SUNNSY

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 691

2019 Interim Report

Contents

(I) Definitions

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

"Company" or "China Shanshui" or "Shanshui Cement"	China Shanshui Cement Group Limited
"Group" or "China Shanshui Group"	the Company and its subsidiaries
"Financial Statements"	the consolidated financial statements of the Group
"Reporting Period"	the period from 1 January 2019 to 30 June 2019
"Board"	the Board of Directors of the Company
"Director(s)"	the Directors of the Company
"China Shanshui (HK)"	China Shanshui Cement Group (Hong Kong) Company Limited
"Pioneer Cement"	China Pioneer Cement (Hong Kong) Company Limited
"Continental Cement"	Continental Cement Corporation
"American Shanshui"	American Shanshui Development Inc.
"Shandong Shanshui"	Shandong Shanshui Cement Group Company Limited
"ACC"	Asia Cement Corporation
"CNBM"	China National Building Material Company Limited
"CSI"	China Shanshui Investment Company Limited
"Tianrui Group"	Tianrui Group Company Limited
"Shandong Region"	business covered by Eastern Shandong Operating Region, Western Shandong Operating Region and Southern Shandong Operating Region
"Eastern Shandong Operating Region"	business located in Eastern Shandong Province, including Weifang, Qingdao, Yantai and Weihai, etc
"Western Shandong Operating Region"	business located in Central and Western Shandong Province, including Zibo, Jinan and Hebei Province and Tianjin, etc

(I) Definitions (Continued)

"Southern Shandong Operating Region"	business located in Southern Shandong Province, including Zaozhuang, Jining, Heze and Henan Province, etc
"Northeast China Operating Region"	business located in Liaoning Province, the Eastern Inner Mongolia and Jilin Province, etc
"Shanxi Operating Region"	business located in Shanxi Province and Shaanxi Province, etc
"Xinjiang Operating Region"	business located in Kashi, Xinjiang
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Rules"	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)
"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 amended and restated memorandum and articles of association of the Company adopted on 30 May 2019
"YOY"	year on year comparison
"Clinker"	a semi-finished product in the cement production process
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"RMB"	Renminbi, the lawful currency of the PRC, which is the currency unit used in this report, unless otherwise specified
"PRC"	The People's Republic of China

(II) Corporate Information

1. BOARD OF DIRECTORS AND BOARD COMMITTEES

Executive Directors

Mr. CHANG Zhangli *(Chairman)*
Ms. WU Ling-ling

Independent Non-Executive Directors

Mr. CHANG Ming-cheng
Mr. LI Jianwei
Mr. HSU You-yuan

Audit Committee

Mr. CHANG Ming-cheng *(Chairman)*
Mr. LI Jianwei
Mr. HSU You-yuan

Remuneration Committee

Mr. LI Jianwei *(Chairman)*
Mr. CHANG Ming-cheng
Mr. HSU You-yuan

Executive Committee

Mr. CHANG Zhangli *(Chairman)*
Ms. WU Ling-ling

Nomination Committee

Mr. CHANG Zhangli *(Chairman)*
Ms. WU Ling-ling
Mr. CHANG Ming-cheng
Mr. LI Jianwei
Mr. HSU You-yuan

2. BASIC CORPORATE INFORMATION

(1)	Official Chinese name of the Company Official English name of the Company Abbreviation in English	: : :	中國山水水泥集團有限公司 China Shanshui Cement Group Limited CSC
(2)	Registered Office	:	P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands
(3)	Principal Place of Business in China	:	Shanshui Industrial Park, Gushan Town, Changqing District, Jinan, Shandong, PRC
	Principal Place of Business in Hong Kong	:	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
(4)	Website	:	www.sdsunnsygroup.com
(5)	Authorised Representatives	:	CHANG Zhangli and WU Ling-ling
(6)	Company Secretary	:	LO Yee Har Susan
(7)	Listing Date	:	4 July 2008
(8)	Exchange on which the Company's shares are listed	:	The Stock Exchange
(9)	Stock code	:	00691
(10)	Stock Short Name	:	Shanshui Cement
(11)	Hong Kong Share Registrar and Transfer Office	:	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
(12)	Legal Adviser as to Hong Kong law	:	Freshfields Bruckhaus Deringer
(13)	Auditor	:	Moore Stephens CPA Limited

(III) Key Data

1. KEY FINANCIAL DATA

(Unit: RMB'000)

	January to June 2019	January to June 2018
Revenue	**9,440,723**	6,759,414
Gross profit	**3,281,588**	2,384,095
Gross profit margin	**34.8%**	35.3%
Profit from operations	**1,938,564**	1,455,252
Profit margin from operations	**20.5%**	21.5%
EBITDA	**2,685,181**	2,144,309
EBITDA margin	**28.4%**	31.7%
Net profit	**1,205,641**	711,107
Profit attributable to equity shareholders of the Company	**1,196,369**	751,766
Basic earnings per share *(RMB) (Note)*	**0.27**	0.22
Net cash generated from operating activities	**1,642,319**	1,270,779

Note: Basic earnings per share is calculated based on the profit attributable to equity shareholders of the Company for each period and the weighted average of 4,353,966,228 shares and 3,379,140,240 shares for the first six months of 2019 and 2018, respectively.

	30 June 2019	31 December 2018
Total assets	**26,825,434**	26,072,713
Total liabilities	**16,051,184**	16,486,377
Equity attributable to equity shareholders of the Company	**10,717,016**	9,522,248
Net gearing ratio	**36.5%**	42.6%

2. KEY BUSINESS DATA

	January to June 2019	January to June 2018
Sales volume of cement *('000 tonnes)*	**20,373**	15,196
Sales volume of clinker *('000 tonnes)*	**3,559**	3,530
Sales volume of concrete *('000 m^3)*	**1,504**	1,259
Unit selling price of cement *(RMB/tonne)*	**371.4**	330.7
Unit selling price of clinker *(RMB/tonne)*	**276.4**	263.2
Unit selling price of concrete *(RMB/m^3)*	**499.0**	439.1

(IV) Management Discussion and Analysis

1. OPERATING ENVIRONMENT AND INDUSTRY OVERVIEW

In the first half of 2019, faced with the complicated and ever-changing environment at home and abroad, the Chinese government upheld the general principle of seeking progress while maintaining stability, and continued to pursue the new development philosophy and high-quality development, kept supply-side structural reform as its main task, deepened reforms and opening up, and took further steps to ensure stable employment, stable financial sector, stable foreign trade, stable foreign investment, stable domestic investment, and stable expectations. Thanks to these efforts, China's economic performance was generally stable and remained within a reasonable range, with progress being made in certain areas.

In the first half of 2019, China's GDP was RMB45,093.6 billion, representing a year on year ("YOY") increase of 6.3% at comparable prices, a stable growth despite 0.5 percentage point down from the same period last year. The total investment in fixed assets (excluding rural households)across the country was RMB29,910.0 billion, representing a YOY increase of 5.8%. The total investment in infrastructure (excluding electricity sector) across the country registered a YOY increase of 4.1%. The total investment in real estate development across the country was RMB6,160.9 billion, representing a YOY growth of 10.9%. The sales area of commercial residential property nationwide was 757.86 million square meters, representing a YOY decrease of 1.8%. The sales of commercial residential property nationwide were RMB7,069.8 billion, up by 5.6%. *(Source:National Bureau of Statistics of China)*

In the first half of 2019, China's fixed-asset investment growth continued to pick up, and infrastructure investment continued to grow at a slow but steady pace. In particular, investment in railway transportation and road transportation maintained a rapid growth, and investment in water conservancy management turned to positive growth. Real estate investment slowed down slightly but still grew at a fast pace, and floor space under construction and floor space newly started for construction by real estate developers continued to grow rapidly YOY, while land acquisition area, though improved noticeably, continued to decline significantly YOY. China's total cement production amounted to approximately 1,045 million tonnes, representing a YOY decrease of 6.8%, a record-high growth rate as compared with the same period of past five years. China's cement industry realized a total profit of RMB82.6 billion, representing a YOY increase of approximately RMB15.7 billion or 29.6%. *(Source:Digital Cement)*

2. COMPANY'S BUSINESS REVIEW

In the first half of 2019, the Group was committed to refining our fundamental internal management, to enhance the quality of existing manufacturing operations and the sustainability of profits.

As at 30 June 2019, the Group had a total production capacity of 100.38 million tonnes of cement, 51.07 million tonnes of clinker and 19.30 million cubic meters of concrete.

During the Reporting Period, the Group's total sales of cement and clinker were 23.932 million tonnes, representing a YOY increase of 27.8%; sales volume of concrete was 1.504 million cubic meters, representing a YOY increase of 19.5%; sales revenue was RMB9,440,723,000, representing a YOY increase of 39.7%; and the profit for the period was RMB1,205,641,000, representing a YOY increase of 69.5%.

2. COMPANY'S BUSINESS REVIEW (CONTINUED)

(I) Business analysis

1. Sales revenues and their respective YOY changes

(Unit: RMB'000)

	January–June 2019		January–June 2018		Sales revenue
Product	**Sales revenue**	**proportion**	Sales revenue	proportion	YOY change
Cement	**7,522,147**	**79.7%**	5,109,989	75.6%	47.2%
Clinker	**977,265**	**10.4%**	944,091	14.0%	3.5%
Concrete	**745,832**	**7.9%**	561,655	8.3%	32.8%
Others	**195,479**	**2.0%**	143,679	2.1%	36.1%
Total	**9,440,723**	**100.0%**	6,759,414	100.0%	39.7%

During the Reporting Period, the Group's sales revenue increased by 39.7% to RMB9,440,723,000. With regard to revenue breakdown by products, cement revenue amounted to RMB7,522,147,000, representing a YOY increase of 47.2%, and clinker revenue amounted to RMB977,265,000, representing a YOY increase of 3.5%. The revenue from concrete amounted to RMB745,832,000, representing a YOY increase of 32.8%.

2. COMPANY'S BUSINESS REVIEW (CONTINUED)

(I) Business analysis (Continued)

2. Sales volume, unit selling prices and their respective YOY changes

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

Product	**Sales volume for the Reporting period**	Sales volume for the same period of last year	Sales volume change	**Unit selling price for the Reporting period**	Unit selling price for the same period of last year	Change in unit selling price
	('000 tonnes)	*('000 tonnes)*		***(RMB/tonne)***	*(RMB/tonne)*	
Cement	**20,373**	15,196	34.1%	**371.4**	330.7	12.3%
Clinker	**3,559**	3,530	0.8%	**276.4**	263.2	5.0%
	('000 m³)	*('000 m³)*		***(RMB/m³)***	*(RMB/m³)*	
Concrete	**1,504**	1,259	19.5%	**499.0**	439.1	13.6%

During the Reporting Period, the sales volume of cement of the Group amounted to 20.373 million tonnes, representing a YOY increase of 34.1%, the sales volume of clinker amounted to 3.559 million tonnes, representing a YOY increase of 0.8%. The unit selling price of cement increased by 12.3% to RMB371.4 per tonne, while the unit selling price of clinker increased by 5.0% to RMB276.4 per tonne. The sales volume of concrete amounted to 1.504 million cubic meters, representing a YOY increase of 19.5%. The unit selling price of concrete increased by 13.6% to RMB499.0/m^3.

2. COMPANY'S BUSINESS REVIEW (CONTINUED)

(I) Business analysis (Continued)

2. Sales volume, unit selling prices and their respective YOY changes (Continued)

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

Operating region	**Average unit selling price for the Reporting period *(RMB/tonne)***	Average unit selling price for the same period of last year *(RMB/tonne)*	Change in unit selling price
Shandong Region	**420.7**	363.3	15.8%
Eastern Shandong Operating Region	**434.3**	395.1	9.9%
Western Shandong Operating Region	**405.6**	359.4	12.9%
Southern Shandong Operating Region	**431.6**	323.0	33.6%
Northeast China Operating Region	**265.1**	284.0	-6.7%
Shanxi Operating Region	**268.4**	239.7	12.0%
Xinjiang Operating Region	**449.1**	377.0	19.1%

During the Reporting Period, the average unit selling price of cement in Shandong Region was RMB420.7 per tonne, representing a YOY increase of 15.8%; the average unit selling price of cement in Eastern Shandong Operating Region was RMB434.3 per tonne, representing a YOY increase of 9.9%; the average unit selling price of cement in Western Shandong Operating Region was RMB405.6 per tonne, representing a YOY increase of 12.9%; the average unit selling price of cement in Southern Shandong Operating Region was RMB431.6 per tonne, representing a YOY increase of 33.6%; the average unit selling price of cement in Northeast China Operating Region was RMB265.1 per tonne, representing a YOY decrease of 6.7%; the average unit selling price of cement in Shanxi Operating Region was RMB268.4 per tonne, representing a YOY increase of 12.0%; the average unit selling price of cement in Xinjiang Operating Region was RMB449.1 per tonne, representing a YOY increase of 19.1%.

2. COMPANY'S BUSINESS REVIEW (CONTINUED)

(I) Business analysis (Continued)

2. Sales volume, unit selling prices and their respective YOY changes (Continued)

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

Product	**January–June 2019**		January–June 2018		Change in sales volume
	Sales volume (*'000 tonnes*)	**Sales proportion**	Sales volume (*'000 tonnes*)	Sales proportion	
High grade cement	**16,470**	**80.84%**	11,430	75.2%	44.1%
Low grade cement	**3,903**	**19.16%**	3,766	24.8%	3.6%

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 16,470,000 tonnes, representing a YOY increase of 44.1%, and sales volume of low grade cement was 3,903,000 tonnes, representing a YOY increase of 3.6%.

2. COMPANY'S BUSINESS REVIEW (CONTINUED)

(I) Business analysis (Continued)

3. Analysis of sales revenue by operating regions and their respective YOY changes

(Unit: RMB'000)

Region	**January–June 2019**		January–June 2018		Change of sales revenue
	Sales revenue	**Sales proportion**	Sales revenue	Sales proportion	
Shandong Region	**6,599,659**	**69.9%**	4,899,132	72.5%	34.7%
Eastern Shandong Operating Region	**2,401,983**	**25.4%**	1,894,867	28.0%	26.8%
Western Shandong Operating Region	**2,820,418**	**29.9%**	1,958,358	29.0%	44.0%
Southern Shandong Operating Region	**1,377,258**	**14.6%**	1,045,907	15.5%	31.7%
Northeast China Operating Region	**1,428,488**	**15.1%**	1,118,135	16.5%	27.8%
Shanxi Operating Region	**1,042,495**	**11.1%**	546,911	8.1%	90.6%
Xinjiang Operating Region	**370,081**	**3.9%**	195,236	2.9%	89.6%
Total	**9,440,723**	**100%**	6,759,414	100.0%	39.7%

During the Reporting Period, the sales revenue in Shandong Operating Region was RMB6,599,659,000, accounting for 69.9% of the Group's total sales revenue and representing a YOY increase of 34.7%; the sales revenue in Eastern Shandong Operating Region was RMB2,401,983,000, accounting for 25.4% of the Group's total sales revenue and representing a YOY increase of 26.8%; the sales revenue in Western Shandong Operating Region was RMB2,820,418,000, accounting for 29.9% of the Group's total sales revenue and representing a YOY increase of 44.0%; the sales revenue in Southern Shandong Operating Region was RMB1,377,258,000, accounting for 14.6% of the Group's total sales revenue and representing a YOY increase of 31.7%; the sales revenue in Northeast China Operating Region was RMB1,428,488,000, accounting for 15.1% of the Group's total sales revenue and representing a YOY increase of 27.8%; the sales revenue in Shanxi Operating Region was RMB1,042,495,000, accounting for 11.1% of the Group's total sales revenue and representing a YOY increase of 90.6%; the sales revenue in Xinjiang Operating Region was RMB370,081,000, accounting for 3.9% of the Group's total sales revenue and representing a YOY increase of 89.6%.

2. COMPANY'S BUSINESS REVIEW (CONTINUED)

(II) Profit analysis

1. Changes in key profit and loss items

(Unit: RMB'000)

	January–June 2019	January–June 2018	Change
Revenue	**9,440,723**	6,759,414	39.7%
Gross profit	**3,281,588**	2,384,095	37.6%
EBITDA	**2,685,181**	2,144,309	25.2%
Profit from operations	**1,938,564**	1,455,252	33.2%
Profit before taxation	**1,713,947**	1,063,308	61.2%
Profit for the period	**1,205,641**	711,107	69.5%
Profit attributable to equity shareholders of the Company	**1,196,369**	751,766	59.1%

During the Reporting Period, the Group recorded sales revenue of RMB9,440,723,000, representing a YOY increase of 39.7%; profit from operations was RMB1,938,564,000, profit for the period was RMB1,205,641,000, representing a YOY increase of 69.5%; profit attributable to equity shareholders of the Company was RMB1,196,369,000. The increase in profit was mainly due to the increases in sales volume and selling prices.

2. COMPANY'S BUSINESS REVIEW (CONTINUED)

(II) Profit analysis (Continued)

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

(Unit: RMB'000)

Cost of sales	**January–June 2019** Amount	**January–June 2019** Proportion to revenue	January–June 2018 Amount	January–June 2018 Proportion to revenue	Change of proportion to revenue
Raw materials	**2,513,020**	**26.6%**	1,418,485	21.0%	5.6 P.PT
Coal	**1,610,544**	**17.1%**	1,138,199	16.8%	0.3 P.PT
Power	**637,533**	**6.8%**	438,062	6.5%	0.3 P.PT
Depreciation and amortisation	**475,907**	**5.0%**	376,649	5.6%	0.6 P.PT
Others	**922,131**	**9.8%**	1,003,924	14.8%	-5 P.PT
Total cost of sales	**6,159,135**	**65.3%**	4,375,319	64.7%	0.6 P.PT

During the Reporting Period, the proportion of the Group's total cost of sales to revenue was 65.3%, representing a YOY increase of 0.6 percentage point, due to the increase of the total sales volume. Of which, the proportion of raw materials costs to revenue was 26.6%, representing a YOY increase of 5.6 percentage point. The proportion of coal costs to revenue was 17.1%, representing a YOY increase of 0.3 percentage point. The Group's average unit purchase price of coal in the first half of 2019 increased by 6.1% to RMB678.1/tonne as compared with the same period of last year (RMB639.4/tonne). As for cost reduction, the output of residual heat power generation was 555,497,200 KWH in the first half of 2019, thus reducing the cost of clinker by RMB191,253,600.

3. COMPANY'S FINANCIAL REVIEW

(I) Expenses during the period

(Unit: RMB'000)

	January–June 2019		January–June 2018		Changes in proportion to sales revenue
	Amount	Proportion to sales revenue	Amount	Proportion to sales revenue	
Selling and marketing expense	**274,092**	**2.9%**	201,132	3.0%	-0.1P.PT
Administrative expense	**752,872**	**8.0%**	506,682	7.5%	0.5P.PT
Finance expense	**243,812**	**2.6%**	400,845	5.9%	-3.3P.PT
Total	**1,270,776**	**13.5%**	1,108,659	16.4%	-2.9P.PT

During the Reporting Period, the proportion of the Group's selling and marketing expense to sales revenue has a YOY decrease of 0.1 percentage point. The proportion of administrative expense to sales revenue has a YOY increase of 0.5 percentage point. In addition, the proportion of the Group's finance cost to sales revenue has a YOY decrease of 3.3 percentage point.

The increase in selling and marketing expense was mainly attributable to the YOY increase in sales volume and the YOY increase in transportation and sales service charges. The increase in administrative expense was mainly attributable to accrued bonuses as a result of the growth of operating results for the period, and payment of penalties related to litigation and default interest and other factors. The decrease in financial cost was mainly caused by the YOY decrease in interest expenses due to negotiation on debts and accelerated repayment of borrowings.

3. COMPANY'S FINANCIAL REVIEW (CONTINUED)

(II) Changes in balance sheet items

(Unit: RMB'000)

	30 June 2019	31 December 2018	Change
Non-current assets	**20,252,256**	20,214,657	0.2%
Current assets	**6,573,178**	5,858,056	12.2%
Total assets	**26,825,434**	26,072,713	2.9%
Current liabilities	**11,784,594**	13,228,184	-10.9%
Non-current liabilities	**4,266,590**	3,258,193	30.9%
Total liabilities	**16,051,184**	16,486,377	-2.6%
Non-controlling interests	**57,234**	64,088	-10.7%
Equity attributable to equity shareholders of the Company	**10,717,016**	9,522,248	12.5%
Total liabilities and equity	**26,825,434**	26,072,713	2.9%
Net gearing ratio	**36.5%**	42.6%	-6.1 P.PT.

As of 30 June 2019, the Group's total assets were RMB26,825,434,000, total liabilities were RMB16,051,184,000 and its net assets were RMB10,774,250,000. The net gearing ratio (net debts/(net debts + total equity)) was 36.5%, representing a decrease of 6.1 percentage points as compared with the end of the last year. The Group's total current assets were RMB6,573,178,000, its total current liabilities were RMB11,784,594,000, and its net current liabilities were RMB5,211,416,000.

3. COMPANY'S FINANCIAL REVIEW (CONTINUED)

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

(Unit: RMB'000)

Term of borrowings	30 June 2019	31 December 2018
Short-term borrowings (including long-term borrowings with maturity within one year)	**4,092,664**	5,918,509
Long-term borrowings	**3,458,905**	2,501,327
Total	**7,551,569**	8,419,836

All borrowings of the Group were denominated in Renminbi and USD. As of 30 June 2019, the Company's total borrowings were RMB7,551,569,000 including outstanding and unredeemed US-dollars denominated convertible corporate bonds together with accrued interest thereon totaling approximately USD92,235,000 (approximately RMB634,087,000) and RMB6,917,482,000 of borrowings, representing a decrease of RMB868,267,000 as compared with the end of 2018. Of which, short-term borrowings (including long-term borrowings with maturity within 1 year) amounted to RMB4,092,664 and accounted for 54.2% of the Group's total borrowings.

(IV) Capital expenditures

During the Reporting Period, the capital expenditures invested were approximately RMB616,485,000, which were mainly invested in respect of cement and clinker production lines.

Outstanding capital commitments under production facility construction contracts and equipment purchase agreements not provided for in the condensed consolidated financial statements as at 30 June 2019 were as follows:

(Unit: RMB'000)

	30 June 2019	31 December 2018
Authorised and contracted for		
– plant and equipment	**297,292**	321,051
Authorised but not contracted for		
– plant and equipment	**185,771**	79,660
Total	**483,063**	400,711

3. COMPANY'S FINANCIAL REVIEW (CONTINUED)

(V) Net cash flow analysis

(Unit: RMB'000)

	January–June 2019	January–June 2018
Net cash generated from operating activities	**1,642,319**	1,270,779
Net cash used in investing activities	**(758,195)**	(177,818)
Net cash used in financing activities	**(830,036)**	(1,011,044)
Net change in cash and cash equivalents	**54,088**	81,917
Balance of cash and cash equivalents as at 1 January	**1,303,943**	307,995
Effect of foreign exchange rates change	**(2,233)**	(413)
Balance of cash and cash equivalents as at 30 June	**1,355,798**	389,499

Cash and cash equivalents of the Group are mainly denominated in Renminbi. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB1,642,319,000, representing an increase of RMB371,540,000 over the same period of last year. Net cash used in investing activities amounted to RMB758,195,000, representing an increase of RMB580,377,000 over the same period of last year. Net cash used in financing activities amounted to RMB830,036,000,representing a decrease of RMB181,008,000 over the same period of last year.

(VI) Material acquisition and disposal

During the Reporting Period, the Group has no material acquisition or disposal except the reacquisition of the control of Xinghao Cement Co., Ltd. in March 2019.

(VII) Pledge of assets

Details in relation to pledge of assets of the Group as at 30 June 2019 are set out in Notes 14–17 to the condensed consolidated financial statements.

(VIII) Contingent liabilities

Details in relation to contingent liabilities of the Group as at 30 June 2019 are set out in Note 24 to the condensed consolidated financial statements.

4. OUTLOOK FOR THE SECOND HALF OF THE YEAR

Macro operating environment outlook for the second half of the year

In the first half of 2019, China's cement industry saw sharp increases in cement sales volumes and prices, maintaining growth momentum in profitability but at an obvious lower growth rate than the previous.

In the first half of 2019, thanks to continued rapid growth in real estate investment and government's efforts to bolster areas of weakness in infrastructure construction, the cement industry saw considerable improvement in market demand, with the YOY growth rate of cement output reaching a new high in six years. The overall cement and clinker inventories in China stayed at low-to-medium levels due to rising demand and shrinking supply, which ensured that the market price of cement remained at historically high levels. Although there was no change in the market landscape of strong demand in the southern region and weak demand in the northern region, there was noticeable improvement in cement prices and supply and demand in the northern region (represented by Beijing-Tianjin-Hebei urban agglomeration and its surrounding areas) as compared with last year.

According to the National Bureau of Statistics of China, the profit of the cement industry in the first half of 2019 will reach approximately RMB82,600 million, up about 29.6% YOY. It is expected that the total profit of the industry for the whole year will be close to or slightly higher than that of 2018.

On the demand front, growth rate hit 6-year high

In the first half of 2019, fixed-asset investment maintained a steady growth against a large base, private investment saw a pickup in growth, and investment in infrastructure, people's livelihood and other fields increased steadily. Since last year, real estate investment maintained a rapid growth of 10.9%, especially the floor space under construction and newly started for construction maintaining high growth levels. Meanwhile, infrastructure investment, as a countercyclical adjustment tool, once again played the role of "stabilizing economic growth". From the central government to local governments, a number of measures were launched to maintain stable growth. The growth rate of infrastructure investment in the first half of the year was gradually improving compared with the end of last year, especially the growth rate of investment in transportation infrastructure improved significantly. Accordingly, the cement demand across the country was better than expected, increasing by more than 5% YOY.

In the first half of 2019, China's accumulated cement output increased by 6.8% YOY, a record growth rate in nearly 6 years. The six major regions saw growth in cement output to a varying degree, with the growth rate in the northern regions being faster than that in the southern regions, especially in North China and Northeast China, where the growth rate was close to 20%. East China and Northwest China also registered double-digit growth in cement output. In contrast, the growth of cement output in the south-central and southwest regions was relatively weak.

4. OUTLOOK FOR THE SECOND HALF OF THE YEAR (CONTINUED)

Macro operating environment outlook for the second half of the year (Continued)

On the demand front, growth rate hit 6-year high (Continued)

In terms of provinces, 23 provinces achieved positive growth and 8 provinces experienced negative growth. In particular, Jilin, Shanxi, Shandong, Tibet and Heilongjiang saw rapid increase in cement output, with a growth rate of over 20%. Hebei, Gansu, Tianjin and Liaoning also registered double-digit growth in cement output. Hainan, Beijing, Qinghai, Guizhou, Guangxi, Hunan, Guangdong and Ningxia registered negative growth in cement output. In the first half of this year, the demand for cement in Hainan, Qinghai, Guizhou, Guangxi, Hunan and Guangdong weakened significantly. In addition, the reasons for the high growth in cement output in those regions were different. The high output growth in Jilin was mainly due to the decrease of inflow from Liaoning and Inner Mongolia, while that in Shandong, Tibet and Hebei was due to increased demand.

In terms of demand, in the second half of the year, investment in real estate will slow down to a small extent, while investment in infrastructure projects is expected to accelerate. Therefore, it is expected that the growth rate of cement demand in the second half of the year will be lower than that in the first half of the year. However, cement output is likely to achieve a positive growth in 2019, and the clinker consumption will exceed 1.4 billion tonnes to reach a record high, which will be a strong support for the overall stability of cement prices in the second half of the year.

The Company believes that in the second half of 2019, with the support of the Chinese government, China's economy, driven by investment in infrastructure and real estate, will keep high-quality and stable growth, and the demand for cement will remain strong.

On the supply front, inventories remained low and capacity utilization rate improved

In the first half of 2019, the external environment remained complicated. As cement producers remained subject to restrictions including off-peak production and production restriction for environmental protection, the cement inventories remained at historical low levels amid the overall recovery of demand, within 50–60% for most of the time.

4. OUTLOOK FOR THE SECOND HALF OF THE YEAR (CONTINUED)

Macro operating environment outlook for the second half of the year (Continued)

On the supply front, inventories remained low and capacity utilization rate improved (Continued)

Except Northeast China, cement prices in Northwest China and North China are expected to increase YOY in 2019, which is (i) partly due to the strict implementation of off-peak production by cement enterprises in the regions, especially in Tangshan in Hebei province, which is a main cluster of cement plants, where cement production halts ordered by government are commonly seen; and (ii) partly due to the implementation of off-peak production in the neighboring provinces of Henan and Shandong in summer and autumn.

According to preliminary statistics of Digital Cement, an information platform under China Cement Association, 10 new production lines with an aggregate annual designed production capacity of 15.5 million tonnes of clinker were put into service in the first half of 2019. The production lines are located scatteredly in nine provinces, i.e. Shanxi, Anhui, Hubei, Fujian, Guangxi, Hunan, Guizhou, Gansu and Yunnan. Driven by rising demand in the first half of the year, cement clinker output reached 710 million tonnes, increasing 8.4% YOY and hitting a new high as compared with the same period of previous years. The utilization rate of clinker production capacity increased slightly from the same period last year, up by 6 percentage points to 71%.

In the second half of 2019, cutting excessive capacity remained a key theme of the industry. As the Chinese government further advanced supply-side structural reform and stepped up efforts on air pollution control and environmental remediation, off-peak production, production restriction for environmental protection, elimination of outdated production capacity, capacity reduction and replacement, and mergers and reorganizations will increase industry concentration and will continue to be the most important means for the cement industry to promote the supply-side structural reform.

The 32.5 strength grade of composite silicate cement (PC32.5R) will be removed under the new national standards to be effective from 1 October 2019. As PC32.5R is a representative type of low-grade cement, its elimination will, on the one hand, increase the consumption of clinker required for cement production, and on the other hand, increase the production costs of grinding plants and lead to the close-down or transformation of some grinding plants. This will benefit the Company as over 60% of the Company's products are high-grade cement.

In the second half of 2019, more efforts will be made to promote green and high-quality development. As China's economy has entered the stage of high-quality development, cement enterprises, amid severe industrial overcapacity and weak market demand, will turn to energy conservation and emission reduction and intelligent manufacturing, eliminate low-grade cement products, develop low-carbon cement, ecological cement, dry powder mortar and other new cement-based materials, improve product quality and optimize product mix so as to stay in line with the high-quality development of the industry and cater to new market demands.

4. OUTLOOK FOR THE SECOND HALF OF THE YEAR (CONTINUED)

Macro operating environment outlook for the second half of the year (Continued)

The Group is the sixth largest cement and clinker manufacturer in China in terms of capacity. The PRC government's implementation of stricter environmental and off-peak production measures will facilitate us in cementing our market position and enhancing our economic performance.

Business outlook for the second half of the year

In the second half of 2019, the Group will, in accordance with its annual work plan, hew to the goal of "bringing about record-high economic returns". Specifically, it will speed up the replacement of old drivers of growth with new ones, implement the three major strategies of "resource reserve, industry chain extension and talent-oriented development", make efforts to accomplish key tasks such as standardization of rules and procedures, strengthening weaknesses, management innovation and team building, so as to pursue high-quality development and open up fresh growth prospects. Meanwhile, the Group will seize the favorable opportunity arising from the restructuring of the cement industry to enhance its presence in the domestic market.

In terms of operation and management, the Group will keep a close eye on the impact of the supply-side structural reform and environmental protection policies on the supply side, as well as the impact of the country's increased infrastructure investment on the demand side. It will make comprehensive studies and analyses and accurately predict the market trends, so as to improve the accuracy of marketing strategies and improve the quality of operations. Further, it will strengthen studies and analyses on the raw material markets, consolidate and strengthen its strategic cooperation with major suppliers of various materials, and actively explore new pipelines to ensure stable and economic supply of raw materials. Meanwhile, the Group will thoroughly implement the national environmental protection policies and guidelines, carry out technological renovation to save energy and reduce emissions, and further improve its environmental management standard; continue to promote the construction of green mines, enforce standardized mining operations, and carry out remediation and restoration of mining areas; and accelerate industry chain extension and vigorously develop aggregate business. In addition, the Group will improve its staff training mechanism, innovate talents recruiting mode and enhance its talent incentive mechanism to generate internal impetus for the sustainable development of the Company.

In short, the Group will, with the efforts of all its employees, keep improving the quality of its operations to take business development to a new level, and build itself into a top-notch player in the industry. Meanwhile, it will earnestly fulfill social responsibility, and reward its shareholders and employees and the society with excellent performance.

5. RECENT DEVELOPMENTS

The Company was served on 4 June 2019 with a Writ of Summons issued on 27 May 2019, in the Grand Court of the Cayman Islands, Financial Services Division (the "**Writ**").

The Writ has been issued by Tianrui seeking (i) orders setting aside the Company's issue of certain convertible bonds, issued on or about 8 August 2018 and 3 September 2018, the subsequent conversion of the bonds on 30 October 2018 and/or the subsequent allotment of the Company's shares to the holders of such convertible bonds; and/or (ii) declarations setting aside the issue and subsequent conversion of the bonds.

The Company considers that there is no reasonable basis for the orders and/or declarations sought and, it will vigorously defend itself against the Writ and Tianrui's claim. Please refer to the Company's announcement dated 5 June 2019 for further information.

6. EMPLOYEES AND THEIR REMUNERATION

As of 30 June 2019, the Group had a total of 18,556 employees. The aggregate remuneration of the employees for the Reporting Period was RMB1,091,585,000.

(V) Share Capital and Shareholdings of Substantial Shareholders and the Directors

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

As of 30 June 2019, the Company's 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 2019, the Company has issued a total of 4,353,966,228 Shares.

2. SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

(1) Shareholdings of substantial shareholders

As of 30 June 2019, 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
LI Liufa[(2a)]	951,462,000 (L)	Interests of corporations controlled by substantial shareholder	21.85%
LI Fengluan[(2a)]	951,462,000 (L)	Interests of corporations controlled by substantial shareholder	21.85%
Tianrui Group Company Limited[(2a)]	951,462,000 (L)	Interests of corporations controlled by substantial shareholder	21.85%
Tianrui (International) Holding Company Limited[(2a)]	951,462,000 (L)	Beneficial owner	21.85%
China Bohai Bank Co., Ltd. Dalian Branch[(2b)]	791,000,000 (L)	Security interest in shares	18.17%
China Shanshui Investment Company Limited[(3)]	847,908,316 (L)	Beneficial owner	19.47%
Asia Cement Corporation[(4)]	428,393,000 (L)	Interests of corporations controlled by substantial shareholder	9.84%
	331,878,315 (L)	Beneficial owner	7.62%
	142,643,000 (L)	Interests of any parties to an agreement to acquire interests in the Company required to be disclosed under s.317(1)(a) and s.318 of the SFO	3.28%
Yu Yuan Investment Corporation Limited	142,643,000 (L)	Beneficial owner	3.28%
	760,271,315 (L)[(5)]	Interests of any parties to an agreement to acquire interests in the Company required to be disclosed under s.317(1)(a) and s.318 of the SFO	17.46%
China National Building Material Group Corporation[(6)]	563,190,040 (L)	Interests of corporations controlled by substantial shareholder	12.94%
China National Building Material Company Limited[(6)]	563,190,040 (L)	Interests of corporations controlled by substantial shareholder	12.94%
China Building Material Holdings Co., Limited[(6)]	563,190,040 (L)	Beneficial owner	12.94%
Cithara Investment International Limited	483,260,335 (L)	Investment Manager	11.10%
Cithara Global Multi-Strategy SPC-CMB Chung Wai Greater China Alpha Strategy SP	483,260,335 (L)	Beneficial owner	11.10%

(V) Share Capital and Shareholdings of Substantial Shareholders and the Directors (Continued)

2. SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

(1) Shareholdings of substantial shareholders (Continued)

Notes:

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

(2a) LI Liufa and LI Fengluan (spouse of LI Liufa) owned 70% and 30% respectively of Tianrui Group Company Limited, which owned 100% of Tianrui (International) Holding Company Limited.

(2b) On 22 March 2016, Tianrui Group Company Limited, the Company's substantial shareholder, notified the Company that it has pledged 791,000,000 shares of the Company in favor of China Bohai Bank for a bank loan.

(3) According to the Form 2 filed on 18 November 2014, ZHANG Caikui is the person in accordance with whose directions China Shanshui Investment Company Limited or its directors are accustomed to act.

(4) The interest in 331,878,315 shares of the Company was held by several direct or indirect subsidiaries of Asia Cement Corporation. The interest in 142,643,000 shares of the Company was held by Yu Yuan Investment Corporation Limited, which is the party to the agreement under Section 317.

(5) Asia Cement Corporation is the party to the agreement under Section 317.

(6) China National Building Material Company Limited was a controlled corporation of China National Building Material Group Corporation (now known as China National Building Material Group Co., Ltd.中國建材集團有限公司), and China National Building Material Company Limited owned 100% of China Building Material Holdings Co., Limited.

(7) The number of issued Shares of the Company as at 30 June 2019 was 4,353,966,228.

Save as disclosed above, and so far as the Directors are aware, as of 30 June 2019, 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.

2. SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

(2) Directors' and Chief Executives' Interests in the Shares, Underlying Shares and Debentures

As of 30 June 2019, none of the Directors or the chief executives 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 Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

3. SHARE OPTION SCHEME

The Company adopted the Share Option Scheme pursuant to a Shareholders' resolution passed on 14 June 2008 (the "**Adoption Date**"). Save for the Share Option Scheme, the Company has no other share option scheme currently in force.

At the Adoption Date, the Existing Scheme Mandate Limit was granted to allow the Company to grant options entitling holders to subscribe for Shares not exceeding 10% of the then issued Shares as at the date of the approval of the Share Option Scheme, which amounted to 260,336,000 options to subscribe for 260,336,000 Shares. During the period from the Adoption Date and up to 30 June 2019, no refreshment of the Existing Scheme Mandate Limit has been approved by the Shareholders.

Since the adoption of the Share Option Scheme, options to subscribe for 7,400,000 Shares were granted on 25 May 2011 (the closing price of the Shares as at the date of grant was HK$7.83 per Share) and options to subscribe for 207,300,000 Shares (including the options to subscribe for 20,000,000 Shares and 23,600,000 Shares were conditionally granted to Zhang Bin and Zhang Caikui (Zhang Caikui was deemed to be a substantial Shareholder due to his interest in CSI and Zhang Bin as his associate), respectively, subject to the approval of the Shareholders which has not yet been obtained) were granted on 27 January 2015 (the closing price of the Shares as at the date of grant was HK$3.68 per Share).

(V) Share Capital and Shareholdings of Substantial Shareholders and the Directors (Continued)

3. SHARE OPTION SCHEME (CONTINUED)

By virtue of the High Court Miscellaneous Proceedings No. 593 of 2015 ("**HCMP 593/2015**"), CSI has commenced an injunction application to apply to set aside the grant of the 207,300,000 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 High Court that it will not take steps 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.

Since no extraordinary general meeting of the Company was held for the approval of the grant of 43,600,000 options in aggregate conditionally granted to Zhang Bin and Zhang Caikui, such options have not become unconditional and may not be exercised.

Out of the options to subscribe for 7,400,000 Shares granted on 25 May 2011, 100,000 Shares were lapsed in accordance with the terms of the Share Option Scheme and therefore will not be counted for the purpose of the Existing Scheme Mandate Limit pursuant to Note 1 to Rule 17.03(3) of the Listing Rules.

Save for the above, none of the options granted on 25 May 2011 and 27 January 2015 have been exercised or cancelled or lapsed.

Accordingly, taking into account all the options granted and conditionally granted, the outstanding Existing Scheme Mandate Limit as of 30 June 2019 was 45,736,000 Shares, representing approximately 17.57% of the Existing Scheme Mandate Limit.

3. SHARE OPTION SCHEME (CONTINUED)

Details of the options are set out as follows:

Type of Grantee	Date of Grant	Granted	Vesting period	Exercise price	Exercised during the Reporting Period	Lapsed during the Reporting Period	Cancelled during the Reporting Period	Expired during the Reporting Period	Not yet exercised during the Reporting Period
Zhang Bin, *Executive Director (removed)*	25 May 2011	Option for subscription of 5,000,000 Shares	Nil	HK$7.90	–	–	–	–	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	–	–	–	–	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	–	–	–	–	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	–	–	–	–	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	–	–	–	–	Option for subscription of 9,000,000 Shares
Xiao Yu, *Non-Executive Director (resigned)*	25 May 2011	Option for subscription of 100,000 Shares	Nil	HK$7.90	–	–	–	–	Option for subscription of 100,000 Shares
Employees	25 May 2011	Option for subscription of 2,000,000 Shares	Nil	HK$7.90	–	–	–	–	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	–	–	–	–	Option for subscription of 154,700,000 Shares
	Total number of options granted and accepted	Option for subscription of 214,600,000 Shares		–	–	–	–	–	Option for subscription of 214,600,000 Shares

3. SHARE OPTION SCHEME (CONTINUED)

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 the Company and the Shares for the benefit of the Shareholders, and to retain and attract talents and working partners whose contributions are or may be beneficial to the growth and development of the 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 the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("**Invested Entity**"); (ii) any non-executive director (including independent non-executive director) of the Company, any member of the Group or any Invested Entity; (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any such person (including but not limited to consultant, adviser, contractor, business partner or service provider of the Company or any member of the Group or any Invested Entity) who in the absolute discretion of the Board has contributed or will contribute to the 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 4.93% of the share capital in issue (4,353,966,228 Shares) as of 30 June 2019.

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

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

4. PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association and the laws of the Cayman Islands, the Company is not required to offer to its existing shareholders the pre-emptive right to acquire new shares in proportion to their shareholdings.

I. CONNECTED TRANSACTIONS

During the Reporting Period, the Company had no connected transaction or continuing connected transaction required to be disclosed under the Listing Rules.

Provision of Corporate Guarantee

On 14 December 2016, the Company entered into the corporate guarantee in favour of Bank of China Limited (Pingdingshan Branch) as a guarantee for the provision of the loan facility of RMB400 million by the Bank to Tianrui Group under a facility agreement. The facility agreement and the corporate guarantee were approved by the bank on 26 December 2016. Tianrui Group is a substantial Shareholder holding 951,462,000 Shares (representing approximately 28.16% issued share capital of the Company) as at the date of entering into the corporate guarantee and a connected person of the Company.

Granting of Unsecured Loan

On 28 December 2016, the Company entered into a supplementary loan agreement with Tianrui Group, pursuant to which Tianrui Group has granted an unsecured loan to the Company to satisfy a bond due 2020 issued by the Company. Pursuant to the supplementary loan agreement, inter alia:

(1) Tianrui Group undertakes to settle the Loan Facility and the interest thereof pursuant to the Facility Agreement;

(2) Tianrui Group undertakes it will not request the repayment of the unsecured loan by the Company, in full or in part, prior to the settlement of the loan facility and the interest thereof by Tianrui Group; and

(3) In the event that there is any default in payment of the loan facility and the interest thereof, the Company agrees to settle such amount under the corporate guarantee and Tianrui Group undertakes to waive the payment obligation of the Company in full under the unsecured loan.

As of 30 June 2019, the Group in aggregate borrowed RMB1,613 million on an interest-free basis from Tianrui Group which was mainly used to settle certain debts, including:

(1) Interest from 7.50% senior notes due 2020 amounted to US$89.91 million.

(2) Principal amount of and interest from any and all outstanding 8.50% senior notes due 2016 amounted to US$31.345 million.

(3) Purchase price of US$73.473 million paid in cash for purchasing 7.50% senior notes due 2020, representing 15% of the total amount of notes (US$484.971 million).

(4) Interest from ultra short term debenture amounted to RMB91.22 million.

(5) A borrowing amounted to RMB30.42 million for settling litigation costs.

As of 30 June 2019, outstanding borrowings of the Company from Tianrui Group were RMB884 million.

II. MAJOR EVENTS

1. MATERIAL LITIGATION IN THE CAYMAN ISLANDS

Cause No.: CICA 26 of 2018

On 30 August 2018, Tianrui (International) Holding Company Limited ("**Tianrui**"), a Shareholder of the Company, presented a petition seeking to wind up the Company (the "**Cayman Petition**") before the Grand Court of the Cayman Islands (the "**Cayman Court**"). The Cayman Petition asks the court to appoint official liquidators to take over management of the Company. Tianrui filed a further application on 6 September 2018 for the appointment of joint provisional liquidators ("**JPLs**") over the Company (together with the Cayman Petition, the "**Cayman Proceedings**").

On 10 and 11 October 2018, the substantive hearing was heard in the Cayman Court (the "**Cayman Hearing**"), at which the Company was granted a Validation Order from the Cayman Court, on the terms requested by the Company, permitting it to make payments in the ordinary course of business. The Cayman Petition was struck out and the application for appointment of JPLs dismissed by order of the Cayman Court dated 19 October 2018 (the "**Grand Court's Order**").

On 8 November 2018, Tianrui filed a Notice of Appeal with the Court of Appeal of the Cayman Islands (the "**Court of Appeal**") seeking, among other things, to set aside the Grand Court's Order (the "**Cayman Appeal**"). During the hearing of Cayman Appeal on 14 to 16 January 2019 in the Court of Appeal, Tianrui withdrew its application for the appointment of JPLs over the Company.

The Court of Appeal on 16 January 2019 (the"**Reinstatement Date**") allowed the Cayman Appeal and set aside the Grand Court's Order. As a result, the Cayman Petition against the Company reinstated and will be returned to the Cayman Court.

The Court of Appeal has issued a Certificate of the Order of the Court dated 11 February 2019 certifying its decision to allow the Cayman Appeal and set aside the Grand Court's Order. On 21 February 2019, in the interests of time, the Company's counsel filed an application to the Court of Appeal for leave to appeal to the Privy Council of the United Kingdom (the "**Privy Council**") to set aside the Court of Appeal's decision (the "**Application**"), pending receipt of the Court of Appeal's reasons. On 5 April 2019, the Court of Appeal handed down the reasons for its decision. The Application was heard before the Court of Appeal on 16 April 2019. The Court of Appeal declined to grant the Application. On 11 June 2019, the Company's counsel filed an application directly to the Privy Council for permission to appeal to the Privy Council to set aside the Court of Appeal's decision.

On 21 March 2019, the Company announced that it was considering applying for a validation order from the Cayman Court to sanction the deposit of share certificates into the Central Clearing and Settlement System ("**CCASS**") of Hong Kong, and asking shareholders who wish to have their share certificates included in any such application for a validation order (the "**Requesting Shareholders**") to submit a written request to the Company. Subsequently, the Company received a number of written requests from Requesting Shareholders. On 29 March 2019 (Cayman Islands time), the Company made an application to the Cayman Court to, among other things, validate the transfer of shares held by the Requesting Shareholders to HKSCC Nominees Limited, the common nominee for shares deposited in CCASS.

For further details, please refer to the announcements published by the Company on 4 September 2018, 20 September 2018, 12 October 2018, 16 October 2018, 23 October 2018, 29 October 2018, 14 November 2018, 13 December 2018, 18 January 2019, 22 January 2019, 15 February 2019, 21 March 2019, 1 April 2019 and 17 April 2019.

II. MAJOR EVENTS (CONTINUED)

2. MATERIAL LITIGATION IN HONG KONG

HCA 2880 of 2015

On 4 December 2015, a Writ of Summons (the "**Writ**") was issued by the Company against former Directors of the Company, namely ZHANG Cai Kui and ZHANG Bin (together, the "**Zhangs**") and LI Cheung Hung. On 17 December 2015, China Shanshui (HK) and Pioneer Cement were added as Plaintiffs and an additional of 5 former directors, namely CHANG Zhangli, WU Ling-ling (also known as Doris WU), LEE Kuan-chun (also known as Champion LEE), ZENG Xuemin and SHEN Ping were added as Defendants in the Writ.

The Plaintiffs claimed against the Defendant Directors for (inter alia) (1) various injunctive relief, including restraining them from acting on the allegedly unlawfully altered articles of association of 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, and (2) damages and/or equitable compensation as a result of the alleged misconduct of the former Directors.

On 24 December 2015, the Company obtained interlocutory injunction orders (the "**December Injunction Orders**") against ZHANG Caikui, ZHANG Bin, LI Cheung Hung, CHANG Zhangli and WU Ling-ling compelling them to (inter alia) disclose and deliver the Group's Records to the Company. On 8 January 2016, the December Injunction Orders (as varied) continued and the Company obtained further interlocutory injunction orders (the "**January Injunction Orders**") against the Zhangs 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 as of today.

II. MAJOR EVENTS (CONTINUED)

2. MATERIAL LITIGATION IN HONG KONG (CONTINUED)

HCA 2880 of 2015 (Continued)

On 7 April 2016, CNBM and ACC were joined as the Defendants to the Action, on the basis of a claim of conspiracy.

The Company also on 4 November 2016 obtained a worldwide injunction against the Zhangs (the "**Worldwide Mareva Injunction**") and issued a Summons on 7 November 2016 (the "**Plaintiffs' Summons**").

On 18 November 2016, the Worldwide Mareva Injunction was varied and directions were given by the High Court to file affidavit evidence for the disposal of the Plaintiffs' Summons. After the substantive hearing on 7 June 2017, the High Court discharged the Worldwide Mareva Injunction and granted a fresh domestic Mareva injunction order against the Zhangs on terms substantially the same as the Worldwide Mareva Injunction (the "**Domestic Mareva Injunction**").

On 29 May 2017, Shandong Shanshui was joined as the 4th Plaintiff to the Action to introduce a derivative claim against the Zhangs and LI Cheung Hung and further amendments were made to the Amended Statement of Claim.

Following the amendments to the Amended Statement of Claim, the parties filed a second round of pleadings (Re-Amended Defence or Amended Defence followed by the Amended Reply) except for the Zhangs (who only filed the acknowledgment of service indicating an intention to defend on 13 June 2017 and their defence on 18 September 2017).

All parties filed and exchanged their List of Documents and the Company has filed a supplemental list of documents on 29 September 2017. The parties have also exchanged witness statements.

II. MAJOR EVENTS (CONTINUED)

2. MATERIAL LITIGATION IN HONG KONG (CONTINUED)

HCA 2880 of 2015 (Continued)

The first case management conference took place on 19 April 2018 and all of the parties agreed for the action to be referred to a Listing Judge for the assignment of a Trial Judge. On 15 April 2019, the parties sent a joint letter to the Listing Officer, Civil to formally apply to have the action assigned to a Trial Judge. On 18 April 2019, the Honourable Mr. Justice Coleman of the Court of First Instance of the High Court was assigned as the Trial Judge of the action.

At the case management conference held on 17 July 2019, leave was granted to the parties to set down the action for trial before the Honourable Mr. Justice Coleman with 41 days reserved on 19 to 23 April 2021, 26 to 30 April 2021, 3 to 7 May 2021, 10 to 14 May 2021, 17 and 18 May 2021, 24 to 28 May 2021, 31 May 2021, 1 to 4 June 2021, 7 to 11 June 2021 and 15 to 18 June 2021. A further case management conference was fixed for 5 May 2020.

There are currently four outstanding interlocutory applications in this action:

(1) The Company has issued a Summons on 27 March 2018 to (inter alia) appoint receivership over the 1st Defendant's shares in China Shanshui Investment Company (the "**Receivership Summons**"). Pursuant to the Order of Deputy High Court Judge Keith Yeung SC dated 3 May 2018, the hearing of the Receivership Summons is adjourned to a date to be fixed. No hearing date has been fixed yet.

(2) The Company has, pursuant to the Order of the Honourable Madam Justice Au-Yeung dated 13 July 2018, issued a Summons on 20 July 2018 for the continuation of the December Injunction Order and the January Injunction Order against the 2nd Defendant (the "**Continuation Summons**"). The Company filed their affirmation in support in October 2018 and the 2nd Defendant has yet to file his affirmation in opposition. The hearing the Continuation Summons is adjourned to a date to be fixed with one day reserved. No hearing date has been fixed yet.

(3) The Zhangs have issued a Summons on 11 July 2019 to strike out certain paragraphs in the Company's pleadings and witness statements and to discharge the Domestic Mareva Injunction against ZHANG Cai Kui and vary or reduce the restrained sum against ZHANG Bin (the "**Strike-Out Summons**"). The substantive hearing of the Strike-Out Summons is fixed for 17 October 2019.

(4) The Company has issued a Summons on 7 August 2019 to seek leave for the parties to adduce expert evidence on the fair value, as at 27 October 2014, of the 560,190,040 shares in the Company to be allotted and issued to CNBM pursuant to a subscription agreement entered between the two parties dated 27 October 2014 (the "**Expert Evidence Summons**"). The hearing of the Expert Evidence Summons is fixed for 10 October 2019.

II. MAJOR EVENTS (CONTINUED)

2. MATERIAL LITIGATION IN HONG KONG (CONTINUED)

HCA 762 of 2017

On 29 March 2017, the Company, Pioneer Cement and Shandong Shanshui commenced action (HCA 762/2017) against the Former Senior Management of Shandong Shanshui, namely MI Jingtian, CHEN Zhongsheng, ZHAO Liping, LI Maohuan and YU Yuchuan, for (inter alia) injunctive relieve to prohibit the former senior management of Shandong Shanshui (the "**Former SS Management**") from holding themselves out as being director or officer of Shandong Shanshui, entering or remaining at the premises of Shandong Shanshui, removing asset and records from Shandong Shanshui, and soliciting or enticing officer or employees of Shandong Shanshui. MI Jingtian, ZHAO Liping, LI Maohuan and YU Yuchuan have been prohibited by way of Court order from removing from Hong Kong any of their assets, for each of them up to the value of RMB142 million (or its Hong Kong dollar equivalent) (the "**Mareva Injunction**").

On 11 April 2017, an ex parte injunction order was granted and on 21 April 2017, the Mareva Injunction was varied to exclude the CSI shares registered under the name of MI Jingtian, ZHAO Liping, LI Maohuan and YU Yuchuan from the Mareva Injunction upon the undertaking that ACC has provided a bank guarantee in the sum of RMB142 million to the plaintiffs.

A hearing was held on 16 and 17 April 2018 in the High Court of Hong Kong to determine (i) whether the Mareva Injunction should be discharged, (ii) the defendants' application that the leave granted to the plaintiffs to serve the writ on the defendants out of the jurisdiction should be set aside and (iii) the plaintiffs' application to amend the Statement of Claim to add Jinan Shanshui Lixin Investment Development Company Limited ("**Jinan Lixin**") and Stephenson Harwood as defendants. A judgment was rendered on 19 July 2018 setting aside the leave granted to the plaintiffs to serve the writ on the defendants out of the jurisdiction, and consequently discharging the Mareva Injunction. Leave was granted to the plaintiffs to add Jinan Lixin and Stephenson Harwood as defendants.

For details, please refer to the announcements published by the Company on 30 March 2017, 12 April 2017, 21 April 2017, 25 April 2017, 1 June 2017 and 20 June 2017, respectively.

II. MAJOR EVENTS (CONTINUED)

2. MATERIAL LITIGATION IN HONG KONG (CONTINUED)

HCA 548 of 2019

On 29 March 2019, the Company announced that the Company together with its subsidiaries, China Shanshui Cement Group (Hong Kong) Company Limited, China Pioneer Cement (Hong Kong) Company Limited, and Shandong Shanshui Cement Group Company Limited (collectively, the "**Plaintiffs**") had commenced an action in the High Court of Hong Kong, against Tianrui (International) Holding Company Limited, Tianrui Group Company Limited, Stephen LIU Yiu Keung, David YEN Ching Wai, Godwin HWA Guo Wai, CHONG Cha Hwa, LI Heping, LI Liufa, CHEUNG Yuk Ming, NG Qing Hai, LI Zhi Qiang, HO Man Kay, Angela, LAW Pui Cheung, WONG Chi Keung, CHING Siu Ming, LO Chung Hing, TSANG Wing Tai and Ernst & Young Transactions Limited (collectively, the "**Defendants**") in connection with:

(a) alleged unlawful means conspiracy, by acting in combination and in concert with one another with respect to breaches of fiduciary and other duties, dishonest assistance and/or criminal intimidation and violence, from around 2015 to 2018, with the intention of injuring the Plaintiffs in order to acquire control of the Plaintiffs, and illegitimately maximise economic benefit therefrom for the benefit of the Defendants and at the expense of the Plaintiffs; and

(b) various breaches of duties by the Defendants who are former directors and/or officers of the Company.

For further details, please refer to the announcement published by the Company on 29 March 2019.

II. MAJOR EVENTS (CONTINUED)

3. LITIGATION IN THE PRC

As of the date of this report, there are 101 cases in which Shandong Shanshui has received the notice of the People's Court but has yet to close the case; using a litigation status of plaintiff, defendant or third party as standard, unsettled litigations of Shandong Shanshui can be divided into one category.

(1) Unsettled litigations with Shandong Shanshui as defendants

There are 54 unsettled litigations with Shandong Shanshui as defendants, with the subject matter of the litigations approximately RMB443 million. Categorised by causes, there are 4 categories of unsettled litigations, with 3 cases of sales and purchase contract, 2 cases of equity dispute, 1 case of financial loan dispute, 1 case of agreement on contracted management of enterprise, and 47 cases of labour dispute. There are a total of 44 cases in the first instance, a total of 8 cases in the second instance, 1 case in the enforcement phase, and 1 case under retrial.

(2) Unsettled litigations with Shandong Shanshui as plaintiffs

There are 46 unsettled litigations with Shandong Shanshui as plaintiffs with the subject matter of the litigations approximately RMB24.17 million and all the cases are of labour dispute, with 43 cases in the first instance and 3 cases in the second instance.

(3) Unsettled litigations with Shandong Shanshui as third Party

There is 1 unsettled litigation with Shandong Shanshui as third party. Categorised by causes, there is 1 unsettled litigation with Shandong Shanshui as third party and 1 case of administrative handling dispute, of which 1 case is in the second instance.

(VII) Interim Financial Statements (Unaudited)
Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019 – Unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Revenue	3, 4	**9,440,723**	6,759,414
Cost of sales		**(6,159,135)**	(4,375,319)
Gross profit		**3,281,588**	2,384,095
Other income	5	**183,397**	203,019
Other net expenses	6	**(72,778)**	(3,343)
Reversal of impairment losses on trade receivables, net		**2,282**	6,870
Reversal of impairment losses on other receivables, net		**2,031**	5,795
Loss from suspension of production		**(430,992)**	(433,370)
Selling and marketing expenses		**(274,092)**	(201,132)
Administrative expenses		**(752,872)**	(506,682)
Profit from operations		**1,938,564**	1,455,252
Finance costs	7(a)	**(243,812)**	(400,845)
Share of results of associates		**19,195**	8,901
Profit before taxation	7	**1,713,947**	1,063,308
Income tax expense	8	**(508,306)**	(352,201)
Profit for the period		**1,205,641**	711,107
Attributable to:			
Equity shareholders of the Company		**1,196,369**	751,766
Non-controlling interests		**9,272**	(40,659)
Profit for the period		**1,205,641**	711,107
Earnings per share	9		
Basic *(RMB)*		**0.27**	0.22
Diluted *(RMB)*		**0.27**	0.22

The notes on pages 45 to 86 form part of this interim financial report.

(VII) Interim Financial Statements (Unaudited)

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019 – Unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Profit for the period		**1,205,641**	711,107
Other comprehensive expense for the period			
Item that will not be reclassified to profit or loss:			
Exchange differences arising on translation		**(1,601)**	(67,226)
		(1,601)	(67,226)
Total comprehensive income for the period		**1,204,040**	643,881
Attributable to:			
Equity shareholders of the Company		**1,194,768**	684,540
Non-controlling interests		**9,272**	(40,659)
Total comprehensive income for the period		**1,204,040**	643,881

The notes on pages 45 to 86 form part of this interim financial report.

(VII) Interim Financial Statements (Unaudited)
Condensed Consolidated Statement of Financial Position

At 30 June 2019 – Unaudited
(Expressed in Renminbi)

	Notes	**At 30 June 2019 RMB'000**	At 31 December 2018 RMB'000
Non-current assets			
Fixed assets	10		
– Property, plant and equipment		**15,783,641**	15,922,070
– Land lease prepayments		**–**	2,208,691
Right-of-use assets	10	**2,289,022**	–
		18,072,663	18,130,761
Intangible assets		**868,198**	894,663
Goodwill		**14,223**	14,223
Other financial assets		**141,630**	73,391
Interest in associates		**331,319**	315,063
Deferred tax assets		**178,032**	159,649
Other long-term assets		**646,191**	626,907
		20,252,256	20,214,657
Current assets			
Inventories	11	**1,951,336**	1,458,828
Trade and bills receivables	12	**2,305,062**	2,126,724
Other receivables and prepayments	13	**767,347**	692,050
Derivative component of convertible bonds	20	**172,969**	246,204
Restricted bank deposits	14	**20,666**	30,307
Bank balances and cash		**1,355,798**	1,303,943
		6,573,178	5,858,056
Current liabilities			
Bank loans – amount due within one year	15	**2,693,005**	4,299,350
Other borrowings	16	**204,909**	281,159
Current portion of long-term bonds	17	**1,194,750**	1,338,000
Trade payables	18	**3,739,873**	3,240,134
Other payables and accrued expenses	19	**2,775,802**	3,042,205
Contract liabilities		**763,767**	644,759
Lease liabilities		**6,167**	–
Taxation payable		**406,321**	382,577
		11,784,594	13,228,184
Net current liabilities		**(5,211,416)**	(7,370,128)
Total assets less current liabilities		**15,040,840**	12,844,529

(VII) Interim Financial Statements (Unaudited)

Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2019 – Unaudited
(Expressed in Renminbi)

	Notes	**At 30 June 2019 RMB'000**	At 31 December 2018 RMB'000
Non-current liabilities			
Bank loans – amount due after one year	15	**1,421,000**	–
Other borrowings	16	**430,818**	496,727
Long-term bonds	17	**973,000**	1,371,500
Defined benefit obligations		**136,640**	136,640
Deferred income		**242,028**	248,303
Long-term payables		**271,575**	280,487
Lease liabilities		**70,556**	–
Deferred tax liabilities		**86,886**	91,436
Convertible bonds	20	**634,087**	633,100
		4,266,590	3,258,193
Net assets		**10,774,250**	9,586,336
Capital and reserves			
Share capital	21(b)	**295,671**	295,671
Share premium		**8,235,037**	8,235,037
Share capital and share premium		**8,530,708**	8,530,708
Other reserves		**2,186,308**	991,540
Total equity attributable to equity shareholders of the Company		**10,717,016**	9,522,248
Non-controlling interests		**57,234**	64,088
Total equity		**10,774,250**	9,586,336

The notes on pages 45 to 86 form part of this interim financial report.

(VII) Interim Financial Statements (Unaudited)

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019 – Unaudited

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
	Share capital *RMB'000*	Share premium *RMB'000*	Statutory reserves *RMB'000*	Other reserves *RMB'000*	Exchange reserves *RMB'000*	Fair value reserves (recycling) *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2018	227,848	4,654,010	1,282,801	268,976	(147,387)	5,225	(2,376,146)	3,915,327	102,204	4,017,531
Impact of initial application of IFRS 9	–	–	–	–	–	(5,225)	5,225	–	–	–
Adjusted balance at 1 January 2018	227,848	4,654,010	1,282,801	268,976	(147,387)	–	(2,370,921)	3,915,327	102,204	4,017,531
Changes in equity for the six months ended 30 June 2018:										
Profit for the period	–	–	–	–	–	–	751,766	751,766	(40,659)	711,107
Other comprehensive expense	–	–	–	–	(67,226)	–	–	(67,226)	–	(67,226)
Total comprehensive (expense)/income for the period	–	–	–	–	(67,226)	–	751,766	684,540	(40,659)	643,881
Appropriation to maintenance and production funds	–	–	–	27,557	–	–	(27,557)	–	–	–
Distribution to non-controlling interests	–	–	–	–	–	–	–	–	(8,754)	(8,754)
Balance at 30 June 2018	227,848	4,654,010	1,282,801	296,533	(214,613)	–	(1,646,712)	4,599,867	52,791	4,652,658
Balance at 1 January 2019	**295,671**	**8,235,037**	**1,501,792**	**268,501**	**(380,628)**	**–**	**(398,125)**	**9,522,248**	**64,088**	**9,586,336**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**1,196,369**	**1,196,369**	**9,272**	**1,205,641**
Other comprehensive expense	**–**	**–**	**–**	**–**	**(1,601)**	**–**	**–**	**(1,601)**	**–**	**(1,601)**
Total comprehensive (expense)/income for the period	**–**	**–**	**–**	**–**	**(1,601)**	**–**	**1,196,369**	**1,194,768**	**9,272**	**1,204,040**
Transfer between reserves	**–**	**–**	**867**	**–**	**–**	**–**	**(867)**	**–**	**–**	**–**
Appropriation to maintenance and production funds	**–**	**–**	**63,079**	**–**	**–**	**–**	**(63,079)**	**–**	**–**	**–**
Utilisation of maintenance and production funds	**–**	**–**	**(49,644)**	**–**	**–**	**–**	**49,644**	**–**	**–**	**–**
Distribution to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(16,126)**	**(16,126)**
Balance at 30 June 2019	**295,671**	**8,235,037**	**1,516,094**	**268,501**	**(382,229)**	**–**	**783,942**	**10,717,016**	**57,234**	**10,774,250**

The notes on pages 45 to 86 form part of this interim financial report.

(VII) Interim Financial Statements (Unaudited)
Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019 – Unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June 2019 RMB'000	Six months ended 30 June 2018 RMB'000
Operating activities			
Cash generated from operations		**2,350,348**	1,869,066
Interest paid		**(200,534)**	(400,986)
Income tax paid		**(507,495)**	(197,301)
Net cash generated from operating activities		**1,642,319**	1,270,779
Investing activities			
Payment of purchase of long-term assets		**(682,417)**	(302,213)
Payment for a previously-acquired subsidiary		**(101,705)**	–
Others		**25,927**	124,395
Net cash used in investing activities		**(758,195)**	(177,818)
Financing activities			
Proceeds from new loans and borrowings		**1,401,455**	280,000
Repayment of loans and borrowings		**(1,728,959)**	(1,098,877)
Repayment of long-term bonds		**(476,423)**	(332,116)
Repayments of lease liabilities		**(15,083)**	–
Proceeds from loans from a shareholder		**–**	148,668
Others		**(11,026)**	(8,719)
Net cash used in financing activities		**(830,036)**	(1,011,044)
Net increase in cash and cash equivalents		**54,088**	81,917
Cash and cash equivalents at 1 January	14	**1,303,943**	307,995
Effect of foreign exchange rates changes		**(2,233)**	(413)
Cash and cash equivalents at 30 June, representing bank balances and cash	14	**1,355,798**	389,499

The notes on pages 45 to 86 form part of this interim financial report.

1 BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") "Interim Financial Reporting", issued by the International Accounting Standards Board ("IASB") as well as with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

The auditor of the Company expressed a qualified opinion on the audited consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows of the Group for the year ended 31 December 2018 and an unmodified opinion on the audited consolidated statement of financial position of the Group as at 31 December 2018 in their report dated 20 March 2019. The report also includes a Material Uncertainty Related to Going Concern section that draws attention to the Group's current liabilities exceeding its current assets by RMB7,370,128,000, which indicates that a material uncertainty exists that may cast significant doubt on the Group's ability as a going concern.

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

As at 30 June 2019, the Group's current liabilities exceeded its current assets by RMB5,211,416,000. Its total interest-bearing borrowings liabilities amounted to RMB7,551,569,000, out of which RMB4,092,664,000 were due within 12 months. The bank balances and cash of the Group amounted to RMB1,355,798,000 as at 30 June 2019. As at 30 June 2019, through commencing legal proceedings, certain suppliers and third parties also have demanded that the Group repays the overdue payables of RMB595,904,000. These facts and circumstances described above indicate the existence of material uncertainties that may cast significant doubts about the Group's ability to continue as a going concern.

In view of such circumstances, the directors of the Company (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.

1 BASIS OF PREPARATION (CONTINUED)

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

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) Subsequent to 30 June 2019 and up to the date of approval of the interim report, the Group has repaid bank loans of RMB10,000,000. During the six months ended 30 June 2019, the Group obtained new banking facilities amounting to RMB1,401,455,000. The new banking facilities are fully utilised as at 30 June 2019, of which bank loans of an aggregate principal amount of RMB654,455,000 and RMB747,000,000 will be repayable before 30 June 2020 and after 30 June 2020 respectively.

(ii) Subsequent to 30 June 2019 and up to the date of approval of the interim report, the Group has repaid short-term financing bills of RMB28,750,000. Up to the date of approval of the interim report, the remaining outstanding short-term financing bills with an aggregate principal of RMB175,250,000 and RMB429,000,000 as at 30 June 2019 will be repayable before 30 June 2020 and after 30 June 2020 respectively, of which RMB43,000,000 are interest free and RMB590,000,000 carry interest at 4.35% – 5.3% per annum on the condition that the Group fully complies with the revised repayment terms.

(iii) Subsequent to 30 June 2019 and up to the date of approval of the interim report, the Group repaid medium-term notes of RMB152,750,000. Up to the date of approval of the interim report, the remaining outstanding medium-term notes with an aggregate principal of RMB1,042,000,000 and RMB973,000,000 as at 30 June 2019 will be repayable before 30 June 2020 and after 30 June 2020 respectively, of which medium-term notes with principal of RMB132,000,000 is interest free and medium-term notes with principal of RMB2,035,750,000 carry interest at 5.44%–6.2% per annum on the condition that the Group fully complies with the revised repayment plans.

(iv) The Company has appointed legal counsel to represent it to oppose the winding up petitions in the Cayman Islands and in Hong Kong (the "Petitions"). The Cayman Islands Petition was struck out by an order of the Grand Court of the Cayman Islands (the "Grand Court") dated 19 October 2018 (the "Strike-out Order") and the Hong Kong Petition was withdrawn by the petitioner as a result of the Strike-out Order. The Court of Appeal of the Cayman Islands (the "Court of Appeal") on 16 January 2019 allowed an appeal against the Strike-out Order, and as a result the Cayman Islands Petition was reinstated and returned to the Grand Court. The Directors do not believe there is any reasonable basis for the Cayman Islands Petition. The Company's legal counsel filed an application on 21 February 2019 for leave to appeal to the Privy Council of the United Kingdom (the "Privy Council") to set aside the Court of Appeal's decision (the "Application"). The Court of Appeal declined to grant the Application after a hearing on 16 April 2019. The Company and its legal counsel are considering all available options.

1 BASIS OF PREPARATION (CONTINUED)

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

(v) 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.

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 condensed consolidated financial statements for the six months ended 30 June 2019 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 these condensed consolidated financial statements for the six months ended 30 June 2019.

2 PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to IFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

IFRS 16	Leases
IFRIC-Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to IFRSs (Continued)

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts and changes in accounting policies of application on IFRS 16 "Leases"

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 Leases ("IAS 17") and related interpretations.

Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on IFRS 16 "Lease" (Continued)

Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of plants and buildings, equipment, motor vehicles and land lease prepayment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight- line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on IFRS 16 "Lease" (Continued)

Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets (Continued)

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 "Financial Instruments" ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on IFRS 16 "Lease" (Continued)

Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities (Continued)

The lease payments include:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/ expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on IFRS 16 "Lease" (Continued)

Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right- of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on IFRS 16 "Lease" (Continued)

Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on IFRS 16 "Lease" (Continued)

Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties and equipment in the People's Republic of China ("PRC") was determined on a portfolio basis; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

The Group recognised lease liabilities of RMB87,672,000 and right-of-use assets of RMB2,303,229,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.68%.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on IFRS 16 "Lease" (Continued)

Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	98,807
Lease liabilities discounted at relevant incremental borrowing rates	88,022
Add: Lease liability resulting from lease modification of an existing lease	180
Extension options reasonably certain to be exercised	268
Less: Recognition exemption – short-term leases	(798)
Lease liabilities relating to operating leases recognised upon application of IFRS16 as at 1 January 2019	87,672
Analysed as	
Current	17,116
Non-current	70,556
	87,672

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on IFRS 16 "Lease" (Continued)

Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets *RMB'000*
Right-of-use assets relating to operating leases – upon application of IFRS 16	87,672
Reclassified from land lease prepayments *(note)*	2,208,691
Reclassified from other receivables and prepayments	6,866
	2,303,229
By class:	
Land lease prepayments	2,294,852
Plants and buildings	8,377
	2,303,229

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impacts and changes in accounting policies of application on IFRS 16 "Lease" (Continued)

Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 *RMB'000*	Reclassifications *RMB'000*	Carrying amounts under IFRS 16 at 1 January 2019 *RMB'000*
Non-current assets			
Fixed assets			
– Land lease prepayment *(note)*	2,208,691	(2,208,691)	–
Right-of-use assets	–	2,303,229	2,303,229
Current assets			
Other receivables and prepayments	692,050	(6,866)	685,184
Current liabilities			
Lease liabilities	–	(17,116)	(17,116)
Non-current liabilities			
Lease liabilities	–	(70,556)	(70,556)

Note: Upfront payments for leasehold lands in the PRC were classified as land lease prepayments as at 31 December 2018. Upon application of IFRS 16, the non-current portion of prepaid lease payments amounting to RMB2,208,691,000 was reclassified to right- of-use assets.

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Significant changes in significant judgements and key sources of estimation uncertainty

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for the new significant judgements related to lease accounting under IFRS 16, which are described as below.

The Group applies judgement to determine the lease term for lease contracts in which it is a lessee that include renewal option. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Sales of cement	**7,522,147**	5,109,989
Sales of clinker	**977,265**	944,091
Sales of concrete	**745,832**	561,655
Sales of other products	**188,396**	139,704
Rendering of services	**7,083**	3,975
	9,440,723	6,759,414

The Group's revenues for the six months ended 30 June 2019 and 2018 were generated in the PRC. Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b).

(b) 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. Based on the manner in which information is reported internally to the executive Directors, being the Group's chief operating decision maker ("CODM") for the purposes of resource allocation and performance assessment, the Group has identified the following four reportable segments based on the region in which the Group operates.

- Shandong Province – subsidiaries operating and located in the Shandong Province of the PRC.
- Northeastern China – subsidiaries operating and located in the Liaoning Province and Inner-Mongolia Autonomous Region of the PRC.
- Shanxi Province – subsidiaries operating and located in the Shanxi Province and Shaanxi Province of the PRC.
- Xinjiang Region – subsidiaries operating and located in the Kashi area of Xinjiang Uygur Autonomous Region of the PRC.

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

– Segment assets include all tangible, intangible assets and current assets, with the exception of interests in associates, deferred tax assets, derivative component of convertible bonds and other corporate assets. Segment liabilities include trade payables, 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.

– Segment results represents profits, earned by each segment without allocation of head office administrative expenses, share of results of associates, waiver of interest expenses, waiver of medium-term notes principal, gain on fair value changes of financial assets at fair value through profit or loss ("FVTPL"), loss on fair value changes of derivative component of convertible bonds, Directors' remuneration, auditor's remuneration and finance costs in relation to the unallocated bank loans, other borrowings, long-term bonds and convertible bonds. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	2019					2018				
	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										
Disaggregated by timing of revenue										
Point in time	6,596,928	1,428,268	1,042,147	370,081	9,437,424	4,896,069	1,117,960	546,236	195,236	6,755,501
Over time	2,731	220	348	–	3,299	3,063	175	675	–	3,913
Revenue from external customers	6,599,659	1,428,488	1,042,495	370,081	9,440,723	4,899,132	1,118,135	546,911	195,236	6,759,414
Inter-segment revenue	183,868	98,406	52,349	–	334,623	14,874	4,578	26,486	–	45,938
Reportable segment revenue	6,783,527	1,526,894	1,094,844	370,081	9,775,346	4,914,006	1,122,713	573,397	195,236	6,805,352
Reportable segment profit/(loss) (adjusted profit/(loss) before taxation)	1,774,222	(12,063)	213,785	158,941	2,134,885	1,547,320	(142,883)	35,395	53,981	1,493,813
As at 30 June/31 December										
Reportable segment assets	11,519,882	8,189,273	5,439,987	1,087,566	26,236,708	10,536,958	8,129,952	5,336,846	1,095,822	25,099,578
Reportable segment liabilities	3,561,476	2,863,354	1,522,053	259,957	8,206,840	2,957,600	3,175,331	1,283,362	498,689	7,914,982

For the six months ended 30 June 2019

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	**2,134,885**	1.493.813
Elimination of inter-segment profit	**(164,708)**	(76,986)
Reportable segment profit derived from the Group's external customers	**1,970,177**	1,416,827
Share of results of associates	**19,195**	8,901
Waiver of interest expenses	**65,327**	114,442
Waiver of medium-term notes principal	**–**	3,750
Gain/(loss) on fair value changes of financial assets at FVTPL	**3,107**	(603)
Loss on fair value changes of derivative component of convertible bonds	**(71,664)**	–
Unallocated finance costs	**(196,213)**	(343,130)
Unallocated head office and corporate expenses	**(75,982)**	(136,879)
Consolidated profit before taxation	**1,713,947**	1,063,308

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 INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Interest income	**10,929**	9,137
Government grants *(note)*	**90,548**	54,223
Amortisation of deferred income	**6,275**	8,915
Waiver of interest expenses	**65,327**	114,442
Waiver of medium-term notes principal	**–**	3,750
Others	**10,318**	12,552
	183,397	203,019

Note: Government grants mainly represented tax refunds, subsidies and energy reduction incentives from local governments.

6. OTHER NET EXPENSES

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Net gain from disposal of fixed assets	**1,791**	2,377
Net foreign exchange gain	**3,212**	–
Net gain/(loss) on fair value changes on other financial asset at FVTPL	**3,107**	(603)
Loss on fair value changes of derivative component of convertible bonds	**(71,664)**	–
Others	**(9,224)**	(5,117)
	(72,778)	(3,343)

For the six months ended 30 June 2019

7 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Interest on bank loans	**120,199**	143,694
Interest on other borrowings and long-term bonds	**72,759**	248,541
Interest on lease liabilities	**1,767**	–
Effective interest expense on convertible bonds	**32,648**	–
Less: capitalised interest expenses(*)	**(221)**	(141)
Net interest expenses	**227,152**	392,094
Unwinding of discount	**4,662**	880
Bank charges	**11,998**	7,871
	243,812	400,845

* The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 5.48% and 5.94% for the six months ended 30 June 2019 and 2018 respectively.

(b) Other items

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Depreciation		
– Property, plant and equipment	**621,540**	603,057
– Right-of-use assets	**33,605**	–
Amortisation		
– Land lease prepayments	**–**	29,594
– Intangible assets	**72,277**	47,505

8 INCOME TAX EXPENSE

Taxation in the condensed consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current tax expenses		
Provision for the PRC income tax	**531,239**	345,616
Deferred taxation		
Origination and reversal of temporary differences	**(22,933)**	6,585
	508,306	352,201

(i) The Group's PRC subsidiaries are subject to PRC income tax at the statutory rate of 25% (six months ended 30 June 2018: 25%) unless otherwise specified.

(ii) 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.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first Hong Kong dollars ("HK$" or "HKD")2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The Company and its subsidiaries incorporated in Hong Kong are subject to Hong Kong Profits Tax at the rate of 16.5% (six months ended 30 June 2018: 16.5%). No provision for Hong Kong Profits Tax has been made as the Company and the subsidiaries incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax during the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2019 is based on the profit attributable to ordinary equity shareholders of the Company for the period of RMB1,196,369,000 (six months ended 30 June 2018: RMB751,766,000) and the weighted average number of ordinary shares of 4,353,966,228 (six months ended 30 June 2018: 3,379,140,240) in issue during the interim period.

(b) Diluted earnings 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 had been suspended for trading since 16 April 2015. The average share price of the Company for the period from 1 January 2015 to 15 April 2015 was HK$4.49. On 31 October 2018, trading in the shares of the Company on the Stock Exchange was resumed. The average share price of the Company for the six months ended 30 June 2019 was HK$2.61.

The Directors are of the opinion that the 2011 Options and 2015 Options are anti-dilutive for the six months ended 30 June 2018 and 2019 respectively as the Directors believe that the exercise of the 2011 Options and 2015 Options would not result in the issue of ordinary shares for less than the average market price of ordinary shares during the six months ended 30 June 2018, in the absence of market price information from 16 April 2015 onward and taking into account the respective adverse nature of the events which have affected the affairs of the Group since that date. Besides, the exercise price of the 2011 Options and 2015 Options was higher than the average market price of the shares during the six months ended 30 June 2019 upon the resumption of trading of the shares of the Company.

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their assumed exercise would result in an increase in earnings per share.

10 FIXED ASSETS AND RIGHT–OF–USE ASSETS

(a) During the six months ended 30 June 2019, the addition of fixed assets of the Group amounted to RMB496,318,000 (six months ended 30 June 2018: RMB269,488,000). Items of fixed assets with net book value totalling RMB13,206,000 were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB9,022,000), resulting in a gain on disposal of RMB1,791,000 (six months ended 30 June 2018: RMB2,377,000).

(b) As at 30 June 2019, right-of-use assets with underlying assets of land lease prepayments carried at RMB29,390,000 (31 December 2018: land lease prepayment of RMB35,578,000) and plants and building carried at RMB78,837,000 (31 December 2018: RMB82,229,000) have been frozen by the PRC Court relating to overdue other borrowings and long-term bonds. 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.

(c) During the six months ended 30 June 2019, the Group entered into certain new lease agreements. The Group is required to make fixed monthly payments. On lease commencement, the Group recognised RMB2,367,000 of right-of-use assets and RMB2,369,000 lease liabilities.

11 INVENTORIES

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
Raw materials	**907,505**	462,392
Semi-finished goods	**370,917**	303,010
Finished goods	**310,577**	364,329
Spare parts	**362,337**	329,097
	1,951,336	1,458,828

12 TRADE AND BILLS RECEIVABLES

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Bills receivables	**1,246,112**	1,144,877
Trade receivables	**1,336,201**	1,261,380
Less: allowance for credit losses	**(277,251)**	(279,533)
	2,305,062	2,126,724

As of the end of the reporting period, the ageing analysis of trade and bills receivables, based on the invoice date and net of allowance for credit losses, is as follows:

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Within 3 months	**1,338,320**	816,824
3 to 6 months	**315,713**	514,055
6 to 12 months	**292,582**	414,501
Over 12 months	**358,447**	381,344
	2,305,062	2,126,724

All of the trade and bills receivables (net of allowance for credit losses) are expected to be recovered within one year.

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

12 TRADE AND BILLS RECEIVABLES (CONTINUED)

As at 30 June 2019, total bills received amounting to RMB1,246,112,000 (31 December 2018: RMB1,144,877,000) are held by the Group for settlement of trade receivables, of which certain bills were further discounted. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

13 OTHER RECEIVABLES AND PREPAYMENTS

	Note	**At 30 June 2019** **RMB'000**	At 31 December 2018 *RMB'000*
Deposit		**18,318**	68,557
Prepayments for raw materials		**140,313**	137,839
VAT recoverable		**130,191**	87,522
Amount due from related parties	25(b)	**129,074**	76,974
Amount due from third parties		**228,725**	233,547
Others		**120,726**	87,611
		767,347	692,050

14 RESTRICTED BANK DEPOSITS

Restricted bank deposits include RMB10,246,000 as at 30 June 2019 (31 December 2018: RMB16,493,000) of cash deposits pledged to banks for the performance guarantee in relation to certain sales or purchases cement, and RMB10,420,000 (31 December 2018: RMB13,814,000) of bank balances which have been frozen by the PRC Court in respect of the legal proceedings initiated by the Group's creditors relating to other borrowings, long-term bonds and certain sales or purchase contracts. Further details of this litigation are set out in note 16.

The pledged bank deposits will be released upon the expiry of the relevant guarantee in 2022. 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 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Bank loans – Secured (*)	**183,550**	216,150
Bank loans – Unsecured	**3,930,455**	4,083,200
	4,114,005	4,299,350

* Bank loans were either pledged by certain right-of-use assets with underlying assets of land lease prepayments with an aggregate carrying amount of RMB4,267,000 (31 December 2018: land lease prepayments of RMB4,318,000) and plants and buildings with an aggregate carrying amount of RMB9,267,000 (31 December 2018: RMB8,747,000).

As at 31 December 2018, an unsecured bank loan of approximately RMB80,000,000 was overdue and carried an interest rate of 10.14% per annum. Accordingly, bank loans amounting to approximately RMB3,513,150,000 and RMB786,200,000 due for repayment in 2019 and after 2019 respectively, which contain cross default clauses that demand immediate repayment when there is default in any bank loans repayment are classified as current liabilities as at 31 December 2018.

During the six months ended 30 June 2019, the overdue unsecured bank loan is repaid by the Group. As at 30 June 2019, there is no default in bank loans repayment and accordingly, bank loans amounting to approximately RMB2,693,005,000 and RMB1,421,000,000, which are due for repayment before 30 June 2020 and after 30 June 2020 respectively, based on the scheduled repayment terms set out on the loan agreements, are classified as current and non-current liabilities respectively as at 30 June 2019.

Bank loans due for repayment based on the scheduled repayment terms set out in the loan agreements are as follows:

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Within one year on demand	**2,693,005**	3,513,150
After one year but within two years	**574,000**	686,200
After two years but within five years	**847,000**	100,000
	1,421,000	786,200
	4,114,005	4,299,350

16 OTHER BORROWINGS

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

	Notes	**At 30 June 2019 *RMB'000***	At 31 December 2018 *RMB'000*
Loan from government – Unsecured	(i)	**2,727**	3,636
Short-term financing bills	(ii)	**633,000**	774,250
		635,727	777,886

Other borrowings due for repayable based on the repayment terms set out in the borrowing agreements are as follows:

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Within one year on demand	**204,909**	281,159
After one year but within two years	**99,909**	164,909
After two years but within five years	**330,909**	331,818
	430,818	496,727
	635,727	777,886

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 0.30% (31 December 2018: 0.30%) and is repayable in equal instalments from 2012 to 2021.

16 OTHER BORROWINGS (CONTINUED)

(ii) All of the short-term financing bills are issued by Shandong Shanshui Cement Group Co., Ltd ("Shandong Shanshui") and tradable in the PRC inter-bank market. As at 30 June 2019, the details of short-term financing bills are listed below:

Issuer	Outstanding principal *(RMB'000)*	Issue date	Maturity date	Original interest rates *(per annum)*	Interest payment term	Interest rates after restructuring plans *(per annum)*
Shandong Shanshui	301,000 (31/12/2018: 400,450)	14/04/2015	22/11/2015	5.30%	settled at the maturity date	0%–5.3% (31/12/2018: 0%–7.67%)
Shandong Shanshui	332,000 (31/12/2018: 373,800)	14/05/2015	12/02/2016	4.50%	settled at the maturity date	0%–5.3% (31/12/2018: 0%–7.67%)

As at 31 December 2018, all of the outstanding short-term financing bills issued by Shandong Shanshui are overdue. The Group negotiated with the holders of the short-term financing bills for extension of repayment of principal of the short-term financing bills and successfully reached agreements with all holders of short-term financing bills to restructure the repayment terms as at 31 December 2018.

As at 30 June 2019, the outstanding short-term financing bills of RMB204,000,000 and RMB429,000,000 are repayable before 30 June 2020 and after 30 June 2020 respectively (31 December 2018: RMB280,250,000 and RMB494,000,000 are repayable in 2019 and after 2019 respectively) according to the revised repayment plans, of which short-term financing bills with principal of RMB43,000,000 (31 December 2018: RMB98,250,000) is interest-free and short-term financing bills with principal of RMB590,000,000 (31 December 2018: RMB676,000,000) carry interest rate at 4.35% – 5.3% per annum on the condition that the Group fully complies with the revised repayment plans.

Besides, under the restructuring plans, the PRC banks and financial institutions have agreed to waive portion of principal of short-term financing bills and portion of interest and penalty interest accrued on the principal amounts up to the date of the restructuring plan to the short term financing bills on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. The waived interest related to short-term financing bills of RMB19,485,000 has been recognised as other income in profit or loss during the six months ended 30 June 2019.

Certain assets of the Group have been frozen by the PRC Courts in respect of the litigations relating to other borrowings, long-term bonds and certain sales or purchase contracts. As at 30 June 2019, cash and cash equivalents of RMB10,420,000 (31 December 2018: RMB13,814,000), investments in subsidiaries of RMB5,545,188,000 (31 December 2018: RMB5,664,792,000), right-of-use assets with underlying assets of land lease prepayments of RMB29,390,000 (31 December 2018: land lease prepayment of RMB35,578,000) and fixed assets of RMB78,837,000 (31 December 2018: RMB82,229,000) have been frozen by the PRC courts.

17 LONG-TERM BONDS

	At 30 June 2019 ***RMB'000***	At 31 December 2018 *RMB'000*
Medium-term notes	**2,167,750**	2,709,500
Less: Current portion of medium-term notes	**(1,194,750)**	(1,338,000)
Long-term bonds, less current portion	**973,000**	1,371,500

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

Issuer	**Outstanding principal** *(RMB'000)*	**Issue date**	**Maturity date**	**Original interest rates** *(per annum)*	**Interest payment term**	**Interest rates after restructuring plans** *(per annum)*
Medium-term notes issued in the PRC inter-bank market (notes (i) and (ii))						
Shandong Shanshui	1,011,000 (31/12/2018: 1,138,000)	18/01/2013	21/01/2016	5.44%	annually	0%–5.44% (31/12/2018: 0%–7.67%)
Shandong Shanshui	724,750 (31/12/2018: 846,500)	27/02/2014	27/02/2017	6.10%	annually	0%–6.1% (31/12/2018: 0%–7.67%)
Shandong Shanshui	432,000 (31/12/2018: 725,000)	09/05/2014	12/05/2017	6.20%	annually	0%–6.2% (31/12/2018: 0%–7.67%)

17 LONG-TERM BONDS (CONTINUED)

Notes:

(i) As at 31 December 2018, all of the medium-term notes issued by Shandong Shanshui are overdue. The Group has negotiated with the holders of medium-term note holder for extension of repayment of principal of the long-term bonds and successfully reached agreements with all holders of medium-term notes to restructure the repayment terms as at 31 December 2018.

As at 30 June 2019, the outstanding medium-term notes of RMB1,194,750,000 and RMB973,000,000 are repayable before 30 June 2020 and after 30 June 2020 respectively (31 December 2018: RMB1,338,000,000 and RMB1,371,500,000 are repayable in 2019 and after 2019 respectively) according to the revised repayment plans, of which medium-term notes with principal of RMB132,000,000 (31 December 2018: RMB200,000,000) is interest free and medium-term notes with principal of RMB2,035,750,000 (31 December 2018: RMB2,509,500,000) carry interest at 5.44% – 6.2% per annum on the condition that the Group fully complies with the revised repayment plans.

Besides, under the restructuring plans, the PRC banks and financial institutions have agreed to waive portion of the interest and penalty interest accrued on the principal amounts up to date of the restructuring plan to the medium-term note on the condition that the Group repays the outstanding liabilities according to the revised repayment schedule. The waived interest related to medium-term notes of RMB45,842,000 has been recognised as other income in profit or loss during the six months ended 30 June 2019.

(ii) Certain assets of the Group have been frozen by the PRC Court in respect of the litigation of the medium-term notes (see note 16).

18 TRADE PAYABLES

As at the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Within 3 months	**2,171,443**	1,800,360
3 to 6 months	**476,413**	479,353
6 to 12 months	**358,009**	203,713
Over 12 months	**734,008**	756,708
	3,739,873	3,240,134

As at 30 June 2019 and 31 December 2018, all trade payables of the Group are repayable on demand. All trade payables are expected to be settled within one year.

As at 30 June 2019, certain suppliers and third parties have initiated lawsuits against the Group to demand immediately settlement of trade payables with carrying amount of RMB216,647,000 (31 December 2018: RMB200,528,000) plus interest for late payment, if any. As of the date of the approval of this interim report, certain litigations related to trade payables with carrying amount of RMB162,765,000 (31 December 2018: RMB158,508,000) have been judged by the PRC Court, with the Court ordering the Group to settle the trade payables, the related interest, penalty interest and expenses incurred during the litigation. Certain litigations related to trade payables with carrying amount of RMB53,882,000 (31 December 2018: RMB42,020,000) are still in progress.

The management are continuing to negotiate with the suppliers to settle these amounts out of court. No adjustments have been made to the condensed 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 Directors consider that the eventual outcome of these litigations cannot presently be determined, given their preliminary status.

For the six months ended 30 June 2019

19 OTHER PAYABLES AND ACCRUED EXPENSES

	Notes	**At 30 June 2019 RMB'000**	At 31 December 2018 RMB'000
Accrued payroll and welfare		**240,567**	324,062
Taxes payable other than income tax payable		**96,309**	114,277
Staff compensation and termination provisions		**162,196**	163,996
Amount due to related parties	25(b)	**909,970**	917,795
Payable to third parties of acquired subsidiaries		**93,520**	97,712
Acquisition consideration payable	(i)	**82,021**	182,383
Current portion of long term payables		**1,266**	1,266
Payables for acquisition of property, plant and equipment		**2,156**	10,695
Accrued expenses and other payables	(ii)	**1,187,797**	1,230,019
		2,775,802	3,042,205

Notes:

(i) Included in the balance are amounts payable for the acquisition of Xinghao Cement Co., Ltd. ("Xinghao Cement"), Dalian Heyuan Investment Management Co., Ltd. and Liaocheng Meijing Zhongyuan Cement Co., Ltd. ("Liaocheng Meijing Zhongyuan Cement") amounting to RMB nil, RMB35,000,000 and RMB32,878,000, respectively (31 December 2018: RMB101,705,000, RMB50,000,000 and RMB30,678,000, respectively). The previous shareholders of Xinghao Cement and Liaocheng Meijing Zhongyuan Cement have sued the Group to settle the unpaid acquisition consideration payable plus interest for late payment. During the six months ended 30 June 2019, the Group negotiated with the previous shareholders of Xinghao Cement and an agreement was reached between the Group and the previous shareholders of Xinghao Cement on the settlement of the payables. The previous shareholders of Xinghao Cement withdrew the lawsuit and accordingly, such litigation claim was release. The payable for acquisition of equity interests in Xinghao Cement was settled during the period. As a result, the Group obtained control over Xinghao Cement as at 30 June 2019 and the Group has the ability to direct the relevant activities which significantly affect Xinghao Cement's returns. Up to the date of approval of the interim report, the litigation related to Liaocheng Meijing Zhongyuan Cement is still in progress.

(ii) Included in accrued expenses and other payables are interest payables, payable for mine management, contract guarantee received of RMB549,829,000, RMB131,946,000 and RMB156,129,000 (31 December 2018: RMB664,618,000, RMB134,416,000 and RMB123,028,000) respectively.

As at 30 June 2019, certain suppliers and third parties have lawsuits against the Group to demand immediate settlement of other payables with carrying amount of RMB379,257,000 (31 December 2018: RMB368,311,000) plus interest for late payment, if any. As of the date of the approval of this condensed consolidated financial statement, certain litigations related to other payables with carrying amount of RMB240,966,000 (31 December 2018: RMB240,304,000) have been judged by the PRC Court, with the Court ordering the Group to settle the other payables, the related interests, penalty interest and expenses incurred during the litigation. Certain litigation related to other payables with carrying amount of RMB138,291,000 (31 December 2018: RMB128,007,000) are still in progress.

20 CONVERTIBLE BONDS

On 6 August 2018 and 30 August 2018, the Company and independent subscribers ("CB Subscribers") entered into agreements (the "CB Agreements"), pursuant to which the Company has conditionally agreed to issue, and the CB Subscribers have conditionally agreed to subscribe for the convertible bonds ("CB") in the aggregate principal amounts of US$210,900,000 and US$320,700,000 respectively (equivalent to approximately RMB1,444,665,000 and RMB2,196,795,000 respectively). The CB Agreements were completed on 8 August 2018 and 3 September 2018 (the "Issue Dates"). The initial conversion price is HK$6.29 per share.

The CB, shall upon their issuance, constitute a direct, unconditional, unsecured and unsubordinated obligation of the Company and rank pari passu and rateably without preference (with the exception of obligations in respect of taxes and certain other statutory exceptions) with all other unsecured and unsubordinated obligations of the Company.

The CB holder has the right to convert the principal amount of the CB into fully-paid ordinary shares of the Company at any time during the period commencing upon (i) the grant of approval for the listing of and permission to deal in the conversion shares by the Listing Committee of the Stock Exchange, with such approval being unconditional or subject to conditions to which neither the CB issuer and CB Subscribers shall reasonably object; or (ii) the cancellation of listing; and ending on and including, the date falling on the seven business days prior to the maturity Date of the CB.

Unless previously redeemed, converted or purchased and cancelled, the CB holders shall have the right, to be exercised in its sole discretion, to require the Company to redeem all of the outstanding principal amount of the CB that it holds at the early redemption amount (which equals 110% of the outstanding principal amount of the CB) plus accrued interest in respect of the outstanding principal amount of the CB, upon the occurrence of a triggering event (the change of control of the Company as defined under the Takeover Code or material change of the use of proceed).

The Company has the right to convert the outstanding principal amount of the CB into fully-paid ordinary shares of the Company at any time during the period commencing from 19th month following the issue date and up to inclusive of 7 business days prior to the maturity date upon (i) the grant of approval for the listing of and permission to deal in the conversion shares by the Listing Committee of the Stock Exchange, with such approval being unconditional or subject to conditions to which neither the Company nor Subscriber shall reasonably object; or (ii) the cancellation of listing. In the event that the Company elects to exercise the conversion right, it shall pay to each CB holder an amount equal to the interest that would have accrued on the CB of the holder from the date on which the Company elects to exercise the conversion right (the "Company Conversion Date") to the next anniversary date after the Company Conversion Date.

20 CONVERTIBLE BONDS (CONTINUED)

The CB contains two components, debt component and derivatives (including conversion and early redemption options) component. The effective interest rate of the debt component is 12% (31 December 2018: 13%). The derivative components are financial assets or financial liabilities because the early redemption options is non-closely related to the economic characteristics and risks of the host. Hence, the conversion option is not an equity component. These derivatives are measured at fair value with charges in fair value subsequent to the initial recognition recognised in profit or loss.

The movement of the components of the convertible bonds during the six months ended 30 June 2019 is set out below:

	Debt component *RMB$'000*	Derivative component *RMB$'000*	Total *RMB$'000*
At 31 December 2018	**633,100**	**(246,204)**	**386,896**
Interest charge	**2,542**	**–**	**2,542**
Fair value change	**–**	**71,664**	**71,664**
Exchange realignment	**(1,555)**	**1,571**	**16**
At 30 June 2019	**634,087**	**(172,969)**	**461,118**

The debt component of convertible bonds is classified as non-current liabilities while the derivative component is classified as current assets in the condensed consolidated financial statements as at 30 June 2019.

The fair values of the Group's derivative components at the date of grant of the convertible bonds, date of amendment of convertible bonds coming into effect and 30 June 2019 have been arrived at on the basis of a valuation carried out on the respective dates by an independent qualified professional valuer not connected to the Group. The fair value was determined based on Monte-Carlo model. The key input used in the model are disclosed in note 22.

21 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The Directors did not declare the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

21 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Share capital

	30 June 2019 and 31 December 2018	
	Number of shares	**RMB equivalent** *RMB'000*
Authorised:		
Ordinary shares of the Company of USD0.01 each	10,000,000,000	701,472
Ordinary shares of the Company, issued and fully paid:		
At 1 January 2018 and 30 June 2018	3,379,140,240	227,848
Issue of new shares *(note i)*	85,845,636	5,973
Conversion of convertible bonds *(note ii)*	888,980,352	61,850
At 31 December 2018 and 30 June 2019	4,353,966,228	295,671

(i) On 7 October 2018, the Company announced the arrangement to allot and issue 85,845,636 new ordinary shares of the Company to various independent private investors of HK$4.20 per ordinary share, representing a discount of approximately 33.23% to the closing price of HK$6.29 per ordinary share as quoted on the Stock Exchange on the day immediately prior to the trading suspension of the shares of the Company. The net proceeds would mainly be used for the redemption of senior notes issued in the Stock Exchange, repayment of borrowing of the Group and general working capital. These new shares were issued under the special mandate granted to the Directors at the extraordinary general meeting of the Company held on 30 October 2018 and rank pari passu with other shares in issue in all respects.

(ii) Pursuant to the special mandate granted at the extraordinary general meeting of the Company held on 30 October 2018, convertible bonds in an aggregate principal amount of US$456,000,000 and the compensation for early conversion equal to the aggregate of (a) an amount equal to any unpaid interest, accrued, or that would have accrued in respect of the convertible bonds subject to early conversion; and (b) an amount equal to 1% of the principal amount outstanding of the convertible bonds subject to early conversion were converted into shares of the Company at the conversion price of HK$4.20 per share. Accordingly, an aggregate of 888,980,352 ordinary shares were allotted and issued by conversion of the convertible bonds. The newly issued shares rank pari passu with other shares in issue in all respects.

22 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

This note provides information about how the Group determines fair values of various financial assets and liabilities.

(i) Fair value measurement and valuation process

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. The management of the Group will determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

(ii) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at 30/06/2019 *RMB'000*	Fair value as at 31/12/2018 *RMB'000*	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to the fair value
1 Equity securities listed in the PRC classified as financial assets at FVTPL	7,852	7,429	Level 1	Quoted bid prices in an active market	N/A	N/A
2 Unquoted equity investments in PRC non-listed companies classified as financial assets at FVTPL	47,251	44,252	Level 3	Adjusted net asset value	The fair value of net assets of the investees	The higher in the net asset value, the higher the fair value.
3 Derivative component of convertible bonds	172,969	246,204	Level 3	Monte-Carlo method	Expected volatility: 43.07% (31 December 2018: 38.05%-39.39%)	The higher the expected volatility, the lower the fair value.
					Risk-free rate: 1.85%-2.08% (31 December 2018: 1.88%-2.72%)	The higher the risk-free rate, the higher the fair value.

22 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(iii) Reconciliation of Level 3 fair value measurements

	Unlisted equity securities *RMB'000*	**Derivative component of convertible bonds** *RMB'000*
At 31 December 2018 under IFRS9	**44,252**	**246,204**
Payments for acquisitions	**315**	**–**
Fair value gain/(loss) (included in profit or loss)	**2,684**	**(71,664)**
Exchange realignment	**–**	**(1,571)**
At 30 June 2019	**47,251**	**172,969**

(iv) Fair values of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The Directors of the Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their corresponding fair values.

23 CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2019 not provided for in the condensed consolidated financial statements were as follows:

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Capital expenditure in respect of the acquisitions of fixed assets authorised and contracted for but not provided for in the condensed consolidated financial statements	**297,292**	321,051

24 CONTINGENT LIABILITIES AND OTHER EVENTS

(a) Guarantees issued

On 14 December 2016, the Company entered into a guarantee in favor of Bank of China Pingdingshan Branch as a security for the provision of the loan facility of RMB400,000,000 to Tianrui Group. The guarantee will expire on 14 December 2019.

(b) Litigation contingencies

(i) Shandong Shanshui and Pingyin Shanshui Cement Co., Ltd. have provided guarantees on behalf of Shanshui Heavy Industries, an associate of the Group, for its bank loan with the principal of RMB300,000,000. 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. The guarantee will expire two years after the agreed repayment date.

Certain land use right and properties of Shanshui Heavy Industries have been seized by the court. The Directors considered that the fair value of seized assets was more than RMB300,000,000, and no provision for this claim is needed accordingly.

(ii) As at 30 June 2019, several litigation claims were initiated by the customers against the Group to demand immediate repayment of the outstanding balance in relation to certain cement and other products sales contracts with an aggregate amount of RMB8,862,000 which have yet been concluded. No provision for these litigation claims was made in the interim financial report during the six months ended 30 June 2019 as in the opinion of the Directors, the possibility of an outflow of economic resources is remote.

Other than the disclosure of above, as at 30 June 2019, the Group was not involved in any other material litigation or arbitration. As far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at 30 June 2019, the Group was the defendant of certain non-material litigations, and also a party to certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the Directors believe that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position of the Group.

25 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions

	Notes	Six months ended 30 June 2019 RMB'000	Six months ended 30 June 2018 RMB'000
Recurring transactions			
Sales to:			
– Dong'e Shanshui Dongchang Cement Co., Ltd. ("Dong'e Shanshui")	(i)	**8**	48
– Chifeng Taiying Cement Management Co., Ltd. ("Taiying Cement")		**491**	602
– Liaoning Yunding Cement Group Co., Ltd. ("Yunding Cement")		**202,564**	67,566
		203,063	68,216
Purchase from:			
– Dashui Group		**–**	17
– Shanshui Heavy Industries		**–**	6,000
		–	6,017
Service and management fee paid:			
– Zibo Lianhe Cement Enterprise Management Co., Ltd ("Lianhe Cement")		**2,892**	2,889
– Zibo Banyang Limestone Enterprise Management Co., Ltd ("Banyang Limestone")		**14,174**	12,666
– Yunding Cement		**207**	4,661
– Xinganmeng Jixing Cement Joint Operation Co., Ltd.		**1,385**	236
– Taiying Cement		**183**	–
– Kashi Lianhe Huize Consultancy Service Limited ("Lianhe Huize")		**825**	–
		19,666	20,452
Non-recurring transactions			
Loans from related parties:			
– Tianrui Group	(ii)	**–**	148,668

25 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions (Continued)

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Loans to an associate and related interest income:			
– Dong'e Shanshui	(iii)	**–**	315
Repayment of loans to an associate and related interests by:			
– Dong'e Shanshui	(iii)	**–**	38,736
Interest paid on behalf of related parties:			
– Shanshui Heavy Industries		**7,101**	7,101

Notes:

(i) These represent sales of clinker to Dong'e Shanshui. The directors of the Company are of the opinion that these transactions were conducted on normal commercial terms and in the ordinary course of business of the Group.

(ii) These relate to loans from Tianrui Group. These loans with total principal of RMB883,349,000 (31 December 2018: RMB883,349,000) bear interest free.

(iii) 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 bear interest at one-year PRC bank loan interest rate of 5.40% (31 December 2018: 5.40%) and Dong'e Shanshui has fully repaid the loan as at 30 June 2019.

25 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Trade receivables due from:		
– Dong'e Shanshui	**21**	21
– Shanshui Heavy Industries	**14,936**	14,936
	14,957	14,957
Prepayment for raw materials:		
– Dong'e Shanshui	**9**	9
– Shanshui Heavy Industries	**5,641**	6,528
– Chifeng Taiing Cement	**–**	9
	5,650	6,546
Other receivables due from:		
– China Shanshui Investment	**765**	764
– Dong'e Shanshui	**67**	8
– Taiying Cement	**120**	151
– Shanshui Heavy Industries	**115,454**	62,430
– Mengjixing Cement	**–**	39
– Zhongxin Cement	**2**	47
– Lianhe Cement	**4,014**	4,000
– Banyang Limestone	**3,000**	3,000
– Lianhe Huize	**2**	–
	123,424	70,439
	129,074	76,985
Trade payable due to:		
– Shanshui Heavy Industries	**53,950**	52,700
Other payables due to:		
– Dong'e Shanshui	**30**	–
– Shanshui Heavy Industries	**24,876**	34,446
– Tianrui Group	**885,064**	883,349
	909,970	917,795

25 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management personnel remuneration

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

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Salary, allowances and other benefits	**3,667**	7,323
Contribution to defined contribution retirement plans	**306**	193
	3,973	7,516

I. INTERIM DIVIDEND

The Board did not declare the payment of any interim dividend for the six months ended 30 June 2019.

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

Neither the Company nor any of its subsidiaries purchased, sold, or redeemed any of the Company's listed securities during the Reporting Period.

III. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to maintaining good corporate governance standards.

The Company has applied the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules.

During the Reporting Period, the Board was not aware of any information which would indicate that the Company did not comply with the code provisions of the CG Code unless otherwise indicated.

Chairman and Chief Executive Officer

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

The Company did not appoint any Chief Executive Officer and Mr. CHANG Zhangli, the Chairman, undertakes the responsibilities of the Chief Executive Officer. In allowing the two positions to be occupied by the same person, the Company has considered that both positions require in-depth knowledge and considerable experience of the Group's business. Candidates with the requisite knowledge, experience and leadership are difficult to identify. If either of the positions is occupied by an unqualified person, the Group's performance could be gravely compromised. Besides, the Board believes that the balance of power and authority will not be impaired by such arrangement as it is adequately ensured by the Board which comprises experienced and high calibre individuals (including executive Directors and independent non-executive Directors).

IV. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of Code of Conduct for Securities Transactions by Directors ("**Code of Conduct**"), the terms of which are not less exacting than the Model Code. Having made specific inquiries to all Directors, all Directors confirmed that they have complied with the Code of Conduct throughout the Reporting Period.

V. REVIEW OF INTERIM RESULTS AND REPORT BY AUDIT COMMITTEE

The audit committee comprises the three independent non-executive Directors of the Company who reviewed the unaudited interim results and report of the Group for the six months ended 30 June 2019, and discussed with the Company's management regarding risk management, internal control and other important matters.

VI. CHANGE IN INFORMATION OF DIRECTOR

Pursuant to the disclosure requirement of Rule 13.51B(1) of the Listing Rules, the change in information on Director is set out below:

1. Mr. CHANG Zhangli, the Chairman and an executive Director of the Company, ceased to be a non-independent director of Beijing New Building Materials Public Limited Company, a company listed on the Shenzhen Stock Exchange (stock code: 000786) since 30 April 2019; and has been serving as a non-executive director of China Conch Venture Holdings Limited, a company listed on the Stock Exchange (stock code: 00586) since 21 March 2019.

VII. AMENDMENTS TO MEMORANDUM AND ARTICLES OF ASSOCIATION

The Company has adopted the Amended and Restated Memorandum and Articles of Association by special resolution passed on 30 May 2019. For further details, please refer to the announcements published by the Company on 21 March 2019 and 30 May 2019.