June 2014 (31 December 2013: RMB80,635,000) were mainly pledged to banks for the performance guarantee in relation to certain sales or purchases contracts and overseas bank loans. The pledged bank deposits will be released upon the expiry of the relevant guarantee.

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 15 BANK LOANS

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

	<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
Bank loans – Secured	<b>2,940,519</b>	3,196,864
Bank loans – Unsecured	<b>3,189,000</b>	2,676,801
	<b><u>6,129,519</u></b>	<u>5,873,665</u>

Bank loans were either pledged by certain items of property, plant and equipment and interests in leasehold land held for own use under operating leases or guaranteed by companies within the Group, except for bank loans of RMB310,303,000 (31 December 2013: RMB307,333,000) is guaranteed by the pledged bank deposits of RMB48,360,000.

The bank loans were repayable as follows:

	<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
Within one year on demand	<b>2,284,392</b>	2,909,685
After one year but within two years	<b>2,095,337</b>	1,467,859
After two years but within five years	<b>1,465,090</b>	1,196,121
After five years	<b>284,700</b>	300,000
	<b><u>3,845,127</u></b>	<u>2,963,980</u>
	<b><u>6,129,519</u></b>	<u>5,873,665</u>

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 16 OTHER BORROWINGS

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

	Note	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Loan from government – Unsecured	(i)	7,272	8,182
Loan from International Finance Corporation (“IFC”) – Secured	(ii)	76,910	125,061
Short-term financing bill	(iii)	998,444	1,495,605
		<b>1,082,626</b>	<b>1,628,848</b>

Notes:

- (i) The government loan was received by Liaoning Shanshui Gongyuan Cement Co., Ltd. for constructing an environmental friendly production line. The loan is unsecured, bears interest at one-year PRC deposit interest rate plus 0.3% and is repayable annually from 2012 to 2022.
- (ii) Weihai Shanshui Cement Co., Ltd., Qingdao Shanshui Chuangxin Cement Co., Ltd., Linqu Shanshui Cement Co., Ltd. and Zaozhuang Chuangxin Shanshui Cement Co., Ltd. entered into loan agreements with IFC, totaling USD50,000,000 in 2010. The loans bear interest at LIBOR plus 4.25% per annum and are repayable bi-annually from 2010 to 2015 and are secured by certain items of property, plant and equipment of the subsidiaries.
- (iii) Shandong Shanshui Cement Group Co., Ltd. (“Shandong Shanshui”) issued one tranche of the one-year short-term financing bills of RMB1 billion to corporate investors in the PRC inter-bank debenture market on 18 November 2013. The short-term financing bills bear fixed interest rates of 6.5% per annum, and the interests will be settled at the maturity date.

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 16 OTHER BORROWINGS *(Continued)*

The other borrowings were repayable as follows:

	<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
Within one year on demand	<b>1,050,626</b>	1,570,768
After one year but within two years	<b>26,546</b>	51,716
After two years but within five years	<b>2,727</b>	2,727
After five years	<b>2,727</b>	3,637
	<b>32,000</b>	58,080
	<b>1,082,626</b>	1,628,848

### 17 LONG-TERM BONDS

		<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
Medium-term notes	(i)	<b>3,973,133</b>	2,688,450
Less: Current portion of medium-term notes		–	(899,610)
Senior notes	(ii)	<b>6,360,487</b>	6,298,860
Less: Current portion of senior notes		<b>(1,499,519)</b>	(1,495,755)
Other note	(iii)	<b>298,639</b>	–
Long-term bonds, less current portion		<b>9,132,740</b>	6,591,945



# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 17 LONG-TERM BONDS (Continued)

Notes:

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

<u>Issuer</u>	<u>Principal</u> (RMB'000/USD'000)	<u>Issue date</u>	<u>Maturity date</u>	<u>Interest rates</u>	<u>Interest payment term</u>
<b>(i) Medium-term notes issued in the PRC inter-bank debenture market</b>					
Shandong Shanshui	RMB1,800,000	18/01/2013	21/01/2016	5.44%	annually
Shandong Shanshui	RMB1,000,000	27/02/2014	21/01/2017	6.10%	annually
Shandong Shanshui	RMB1,200,000	09/05/2014	12/05/2017	6.20%	annually
<b>(ii) Senior notes issued in the Singapore Exchange Ltd.</b>					
The Company	USD400,000	25/05/2011	25/05/2016	8.50%	semi-annually
The Company	RMB1,500,000	15/07/2011	22/07/2014	6.50%	semi-annually
The Company	USD400,000	20/04/2012	27/04/2017	10.50%	semi-annually
<b>(iii) Other note</b>					
The Company	RMB300,000	31/03/2014	31/03/2017	6.60%	annually

### 18 TRADE AND BILLS PAYABLE

	<b>At 30 June 2014 RMB'000</b>	<b>At 31 December 2013 RMB'000</b>
Trade payables	<b>3,558,775</b>	3,177,229
Bills payable	<b>101,801</b>	2,217
	<b><u>3,660,576</u></b>	<u>3,179,446</u>

As at 30 June 2014 and 31 December 2013, all trade and bills payable of the Group are repayable on demand except for bills payable which are repayable within 6 months. All trade and bills payable are expected to be settled within one year.

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 19 OTHER PAYABLES AND ACCRUED EXPENSES

	Note	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Customer deposits and receipts in advance		774,396	372,679
Accrued payroll and welfare		73,365	146,766
Taxes payable other than income tax		169,777	153,291
Staff compensation and termination provisions		165,289	166,547
Amount due to related parties	25(b)	16,897	46,794
Payable to third parties of acquired subsidiaries		272,931	246,100
Acquisition consideration payable		235,311	171,765
Current portion of long-term payables		52,094	49,344
Accrued expenses and other payables		530,053	494,612
		<b>2,290,113</b>	<b>1,847,898</b>

### 20 DEFERRED INCOME

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
At 1 January	317,151	324,142
Additions	246	9,890
Recognised in consolidated income statement	(8,845)	(16,881)
At 30 June/31 December	<b>308,552</b>	<b>317,151</b>

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.

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 21 CAPITAL, RESERVES AND DIVIDENDS

#### (a) Dividends

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

	<u>Six months ended 30 June</u>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
Final dividend in respect of the previous financial year, approved during the interim period	<b>205,961</b>	531,428
Final dividend in respect of the previous financial year, paid during the interim period	<b>—</b>	—

Pursuant to the shareholders' approval at the Annual General Meeting on 16 May 2014, a final dividend of HKD0.092 per share totaling HKD259,067,418.00 in respect of the year ended 31 December 2013 was approved on 16 May 2014.

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 22 ACQUISITIONS

The Group acquired the equity interests of the following entity engaged in cement business in Shandong Province, Shanxi Province and Shaanxi Province during the six months ended 30 June 2014. 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 these acquirees is determined based on a preliminary valuation carried out by a qualified independent valuer. 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 amounts of goodwill/diskont recognised.

<u>Name of company</u>	<u>Voting right</u>	<u>Date of acquisition</u>	<u>Principal activities</u>
Qingdao Ji'an Concrete Co., Ltd. 青島基安混凝土有限公司	70%	6 March 2014	Production and sales of concrete
Shanxi Yongzhongsheng Environmental Building Material Co., Ltd. 山西永中晟環保建材有限公司	70%	8 February 2014	Production and sales of cement
Shenmu Xian Meijian Cement Co., Ltd. 神木縣煤建水泥有限公司	70%	16 January 2014	Production and sales of cement

## (VII) Interim Financial Statements (Unaudited)

### Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

#### 22 ACQUISITIONS (Continued)

These acquisitions had the following effect on the Group's assets and liabilities as at the date of acquisition:

	<b>Pre-acquisition carrying amount</b>	<b>Fair value adjustment</b>	<b>Recognised values on acquisition</b>
	RMB'000	RMB'000	RMB'000
Fixed assets	235,913	–	235,913
Cash and cash equivalents	101	–	101
Trade and other receivables	332	–	332
Inventories	4,965	–	4,965
Trade and other payables	(18,105)	–	(18,105)
Net identifiable assets	<u>223,206</u>	<u>–</u>	223,206
Non-controlling interest arising on business combination			(66,961)
Goodwill arising on acquisition			<u>11,614</u>
Total purchase consideration			<u>167,859</u>
Satisfied by:			
Consideration payable			142,859
Cash paid			<u>25,000</u>
Cash flow in respect of the acquisition:			
Cash paid by the Group			25,000
Less: Cash acquired			<u>(101)</u>
Net cash outflow in respect of the acquisition			<u>24,899</u>

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 23 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

#### (a) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

As at 30 June 2014, the Group only has available-for-sale securities which was measured at fair value at the end of the reporting period under Level 1 of the fair value hierarchy defined in IFRS 13.

	Fair value at 30 June 2014 RMB'000	Fair value measurements as at 30 June 2014 using		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
<b>Assets</b>				
Available-for-sale securities:				
– Listed	4,978	4,978	–	–
		Fair value measurements as at 31 December 2013 using		
	Fair value at 31 December 2013 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
<b>Assets</b>				
Available-for-sale securities:				
– Listed	4,927	4,927	–	–

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 23 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

#### (a) Financial assets measured at fair value *(Continued)*

During the six months ended 30 June 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (corresponding period in 2013: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

#### (b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2014 and 31 December 2013 except for the following senior notes which bears fixed interest rate of 10.50% per annum (see note 17), for which its carrying amounts and fair values are disclosed below:

	At 30 June 2014		At 31 December 2013	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Senior notes	<u>2,424,233</u>	<u>2,693,450</u>	<u>2,404,063</u>	<u>2,666,028</u>

### 24 COMMITMENTS

#### (a) Capital commitments

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

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Authorised and contracted for		
– the acquisitions of fixed assets	<b>737,374</b>	1,574,619
– the acquisitions of subsidiaries	–	190,220
Authorised but not contracted for		
– the acquisitions of fixed assets	<b>597,245</b>	1,278,457
	<u><b>1,334,619</b></u>	<u>3,043,296</u>



# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 24 COMMITMENTS (Continued)

#### (b) Operating lease commitments

At 30 June 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
Within 1 year	<b>18,149</b>	18,258
After 1 year but within 2 years	<b>17,417</b>	17,592
After 2 years but within 5 years	<b>49,858</b>	48,349
After 5 years	<b>100,157</b>	97,314
	<b><u>185,581</u></b>	<u>181,513</u>

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

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 25 MATERIAL RELATED PARTY TRANSACTIONS

#### (a) Transactions

	Note	Six months ended 30 June	
		2014 RMB'000	2013 RMB'000
<b>Recurring transactions</b>			
<b>Sales to:</b>			
– Dong'e Shanshui Dongchang Cement Co., Ltd. ("Dong'e Shanshui")	(i)	<u>2,901</u>	<u>20,492</u>
<b>Purchase from:</b>			
– Dong'e Shanshui	(i)	<u>2,044</u>	<u>9,450</u>
<b>Non-recurring transactions</b>			
<b>Loans from related parties and related interest expenses:</b>			
– Jinan Shanshui Lixin Investment Co., Ltd. ("Jinan Lixin")		<u>318</u>	<u>–</u>
<b>Loans to an associate and related interest income:</b>			
– Dong'e Shanshui	(ii)	<u>2,408</u>	<u>468</u>
<b>Repayment of loans to an associate and related interests by:</b>			
– Dong'e Shanshui		<u>909</u>	<u>6,061</u>
<b>Repayment of loans from related parties and related interests to:</b>			
– Jinan Lixin		<u>23,318</u>	<u>–</u>
<b>Dividend due from:</b>			
– Dong'e Shanshui		<u>–</u>	<u>43,120</u>

Notes:

- (i) These represent sales of coal, clinkers to Dong'e Shanshui and purchases of clinkers from Dong'e Shanshui. The directors of the Company are of the opinion that these transactions were conducted on normal commercial terms and in the ordinary course of business of the Group.
- (ii) These relate to interests to Dong'e Shanshui, the associate of the Group.

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 25 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

#### (b) Balances with related parties

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
<b>Accounts receivables due from:</b>		
– Dong'e Shanshui	–	8,820
<b>Advances to suppliers:</b>		
– Dong'e Shanshui	14	5
<b>Advances to customers:</b>		
– Dong'e Shanshui	1,392	149
<b>Other receivables due from:</b>		
– China Shanshui Investment Co., Ltd.	689	683
– Jinan Shanshui Group Property Development Co., Ltd.	1,341	1,341
	<b>2,030</b>	<b>2,024</b>
<b>Other financial assets due from</b>		
– Dong'e Shanshui	62,679	61,180
<b>Dividends receivable due from</b>		
– Dong'e Shanshui	10,120	20,120
<b>Accounts payable due to</b>		
– Dong'e Shanshui	–	29
<b>Other payables due to:</b>		
– Jinan Shanshui Lixin Investment Development Co., Ltd.	15,475	38,475
– Others	30	8,170
	<b>15,505</b>	<b>46,645</b>

# (VII) Interim Financial Statements (Unaudited)

## Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

### 25 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:

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
Salary, allowances and other benefits	<b>1,703</b>	1,146
Contribution to defined contribution retirement plans	<b>98</b>	69
	<b>1,801</b>	1,215