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

2016 Interim Report

CONTENTS

Definitions

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

"Company" or "Shanshui Cement"	China Shanshui Cement Group Limited
"Group" or "Shanshui Group"	the Company and its subsidiaries
"Reporting Period"	1 January 2016 to 30 June 2016
"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 operates, including Hebei Province, Henan Province, Tianjin etc.
"Northeast Region"	Liaoning Province and the nearby areas in which the Company's business operates, including Eastern part of Inner Mongolia, Jilin Province etc.
"Shanxi Region"	Shanxi Province and the nearby areas in which the Company's business operates, including Shaanxi Province etc.
"Xinjiang Region"	the areas in Kashi, Xinjiang in which the Company's business operates

(I) Company Profile

1. BOARD OF DIRECTORS

Executive Directors

Mr. Liu Yiu Keung, Stephen *(Chairman) (Mr. Yen Ching Wai, David as his alternate)*
Mr. Li Heping *(Chief Executive Officer)*
Mr. Hwa Guo Wai Godwin

Note: Mr. Cheung Yuk Ming was appointed as an independent non-executive director of the Company on 1 December 2015 and has been re-designated from independent non-executive director to executive director with effect from 2 February 2016. Mr. Cheung Yuk Ming retired by rotation on 17 June 2016 and was not re-appointed as director by the shareholders at the AGM, and he ceased to be a committee member of the Executive Committee and an authorized representative of the Company. Mr. Li Liufa resigned as an executive director, the chairman of the Board, and the chairman of both the Nomination Committee and the Executive Committee of the Company with effect from 31 May 2016. Mr. Liu Yiu Keung was appointed as chairman of the Board, the chairman of the Nomination Committee and the chairman of the Executive Committee of the Company on 2 June 2016. Mr. Hwa Guo Wai was appointed as executive director of the Company on 1 December 2015,re-designated from executive director to non-executive director with effect from 2 February 2016 and has been re-designated from non-executive director to executive director with effect from 5 July 2016.

Non-Executive Director

Mr. Chong Cha Hwa

Note: Mr. Chong Cha Hwa was appointed as executive director of the Company on 1 December 2015 and has been re-designated from executive director to non-executive director with effect from 2 February 2016, and he ceased to be an authorized representative and a committee member of the Executive Committee of the Company. Mr. Ng Qing Hai was appointed as non-executive director of the Company on 1 December 2015 and resigned as a non-executive director of the Company with effect from 2 February 2016.

Independent Non-Executive Directors

Ms. Ho Man Kay Angela
Mr. Law Pui Cheung
Mr. Wong Chi Keung
Dr. Ching Siu Ming
Mr. Lo Chung Hing

Note: Mr. Wong Chi Keung was appointed as independent non-executive director of the Company on 2 February 2016. Dr. Ching Siu Ming and Mr. Lo Chung Hing were appointed as independent non-executive directors of the Company on 5 July 2016.

Audit Committee

Mr. Law Pui Cheung *(Chairman)*
Ms. Ho Man Kay Angela
Mr. Wong Chi Keung
Dr. Ching Siu Ming
Mr. Lo Chung Hing

Note: Mr. Cheung Yuk Ming was appointed as the chairman of the Audit Committee of the Company on 1 December 2015 and resigned as the chairman of the Audit Committee of the Company with effect from 2 February 2016; Mr. Law Pui Cheung was appointed as a member of the Audit Committee of the Company on 1 December 2015 and was appointed as the chairman of the Audit Committee on 2 February 2016. Mr. Wong Chi Keung was appointed as a member of the Audit Committee of the Company on 2 February 2016. Dr. Ching Siu Ming and Mr. Lo Chung Hing were appointed as members of the Audit Committee of the Company on 5 July 2016.

(I) Company Profile

Remuneration Committee

Ms. Ho Man Kay Angela *(Chairman)*
Mr. Law Pui Cheung
Mr. Wong Chi Keung
Dr. Ching Siu Ming
Mr. Lo Chung Hing

Note: Mr. Cheung Yuk Ming was appointed as a member of the Remuneration Committee of the Company on 1 December 2015 and has resigned as a member of the Remuneration Committee of the Company with effect from 2 February 2016. Mr. Wong Chi Keung was appointed as a member of the Remuneration Committee of the Company on 2 February 2016. Dr. Ching Siu Ming and Mr. Lo Chung Hing were appointed as members of the Remuneration Committee of the Company and members of the Investigation Committee of the Company on 5 July 2016.

Executive Committee

Mr.Liu Yiu Keung, Stephen *(Chairman)*
Mr.Li Heping
Mr. Hwa Guo Wai Godwin

Note: Mr. Chong Cha Hwa was appointed as a member of the Executive Committee on 1 December 2015 and resigned as a member of the Executive Committee with effect from 2 February 2016. Mr. Cheung Yuk Ming was appointed as a member of the Executive Committee of the Company on 2 February 2016 and ceased to be a member of the Executive Committee of the Company due to his resignation of director on 17 June 2016. Mr. Li Liufa resigned as the chairman of the Executive Committee of the Company on 31 May 2016. Mr. Liu Yiu Keung was appointed as the chairman of the Executive Committee of the Company on 2 June 2016. Mr. Hwa Guo Wai, Godwin was appointed as a member of the Executive Committee of the Company on 5 July 2016.

Nomination Committee

Mr. Liu Yiu Keung, Stephen *(Chairman)*
Ms. Ho Man Kay Angela
Mr. Law Pui Cheung
Mr. Wong Chi Keung
Dr. Ching Siu Ming
Mr. Lo Chung Hing

Note: Mr. Cheung Yuk Ming was appointed as a member of the Nomination Committee of the Company on 1 December 2015 and has resigned as a member of the Nomination Committee of the Company with effect from 2 February 2016. Mr. Wong Chi Keung was appointed as a member of the Nomination Committee of the Company on 2 February 2016. Mr. Li Liufa resigned as the chairman of the Nomination Committee on 31 May 2016. Mr. Liu Yiu Keung, Stephen was appointed as the chairman of the Nomination Committee on 2 June 2016. Dr. Ching Siu Ming and Mr. Lo Chung Hing were appointed as members of the Nomination Committee on 5 July 2016.

Investigation Committee

Dr. Ching Siu Ming *(Chairman)*
Ms. Ho Man Kay Angela
Mr. Law Pui Cheung
Mr. Wong Chi Keung
Mr. Lo Chung Hing

Note: Mr. Cheung Yuk Ming was appointed as a member of the Investigation Committee of the Company on 1 December 2015 and has resigned as a member of the Investigation Committee of the Company with effect from 2 February 2016. Mr. Wong Chi Keung was appointed as a member of the Investigation Committee of the Company on 2 February 2016. Dr. Ching Siu Ming was appointed as the chairman of the Investigation Committee on 5 July 2016. Mr. Lo Chung Hing was appointed as a member of the Investigation Committee of the Company on 5 July 2016.

2. COMPANY PROFILE

(1)	Company Name		
	Company Name in Chinese	:	中國山水水泥集團有限公司
	Official English name of the Company	:	China Shanshui Cement Group Limited
(2)	Registered Office	:	P.O.Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands
(3)	Principal Place of Business		
	Principal Place of Business in China	:	Sunnsy Industrial Park, Gushan Town, Changqing District, Jinan, Shandong, China
	Principal Place of Business in Hong Kong	:	Room 2609, 26/F, Tower 2, Lippo Centre, 89 Queensway, Admiralty, Hong Kong
(4)	Contact details of the Company		
	Telephone	:	+852-25257918
	Fax	:	+852-25257998
	E-mail address	:	ir@csc-grp.com
(5)	Website	:	www.shanshuicement.com
(6)	Authorised Representatives	:	Liu Yiu Keung, Stephen and Tsang Wing Tai
(7)	Joint Company Secretaries	:	Yu Chun Liang and Tsang Wing Tai
(8)	Principal Bankers	:	Industrial and Commercial Bank of China China Construction Bank Corporation Bank of China Agricultural Bank of China
(9)	Listing Date	:	4 July 2008
(10)	Website for publication of this report	:	www.shanshuicement.com
(11)	Exchange on which the Company's shares are listed	:	The Hong Kong Stock Exchange
(12)	Stock code	:	00691
(13)	Stock Short Name	:	Shanshui Cement
(14)	Hong Kong Share Registrar and Transfer Office	:	Computershare Hong Kong Investor Services Ltd.
	Address	:	Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
(15)	Legal Advisers		
	as to PRC laws	:	Tiantai Law Firm
	as to Hong Kong laws	:	Wilkinson & Grist
(16)	Auditor	:	KPMG

(II) Key Data

1. KEY FINANCIAL DATA

(Unit: RMB'000)

	January to June 2016	January to June 2015
Revenue	**4,600,759**	5,063,612
Gross profit	**714,780**	732,961
Gross profit margin	**15.5%**	14.5%
Loss from operations	**(181,714)**	(239,028)
Profit margin from operations	**-3.9%**	-4.7%
EBITDA	**512,194**	344,291
EBITDA margin	**11.1%**	6.8%
Net loss	**(808,899)**	(1,096,074)
Loss attributable to equity shareholders of the Company	**(722,881)**	(992,173)
Basic loss per share (RMB)	**(0.21)**	(0.29)
Net cash generated from/(used in) operating activities	**253,590**	(137,513)

	30 June 2016	31 December 2015
Total assets	**26,781,209**	27,013,700
Total liabilities	**23,258,997**	22,520,535
Equity attributable to equity shareholders of the Company	**3,214,709**	4,030,252
Net gearing ratio	**81.2%**	77.6%

2. KEY BUSINESS DATA

	January to June 2016	January to June 2015
Sales volume of cement ('000 tonnes)	**19,843**	19,444
Sales volume of clinker ('000 tonnes)	**4,892**	3,389
Sales volume of concrete ('000 m^3)	**957**	1,101
Unit selling price of cement (RMB/tonne)	**181.8**	211.6
Unit selling price of clinker (RMB/tonne)	**146.1**	170.0
Unit selling price of concrete (RMB/m^3)	**239.6**	274.0

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

1. CHANGES IN SHARE CAPITAL

As of 30 June 2016, 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 2016, the Company has issued a total of 3,379,140,240 Shares.

2. SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As of 30 June 2016, 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[1]	Nature of interests	Percentage of Shares in issue
Tianrui (International) Holding Company Limited[2]	951,462,000 (L)	Interests of corporations controlled by substantial shareholder	28.16%
China Shanshui Investment Company Limited	847,908,316 (L)	Beneficial owner	25.09%
Asia Cement Corporation[3]	426,383,000 (L)	Interests of corporations controlled by substantial shareholder	12.62%
	279,870,500 (L)	Beneficial owner	8.28%
China National Building Material Company Limited[4]	563,190,040 (L)	Interests of corporations controlled by substantial shareholder	16.67%

Notes:

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

(2) As stated in the form of disclosure of shareholder's interests submitted by Tianrui Group Company Limited on 15 April 2015 (the date of the relevant event set out in the form was 15 April 2015), these Shares were held via Tianrui (International) Holding Company Limited.

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

(3) As stated in the form of disclosure of shareholder's interests submitted by Asia Cement Corporation on 2 December 2014 (the date of the relevant event set out in the form was 1 December 2014), these Shares were held via Asia Cement Corporation and its subsidiaries.

(4) As stated in the form of disclosure of shareholder's interests submitted by China National Building Material Group Corporation on 5 November 2014 (the date of the relevant event set out in the form was 3 November 2014), these Shares were held via China National Building Material Company Limited.

Save as disclosed above, and so far as the Directors are aware, as of 30 June 2016, 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.

On 22 March 2016, Tianrui Group Company Limited, a substantial shareholder of the Company which holds 951,462,000 Shares of the Company (representing approximately 28.16% of the issued share capital of the Company), informed the Company that it has pledged 791,000,000 Shares of the Company (representing approximately 23.41% of the issued share capital of the Company) in favor of China Bohai Bank for a bank loan.

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

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

4. SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on 14 June 2008. The Company has granted respectively: (1) options for subscription of 7,300,000 Shares on 25 May 2011, and the closing price of the Shares as at the date of grant was HK$7.83 per Share; and (2) options for subscription of 207,300,000 Shares on 27 January 2015, and the closing price of the Shares as at the date of grant was HK$3.68 per Share. Details of the option 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, *Executive Director removed*	25 May 2011	Option for subscription of 5,000,000 shares	Nil	HK$7.90	Nil	Nil	Nil	Nil	Option for subscription of 5,000,000 shares
	27 January 2015	Option for subscription of 20,000,000 shares	Six months after the Date of Grant	HK$3.68	Nil	Nil	Nil	Nil	Option for subscription of 20,000,000 shares
Zhang Caikui, *Executive Director removed*	27 January 2015	Option for subscription of 23,600,000 shares	Six months after the Date of Grant	HK$3.68	Nil	Nil	Nil	Nil	Option for subscription of 23,600,000 shares
Li Cheung Hung, *Executive Director removed*	25 May 2011	Option for subscription of 200,000 shares	Nil	HK$7.90	Nil	Nil	Nil	Nil	Option for subscription of 200,000 shares
	27 January 2015	Option for subscription of 9,000,000 shares	Six months after the Date of Grant	HK$3.68	Nil	Nil	Nil	Nil	Option for subscription of 9,000,000 shares

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

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
Xiao Yu, *Non-Executive Director resigned*	25 May 2011	Option for subscription of 100,000 shares	Nil	HK$7.90	Nil	Nil	Nil	Nil	Option for subscription of 100,000 shares
Employees	25 May 2011	Option for subscription of 2,000,000 shares	Nil	HK$7.90	Nil	Nil	Nil	Nil	Option for subscription of 2,000,000 shares
	27 January 2015	Option for subscription of 154,700,000 shares	Six months after the Date of Grant	HK$3.68	Nil	Nil	Nil	Nil	Option for subscription of 154,700,000 shares
	Total number of options granted and accepted	Option for subscription of 214,600,000 shares			Nil	Nil	Nil	Nil	Option for subscription of 214,600,000 shares

Note 1: The Company has granted option for subscription of 207,300,000 shares to certain directors and employees of the Company on 27 January 2015.

By virtue of the High Court Miscellaneous Proceedings No. 593 of 2015 ("HCMP 593 of 2015"), China Shanshui Investment Company Limited ("CSI"), a shareholder of over 25% of the Company, has commenced an Injunction Application to apply to set aside the grant of the 207.3 million Share Options in early 2015.A Consent Summons with Wong & Lawyers (for CSI in its capacity as minority shareholders) and Mayor Brown JSM (for CSI in its corporate capacity) was signed on 6 January 2016 in which the Company gave an undertaking to the Court that it will not take step to implement the share options offered as described in its public announcement dated 27 January 2015 until 28 days from the handing down of the judgment in relation to the substantive hearing of the Petitioner's Summons dated 17 August 2015 or until further Order of the Court.

Note 2: As disclosed in note 1, 43,600,000 options were granted to Mr. Zhang Caikui and Mr. Zhang Bin, the ex-directors of the Company. According to the Listing Rules of the Stock Exchange and the Share Option Scheme of the Company, the options granted to Mr. Zhang Caikui and Mr. Zhang Bin need to be approved by the Extraordinary General Meeting of the Company. However, up until the date of this report, the required Extraordinary General Meeting has not been held.

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

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 talents and working partners whose contributions are or may be beneficial to the growth and development of our Group.

Subject to the terms of the Share Option Scheme, 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 214,600,000 Shares, representing approximately 6.35% of our share capital in issue (3,379,140,240 Shares) as of 30 June 2016.

Unless approved by our Shareholders in general meeting in the manner prescribed in the Listing Rules of the Stock Exchange, 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 validity of the options granted by the Board on 27 January 2015 shall be ten years from 27 January 2015.

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 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 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 2016, 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

On 2 February 2016, Mr. Cheung Yuk Ming was re-designated from an independent non-executive Director to an executive Director, Mr. Hwa Guo Wai, Godwin was re-designated from an executive Director to a non-executive Director, Mr. Chong Cha Hwa was re-designated from an executive Director to a non-executive Director and ceased to be an authorised representative of the Company and a member of the Executive Committee, Mr. Wong Chi Keung was appointed as an independent non-executive Director, Mr. Yu Chun Liang was appointed as a joint company secretary of the Company, and Mr. Ng Qing Hai had resigned as a non-executive Director.

As at 1 June 2016, Mr. Li Liufa had tendered his resignation as an executive Director, the chairman of the Board, and the chairman of both the Nomination Committee and the Executive Committee of the Company with effect from 31 May 2016.

On 2 June 2016, Mr. Liu Yiu Keung Stephen was appointed as the chairman of the Board, the chairman of the Nomination Committee and the chairman of the Executive Committee.

At 17 June 2016, Mr. Cheung Yuk Ming retired by rotation and was not re-appointed as director by the shareholders at the annual general meeting, and he ceased to be a committee member of the Executive Committee and an authorized representative of the Company. With effect from 17 June 2016, Mr. Tsang Wing Tai has been appointed as an authorized representative of the Company.

As at 5 July 2016, Dr. Ching Siu Ming and Mr. Lo Chung Hing were appointed as independent non-executive Directors of the Company.

2. CODE ON CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, 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.

3. MODEL CODE

The Company has adopted a set of codes of practice with standards not lower than those prescribed in the Model Code. 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 2016, the Group had a total of 20,961 employees. The aggregate remuneration of the employees for the Reporting Period was RMB594 million.

(V) Management Discussion and Analysis

1. OPERATING ENVIRONMENT AND INDUSTRY OVERVIEW

Since the beginning of 2016, confronted with complex domestic and international situation and under the sustained economic downward pressure, the Chinese government strictly enforced five development ideas, namely "innovation, coordination, green development, opening-up and sharing", and speed up the structural reform on the supply-side while moderately expanding the total demand, vigorously promoted public entrepreneurship and mass innovation, resulting in growth of the national economy in a general stable tone. The real economy maintained its steady pace of growth, driven by strong growth of consumption and steady growth of investment.

In the first half of 2016, GDP of China amounted to RMB34,063.7 billion, representing a year-on-year increase of 6.7%. As compared with the previous quarter, GDP in the second quarter grew by 1.8%. Total fixed asset investment of China amounted to RMB25.8360 trillion, representing a year-on-year increase of 9.0%. In particular, investment on real estate development amounted to RMB4.6631 trillion, representing a year-on-year increase of 6.1 %. ***(Source: National Bureau of Statistics)***

In the first half of 2016, as a result of the sustained slowdown of fixed asset and real estate investment of China and the continued pick up of infrastructure investment, cement production maintained growth at a slow pace. In the first half of 2016, cement output of above-scale manufactures of China amounted to 1,110 million tons, representing a year-on-year increase of 3.2% at a slightly slower pace. The whole cement industry realized a total profit of RMB9.5 billion, down by approximately 26.6% as compared to the same period of last year. ***(Source: Digital Cement)***

2. COMPANY'S BUSINESS REVIEW

In the first half of 2016, the Group is committed to refining fundamental internal management to enhance the quality of existing production and operation and to sustain the Company's profitability.

During the reporting period, there was no new project put into operation or capacity replacement project to be dismantled.

As at 30 June 2016, the Group had a total production capacity of 106.76 million tonnes of cement, 52.29 million tonnes of clinker and 19.40 million cubic meters of concrete.

During the Reporting Period, the Group's total sales of cement and clinker were 24.74 million tonnes, representing a year-on-year increase of 8.3%; sales volume of concrete was 0.96 million cubic meters, representing a year-on-year decrease of 13.1%; sales revenue was RMB4,601 million, representing a year-on-year decrease of 9.1%; and the loss for the period was RMB809 million.

(I) Business analysis

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

(Unit: RMB'000)

Product	**January-June 2016 Sales**	**proportion**	January-June 2015 Sales	proportion	**Sales revenue Year-on year change**
Cement	**3,607,480**	**78.4%**	4,113,408	81.2%	-12.3%
Clinker	**714,484**	**15.5%**	576,164	11.4%	24.0%
Concrete	**229,333**	**5.0%**	301,647	6.0%	-24.0%
Others	**49,462**	**1.1%**	72,393	1.4%	-31.7%
Total	**4,600,759**	**100.0%**	5,063,612	100.0%	-9.1%

During the Reporting Period, the Company's sales revenue decreased by 9.1% to RMB4,601 million. With regard to revenue breakdown by products, cement revenue amounted to RMB3,607 million, representing a year-on-year decrease of 12.3%, and clinker revenue amounted to RMB714 million, representing a year-on-year increase of 24%. The revenue from concrete amounted to RMB229 million, representing a year-on-year decrease of 24%.

(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	**Sales volume of the reporting period ('000 tonnes)**	Sales volume of the same period of last year ('000 tonnes)	**Sales volume change**	**Unit selling price of the reporting period (RMB/tonne)**	Unit selling price of the same period of last year (RMB/tonne)	**Change in unit selling price**
Cement	**19,843**	19,444	2.1%	**181.8**	211.6	-14.1%
Clinker	**4,892**	3,389	44.3%	**146.1**	170.0	-14.1%
	('000 m^3)	('000 m^3)		**(RMB/m^3)**	(RMB/m^3)	
Concrete	**957**	1,101	-13.1%	**239.6**	274.0	-12.6%

During the Reporting Period, the sales volume of cement of the Company amounted to 19.84 million tonnes, representing a year-on-year increase of 2.1%, the sales volume of clinker amounted to 4.89 million tonnes, representing a year-on-year increase of 44.3%. The unit selling price of cement decreased by 14.1% to RMB181.8 per tonne, while the unit selling price of clinker decreased by 14.1% to RMB146.1 per tonne. The sales volume of concrete amounted to 0.957 million cubic meter, representing a year-on-year decrease of 13.1%.The unit selling price of concrete decreased by 12.6% to RMB239.6/m^3.

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

Region	**Unit selling price of the reporting period (RMB/tonne)**	Unit selling price of the same period of last year (RMB/tonne)	**Change in unit selling price**
Shandong Region	**171.0**	203.9	-16.1%
Eastern area of Shandong	**177.4**	204.6	-13.3%
Western area of Shandong	**164.3**	207.1	-20.7%
Southern area of Shandong	**173.2**	202.1	-14.3%
Northeast Region	**203.2**	228.3	-11.0%
Shanxi Region	**147.6**	196.5	-24.9%
Xinjiang Region	**269.0**	262.2	2.6%

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 companies operating in Shandong Region was RMB171.0 per tonne, representing a year-on-year decrease of 16.1%, that in Northeast Region was RMB203.2 per tonne, representing a year-on-year decrease of 11.0%,that in Shanxi Region was RMB147.6 per tonne, representing a year-on-year decrease of 24.9%, and that in Xinjiang Region was RMB269.0 per tonne, representing a year-on-year increase of 2.6%.

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

	January-June 2016		January-June 2015		
	Sales volume ('000 tonnes)	**Sales proportion**	Sales volume ('000 tonnes)	Sales proportion	**Change in sales volume**
High grade cement	**12,183**	**61.4%**	12,740	65.5%	-4.4%
Low grade cement	**7,660**	**38.6%**	6,704	34.5%	14.3%

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

During the Reporting Period, sales volume of high grade cement was 12.183 million tonnes, representing a year-on-year decrease of 4.4%, and sales volume of low grade cement was 7.660 million tonnes, representing a year-on-year increase of 14.3%.

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)

	January-June 2016		January-June 2015		**Change of**
Region	**Sales revenue**	**Sales proportion**	Sales revenue	Sales proportion	**sales revenue**
Shandong Region	**2,885,660**	**62.7%**	3,393,418	67.0%	-15.0%
Eastern area of Shandong	**1,186,518**	**25.8%**	1,389,653	27.4%	-14.6%
Western area of Shandong	**1,233,840**	**26.8%**	1,489,667	29.4%	-17.2%
Southern area of Shandong	**465,302**	**10.1%**	514,098	10.2%	-9.5%
Northeast Region	**1,195,820**	**26.0%**	1,243,549	24.5%	-3.8%
Shanxi Region	**310,743**	**6.8%**	246,445	4.9%	26.1%
Xinjiang Region	**208,536**	**4.5%**	180,200	3.6%	15.7%
Total	**4,600,759**	**100.0%**	5,063,612	100.0%	-9.1%

In the first half of 2016, sales revenue of operating our companies in Shandong Region amounted to RMB2,886 million, accounting for 62.7% of the Group's total sales revenue in the first half of 2016, representing a year-on-year decrease of 15.0%. Sales revenue of operating our companies in Northeast Region amounted to RMB1,196 million, accounting for 26% of the Group's total sales revenue in the first half of 2016 and representing a year-on-year decrease of 3.8%. Sales revenue of operating our companies in Shanxi Region amounted to RMB311 million, accounting for 6.8% of the Group's total sales revenue in the first half of 2016 and representing a year-on-year increase of 26.1%. Sales revenue of operating our companies in Xinjiang Region amounted to RMB209 million, accounting for 4.5% of the Group's total sales revenue in the first half of 2016 and representing a year-on-year increase of 15.7%.

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

(II) Profit analysis

1. Changes in key profit and loss items

(Unit: RMB'000)

	January-June 2016	January-June 2015	**Change**
Revenue	**4,600,759**	5,063,612	-9.1%
Gross profit	**714,780**	732,961	-2.5%
EBITDA	**512,194**	344,291	48.8%
Loss from operations	**(181,714)**	(239,028)	-24.0%
Loss before taxation	**(727,985)**	(1,060,072)	-31.3%
Loss for the period	**(808,899)**	(1,096,074)	-26.2%
Loss attributable to equity shareholders of the Company	**(722,881)**	(992,173)	-27.1%

During the Reporting Period, the Group recorded sales revenue of RMB4,601 million, representing a year-on-year decrease of 9.1%; loss from operations was RMB182 million, loss for the period was RMB809 million, loss attributable to equity shareholders of the Company was RMB723 million. The decrease in profit was mainly due to the decrease of selling prices.

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

(Unit: RMB'000)

	January-June 2016		January-June 2015		**Change of proportion to revenue**
Cost of sales	**Amount**	**Proportion to revenue**	Amount	Proportion to revenue	
Raw materials	**1,224,978**	**26.6%**	1,205,498	23.8%	2.8P.Pt.
Coal	**814,967**	**17.7%**	983,104	19.4%	-1.7P.Pt.
Power	**587,013**	**12.8%**	661,404	13.1%	-0.3P.Pt.
Depreciation and amortisation	**473,203**	**10.3%**	411,853	8.1%	2.2P.Pt.
Others	**785,818**	**17.1%**	1,068,792	21.1%	-4.0P.Pt.
Total cost of sales	**3,885,979**	**84.5%**	4,330,651	85.5%	-1.0P.Pt.

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

(II) Profit analysis *(continued)*

2. Comparison and analysis of the proportion of cost of sales to revenue (continued)

During the Reporting Period, the proportion of the Group's total cost of sales to revenue was 84.5%, representing a decrease of 1.0 percentage points as compared with the same period of last year. Of which, the proportion of raw materials costs to revenue was 26.6%, representing an increase of 2.8 percentage points as compared with the same period of last year. The proportion of coal costs to revenue was 17.7%, representing a decrease of 1.7 percentage points as compared with the same period of last year. The Group's average unit purchase price of coal in the first half of 2016 decreased by 22% to RMB373/tonne as compared with the same period of last year (RMB478/tonnes). As for cost reduction, output of residual heat power generation was 486 million KWH in the first half of 2016, thus reducing the cost of clinker by RMB172 million.

3. COMPANY'S FINANCIAL REVIEW

(I) Expenses during the period

(Unit: RMB'000)

	January-June 2016		January-June 2015		**Changes in proportion to sales revenue**
	Amount	**Proportion to sales revenue**	Amount	Proportion to sales revenue	
Sales and marketing expense	**209,455**	**4.6%**	227,880	4.5%	0.1P.Pt.
Administrative expense	**695,306**	**15.1%**	851,288	16.8%	-1.7P.Pt.
Finance cost	**503,874**	**11.0%**	809,289	16.0%	-5.0P.Pt.
Total	**1,408,635**	**30.7%**	1,888,457	37.3%	-6.6P.Pt.

During the Reporting Period, the proportion of sales and marketing expense to sales revenue increased by 0.1 percentage point as compared with the same period of last year. The proportion of administrative expense to sales revenue decreased by 1.7 percentage points as compared with the same period of last year. In addition, the proportion of the Group's finance cost to sales revenue decreased by 5.0 percentage points as compared with the same period of last year.

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

(II) Changes in balance sheet items

(Unit: RMB'000)

	At 30 June 2016	At 31 December 2015	**Change**
Non-current assets	**22,498,092**	23,109,951	-2.6%
Current assets	**4,283,117**	3,903,749	9.7%
Total assets	**26,781,209**	27,013,700	-0.9%
Current liabilities	**21,913,140**	21,748,349	0.8%
Non-current liabilities	**1,345,857**	772,186	74.3%
Total liabilities	**23,528,997**	22,520,535	3.3%
Minority interest	**307,503**	462,913	-33.6%
Equity attributable to equity shareholders of the Company	**3,214,709**	4,030,252	-20.2%
Total liabilities and equity	**26,781,209**	27,013,700	-0.9%

As of 30 June 2016, the Group's total assets were RMB26,781 million, total liabilities were RMB23,259 million and its net assets were RMB3,522 million. The net gearing ratio (net debts/(net debts + total equity)) was 81.2%, representing an increase of 20.4 percentage points as compared with the end of the last year. The Group's total current assets were RMB4,283 million, its total current liabilities were RMB21,913 million, and its net current liabilities were RMB17,630 million.

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

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

(Unit: RMB'000)

Term of borrowings	As at 30 June 2016	As at 31 December 2015
Short-term borrowings (including long-term borrowings with maturity within one year)	**14,665,287**	15,601,437
Long-term borrowings	**797,445**	211,713
Total	**15,462,732**	15,813,150

As of 30 June 2016, the Company's total borrowings were RMB15,463 million, representing a decrease of RMB350 million as compared with the end of 2015. Of which, long-term borrowings with maturity more than one year amounted to RMB797 million, accounting for 5.16% of the Group's total borrowings.

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

(IV) Capital expenditures

During the Reporting Period, the capital expenditures of the Group were approximately RMB107 million, which were mainly used as the investments in the construction of cement and clinker production lines.

Capital commitments outstanding at 30 June 2016 having entered into production facility construction contracts, equipment purchase agreements and equity investment agreements but not provided for in the financial statements were as follows:

(Unit: RMB'000)

	As at 30 June 2016	As at 31 December 2015
Authorised and contracted for		
– plant and equipment	**361,862**	401,982
Authorised but not contracted for		
– plant and equipment	**219,377**	249,435
Total	**581,239**	651,417

As of 30 June 2016, the capital commitment of which the Group had authorised and contracted for amounted to RMB362 million, representing a decrease of RMB40 million as compared with the beginning of the year. Furthermore, the capital commitment which were authorised but not contracted for amounted to RMB219 million, representing a decrease of RMB30 million as compared with the beginning of the year.

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

(V) Net cash flow analysis

(Unit: RMB'000)

	January-June 2016	January-June 2015
Net cash generated from/(used in) operating activities	**253,590**	(137,513)
Net cash used in investing activities	**(99,505)**	(879,197)
Net cash generated from financing activities	**(93,801)**	3,381,100
Net change in cash and cash equivalents	**60,284**	2,364,390
Balance of cash and cash equivalents as at 1 January	**222,907**	1,151,353
Effect of foreign exchange rates change	**572**	(499)
Balance of cash and cash equivalents as at 30 June	**283,763**	3,515,244

During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB254 million, representing an increase of RMB391 million over the same period of the last year. Net cash used in investing activities amounted to RMB100 million, representing a decrease of RMB780 million in negative net cash flow over the same period of the last year. Net cash used in financing activities amounted to RMB94 million representing a decrease of RMB3,475 million over the same period of the last year.

4. OUTLOOK FOR THE SECOND HALF OF THE YEAR

Marco operating environment outlook for the second half of the year

According to the information from the National Bureau of Statistics, during the first half of 2016, the incremental rate of accumulated fixed asset investment and investment on real estate in China is on a downward trend, however, the infrastructure investment growth rate continued to rise enabling cement production volume continues to maintain a low growth trend.

On the demand side, benefited from the effect of the steady growth policy implemented by the PRC central government, the second half of 2016, China's real economic growth is likely to be maintained in a steady growth state, while the domestic consumer consumption is expected to maintain strong growth momentum and investment growth rate will remain steady stable.

The Report on the Work of the Government, delivered at the Fourth Session of the 12th National People's Congress of the PRC on 5 March 2016 ("Report"), mentioned that the PRC central government should strive to make progress in the area of new urbanization and agricultural modernization as well as in balancing the development between urban and rural areas and between geographic regions. As stated in the Report, this strategic direction will be one of the main targets, tasks, and measurement for the period of the 13th Five-Year Plan from 2016 through 2020. The PRC central government is expected to adopt a strategy of advancing the new, people-centered urbanization. This will mean granting urban residency to around 100 million people with rural household registration living in urban areas and other permanent urban residents; completing the rebuilding of both rundown areas and "villages" in cities for another 100 million rural residence; and, in addition, allowing another 100 million rural residents to live in local towns and cities in the central and western regions acting as the core engine to the new developments in these geographic regions. It is expected by 2020, permanent urban residents should account for 60% of China's population, and 45% of the Chinese people should be registered as permanent urban residents. In addition, guided by the stated direction for regional development, the PRC central government will focus its strategy of the Three Initiatives to form "north-south and east-west" intersecting economic belts along (1) the coastline, (2) the Yangtze River, and (3) major transportation routes, to foster new geographic growth hubs and city clusters that will help to facilitate the economic development of the surrounding areas. Furthermore, these urbanizations initiatives will also be complemented by the PRC central government's set targets on the expansion of major infrastructure projects, for examples, increasing the length of high-speed railways in service to 30,000 kilometers, linking more than 80% of big cities in China with high-speed railways and building or upgrading around 30,000 kilometers of expressways.

The Company believes that for the second half of 2016, as supported by the PRC central government, the economic growth rate in China will remain steady fueled mainly by the investment in infrastructure, thus, cement demand will continue to maintain a low growth rate.

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

Marco operating environment outlook for the second half of the year *(continued)*

On the supply side, the cement sector will continue its consolidation phase, as per the "Guidelines for promoting steady growth, structural adjustment and efficiency enhancement in building materials industry by the State Council" (國辦發[2016]34號) issued on 5 May 2016 (the "Guidelines") which mandated a strict prohibition of new production capacity on cement and clinker new production capacity. The Guidelines also set out targets that by the end of 2020, the top 10 domestic cement and clinkers manufacturers should have 60% industry concentration and that before the end of 2020, any new expansion of production capacity of cement and clinkers is strictly prohibited.

The Guideline has also directed the abolishment of the production of PC32.5 grade cement and the focus on production of high-grade cement and special cement. We believe that the Group as the number five cement and clinkers (in production volume) manufacturer in China, the implementation of strict measures to reduce overcapacity by the PRC central government will strengthen our regional market position.

Business outlook for the second half of the year

On 30 January 2015, with the assistance of the Jinan local police force, the Company has smoothly taken over the headquarters and factories of Shandong Shanshui. Since then, the Group is under the directions and managements of the new board of directors and management.

However, the daily operation of the Group was adversely affected by a combination of incidents deliberately instigated by Zhang Caikui and Zhang Bin (the "Zhang's") and the former management, such actions include the stealing of the official seals of Shandong Shanshui, lost of company books and records, illegally changing Shandong Shanshui's Article of Association, unauthorized divestment of the Company's assets, misappropriation of funds all resulting in a chaotic and mismatched operational cashflow. The official seal of Shandong Shanshui being stolen by the Zhang's and his associates has caused a negative impact on Shandong Shanshui's daily operation, contractual and financial transactions. Material time and resources are needed to tackle these issues associated with the stolen official seal, such as clarifying the false and misleading announcements issued by the Zhang's and banks refused to update bank mandates, etc. In addition, the misappropriation and reckless usage of loans acquired (including ultra-short term debentures, medium term notes, and senior notes) without reasonable repayment plans executed by the Zhang's and the former management have caused the Group a short-term cashflow mismatch which have severely hindered the operation of the Group.

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

Business outlook for the second half of the year *(continued)*

As of 30 June 2016, the Group has borrowed RMB597.887 million shareholders' loan from Tianrui Group Company Limited ("Tianrui Group") which is unsecured, interest-free and has no fixed repayment terms, as a mean to address the Group's short-term cashflow mismatch issues. After the Company has received letters from each of China National Building Materials Company Limited ("CNBM") and Asia Cement Corporation ("ACC") to inform the Company of their decision of not to proceed with the Possible Offer on 10 May 2016, the Company has been proactively consulting the Company's financial advisor in relation to fund raising options to deal with the outstanding bonds and other debts of the Group and restoration of the public float of the Company. On 2 June 2016, the new board of the Company has approved in principle the proposal for restoration of public float of the Company, involving an open offer on the basis of 4 new shares of the Company for every 1 existing Share in combination with a placing of new/existing Shares (if necessary) to raise about HK$4 billion to settle the outstanding debt of the Group including any outstanding amount of the 2020 Notes. In addition, the Company is also in discussion with various banks and financial institutions, including but not limited to any possibilities related to the application of syndicate loans and issuance of senior notes, to cope with the Group's medium to long terms financial and cashflow demands.

On the issue of the stolen company seal, on 21 June 2016, Shandong Shanshui received a civil ruling issued by Haidian District People's Court of Beijing prohibiting Zhang Bin, Zhang Caikui and Chen Xueshi to use or authorize others to use the official seal of Shandong Shanshui, of which the loss and invalidity have been declared by Shandong Shanshui, with immediate effect. With this ruling, the Company has now received rulings in Hong Kong and in the PRC to invalidate the usage of the company seal by the Zhangs and their associates.

The Company and Shandong Shanshui are negotiating with The People's Government of Jinan City and police in respect of the issuance of a new seal to Shandong Shanshui and to restore the original Article of Association of Shandong Shanshui.

Looking ahead to the second half of 2016, one of the key organizational change made by the new management to the Group is to recognize the Group's diverse geographic coverage in China coupled with the strong regionalized business nature of the cement sector to adopt a more flexible management structure which can be summarized as "one strategy one region" – adapting the operational strategy to be region specific while maintaining constant supervision by the headquarter based on specific key performance indicators. Specific measures included:

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

Business outlook for the second half of the year *(continued)*

(I) Enhance profitability of the Group by regional collaboration and coordination

Cement is a regional product as its sales is subject to transportation and regional cement price, an effective and regionally focused marketing strategy which gives stability to the regional retail sales price and hence enhances profitability. In addition, a reduction of the usage and procurement costs of raw materials will also be benefited from regional collaboration and coordination. The Group, leveraging its strength as a leading cement and clinkers supplier in various operating regions in China, is committed to regional collaboration and coordination and to achieve an orderly and healthy competitive environment in regions.

In addition, based on the mild increasing trend for the cost of bulk materials in the first half of 2016, the Group expects the mild increasing trend will continue in the second half of the year. As a result, the Group has implemented cross-regional cooperations to achieve synergies effect in the determination of both the regional selling price and reduction of the cost of bulk materials.

(II) Restoration and strengthening of sales and marketing teams

Maintaining regional market share with a mild increase in sales price per tons is the Group's objective in the second half of 2016. The new management of the Group has deployed resources to restore and strengthen regional sales and marketing teams. Marketing teams and management teams will focus on factors like regional competitive edges, the strength and weakness of other competitors and regional market demand forecast, to continuously refine its operations to an optimal cost effective operation condition and more competitive pricing strategy.

(III) Regional cross-referencing scheme in cost management

In the year of 2015 and the first half of 2016, the control of the cost of bulk materials purchased, selling and administration expenses of the Group are less than satisfactory and is a focus of management resources in the second half of 2016.

For the second half of 2016, the Group will adopt a regional cross-referencing scheme in cost management as supervised by the headquarter. Expert panels from different divisions within the Group will be set up to provide measuring benchmarks for production cost, management cost and specification of manufacturing procedures for each of key subsidiaries in those strategic significant regions to assist them in enhancing their competitive edges in the region.

In the second half of 2016, the Group has devoted to restore the foundation of the Group. With the support from shareholders, investors, and employee, the Group has its full potential to achieve a turnaround by the end of 2016.

1. CORPORATE GOVERNANCE

The Group has established a sound corporate governance structure. During the Reporting Period, the Board 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 systems 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 2016.

3. CONTINUING CONNECTED TRANSACTIONS

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

As of 30 June 2016, the Group borrowed RMB597.887 million on an interest-free basis from Tianrui Group Co., Ltd ("Tianrui Group") which was mainly used to settle certain debts, including:

1. Interest from 7.50% Senior Notes due 2020 amounted to US$18.751 million (equivalent to RMB124.342 million).

2. Principal amount of and interest from any and all outstanding 8.50% Senior Notes due 2016 amounted to US$31.345 million (equivalent to RMB207.857 million).

3. Purchase price of US$24.491 million (equivalent to RMB162.405 million) paid in cash for purchasing 7.50% Senior Notes due 2020 issued overseas, representing 5% of the total amount of Notes (US$484.971 million).

4. Interest from short-term financing bill amounted to RMB87.521 million.

5. Borrowings of RMB15.762 million was used for daily operations and as payment of interest due to banks and legal costs.

As of 30 June 2016, the Company had repaid RMB171.422 million to Tianrui Group with outstanding borrowings amounting to RMB426.465 million.

4. AUDIT COMMITTEE

The audit committee comprises the five 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 2016 prepared in accordance with IFRS, and reviewed the unaudited interim results of the Group for the six months ended 30 June 2016.

5. MAJOR EVENTS

(I) Material litigation in Hong Kong

(i) Claim against the former board

On 4 December 2015, a Writ of Summons (the "Writ") (HCA 2880 of 2015) was issued by the Company (the "Action") against the former directors of the Company namely Zhang Caikui, Zhang Bin (collectively the "Zhangs") and Li Cheung Hung. On 17 December 2015, China Shanshui Cement Group (Hong Kong) Company Limited ("HK Cement") and China Pioneer Cement (Hong Kong) Company Limited ("China Pioneer") (which are the wholly owned subsidiaries of the Company) were added as Plaintiffs and an additional of 5 former directors were added as Defendants in the Writ, Chang Zhangli, Wu Ling-Ling (also known as Doris Wu), Lee Kuan-Chun (also known as Champion Lee), Zeng Xuemin and Shen Bing.

According to the Writ, the Company's claims in the Writ against the former directors are for (inter alia) (1) various injunctive reliefs, including restraining them from acting on the unlawfully altered articles of association of Shandong Shanshui Cement Group Company Limited (a wholly owned subsidiary of China Pioneer) ("Shandong Shanshui"), an order for identifying the current whereabouts of or return the books, records, accounts or computer data or other documents etc. of the Group (the "Group's Records"), and (2) damages and/or equitable compensation as a result of the misconduct of the former directors.

On 24 December 2015, the Company obtained the interlocutory injunction orders (the "December Injunction Orders") against Zhang Caikui, Zhang Bin, Li Cheung Hung, Chang Cheungli and Wu Lingling compelling them to (inter alia) disclose and deliver the Group's Records to the Company. The December Injunction Orders were continued and remain in effect.

On 8 January 2016, the Company obtained further interlocutory injunction orders (the "January Injunction Orders") against Zhang Caikui and Zhang Bin to (inter alia) restrain them from acting upon or exercising any power or entitlement pursuant to the unlawfully altered articles of association of Shandong Shanshui and execute amendments to the said unlawfully altered articles of association of Shandong Shanshui to invalidate or reverse the unlawful amendments. The January Injunction Orders remain in effect.

On 7 April 2016, the China National Building Materials Company Limited and Asia Cement Corporation, the 2 substantial shareholders of the Company, were joined as the Defendants to the Action premised on the conspiracy claim.

5. MAJOR EVENTS *(continued)*

(I) Material litigation in Hong Kong *(continued)*

(i) Claim against the former board (continued)

The parties have filed all the pleadings in the Action and the pleadings will be closed shortly. The Action will then proceed to the discovery stage.

Following the non-compliance of the December Injunction Orders and the January Injunction Orders on the part of Zhang Caikui and Zhang Bin, the Company has commenced committal proceedings against them (HCMP 1574 of 2016) and the 1st hearing will be heard in August 2016.

The Board is of the view that the Plaintiffs' claims in the Action have merits and will pursue further to recover the loss and damages suffered by the Company.

(ii) Other litigation

China Shanshui Cement Investment Limited, a substantial shareholder of the Company, issued an action (HCMP 593 of 2015) against (inter alia) the Company in 2015 seeking an order to set aside the 2015 Share Options (and details of which please refer to the public announcement dated 27 January 2015 of the Company). The matter is presently held in abeyance following the Company's undertaking to the Court that it (whether by itself, its directors, servants, agents or otherwise howsoever) will not take any step to implement the share options offered as described in its public announcement dated 27 January 2015 until a certain period of time or further Order of the Court.

(II) Litigation in the PRC

(i) Claim against the former directors of Shandong Shanshui

The Company found the official seal of Shandong Shanshui Cement Group Company Limited ("Shandong Shanshui") was illegally stolen by the former directors of Shandong Shanshui after taking over the Headquarters of Shandong Shanshui on 30 January 2016. The official seal have been used by the former directors of Shandong Shanshui for disseminating false and misleading information to the public on a continuous manner, despite the repeated declaration by Shandong Shanshui of its loss and invalidity.

In view of this, the Company has instructed Shandong Shanshui to appoint Tiantai Law Firm ("Tiantai Law Firm", the PRC Lawyer of the Company) to apply to Haidian District People's Court of Beijing to invalidate the official seal of Shandong Shanshui which has been illegally stolen. On 21 June 2016, Shandong Shanshui received a civil ruling issued to Shandong Shanshui by Haidian District People's Court of Beijing prohibiting the former directors of Shandong Shanshui, Zhang Bin, Zhang Caikui and Chen Xueshi, to use or authorize others to use the official seal of Shandong Shanshui, of which the loss and invalidity has been declared by Shandong Shanshui, with immediate effect.

5. MAJOR EVENTS *(continued)*

(II) Litigation in the PRC *(continued)*

(ii) Other legal proceedings involving the Group

Since completion of the takeover of Shandong Shanshui by new directors of Shandong Shanshui on 30 January 2016, Shandong Shanshui and its shareholders, namely China Pioneer Cement (Hong Kong) Company Limited, and China Shanshui Cement Group Limited has jointly appointed Tiantai Law Firm to take over all series of legal cases of Shandong Shanshui.

According to the statistics of Tiantai Law Firm, as of the date hereof, there were totally 76 cases where Shandong Shanshui was involved, including 15 cases with trial suspension, 1 case with the enforcement suspension applied for and 60 cases pending trial. It is confirmed that none of the legal cases has entered into the execution process stage.

(III) Update on possible offer and close of offer period

1. The Board has received the Letter from ACC and CNBM on 20 July 2015 in which ACC and CNBM have informed the Board that they are interested in, and are currently considering the feasibility of, jointly making a voluntary cash general offer to acquire all the Shares (other than those already owned or agreed to be acquired by the Offerors and parties acting in concert (as defined in the Takeovers Code) with any of the Offerors) at an offer price to be determined by the Offerors. Reference is made to the announcements that the Offerors made on 21 July 2015, 12 August 2015, 11 September 2015, 9 October 2015, 9 November 2015, 11 December 2015, 11 January 2016, 11 February 2016, 11 March 2016, 11 April 2016, 28 April 2016 and 10 May 2016; the announcements that the Company made on 11 September 2015, 9 October 2015, 9 November 2015, 11 December 2015, 12 January 2016, 15 February 2016, 16 March 2016 and 20 April 2016; and the announcement of the Company dated 27 April 2016 relating to the Put Up or Shut Up Ruling issued by the Executive ("Ruling Announcement").

2. Pursuant to the Put Up or Shut Up Ruling issued by the Executive on 26 April 2016, CNBM and ACC must by 5 p.m. on 26 May 2016 either: (i) announce a firm intention to make an offer for the Company under Rule 3.5 of the Takeovers Code which may be in the form of a pre-conditional Rule 3.5 announcement, or (ii) announce the decision that they do not intend to make an offer for the Company; or (iii) inform the Company that they do not intend to make an offer for the Company.

3. On 10 May 2016, each of CNBM and ACC issued a letter to inform the Company of their decision not to proceed with the Possible Offer ("Decision Letters"). The Offerors also made an announcement in this regard on the even date. The offer period, which commenced from the date of the 3.7 Announcement on 21 July 2015, had closed on 10 May 2016.

   The offer period, which commenced from the date of the 3.7 Announcement on 21 July 2015, had closed on 10 May 2016.

6. PUBLIC FLOAT

As at 16 April 2015, the public float of the Company was below 25%.As such, at the request of the Company, trading in the Shares and debt securities of the Company was suspended as from 9:00 a.m. on 16 April 2015. The Stock Exchange indicated that the trading in the Shares and debt securities of the Company will remain suspended until the 25% minimum public float is restored. The Board has been taking active steps in consulting financial advisers to discuss all options available to the Company to restore the public float of the Company as required by Rule 8.08 of the Listing Rules with a view to resolving the public float issue.

The Board has approved in principle on 2 June 2016 the proposal for restoration of public float of the Company (the "Proposal"), involving an open offer on the basis of 4 new shares of the Company (the "Shares") for every 1 existing Share in combination with a placing of new/existing Shares (if necessary) to raise about HK$4 billion to settle the outstanding debt of the Group including any outstanding amount of the 2020 Notes. The Board is still discussing with the relevant parties through its financial adviser, including negotiating with relevant underwriters for the Proposal, in order to finalise details of the Proposal. As at the date of this announcement, a number of parties, including Tianrui (International) Holding Company Limited, have indicated their interest in underwriting the Proposal. Subject to the progress and result of relevant discussions and negotiations with the potential underwriters, the Company has not yet concluded details of the Proposal and no understanding, arrangement or any form of agreement has been reached so far. The Proposal, if concluded and finalised, will be subject to approval from the shareholders of the Company and The Stock Exchange of Hong Kong Limited, and may or may not proceed.

For details of the abovementioned matters, please refer to the announcements which the Company made on 16 April 2015, 22 May 2015, 14 January 2016, 19 February 2016, 23 March 2016 and 26 April 2016 ("Public Float Announcements") and the announcement the Company made on 3 June 2016 ("Announcement regarding proposal for restoration of public float").

(VII) Interim Financial Statements (Unaudited)

Consolidated statement of profit or loss

for the six months ended 30 June 2016 – Unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2016	2015
	Note	**RMB'000**	RMB'000
Revenue	3&4	**4,600,759**	5,063,612
Cost of sales		**(3,885,979)**	(4,330,651)
Gross profit		**714,780**	732,961
Other revenue	5	**59,977**	76,588
Other net (expenses)/income	5	**(51,710)**	30,591
Selling and marketing expenses		**(209,455)**	(227,880)
Administrative expenses		**(695,306)**	(851,288)
Loss from operations		**(181,714)**	(239,028)
Finance costs	6	**(503,874)**	(809,289)
Share of profits less losses of associates		**(42,397)**	(11,755)
Loss before taxation		**(727,985)**	(1,060,072)
Income tax	7	**(80,914)**	(36,002)
Loss for the period		**(808,899)**	(1,096,074)
Attributable to:			
Equity shareholders of the Company		**(722,881)**	(992,173)
Non-controlling interests		**(86,018)**	(103,901)
Loss for the period		**(808,899)**	(1,096,074)
Loss per share	9		
Basic (RMB)		**(0.21)**	(0.29)
Diluted (RMB)		**(0.21)**	(0.29)

The notes on pages 41 to 72 form part of this interim financial report.

(VII) Interim Financial Statements (Unaudited)

Consolidated statement of profit or loss and other comprehensive income

for the six months ended 30 June 2016 – Unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
	Note	**2016**	2015
		RMB'000	RMB'000
Loss for the period		**(808,899)**	(1,096,074)
Other comprehensive (expenses)/income for the period (after tax and reclassification adjustments):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
financial statements of overseas subsidiaries		**(90,059)**	90
Available-for-sales securities:			
net movement in fair value reserve	8	**(779)**	1,386
Other comprehensive (expenses)/ income for the period		**(90,838)**	1,476
Total comprehensive expenses for the period		**(899,737)**	(1,094,598)
Attributable to:			
Equity shareholders of the Company		**(813,719)**	(990,697)
Non-controlling interests		**(86,018)**	(103,901)
Total comprehensive expenses for the period		**(899,737)**	(1,094,598)

The notes on pages 41 to 72 form part of this interim financial report.

(VII) Interim Financial Statements (Unaudited)
Consolidated statement of financial position

at 30 June 2016 – Unaudited
(Expressed in Renminbi)

	Note	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Non-current assets			
Fixed assets	10		
– Property, plant and equipment		**18,379,671**	18,925,772
– Land lease prepayments		**2,327,218**	2,350,193
		20,706,889	21,275,965
Intangible assets		**536,997**	554,683
Goodwill		**14,223**	14,223
Other financial assets		**644,678**	621,329
Interest in associates		**251,959**	293,353
Deferred tax assets		**109,445**	112,390
Other long-term assets		**233,901**	238,008
		22,498,092	23,109,951
Current assets			
Inventories	11	**1,263,498**	1,217,259
Trade and bills receivable	12	**1,675,070**	1,540,908
Other receivables and prepayments	13	**949,344**	881,373
Restricted bank deposits	14	**111,442**	41,302
Cash and cash equivalents	14	**283,763**	222,907
		4,283,117	3,903,749
Current liabilities			
Short-term bank loans	15	**4,409,575**	5,076,265
Current portion of other borrowings	16	**2,800,909**	2,800,329
Current portion of long-term bonds	17	**7,454,803**	7,724,843
Trade and bills payable	18	**3,791,193**	3,523,918
Other payables and accrued expenses	19	**3,438,803**	2,647,261
Obligation under finance leases		**2,546**	7,639
Current taxation		**15,311**	(31,906)
		21,913,140	21,748,349
Net current liabilities		**(17,630,023)**	(17,844,600)
Total assets less current liabilities		**4,868,069**	5,265,351

The notes on pages 41 to 72 form part of this interim financial report.

(VII) Interim Financial Statements (Unaudited)

Consolidated statement of financial position

at 30 June 2016 – Unaudited
(Expressed in Renminbi)

	Note	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Non-current liabilities			
Long-term bank loans	15	**792,900**	208,200
Other borrowings	16	**4,545**	3,513
Defined benefit obligations		**173,188**	174,660
Deferred income		**287,157**	295,599
Long-term payables		**20,696**	20,986
Deferred tax liabilities		**67,371**	69,228
		1,345,857	772,186
NET ASSETS		**3,522,212**	4,493,165
CAPITAL AND RESERVES			
Share capital	20(b)	**227,848**	227,848
Share premium		**4,654,010**	4,654,010
Share capital and share premium		**4,881,858**	4,881,858
Other reserves		**(1,667,149)**	(851,606)
Total equity attributable to equity shareholders of the Company		**3,214,709**	4,030,252
Non-controlling interests		**307,503**	462,913
TOTAL EQUITY		**3,522,212**	4,493,165

The notes on pages 41 to 72 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 2016 – Unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
	Share capital	**Share premium**	**Statutory reserves**	**Other reserves**	**Exchange reserves**	**Fair value reserves**	**Retained profits/ (accumulated losses)**	**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
Balance at 1 January 2015	227,848	4,654,010	1,142,355	190,112	105,231	5,794	4,272,617	10,597,967	768,359	11,366,326
Changes in equity for the six months ended 30 June 2015:										
Loss for the period	–	–	–	–	–	–	(992,173)	(992,173)	(103,901)	(1,096,074)
Other comprehensive income	–	–	–	–	90	1,386	–	1,476	–	1,476
Total comprehensive (expenses)/ income for the period	–	–	–	–	90	1,386	(992,173)	(990,697)	(103,901)	(1,094,598)
Increase in non-controlling interests attributable to acquisition of subsidiaries and capital contribution to subsidiaries	–	–	–	–	–	–	–	–	10,000	10,000
Distribution to non-controlling interests	–	–	–	–	–	–	–	–	(8,163)	(8,163)
Equity settled share-based transactions	–	–	–	73,421	–	–	–	73,421	–	73,421
Transfer between reserves	–	–	434	–	–	–	(434)	–	–	–
Balance at 30 June 2015	227,848	4,654,010	1,142,789	263,533	105,321	7,180	3,280,010	9,680,691	666,295	10,346,986
Balance at 1 January 2016	**227,848**	**4,654,010**	**1,153,394**	**263,161**	**(134,227)**	**5,447**	**(2,139,381)**	**4,030,252**	**462,913**	**4,493,165**
Changes in equity for the six months ended 30 June 2016:										
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(722,881)**	**(722,881)**	**(86,018)**	**(808,899)**
Other comprehensive expenses	**–**	**–**	**–**	**–**	**(90,059)**	**(779)**	**–**	**(90,838)**	**–**	**(90,838)**
Total comprehensive expenses for the period	**–**	**–**	**–**	**–**	**(90,059)**	**(779)**	**(722,881)**	**(813,719)**	**(86,018)**	**(899,737)**
Derecognition of a subsidiary	**–**	**–**	**(1,824)**	**–**	**–**	**–**	**–**	**(1,824)**	**(62,633)**	**(64,457)**
Distribution to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,759)**	**(6,759)**
Balance at 30 June 2016	**227,848**	**4,654,010**	**1,151,570**	**263,161**	**(224,286)**	**4,668**	**(2,862,262)**	**3,214,709**	**307,503**	**3,522,212**

The notes on pages 41 to 72 form part of this interim financial report.

(VII) Interim Financial Statements (Unaudited)

Condensed consolidated cash flow statement

for the six months ended 30 June 2016 – Unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June 2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from operations		**789,163**	799,867
Interest paid		**(503,224)**	(829,385)
Tax paid		**(32,349)**	(107,995)
Net cash generated from/(used in) operating activities		**253,590**	(137,513)
Investing activities			
Payment of purchase of long-term assets		**(107,334)**	(1,041,910)
Others		**7,829**	162,713
Net cash used in investing activities		**(99,505)**	(879,197)
Financing activities			
Proceeds from new loans and borrowings		**–**	5,728,987
Proceeds from issue of long-term bonds		**–**	2,967,969
Proceeds from loans from a shareholder		**533,110**	–
Repayment of loans and borrowings		**(93,435)**	(2,865,394)
Repayment of long-term bonds		**(349,926)**	(2,447,600)
Repayment of loans from a shareholder		**(171,422)**	–
Others		**(12,128)**	(2,862)
Net cash (used in)/generated from financing activities		**(93,801)**	3,381,100
Net increase in cash and cash equivalents		**60,284**	2,364,390
Cash and cash equivalents at 1 January	14	**222,907**	1,151,353
Effect of foreign exchange rates changes		**572**	(499)
Cash and cash equivalents at 30 June	14	**283,763**	3,515,244

The notes on pages 41 to 72 form part of this interim financial report.

Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 ("IAS 34") "*Interim financial reporting*", issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 5 August 2016.

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 2015, except for the accounting policy changes that are expected to be reflected in the 2016 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 2015 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 2015 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2015 are available from the Company's registered office. A disclaimer of opinion was expressed in the auditors' report dated 31 March 2016 on these consolidated financial statements because of the limitations in the scope of the audit and the potential interaction of the uncertainties and their possible cumulative effect on the consolidated financial statements.

1 BASIS OF PREPARATION *(Continued)*

Material uncertainties relating to the Group's ability to continue as a going concern

During the six months ended 30 June 2016, the Group had incurred a loss of approximately RMB809 million. As at the same date, the Group's current liabilities exceeded its current assets by RMB17,630 million. Its total interest-bearing borrowings liabilities amounted to RMB15,463 million, out of which RMB14,665 million is due within 12 months. The cash and cash equivalents of the Group amounted to RMB284 million as at 30 June 2016.

As disclosed in notes 15 to 17, the Group breached the default clauses of the lending agreements of short-term bank loans totalling RMB1,735 million, other borrowings totalling RMB2,800 million and long-term bonds totalling RMB7,455 million which are included in the Group's interest-bearing borrowings as at 30 June 2016. As at the date of the approval of the interim financial report, through commencing legal proceedings, several banks have demanded that the Group repay the overdue principal of bank loans, other borrowings and long-term bonds of approximately RMB4,689 million, and certain suppliers also have demanded that the Group repay the overdue payables of approximately RMB391 million (see note 18). These facts and circumstances indicate the existence of multiple material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

In view of such circumstances, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will be able to repay the outstanding interest-bearing borrowings and be able to finance its future working capital and financial requirements.

Certain measures have been and are being taken to manage its liquidity needs and to improve its financial position which include, but are not limited to, the following:

(i) The Company has borrowed in total RMB533 million from the largest shareholder of the Company, Tianrui Group Co., Ltd ("Tianrui Group", 天瑞集團股份有限公司) during the six months ended 30 June 2016, which was mainly used to settle the overdue interest of the short-term financing bills and the USD senior notes and to support the daily operation of the Company. As at 30 June 2016, the unpaid loans from Tianrui Group is RMB426 million.

    According to the loan contracts between Tianrui Group and the Company, the loans borrowed from Tianrui Group are unsecured, interest-free and repayable on demand.

1 BASIS OF PREPARATION *(Continued)*

Material uncertainties relating to the Group's ability to continue as a going concern *(Continued)*

(ii) The Group has been actively negotiating with a number of PRC banks for renewal and extension of loans and banking facilities with extended repayment terms and reduced interest rates, or securing new loans or facilities. During 2016, the Group has successfully extended certain overdue bank loans of approximately RMB1,660 million from 2016 to year 2017 or 2018.

(iii) The Group is also maximizing its sales effort, including speeding up sales of its existing inventories, seeking new orders and implementing comprehensive policies to improve operating cash flows. During the six months ended June 2016, the Group has a net operating cash inflow of approximately RMB254 million.

(iv) On 2 June 2016, the board of the Company has approved in principle the proposal for restoration of public float of the Company, involving an open offer on the basis of 4 new shares of the Company for every 1 existing Share in combination with a placing of new/existing Shares (if necessary) to raise about HK$4 billion to settle the outstanding debt of the Group including any outstanding amount of the Senior Note with principal of USD500 million (five-year period) in the Stock Exchanges of Hong Kong Limited on 11 March 2015 (the "2020 Note"). In addition, the Company is also in discussion with various banks and financial institutions, including but not limited to any possibilities related to the application of syndicate loans and issuance of senior notes, to cope with the Group's medium to long terms financial and cashflow demands.

The directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the interim financial report.

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 amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to IFRSs 2012-2014 Cycle*
- *Amendments to IAS 1, Presentation of financial statements: Disclosure initiative*

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

Annual Improvements to IFRSs 2012-2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, IAS 34, *Interim financial reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

Amendments to IAS 1, Presentation of financial statements: Disclosure initiative

The amendments to IAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

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, assets and liabilities

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 loans and other 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.

3 SEGMENT REPORTING *(Continued)*

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

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

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

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

	2016					2015				
	Shandong Province RMB'000	Northeastern China RMB'000	Shanxi Province RMB'000	Xinjiang Region RMB'000	Total RMB'000	Shandong Province RMB'000	Northeastern China RMB'000	Shanxi Province RMB'000	Xinjiang Region RMB'000	Total RMB'000
For the six months ended										
Revenue from external customers	2,885,660	1,195,820	310,743	208,536	4,600,759	3,462,226	1,192,277	228,909	180,200	5,063,612
Inter-segment revenue	12,548	–	–	–	12,548	33,763	–	–	–	33,763
Reportable segment revenue	2,898,208	1,195,820	310,743	208,536	4,613,307	3,495,989	1,192,277	228,909	180,200	5,097,375
Reportable segment (loss)/profit (adjusted loss before taxation)	27,536	(153,974)	(89,964)	38,552	(177,850)	105,347	(182,386)	(107,502)	14,835	(169,706)
Impairment of property, plant and equipment	–	74	–	–	74	55,160	–	–	–	55,160
As at 30 June/31 December										
Reportable segment assets	11,499,155	8,487,673	5,115,562	943,503	26,045,893	11,605,586	8,648,553	5,094,725	972,256	26,321,120
Reportable segment liabilities	3,869,874	2,152,665	766,773	368,090	7,157,402	3,540,585	1,922,386	661,403	368,284	6,492,658

3 SEGMENT REPORTING *(Continued)*

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Profit		
Reportable segment loss	**(177,850)**	(169,706)
Elimination of inter-segment loss	**3,367**	1,118
Reportable segment loss derived from group's external customers	**(174,483)**	(168,588)
Share of profits less losses of associates	**(42,397)**	(11,755)
Unallocated finance costs	**(464,223)**	(783,245)
Unallocated head office and corporate expenses	**(46,882)**	(96,484)
Consolidated loss before taxation	**(727,985)**	(1,060,072)

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.

5 OTHER REVENUE AND OTHER NET (EXPENSES)/INCOME

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Other revenue		
Interest income	**3,813**	9,611
Government grants	**43,777**	53,108
Amortisation of deferred income	**8,442**	8,756
Others	**3,945**	5,113
	59,977	76,588
Other net (expenses)/income		
Net (loss)/gain from disposal of fixed assets	**(256)**	97,307
Net foreign exchange gain/(loss)	**7,491**	(1,930)
Impairment losses on investments in an associate	**(49,000)**	–
Penalty expenses	**(2,930)**	(6,071)
Impairment losses on fixed assets	**(74)**	(55,160)
Others	**(6,941)**	(3,555)
	(51,710)	30,591

Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

6 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Interest on bank loans, other borrowings and long-term bonds	**486,145**	756,907
Less: capitalised interest expenses (*)	**(1,822)**	(29,181)
Net interest expenses	**484,323**	727,726
Unwinding of discount	**3,206**	5,501
Bank charges	**16,069**	75,393
Finance charges on obligations under finance lease	**276**	669
	503,874	809,289

* The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 5.87% and 6.35% for the six months ended 30 June 2016 and 2015 respectively.

(b) Other items

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Depreciation	**682,313**	533,325
Amortisation		
– land lease prepayments	**28,916**	31,232
– intangible assets	**25,076**	30,517

7 INCOME TAX

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Current tax expenses		
Provision for the PRC income tax	**79,566**	52,696
Deferred taxation		
Origination and reversal of temporary differences	**1,348**	(16,694)
	80,914	36,002

(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 2016 and 2015.

(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 2016.

8 OTHER COMPREHENSIVE INCOME

Except for the following item, other components of other comprehensive income do not have any significant tax effect for six months ended 30 June 2016 and 2015.

	Six months ended 30 June					
	2016			2015		
	Before-tax amount RMB'000	**Tax expense RMB'000**	**Net-of-tax amount RMB'000**	Before-tax amount RMB'000	Tax expense RMB'000	Net-of-tax amount RMB'000
Available-for-sale securities: net movement in fair value reserve	**(1,039)**	**(260)**	**(779)**	1,848	462	1,386

9 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the six months ended 30 June 2016 is based on the loss attributable to ordinary equity shareholders of the Company for the period of RMB722,881,000 (corresponding period in 2015: RMB992,173,000) and the weighted average number of ordinary shares of 3,379,140,240 (corresponding period in 2015: 3,379,140,240) in issue during the interim period.

(b) Diluted loss per share

The Company has granted two batches of share options to directors and employees, they are:

– On 25 May 2011, the Company granted 7,300,000 ordinary share options to certain directors and employees, which was vested immediately after being granted ("the 2011 Options"). The exercise price of the 2011 Options are HKD7.90.

– On 27 January 2015, the Company granted 207,300,000 ordinary share options to certain directors and employees, which vested six months after being granted ("the 2015 Options"). The exercise price of the 2015 Options are HKD3.68.

The Company's shares have been suspended for trading since 16 April 2015. The average share prices of the Company for year ended 31 December 2014 and for the period from 1 January 2015 and 15 April 2015 were HKD2.93 and HKD4.49 respectively.

The 2011 Options have not been included in the calculation of diluted earnings per share because they were assumed to have been anti-dilutive for both the six months ended 30 June 2015 and 2016, on the assumption that in the period from 16 April 2015 to 30 June 2016 the share price of the Company will not have risen above its last quoted price on 15 April 2015 and therefore the average market price of the Company's shares for the six months ended 30 June 2015 and 2016 is assumed to be less than the exercise price of the options.

The directors of the Company are also of the opinion that the 2015 Options are anti-dilutive for the six months ended 30 June 2016. This assumption has been made as the directors cannot conclude that the exercise of the 2015 Options would result in the issue of ordinary shares for less than the average market price of ordinary shares during six months ended 30 June 2016, in the absence of market price information from 16 April 2015 to 30 June 2016 and taking into account the adverse nature of the events which have affected the affairs of the Company and its subsidiaries since that date. As disclosed in notes 23, the options granted on 27 January 2015 are currently subject to legal proceedings which seek to restrain the Company from issuing any shares pursuant to the exercise of these options. Furthermore, included within these options are 43,600,000 options granted to ex-directors of the Company which are considered to be legally invalid.

10 FIXED ASSETS

(a) During the six months ended 30 June 2016, the addition of fixed assets of the Group amounted to RMB143,947,000 (corresponding period in 2015: RMB636,974,000). Items of fixed assets with net book value totalling RMB1,720,000 were disposed of during the six months ended 30 June 2016 (corresponding period in 2015: RMB131,140,000), resulting in a loss on disposal of RMB256,000 (corresponding period in 2015: gain on disposal of RMB97,307,000).

(b) Certain property, plant and equipment which were obsolete, damaged or that could not generate future economic benefits were provided against for impairment for the six months ended 30 June 2016 was RMB74,000 (corresponding period in 2015: RMB55,160,000).

(c) As at the date of this report, land lease prepayments carried at RMB27 million and fixed assets carried at RMB52 million have been frozen by the PRC Court pending the outcome of the legal proceedings initiated by the Group's creditors relating to overdue bank loans, other borrowings and long-term bonds. Further details of this litigation are set out in notes 15 to 17. Under the Court order, the Group may continue to use these assets in its business but is prohibited from selling or transferring the assets until the litigation is resolved.

11 INVENTORIES

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Raw materials	**448,171**	330,533
Semi-finished goods	**177,197**	230,405
Finished goods	**272,919**	301,613
Spare parts	**365,211**	354,708
	1,263,498	1,217,259

12 TRADE AND BILLS RECEIVABLE

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Bills receivable	**331,396**	190,846
Trade debtors	**1,544,898**	1,564,012
Less: allowance for doubtful debts	**(201,224)**	(213,950)
	1,675,070	1,540,908

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:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 3 months	**840,507**	771,484
3 to 6 months	**124,113**	246,074
6 to 12 months	**341,641**	202,727
Over 12 months	**368,809**	320,623
	1,675,070	1,540,908

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.

13 OTHER RECEIVABLES AND PREPAYMENTS

	Note	**At 30 June 2016 RMB'000**	At 31 December 2015 RMB'000
Prepayments for raw materials		**40,050**	14,152
Prepayments for long-lived assets		**276,791**	267,460
VAT recoverable		**205,915**	230,086
Amount due from related parties	24(b)	**30,722**	42,216
Amount due from third parties		**292,825**	252,569
Amount due from the ex-directors (*)		**6,500**	–
Others		**96,541**	74,890
		949,344	881,373

* When the directors of the Company took over Shandong Shanshui on 30 January 2016, the management found about RMB8.87 million in cash located in the premises of Shandong Shanshui, which is equal to the carrying amount of cash in hand in the management accounts of Shandong Shanshui on that date. However, the ex-directors asserted that RMB6.5 million of the cash located in the premises of Shandong Shanshui belonged to themselves. Since there is dispute over the ownership of the money, this RMB6.5 million has been sealed up by government authorities. As at the date of this report, this amount of money is still under the control by government authorities and the dispute is unresolved. The Group recognised the amount as due from the ex-directors in other receivables and prepayments.

Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

14 CASH AND CASH EQUIVALENTS

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Cash at bank and in hand	**283,763**	222,907
Restricted bank deposits (*)	**111,442**	41,302
	395,205	264,209
Less: Restricted bank deposits	**(111,442)**	(41,302)
Cash and cash equivalents	**283,763**	222,907

* Restricted bank deposits include RMB74,116,000 as at 30 June 2016 (31 December 2015: RMB33,324,000) of cash deposits pledged to banks for the performance guarantee in relation to certain sales or purchases contracts and overseas bank loans, and RMB37,326,000 (2015: RMB7,978,000) of cash and cash equivalents which has been frozen by the PRC Court pending the outcome of the legal proceedings initiated by the Group's creditors relating to overdue bank loans, other borrowings and long-term bonds. Further details of this litigation are set out in notes 15 to 17.

The restricted bank deposits will be released upon the expiry of the relevant guarantee. The frozen cash and cash equivalents may not be used by the Group until the litigation is resolved.

15 BANK LOANS

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Bank loans – Secured (*)	**3,835,729**	3,210,428
Bank loans – Unsecured	**1,366,746**	2,074,037
	5,202,475	5,284,465

* Bank loans were either pledged by certain land lease prepayments with an aggregate carrying amount of RMB4,528,000 or guaranteed by the Group's subsidiaries or a shareholder, among which RMB185,000,000 was guaranteed by Tianrui Group.

The bank loans were repayable as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within one year on demand	**4,409,575**	5,076,265
After one year but within two years	**647,900**	30,600
After two years but within five years	**145,000**	177,600
	792,900	208,200
	5,202,475	5,284,465

15 BANK LOANS *(Continued)*

As at 30 June 2016, the Group had breached the default clauses of the lending arrangements of bank loans with carrying amount of RMB1,735 million (31 December 2015: RMB4,412 million). Since that date the following events have occurred:

(i) Several banks have commenced legal proceedings against the Group to demand immediate repayment of the overdue principal of bank loans of approximately RMB799 million, as well as demanding immediate repayment of short-term financing bills of RMB1,710 million (see note 16) and medium-term notes and other note of RMB2,180 million (see note 17), plus any interest, penalty interest and expenses incurred during the litigation. As at the date of this report, the status of these litigations so far as to relate to the bank loans is as follows:

– Litigations relating to RMB799 million overdue principal of bank loans has been judged by the trial of the first instance of the PRC Courts, with the Courts ordering the Group to repay the overdue principal, the related interest, penalty interest and expenses incurred during the litigation. The Group has appealed the order with RMB574 million overdue principal of bank loans to a higher court and as the date of this report, the trial for the second instance are still in the progress. For the remaining order with RMB225 million overdue principal of bank loans, the Group is still negotiating with the PRC bank for an extension or a restructuring plan.

  As at the date of this report, the Group has repaid most of the related interest and the penalty interest of the above RMB799 million overdue loans. The unpaid interest and related expenses of RMB8 million are recorded as other payables as at 30 June 2016.

Details of the status of this litigation so far as it relates to short-term financing bills, medium-term notes and other note are set out in notes 16 and 17 respectively.

(ii) The default has not yet resulted in any litigation in respect of the remaining overdue bank loans with the principal of RMB936 million (the "Overdue Loans"). The Group has fully settled the interest payable in relation to the Overdue Loans as at the date of this report and the management has been actively negotiating with these PRC banks for renewal or extension of these Overdue Loans. During 2016, the Group has successfully extended certain overdue bank loans of approximately RMB1,660 million from 2016 to year 2017 or 2018.

(iii) Certain assets of the Group have been frozen by the PRC Courts in respect of the litigations relating to the above overdue bank loans, short-term financing bills, medium-term notes and other note. As at the date of this report, RMB37 million of cash and cash equivalents (see note 14), RMB4,653 million of investments in subsidiaries, RMB27 million of land use rights (see note 10) and RMB52 million of fixed assets (see note 10) have been frozen by the PRC Courts.

16 OTHER BORROWINGS

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

	Note	**At 30 June 2016 RMB'000**	At 31 December 2015 RMB'000
Loan from government – Unsecured	(i)	**5,454**	4,216
Short-term financing bills	(ii)	**2,800,000**	2,799,626
		2,805,454	2,803,842

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 in equal instalments from 2012 to 2021.

(ii) All of the short-term financing bills are issued by Shandong Shanshui Cement Group Co., Ltd ("Shandong Shanshui") in the PRC inter-bank market. As at 30 June 2016, the details of short-term financing bills are listed below:

Issuer	**Principal** (RMB'000)	**Issue date**	**Maturity date**	**Interest rates** (per annum)	**Interest payment term**
Shandong Shanshui	RMB2,000,000	14/04/2015	22/11/2015	5.3%	settled at the maturity date
Shandong Shanshui	RMB800,000	14/05/2015	12/02/2016	4.5%	settled at the maturity date

16 OTHER BORROWINGS *(Continued)*

Up the date of this report, all of the short-term financing bills issued by Shandong Shanshui are overdue.

As disclosed in note 15, several banks have commenced legal proceedings against the Group to demand immediate repayment of the overdue principal of short-term financing bills of approximately RMB1,710 million plus any interest, penalty interest and expenses incurred during the litigation. As at the date of this report, the status of these litigations is as follows:

– Certain litigations with RMB1,130 million overdue principal has been judged by the trial of the first instance of the PRC Courts, with the Courts ordering the Group to repay the overdue principal, the related interest, penalty interest and expenses incurred during the litigation. As at the date of this report, the Group has fully repaid the related interest. The Group has appealed these orders to a higher court and as the date of this report, the trial for the second instance are still in the progress.

– The remaining pending litigations with the overdue principal of RMB580 million are still in progress. As at the date of this report, the Group has fully repaid the related interest. For the overdue principal, the Group is still negotiating with the PRC banks for an extension or a restructuring plan.

– Certain assets of the Group have been frozen by the PRC Courts in respect of the litigations of these short-term financing bills (see note 15).

The default has not yet resulted in any litigation in respect of the remaining overdue principal of RMB1,090 million. The Group has fully settled the interest payable in relation to these short-term financing bills as at the date of this report and the management has been actively negotiating with these PRC banks for a renewal or an extension or a restructuring plan.

17 LONG-TERM BONDS

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Medium-term notes and other note	**4,300,000**	4,290,514
Less: Current portion of medium-term notes and other note	**(4,300,000)**	(4,290,514)
Senior notes	**3,154,803**	3,434,329
Less: Current portion of senior notes	**(3,154,803)**	(3,434,329)
Long-term bonds, less current portion	**–**	–

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

Issuer	**Principal** *(RMB'000/USD'000)*	**Issue date**	**Maturity date**	**Interest rates** *(per annum)*	**Interest payment term**
(a) Medium-term notes issued in the PRC inter-bank market (note (i))					
Shandong Shanshui	RMB1,800,000	18/01/2013	21/01/2016	5.44%	annually
Shandong Shanshui	RMB1,000,000	27/02/2014	27/02/2017	6.10%	annually
Shandong Shanshui	RMB1,200,000	09/05/2014	12/05/2017	6.20%	annually
(b) Senior notes issued in the Stock Exchange of Hong Kong Limited (note (ii))					
The Company	USD475,751	11/03/2015	10/03/2020	7.50%	semi-annually
(c) Other note (note (i))					
Shandong Shanshui	RMB300,000	31/03/2014	28/03/2017	6.60%	annually

17 LONG-TERM BONDS *(Continued)*

(i) Up the date of this report, all of the medium-term notes and other note issued by Shandong Shanshui are overdue or breached the default clauses of the lending arrangements.

As disclosed in note 15, several banks have commenced legal proceedings against the Group to demand immediate repayment of the overdue principal of medium-term notes and other note of approximately RMB2,180 million plus any interest, penalty interest and expenses incurred during the litigation. As at the date of this report, the status of these litigations is as follows:

– Certain litigations with overdue principal of RMB1,330 million have been judged by the PRC Court, with the Court ordering the Group to repay the overdue principal of RMB1,330 million, the related interest, penalty interest and expenses incurred during the litigation. The Group has appealed these orders to a higher court and as the date of this report, the trial for the second instance are still in the progress.

  As at the date of this report, the Group has settled RMB42 million of the related interest and the penalty interest and the remaining unpaid interest and penalties payable of RMB62 million are recorded as other payables as at 30 June 2016.

– The remaining pending litigations with the overdue principal of RMB850 million are still in progress. The Group is still negotiating with the PRC banks for an extension or a restructuring plan.

– Certain assets of the Group have been frozen by the PRC Court in respect of the litigations of these the medium-term notes and other note (see note 15).

The default has not yet resulted in any litigation in respect of the remaining overdue principal of RMB2,120 million. The Group has continued to settle the interest payable in relation to the medium-term notes and other note on the due date and the management has been actively negotiating with these PRC banks for a renewal or an extension or a restructuring plan.

(ii) The Company issued a senior note with principal of USD500 million (five-year period) to corporate investors in The Stock Exchange of Hong Kong Limited on 11 March 2015. On 14 January 2016, the Company made an announcement to propose an offer to re-purchase the principal amount of USD500,000,000 of the 2020 Note. As at the expiration date of the proposal on 14 March 2016, USD484,971,000 of the principal amount of the 2020 Note have validly accepted the proposal. The Company re-purchased USD24,249,000 and USD24,249,000 of the principal of the 2020 Note by cash on 30 June 2016 and 15 July 2016 respectively.

18 TRADE AND BILLS PAYABLE

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Trade payables	**3,791,193**	3,523,918

As at 30 June 2016 and 31 December 2015, 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.

As at 30 June 2016, certain suppliers have filed 62 lawsuits against Shandong Shanshui and its subsidiaries to demand that the Group immediately settle trade payables with carrying amount of RMB391 million as at 30 June 2016 plus interest for late payment, if any. The Group has applied to relevant PRC courts to postpone the above 62 pending lawsuits as the Group is unable to appoint legal representation in the hearings while the ex-directors continue to hold the Shandong Shanshui's official chop. As at the date of this report, the status is as follows:

- The Group have been successful in their application to postpone 33 of the pending lawsuits. These postponed lawsuits related to trade payables with carrying amount of RMB135 million as at 30 June 2016;

- Shandong Shanshui Heavy Industries Co., Ltd ("Shanshui Heavy Industries"), a previous subsidiary of the Group and currently under the control of ex-directors, has sued the Group to settle trade payables with carrying amount of RMB191 million as at 30 June 2016. The PRC Court has frozen Shandong Shanshui's investment in Shanshui Heavy Industries on 20 January 2016. The PRC Court has frozen Shandong Shanshui's investment in Liaocheng Shanshui Cement Co., Ltd ("Liaocheng Shanshui"), a subsidiary of Shandong Shanshui, carried at RMB19.8 million in the Shandong Shanshui's statement of financial position on 25 January 2016. The net assets of Liaocheng Shanshui included in the consolidated statement of financial position as at 30 June 2016 are about RMB136 million. Such decision by the PRC court prohibited the sell or transfer of investment in Liaocheng Shanshui by Shandong Shanshui until the litigation is resolved. Up to date of this report, the litigation is still in the duration of hearings.

- The remaining lawsuits relating to trade payables of RMB112 million as at 30 June 2016 are still in the duration of hearings.

The directors are continuing to negotiate with the suppliers to settle these amounts out of court. No adjustments have been made to the consolidated financial statements to accrue for any potential interest or other penalties that may arise through the Courts if the negotiations are not successful, as the existing directors of the Company consider that the eventual outcome of these litigations cannot presently be determined, given their preliminary status.

19 OTHER PAYABLES AND ACCRUED EXPENSES

	Note	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Customer deposits and receipts in advance		**937,454**	479,543
Accrued payroll and welfare		**109,405**	119,962
Taxes payable other than income tax		**200,110**	152,068
Staff compensation and termination provisions		**191,412**	192,205
Amount due to related parties	24(b)	**556,736**	200,232
Payable to third parties of acquired subsidiaries		**167,622**	194,529
Acquisition consideration payable		**312,586**	315,656
Current portion of long-term payables		**37,668**	57,042
Accrued expenses and other payables		**925,810**	936,024
		3,438,803	2,647,261

20 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The Board of Directors decided not to declare an interim dividend for the six months ended June 2016 (the corresponding period 2015: Nil).

Due to inability to comply with the certain covenants from the indentures of the Senior Notes issued by the Company (see note 17), the Board of Directors has proposed no dividend distribution for the year ended 31 December 2015.

20 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Share capital

	2016		2015	
	Number of shares	**RMB equivalent RMB'000**	Number of shares	RMB equivalent RMB'000
Authorised:				
Ordinary shares of the Company of USD0.01 each	**10,000,000,000**	**701,472**	10,000,000,000	701,472
Ordinary shares of the Company, issued and fully paid:				
At 1 January and at 30 June/31 December	**3,379,140,240**	**227,848**	3,379,140,240	227,848

Pursuant to the written resolutions of the Board of the Company passed on 27 October 2014, the Company allotted and issued a total of 563,190,040 ordinary shares of USD0.01 each to China National Building Material Company Limited ("CNBM", 中國建材股份有限公司). The proceeds were fully received on 3 November 2014. The Company received a statement of claim in respect of this issuance, for details please refer to note 23.

(c) Equity settled share-based transactions

Pursuant to the written resolutions of the Company's shareholders passed on 14 June 2008, the Company has adopted the share option scheme ("the Share Option Scheme") whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, and any customer or supplier or any persons who has contributed or will contribute to the Group, to take up options at HKD1 consideration to subscribe for shares of the Company.

(Expressed in Renminbi unless otherwise indicated)

20 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Equity settled share-based transactions *(Continued)*

The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors and employees:			
– on 25 May 2011	7,300,000	Immediately after the date of grant	10 years
– on 27 January 2015 (*)	207,300,000	Six months after the date of grant	10 years
Total share options granted	214,600,000		

* Of the 207,300,000 options granted by the Company on 27 January 2015 to certain directors and employees of the Company, 43,600,000 options were granted to Mr. Zhang Caikui and Mr. Zhang Bin, the ex-directors of the Company. According to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Share Option Scheme of the Company, the options granted to Mr. Zhang Caikui and Mr. Zhang Bin need to be approved by the Extraordinary General Meeting of the Company. However, up until the date of this report, the required Extraordinary General Meeting has not been held as all the options granted on 27 January 2015 are subject to the legal proceedings set out in note 23. As the required Extraordinary General Meeting has not been held, the directors consider that the options granted to Mr. Zhang Caikui and Mr. Zhang Bin are not legally valid.

No options were exercised during the six months ended 30 June 2016.

21 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets measured at fair value

(i) Fair value hierarchy

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 2016, 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 measurements as at 30 June 2016 using		
	Fair value at 30 June 2016 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**
Assets				
Available-for-sale securities:				
– Listed	**7,224**	**7,224**	**–**	**–**

		Fair value measurements as at 31 December 2015 using		
	Fair value at 31 December 2015 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Assets				
Available-for-sale securities:				
– Listed	8,263	8,263	–	–

21 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

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

(i) Fair value hierarchy (Continued)

During the six months ended 30 June 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (corresponding period in 2015: 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 2016 and 31 December 2015 except for the following senior notes, for which its carrying amounts and fair values are disclosed below:

	At 30 June 2016		At 31 December 2015	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Senior notes	**3,154,803**	**2,207,151**	3,246,800	2,661,402

22 COMMITMENTS

(a) Capital commitments

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Authorised and contracted for		
– the acquisitions of fixed assets	**361,862**	401,982
Authorised but not contracted for		
– the acquisitions of fixed assets	**219,377**	249,435
	581,239	651,417

22 COMMITMENTS *(Continued)*

(b) Operating lease commitments

At 30 June 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 1 year	**17,070**	16,430
After 1 year but within 2 years	**17,050**	16,430
After 2 years but within 5 years	**48,630**	48,830
After 5 years	**64,486**	77,411
	147,236	159,101

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.

23 CONTINGENT LIABILITIES AND OTHER EVENTS

(a) As disclosed in note 20, the Company issued a total of 563,190,040 ordinary shares of USD0.01 each to CNBM on 27 October 2014. The proceeds of RMB1,237.6 million were fully received from CNBM on 3 November 2014. The Company received a generally endorsed writ of summons (the "Writ") dated 30 October 2014 issued by six individual minority shareholders (the "Plaintiffs", who are the current senior management of Shandong Shanshui since 1 December 2015) of China Shanshui Investment Company Limited ("China Shanshui Investment", a shareholder of the Company) in the high court of Hong Kong Special Administrative Region and a statement of claim which was served on the Company's legal adviser at that time by the Plaintiffs' legal adviser on 23 January 2015, against the Company and CNBM. The Plaintiffs sought an order from the high court for the subscription agreement and the subscription between the Company and CNBM be set aside. If this claim is successful then the Company would need to refund the proceeds to CNBM and the shares issued would be cancelled. According to the order of the high court of Hong Kong Special Administrative Region issued on 12 August 2015, this claim has been discontinued.

23 CONTINGENT LIABILITIES AND OTHER EVENTS *(Continued)*

(b) Under the Share Option Scheme, the predecessor board granted a total of 207,300,000 new shares to certain directors (who are now the ex-directors) and employees of the Company and its subsidiaries on 27 January 2015 ("the Options"). On 11 February 2015, certain individual minority shareholders of China Shanshui Investment (who are the current senior management of Shandong Shanshui since 1 December 2015) issued an originating summons for leave to be granted by the High Court of Hong Kong to apply for an injunction to restrain the Company from (i) issuing any new shares pursuant to the exercise of the Options; and (ii) holding the Extraordinary General Meeting to approve the grant of options to Mr. Zhang Caikui and Mr. Zhang Bin ("Mr. Zhangs' Options"). As at the date of this report, the Extraordinary General Meeting to approve the Mr. Zhangs' Options has not been held yet. The status of the proceedings is in the preliminary stage and the directors of the Company are of the view that the ultimate outcome of the Mr. Zhangs' Options cannot be reliably estimated at this stage.

(c) Shandong Shanshui and Pingyin Shanshui have provided guarantees on behalf of Shanshui Heavy Industries for its bank loan with the principal of RMB300 million. The bank loan of Shanshui Heavy Industries bears the interest rate quoted by the People's Bank of China and is repayable within five years from 2015.

(d) On 29 January 2016, the ex-directors, on behalf of Shandong Shanshui, issued an escrow agreement to a third party to let the third party take over Qixia City Xinghao Cement Co., Ltd. ("Xinghao Cement", a subsidiary of Shandong Shanshui), because Xinghao Cement owed about RMB72.6 million to the third party. Xinghao Cement stopped production since April 2016.

24 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions

	Note	Six months ended 30 June 2016 RMB'000	2015 RMB'000
Recurring transactions			
Sales to:			
– Dong'e Shanshui Dongchang Cement Co., Ltd. ("Dong'e Shanshui")	(i)	**2,461**	2,646
– Dalian Cement Group Co., Ltd. ("Dashui Group")		**–**	4,283
		2,461	6,929
Purchase from:			
– Dong'e Shanshui	(i)	**684**	–
– Dashui Group	(i)	**1,052**	–
– Shanshui Heavy Industries	(ii)	**25,300**	–
		27,036	–
Non-recurring transactions			
Loans from related parties and related interest expenses:			
– Jinan Shanshui Lixin Investment Development Co., Ltd. ("Jinan Lixin")	(iii)	**214,589**	–
– Jinan Shanshui Group Co., Ltd. ("Jinan Shanshui Group")		**38**	–
– Tianrui Group	(iii)	**533,110**	–
		747,737	–

24 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions *(Continued)*

	Note	Six months ended 30 June 2016 RMB'000	2015 RMB'000
Loans to an associate and related interest income:			
– Dong'e Shanshui	(iv)	**1,092**	1,843
Repayment of loans to an associate and related interests by:			
– Dong'e Shanshui	(iv)	**6,683**	11,878
Repayment of loans from related parties and related interests to:			
– Jinan Lixin	(iii)	**216,980**	–
– Jinan Shanshui Group		**24**	–
– Tianrui Group	(iii)	**171,422**	–
		388,426	–

Notes:

(i) These represent sales of coal or clinker to Dong'e Shanshui and purchases of clinkers from Dong'e Shanshui and Dashui Group. 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 represent purchase of equipment and installation services from Shanshui Heavy Industries. 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.

(iii) These relate to loans from Jinan Lixin and Tianrui Group which are interest-free.

(iv) These relate to loans and related interests to Dong'e Shanshui, the associate of the Group. These loans with total principal of RMB35,600,000 as at 30 June 2016 bear interest at one-year PRC bank loan interest rate of 6% (2015: 6%).

24 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances with related parties

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Accounts receivables due from:		
– Shanshui Heavy Industries	**17,936**	17,980
Advances to suppliers:		
– Dong'e Shanshui	**9**	9
– Shanshui Heavy Industries	**19,464**	19,420
	19,473	19,429
Advances from customers:		
– Dong'e Shanshui	**4**	528
Other receivables due from:		
– China Shanshui Investment	**739**	725
– Jinan Shanshui Group Property Development Co., Ltd	**1,341**	1,341
– Jinan Shanshui Jianxin Investment Development Co., Ltd	**1,917**	1,917
– Jinan Lixin	**–**	12,930
– Shanshui Heavy Industries	**4,192**	5,814
– Jinan Shanshui Group	**60**	60
– Dashui Group	**3,000**	–
	11,249	22,787
Other financial assets due from:		
– Dong'e Shanshui	**35,845**	41,436
Accounts payable due to:		
– Dashui Group	**115**	–
– Shanshui Heavy Industries	**98,205**	71,128
	98,320	71,128
Other payables due to:		
– Dong'e Shanshui	**733**	432
– Jinan Lixin	**27,927**	43,248
– Jinan Shanshui Group	**11,014**	11,000
– Shanshui Heavy Industries	**90,593**	80,247
– Tianrui Group	**426,465**	64,777
	556,732	199,704

24 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Key management personnel remuneration

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

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Salary, allowances and other benefits	**6,741**	2,835
Contribution to defined contribution retirement plans	**343**	171
Share-based payments	**–**	21,215
	7,084	24,221