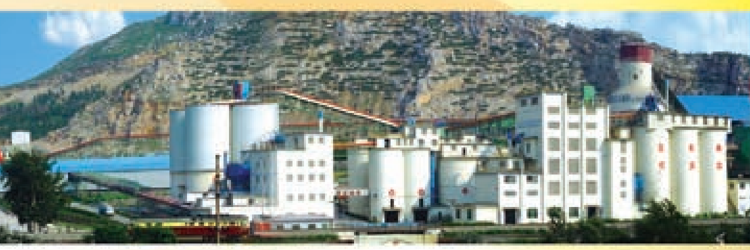
CHINA SHANSHUI CEMENT GROUP LIMITED
中國山水水泥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 691

2010 Annual Report



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Definitions

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

"Company" or "Shanshui Cement"	China Shanshui Cement Group Limited
"Group" or "Shanshui Group"	the Company and its subsidiaries
"Reporting Period"	1 January 2010 to 31 December 2010
"Directors"	Directors of the Company
"Board"	Board of Directors of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Rules of the Stock Exchange"	the Rules Governing the Listing of Securities on the Stock Exchange
"SFO"	Securities and Futures Ordinance (Cap. 571) (as amended, supplemented or otherwise modified from time to time)
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Shares"	the ordinary shares in the share capital of the Company with a nominal value of US$0.01 each
"Shareholder(s)"	holder(s) of the Share(s)
"Articles of Association"	the articles of association of the Company
"clinker"	a semi-finished product in the cement production process
"RMB"	Renminbi
"PRC"	The People's Republic of China
"Shandong Region"	Shandong Province and the areas covered by the Company's business, including Hebei Province, Tianjin etc.
"Northeast Region"	Liaoning Province and the areas covered by the Company's business, including Eastern part of Inner Mongolia etc.
"Shanxi Region"	Shanxi Province and the areas covered by the Company's business, including Shaanxi Province etc.
"National Bureau of Statistics of China"	The National Bureau of Statistics of the People's Republic of China
"MIIT"	the Ministry of Industry and Information Technology of the PRC

(I) Company Profile

1. BOARD OF DIRECTORS

Executive Directors

ZHANG Caikui (Chairman)
ZHANG Bin (Vice Chairman and General Manager)
DONG Chengtian
YU Yuchuan

Note: ZHANG Bin was appointed as an executive director of the Company with effect from 10 September 2010.

Non-Executive Directors

Homer SUN
JIAO Shuge (alias JIAO Zhen)

Independent Non-Executive Directors

SUN Jianguo
WANG Yanmou
WANG Jian

Audit Committee

WANG Yanmou (Chairman)
SUN Jianguo
WANG Jian

Remuneration Committee

SUN Jianguo (Chairman)
WANG Yanmou
WANG Jian

Executive Committee

ZHANG Caikui (Chairman)
ZHANG Bin
DONG Chengtian
YU Yuchuan

Nomination Committee

ZHANG Caikui (Chairman)
WANG Yanmou
SUN Jianguo

(I) Company Profile

2. COMPANY PROFILE

(1)	Company Name		
	Company Name in Chinese	:	中國山水水泥集團有限公司
	Official English Name of the Company	:	China Shanshui Cement Group Limited
(2)	Registered Office	:	Offices of Maples Corporate Services Limited PO Box 309, Ugland House Grand Cayman, KY 1-1104, Cayman Islands
(3)	Principal Places of Business		
	Principal Place of Business in China	:	Sunnsy Industrial Park, Gushan Town, Changqing District, Jinan, Shandong, China
	Principal Place of Business in Hong Kong	:	Room 2609, 26/F, Tower 2, Lippo Centre, 89 Queensway, Admiralty, Hong Kong
(4)	Contact details of the Company		
	Telephone	:	+86-531-88360218 +852-25257918
	Fax	:	+86-531-88360218 +852-25257998
	E-mail address	:	ir@shanshuigroup.com
(5)	Website	:	www.shanshuigroup.com
(6)	Authorised Representatives	:	ZHANG Caikui, ZHANG Bin
(7)	Alternate Authorised Representative	:	LI Cheung Hung
(8)	Joint Company Secretaries	:	ZHANG Bin, LI Cheung Hung – ACIS, ACS, FCPA, FAIA
(9)	Qualified Accountant	:	LI Cheung Hung – ACIS, ACS, FCPA, FAIA
(10)	Principal Bankers	:	China Merchants Bank China Construction Bank Corporation
(11)	Listing Date	:	4 July 2008

(I) Company Profile

(12)	Website for publication of this report	:	www.shanshuigroup.com
(13)	Exchange on which the Company's shares are listed	:	The Hong Kong Stock Exchange
(14)	Stock code	:	00691
(15)	Stock Short Name	:	Shanshui Cement
(16)	Hong Kong Share Registrar and Transfer Office	:	Computershare Hong Kong Investor Services Limited
	Address	:	Rooms 1712-1716, 17/F Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
(17)	Legal Advisers		
	as to PRC laws	:	Commerce & Finance Law Offices
	as to Hong Kong laws	:	Norton Rose Hong Kong Cleary Gottlieb Steen & Hamilton LLP
(18)	Auditor	:	KPMG

(II) Corporate Information

As one of the 12 large scale cement enterprises receiving key support from the government, Shanshui Group has actively carried out market consolidation through organic growth and acquisitions in Shandong and Liaoning Provinces, achieving rapid growth and become the largest cement producer in Shandong and Liaoning Provinces of China. From 2009 onwards, the Group quickly established its company presence in Inner Mongolia, Shanxi and Xinjiang Provinces, and a number of green-field and M & A projects are under way as planned. Our dominant market position within areas including Shandong and Liaoning Provinces and superior product quality provide us pricing power and help us attract key customers. Leveraging on the government's economic stimulus plan, we have taken advantage of the considerable growth opportunities in the construction and infrastructure sectors within our target markets. The efficient layout of our production facilities in our key regional markets, and our extensive sales network enable us to minimise transportation costs and to optimise regional market penetration while maintaining the control over the limestone resources. Leveraging on years of production know-how, we have gained a competitive cost advantage in terms of both product manufacturing and capacity expansion.

In March 2010, Shanshui Cement was included into the Hang Seng Composite Index Series, Hang Seng Composite MidCap Index Series and Properties & Construction Industry Index Series; In November 2010, Shanshui Cement was included in the MSCI Global Standard Indices – MSCI China Index, marking the capital market's recognition of the Group's performance, including its positioning, business and financial strength. The inclusion of the Group in this index series further improves the Group's reputation and position in the international capital markets.

(II) Corporate Information

1. KEY DATA

(1) Key financial data

(Unit: RMB'000)

	For the 12 months ended 31 December		
	2010	2009	2008
Revenue	**11,854,068**	8,727,626	7,500,761
Gross profit	**2,550,102**	1,780,475	1,586,448
Gross profit margin	**21.5%**	20.4%	21.2%
Profit from operations	**1,726,493**	1,250,866	1,061,020
Profit margin from operations	**14.6%**	14.3%	14.1%
Profit before tax	**1,363,205**	941,281	712,995
Pre-tax profit margin	**11.5%**	10.8%	9.5%
Profit attributable to equity shareholders of the Company	**979,128**	701,557	539,357
Basic earnings per share (RMB)	**0.35**	0.25	0.23
Net cash generated from operating activities	**1,789,127**	1,025,697	1,037,261

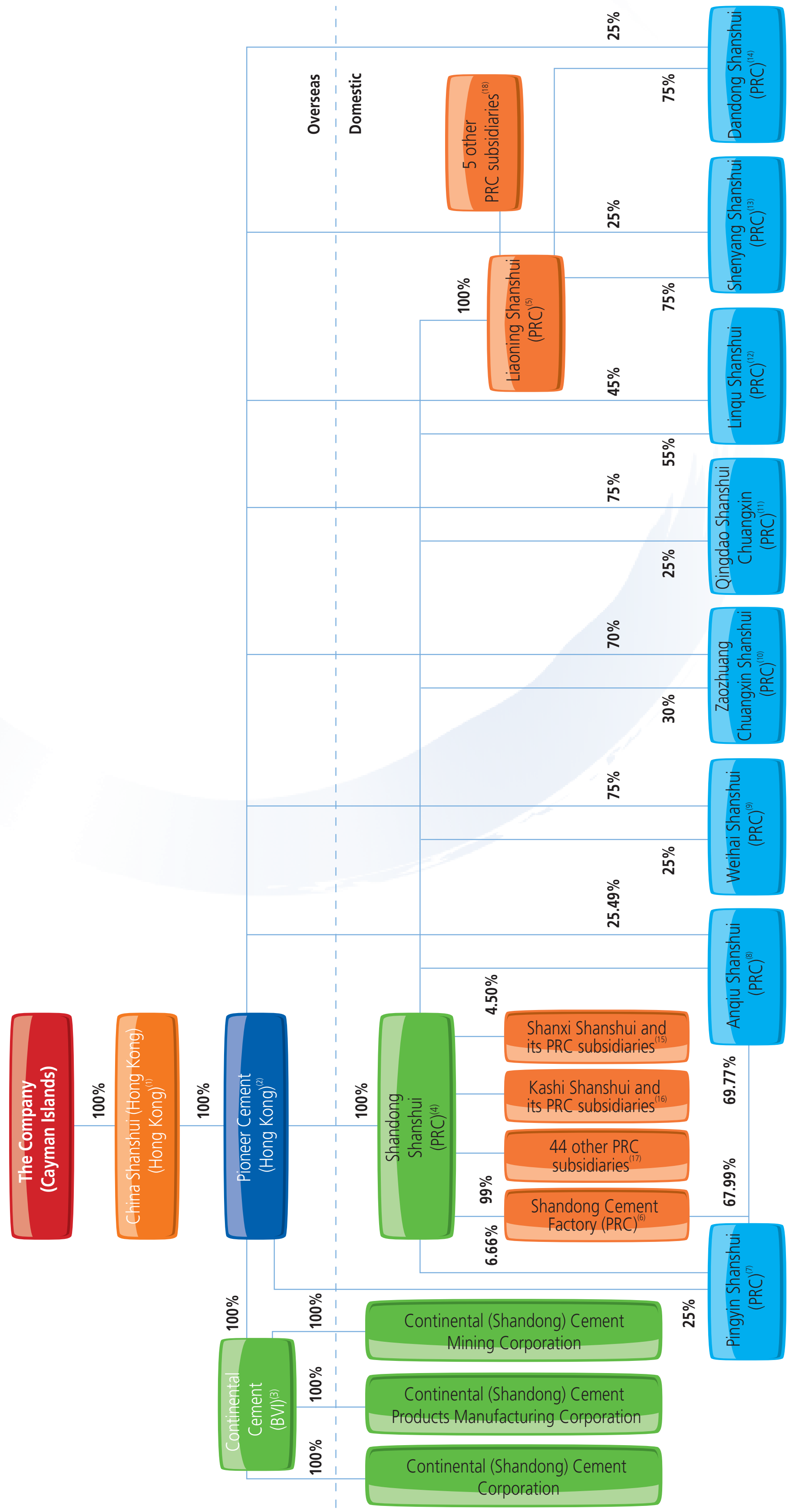
	As at 31 December		
	2010	2009	2008
Total assets	**18,950,326**	14,609,163	12,772,617
Total liability	**12,801,321**	9,380,035	8,167,068
Net gearing ratio	**50.4%**	48.2%	43.3%

(2) Key business data

	2010	2009	2008
Sales volume of cement ('000 tonnes)	**39,318**	29,388	25,112
Sales volume of clinker ('000 tonnes)	**9,844**	8,422	5,466
Sales volume of concrete ('000 m^3)	**785**	860	513
Unit selling price of cement (RMB/tonne)	**235.9**	224.9	235.2
Unit selling price of clinker (RMB/tonne)	**197.2**	187.5	213.9
Unit selling price of concrete (RMB/m^3)	**237.5**	262.3	275.3

(II) Corporate Information

2. DIAGRAM OF SHAREHOLDING STRUCTURE OF THE GROUP



Notes:

(1) China Shanshui Cement Group (Hong Kong) Company Limited. Its principal business is investment holding.

(2) China Pioneer Cement (Hong Kong) Company Limited. Its principal business is investment holding.

(3) Continental Cement Corporation ("Continental Cement"). Its principal business is investment holding.

(4) Shandong Shanshui Cement Group Company Limited ("Shandong Shanshui"). Its principal businesses are designing, manufacturing and sale of cement, cement products and construction materials.

(5) Liaoning Shanshui Gongyuan Cement Company Limited ("Liaoning Shanshui"). Its principal businesses are cement production; sale of cement products, cement packaging, steel, metals and chemical products.

(6) Shandong Cement Factory Company Limited ("Shandong Cement Factory"). The remaining 1% equity interest is held by Jinan Shanshui Group Co., Ltd. ("Jinan Shanshui"). Its principal businesses are manufacturing of cement and slag fine powder.

(7) Pingyin Shanshui Cement Company Limited ("Pingyin Shanshui"). The remaining 0.35% of the equity interest is held by Jinan Shanshui. Its principal businesses are manufacturing and sale of cement, clinker, slag powder and fly ash powder.

(8) Anqiu Shanshui Cement Company Limited ("Anqiu Shanshui"). The remaining 0.24% of the equity interest is held by Jinan Shanshui. Its principal businesses are manufacturing and sale of cement and clinker, and limestone mining.

(9) Weihai Shanshui Cement Company Limited ("Weihai Shanshui"). Its principal businesses are manufacturing and sale of cement.

(10) Zaozhuang Chuangxin Shanshui Cement Company Limited ("Zaozhuang Chuangxin Shanshui"). Its principal businesses are manufacturing and sale of cement.

(11) Qingdao Shanshui Chuangxin Cement Company Limited ("Qingdao Shanshui Chuangxin"). Its principal businesses are manufacturing and sale of cement.

(12) Linqu Shanshui Cement Company Limited ("Linqu Shanshui"). Its principal businesses are manufacturing and sale of cement.

(13) Shenyang Shanshui Gongyuan Cement Company Limited ("Shenyang Shanshui"). Its principal businesses are manufacturing and sale of cement.

(14) Dandong Shanshui Gongyuan Cement Company Limited ("Dandong Shanshui"). Its principal businesses are manufacturing and sale of cement.

(15) The details of Shanxi Shanshui Cement Company Limited ("Shanxi Shanshui") and its subsidiaries are as follows:

Name of subsidiary	**Shareholders**
Shanxi Shanshui	Shandong Shanshui holding 100% of the equity interest;
Jincheng Shanshui Cement Company Limited ("Jincheng Shanshui") (晉城山水水泥有限公司「晉城山水」)	Shanxi Shanshui holding 85% of the equity interest; Yangcheng Taiyue Cement Factory (陽城縣太岳水泥廠) holding 15% of the equity interest
Hequ Zhongtianlong Cement Company Limited ("Hequ Zhongtianlong") (河曲縣中天隆水泥有限公司「河曲中天隆」)	Shanxi Shanshui holding 68% of the equity interest; Guo Yongming(郭永明) and Liu Aiming(柳挨明) holding 19.5% and 12.5% of the equity interest respectively
Lvliang Yilong Cement Company Limited ("Lvliang Yilong") (呂梁億龍水泥有限公司「呂梁億龍」)	Shanxi Shanshui holding 90% of the equity interest; Li Maozhong(李茂忠) holding 10% of the equity interest

Name of subsidiary	Shareholders
Yulin Yatai Chemical Technology Company Limited ("Yulin Yatai") (榆林亞泰化工科技有限公司「榆林亞泰」)	Shanxi Shanshui holding 62% of the equity interest; He Weijun (何衛軍), Luan Jing (欒靜) and Bai Liping (白麗萍) holding 31.03%, 3.49% and 3.48% of the equity interest respectively
Shanxi Heju Group Heju Cement Manufacturing Company Limited (山西合聚集團合聚水泥製造有限公司)	Shanxi Shanshui holding 90% of the equity interest; Shanxi Heju Gongmao Group Limited (山西合聚工貿集團有限公司) holding 10% of the equity interest

(16) The details of Kashi Shanshui Cement Company Limited ("Kashi Shanshui") and its subsidiaries are as follows:

Name of subsidiary	Shareholders
Kashi Shanshui	Shandong Shanshui holding 100% of the equity interest;
Yingjisha Shanshui Cement Company Limited ("Yingjisha Shanshui") (英吉沙山水水泥有限公司「英吉沙山水」)	Kashi Shanshui holding 100% of the equity interest;
Shule Shanshui Cement Company Limited (疏勒山水水泥有限公司)	Kashi Shanshui holding 100% of the equity interest;
Shache Shanshui Cement Company Limited (莎車山水水泥有限公司)	Kashi Shanshui holding 100% of the equity interest;

(17) The details of the 44 subsidiaries directly or indirectly owned by Shandong Shanshui are as follows (except for "Liaoning Shanshui" and its wholly-owned subsidiaries):

Name of subsidiary	Shareholders
Liaocheng Shanshui Cement Company Limited ("Liaocheng Shanshui") (聊城山水水泥有限公司「聊城山水」)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Dongying Shanshui Cement Company Limited (東營山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Changle Shanshui Cement Company Limited (昌樂山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Binzhou Shanshui Cement Company Limited (濱州山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Gucheng Shanshui Cement Company Limited (故城山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Jinan Shanshui Cement Mechanics Company Limited (濟南山水水泥機械有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Jinan Shanshui Wuliugang Company Limited (濟南山水物流港有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Zibo Shuangfeng Shanshui Cement Company Limited (淄博雙鳳山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest

Name of subsidiary	Shareholders
Shandong Shanshui Cement Industrial Design Development Company Limited[1] (山東山水水泥工業設計開發有限公司)	Shandong Shanshui holding 90% of the equity interest; Jinan Shanshui holding 10% of the equity interest
Zibo Shanshui Cement Company Limited (淄博山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Juye Shanshui Cement Company Limited (巨野山水水泥有限公司)	Shandong Shanshui holding 96% of the equity interest; Pingyin Shanshui holding 4% of the equity interest
Jinan Shiji Chuangxin Cement Company Limited (濟南世紀創新水泥有限公司)	Shandong Shanshui holding 95.18% of the equity interest
Weifang Shanshui Cement Company Limited (濰坊山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Weifang Shanshui Packaging Products Company Limited (濰坊山水包裝製成品有限公司)	Weifang Shanshui holding 90% of the equity interest; Changle Shanshui holding 10% of the equity interest
Yantai Shanshui Cement Company Limited (煙台山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Zaozhuang Shanshui Cement Company Limited (棗莊山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Yishui Shanshui Cement Company Limited (沂水山水水泥有限公司)	Shandong Shanshui holding 99.38% of the equity interest; Jinan Shanshui holding 0.62% of the equity interest
Yishui Chuangxin Shanshui Cement Company Limited (沂水創新山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Qingdao Shanshui Jianxin Cement Company Limited (青島山水建新水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Weishan Shanshui Cement Company Limited ("Weishan Shanshui") (微山山水水泥有限公司「微山山水」)	Shandong Shanshui holding 100% of the equity interest
Caoxian Shanshui Cement Company Limited (曹縣山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Shanxian Shanshui Cement Company Limited (單縣山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Weifang Binhai Shanshui Cement Company Limited (濰坊濱海山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Tianjin Shanshui Cement Company Limited (天津山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Bozhou Shanshui Cement Company Limited (亳州山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Bengbu Shanshui Cement Company Limited (蚌埠山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest

(II) Corporate Information

Name of subsidiary	Shareholders
Jining Shanshui Cement Company Limited ("Jining Shanshui") (濟寧山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Qingdao Hengtai Cement Company Limited ("Qingdao Hengtai") (青島恒泰水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Tianjin Tianhui Cement Company Limited ("Tianjin Tianhui") (天津市天輝水泥有限公司「天津天輝」)	Shandong Shanshui holding 100% of the equity interest
Laoling Shanshui Cement Company Limited ("Leling Shanshui") (樂陵山水水泥有限公司「樂陵山水」)	Shandong Shanshui holding 100% of the equity interest
Shenxian Shanshui Dongchang Cement Company Limited (莘縣山水東昌水泥有限公司)	Shandong Shanshui holding 55% of the equity interest; Donge Dongchang Cement Company Limited holding 45% of the equity interest
Donge Shanshui Dongchang Cement Company Limited ("Donge Shanshui") (東阿山水東昌水泥有限公司「東阿山水」)	Shandong Shanshui holding 49% of the equity interest; Donge Dongchang Cement Company Limited holding 51% of the equity interest
Dongying Shenglv Cement Company Limited ("Dongying Shenglv") (東營市勝鋁水泥有限公司「東營勝鋁」)	Shandong Shanshui holding 90% of the equity interest; Shengli Oilfield Yinghai Shiye Group Limited holding 10% of the equity interest
Dongying Dongxing Cement Company Limited ("Dongying Dongxing") (東營市東興水泥有限公司「東營東興」)	Shandong Shanshui holding 70% of the equity interest; Shengli Oilfield Yinghai Shiye Group Limited holding 20% of the equity interest; Sun Hongyu (孫宏宇) holding 20% of the equity interest
Liaoyang Qianshan Cement Company Limited ("Qianshan Cement") (遼陽千山水泥有限公司)	Shandong Shanshui holding 73% of the equity interest; Jiang Ming (薑明) holding 25.9% of the equity interest and Wang Yinlong (王蔭龍) holding 1.1% of the equity interest
Dalian Shanshui Cement Company Limited (大連山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Panjin Shanshui Cement Company Limited ("Panjin Shanshui") (盤錦山水水泥有限公司「盤錦山水」)	Shandong Shanshui holding 100% of the equity interest
Yingkou Shanshui Cement Company Limited ("Yingkou Shanshui") (營口山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Alukeerqinqi Shanshui Cement Company Limited (阿魯科爾沁旗山水水泥有限公司)	Shandong Shanshui holding 85% of the equity interest; Lu Junjie (盧俊傑) holding 15% of the equity interest
Balin Youqi Shanshui Cement Company Limited ("Balin Youqi") (巴林右旗山水水泥有限公司「巴林右旗山水」)	Shandong Shanshui holding 100% of the equity interest
Huolin Guole Shanshui Cement Company Limited ("Huolin Guole") (霍林郭勒山水水泥有限公司「霍林郭勒山水」)	Shandong Shanshui holding 85% of the equity interest; Cui Haifeng(崔海峰) and Gong Ziming (宮子明) each holding 7.5% of the equity interest

Name of subsidiary	Shareholders
Xing Anmeng Quanxing Cement Company Limited ("Quanxing Cement") (興安盟全興水泥製造有限責任公司「全興水泥」)	Shandong Shanshui holding 90% of the equity interest; Li Tiejun (李鐵軍) holding 10% of the equity interest
Wulan Haote Tianzhu Cement Company Limited ("Tianzhu Cement") (烏蘭浩特市天柱水泥有限公司「天柱水泥」)	Shandong Shanshui holding 90% of the equity interest; Li Tiejun (李鐵軍) holding 10% of the equity interest
Chifeng Yuanhang Cement Company Limited ("Chifeng Yuanhang Cement") (赤峰遠航水泥有限責任公司「赤峰遠航水泥」)	Shandong Shanshui holding 50% of the equity interest; Zhang Xuemin (張學民) holding 50% of the equity interest

(18) The details of Liaoning Shanshui and its wholly-owned subsidiaries are as follows:

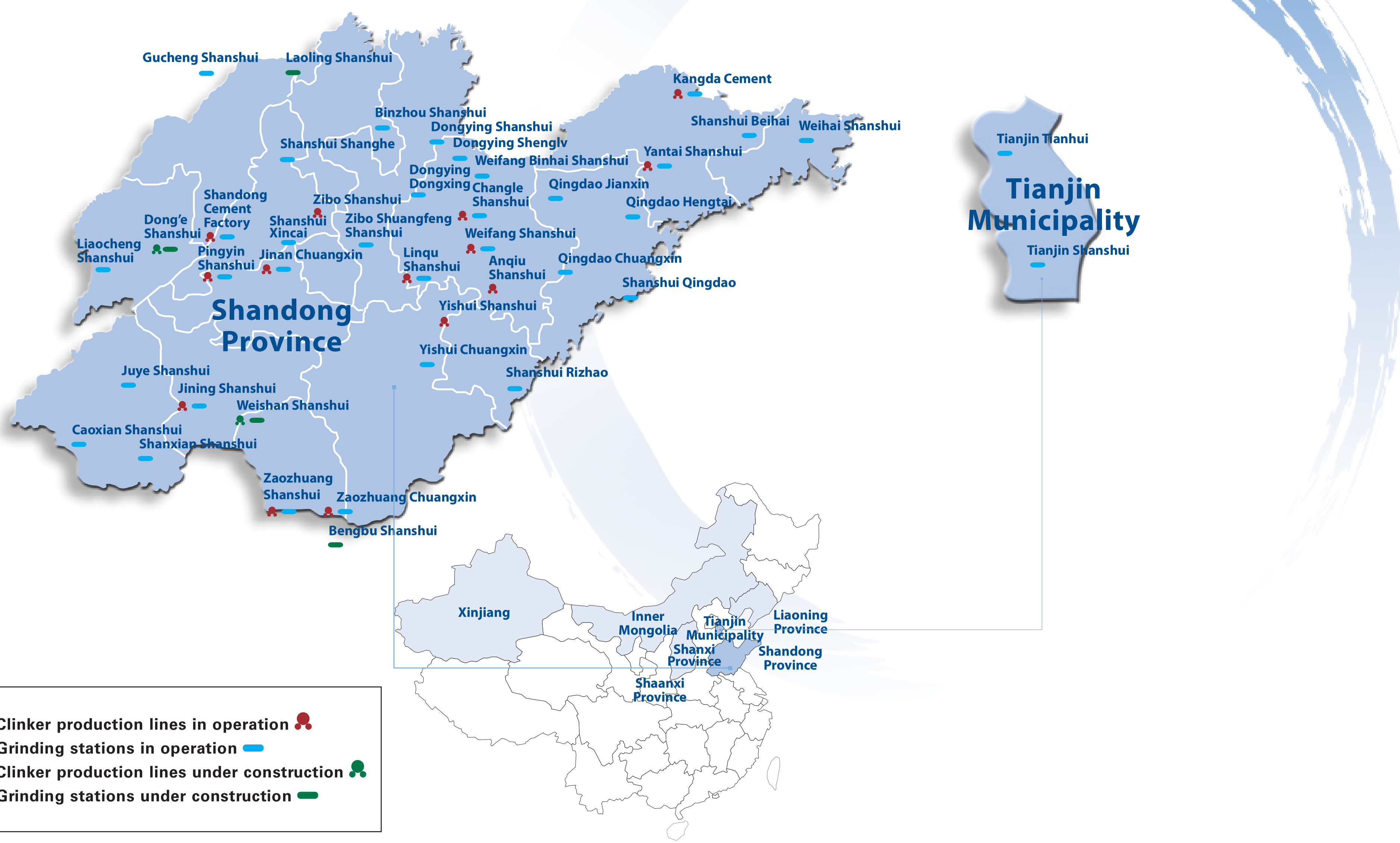
Name of subsidiary	Shareholders
Tongliao Shanshui Gongyuan Cement Company Limited (通遼山水工源水泥有限公司)	Gongyuan Cement holding 100% of the equity interest
Benxi Shanshui Gongyuan Transportation Company Limited ("Benxi Transportation") (本溪山水工源汽車運輸有限公司)	Gongyuan Cement holding 100% of the equity interest
Benxi Shanshui Mechanics and Electronic Engineering Company Limited (本溪山水機電工程有限公司)	Gongyuan Cement holding 100% of the equity interest
Benxi Shanshui Gongyuan Packaging Products Company Limited (本溪山水工源包裝製成品有限公司)	Gongyuan Cement holding 100% of the equity interest
Benxi Shanshui Mining Co., Ltd. (本溪山水礦業有限公司)	Gongyuan Cement holding 100% of the equity interest

3. DISTRIBUTION OF PRODUCTION FACILITIES AND CAPACITY

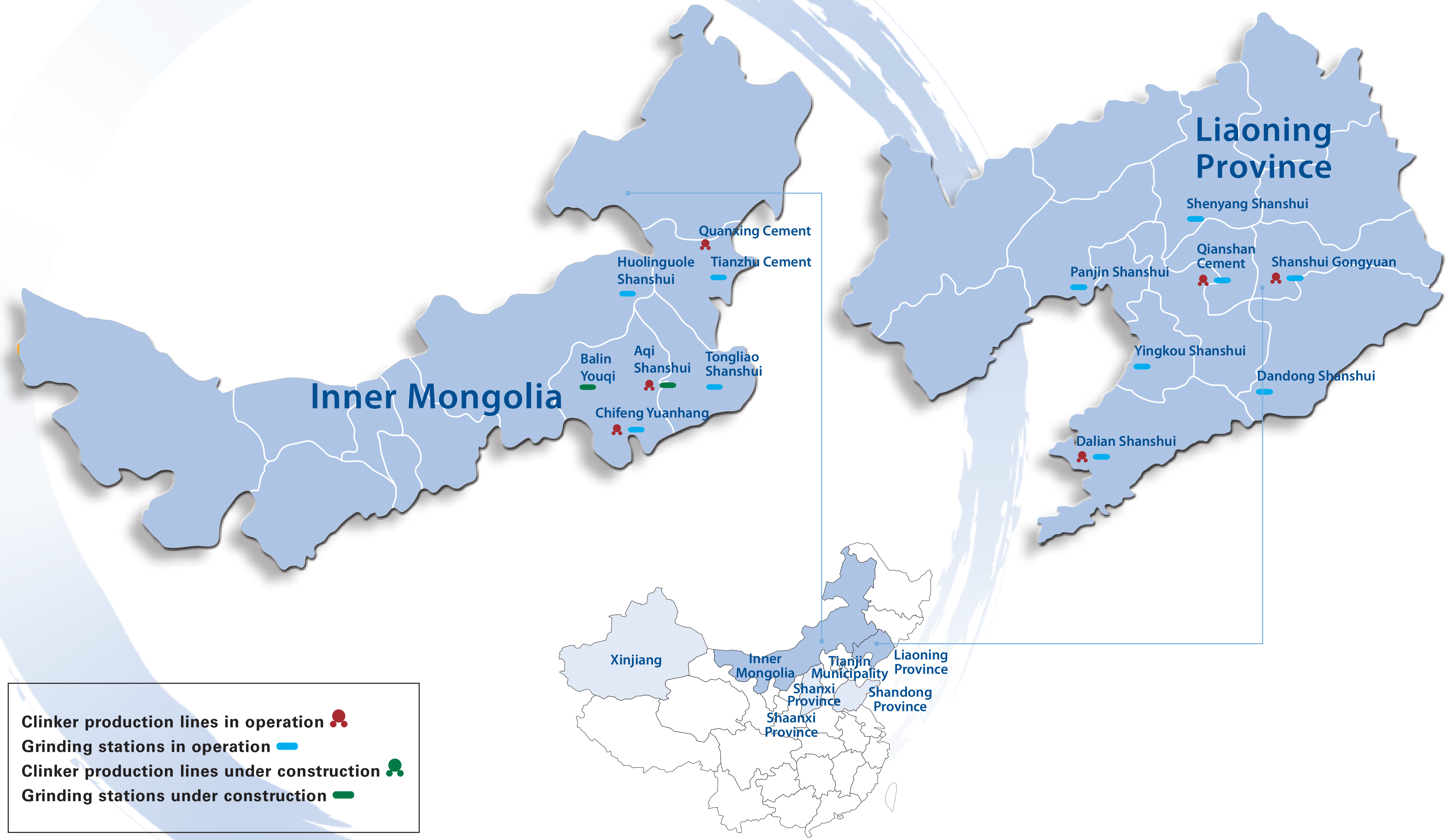
The Group's production facilities are principally located in Shandong Province, Liaoning Province and east part of Inner Mongolia, and its clinker production facilities are located near its limestone mines serving cement grinding stations that are strategically located in close proximity to the Group's end-markets and customers. This layout of the Group's production facilities enables it to minimise its logistics and transportation costs, and to broaden its market coverage.

As of 31 December 2010, The Company had a total production capacity (including production lines in test run)of 66.54 million tonnes of cement and 30.95 million tonnes of clinker, representing an increase of 18.20 million tonnes of cement and 5.76 million tonnes of clinker over the year ended 31 December 2009. Separately, the total capacity of cement and clinker in Shandong Region reached 48.14 million tonnes and 22.05 million tones respectively, while the total capacity of cement and clinker in Northeast Region reached 17.40 million tonnes and 8.90 million tones. The cement capacity in Shanxi Region reached 1.00 million tonnes.

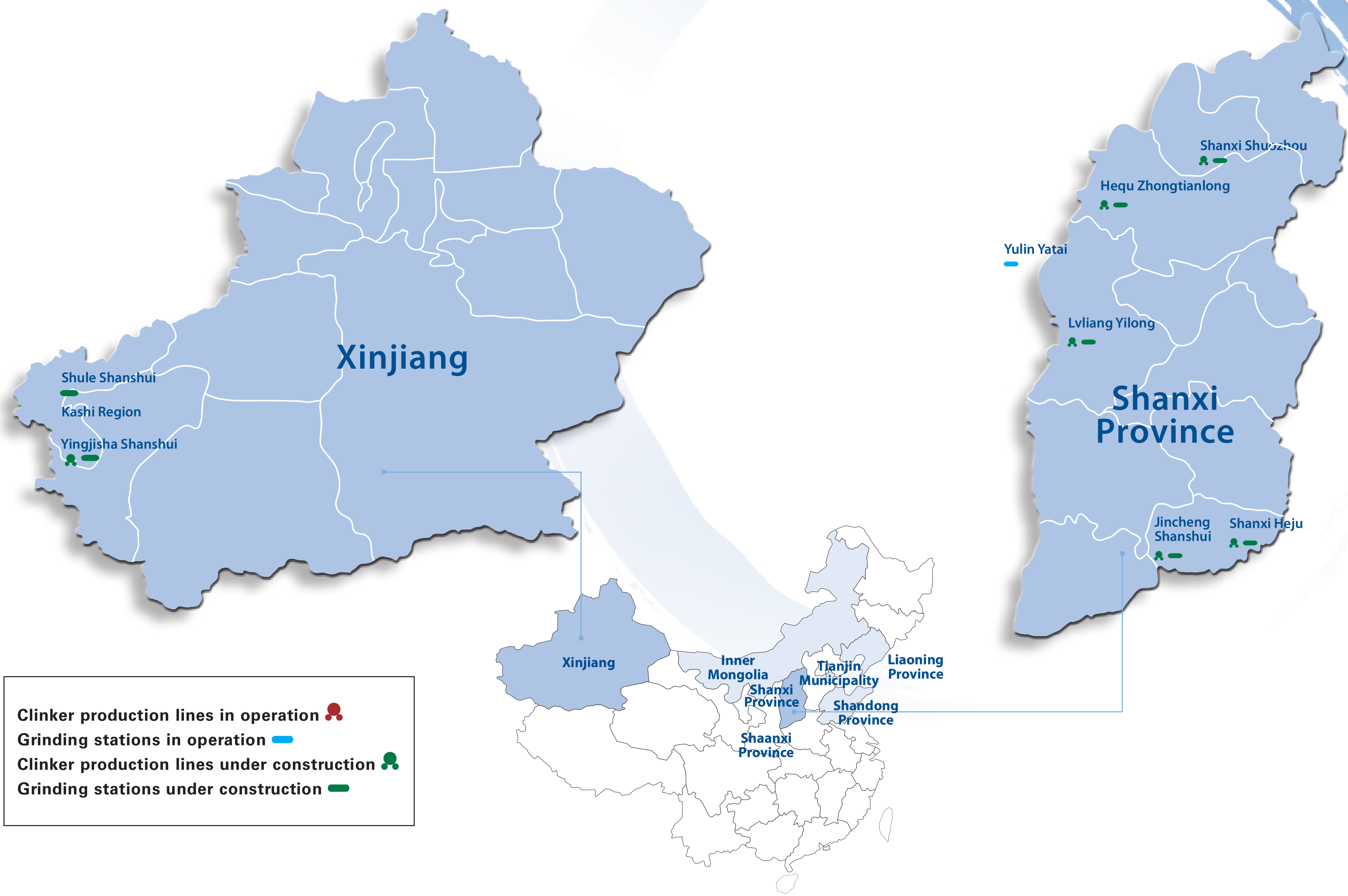
The diagram below shows the locations of our major production facilities (including projects under construction) in Shandong Region as of 31 December 2010:



The diagram below shows the locations of our major production facilities (including projects under construction) in Northeast Region as of 31 December 2010:



The diagram below shows the locations of our major production facilities (including projects under construction) in Xinjiang and Shanxi Region as of 31 December 2010:



(III) Financial Data Summary

The financial data for the year ended 31 December 2010

CONSOLIDATED INCOME STATEMENT

(Unit: RMB'000, unless stated otherwise)

	2010	2009	2008
Revenue	**11,854,068**	8,727,626	7,500,761
Profit from operations	**1,726,493**	1,250,866	1,061,020
Net profit	**1,004,917**	714,044	549,211
Attributable to:			
Equity shareholders of the Company	**979,128**	701,557	539,357
Minority interests	**25,789**	12,487	9,854
Basic earnings per share (RMB)	**0.35**	0.25	0.23
Diluted earnings per share (RMB)	**0.35**	0.25	0.23

CONSOLIDATED BALANCE SHEET

(Unit: RMB'000)

	2010	2009	2008
Non-current assets	**14,722,366**	11,302,282	9,666,557
Current assets	**4,227,960**	3,306,881	3,106,060
Total assets	**18,950,326**	14,609,163	12,772,617
Total liabilities	**12,801,321**	9,380,035	8,167,068
Equity attributable to equity shareholders of the Company	**5,687,525**	5,160,193	4,560,571
Minority interests	**461,480**	68,935	44,978
Non-current liabilities	**6,319,680**	4,410,101	2,981,491
Current liabilities	**6,481,641**	4,969,934	5,185,577
Total equity and liabilities	**18,950,326**	14,609,163	12,772,617

CONSOLIDATED CASH FLOW STATEMENT

(Unit: RMB'000)

	2010	2009	2008
Net cash generated from operating activities	**1,789,127**	1,025,697	1,037,261
Net cash used in investing activities	**(2,926,815)**	(2,136,401)	(2,404,513)
Net cash generated from financing activities	**1,398,263**	748,631	1,912,808
Net (decrease)/increase in cash and cash equivalents	**260,575**	(362,073)	545,556

(IV) Changes in 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 31 December 2010, our authorised share capital was US$100,000,000 divided into 10,000,000,000 Shares of par value of US$0.01 each.

As of 31 December 2009, 2,803,304,000 Shares were issued by the Company.

On 29 November 2010, International Finance Corporation exercised the conversion rights attached to the Convertible Notes in full. As a result, 12,646,200 Shares were issued to the International Finance Corporation. Please refer to paragraph (IV)5 headed "Convertible Notes" below for more information.

As of 31 December 2010, the Company had a total issued capital of 2,815,950,200 Shares.

2. SUMMARY OF SHARE TRADING PRICES IN 2010

The highest and lowest stock trading prices for each of the months during the Reporting Period are as follows:

Month	Highest price (HK$)	Lowest price (HK$)
January	5.95	4.52
February	5.20	4.01
March	4.90	4.16
April	4.98	3.86
May	4.05	3.15
June	3.97	3.41
July	4.26	3.29
August	4.57	4.10
September	5.08	4.21
October	6.05	4.73
November	6.49	5.47
December	6.60	5.50

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

3. SHAREHOLDINGS OF SHAREHOLDERS AND DIRECTORS

(1) Shareholdings of substantial shareholders

As at 31 December 2010, the interests or short positions of persons, other than Directors and Chief Executives of the Company, in the Shares and underlying shares of the Company, which would be required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO, were as follows:

Name of shareholder	Number of Ordinary Shares interested[1]	Nature of interests	Percentage of Shares in issue
China Shanshui Investment Company Limited	871,736,400(L)[2]	Beneficial owner	30.96%
Morgan Stanley Private Equity Asia, L.L.C.[3]	246,670,280(L)	Interest in controlled corporations	8.76%
Morgan Stanley Private Equity Asia,Inc[3]	246,670,280(L)	Interest in controlled corporations	8.76%
Morgan Stanley Private Equity Asia,LP	222,315,971(L)	Interest in controlled corporations	7.89%
MS Cement IV Limited[4]	152,585,282(L)	Interest in controlled corporations	5.42%
Morgan Stanley Private Equity Asia III, LP[4]	152,585,282(L)	Interest in controlled corporations	5.42%
Morgan Stanley Private Equity Asia III, L.L.C.[4]	152,585,282(L)	Interest in controlled corporations	5.42%
Morgan Stanley Private Equity Asia III, Inc[4]	152,585,282(L)	Interest in controlled corporations	5.42%
Morgan Stanley Private Equity Holdings (Cayman) Limited[4]	152,585,282(L)	Interest in controlled corporations	5.42%

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

Name of shareholder	Number of Ordinary Shares interested[1]	Nature of interests	Percentage of Shares in issue
Morgan Stanley Private Equity Asia III Holdings (Cayman) Limited[4]	152,585,282(L)	Interest in controlled corporations	5.42%
CCBI Cement Private Equity Limited[5]	217,828,084(L)	Nominee for another person	7.74%
CCB International Asset Management Limited[5]	217,828,084(L)	Investment manager	7.74%
CCB International Assets Management (Cayman) Limited[5]	217,828,084(L)	Interest in controlled corporations	7.74%
CCB International (Holdings) Limited[5]	217,828,084(L)	Beneficial owner	7.74%
CCB Financial Holdings Limited[5]	217,828,084(L)	Interest in controlled corporations	7.74%
CCB International Group Holdings Limited[5]	217,828,084(L)	Interest in controlled corporations	7.74%
China Construction Bank Corporation[5]	217,828,084(L)	Interest in controlled corporations	7.74%
Central Huijin Investment Limited[5]	217,828,084(L)	Interest in controlled corporations	7.74%

Notes:

(1) The letter "L" denotes a long position in such Shares and the letter "S" denotes a short position in such Shares.

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

(2) On 28 September 2010, China Shanshui Investment Company Limited ("Shanshui Investment") and Wing Lung Bank Limited ("Wing Lung Bank") entered into a new two-year-term loan agreement, pursuant to which, Shanshui Investment pledged 169,000,000 Shares of the Company to Wing Lung Bank. In compliance with all terms of the loan agreement, Shanshui Investment is still entitled to all rights attaching to such Shares.

On 28 September 2009, Shanshui Investment and UOB Kay Hian Finance Limited ("UOB Kay Hian") entered into a one-year-term loan agreement, The loan were paid back in full on 28 September 2010.

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

(3) MS Cement II Limited ("MS II"), a limited liability company incorporated in the Cayman Islands, is controlled by Morgan Stanley Private Equity Asia, L.L.C. ("MSPEA GP") through MS III Limited, a limited liability company incorporated in the Cayman Islands which is controlled by MSPEA GP. Each of MSPEA GP and Morgan Stanley Private Equity Asia, Inc. is deemed to be interested in the Shares held by MS II.

(4) MS Cement IV Limited ("MS IV"), a limited liability company incorporated in the Cayman Islands, is jointly controlled by Morgan Stanley Private Equity Asia L.P. ("MSPEA"), a fund managed by the private equity arm of Morgan Stanley, and Morgan Stanley Private Equity Asia III, L.P. (through their respective control of Morgan Stanley Private Equity Holdings (Cayman) Limited and Morgan Stanley Private Equity Asia III Holdings (Cayman) Limited), which are funds managed by the private equity arm of Morgan Stanley. The general partners of such funds are MSPEA GP and Morgan Stanley Private Equity Asia III, L.L.C. ("MSPEA III GP"), respectively. The managing members of MSPEA GP and MSPEA III GP are respectively Morgan Stanley Private Equity Asia, Inc. and Morgan Stanley Private Equity Asia III, Inc., both of which are wholly-owned subsidiaries of Morgan Stanley. Each of Morgan Stanley Private Equity Holdings (Cayman) Limited, Morgan Stanley Private Equity Asia III Holdings (Cayman) Limited, MSPEA, Morgan Stanley Private Equity Asia III, L.P., MSPEA GP, MSPEA III GP, Morgan Stanley Private Equity Asia, Inc., and Morgan Stanley Private Equity Asia III, Inc. is deemed to be interested in the Shares held by MS IV.

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

Save as disclosed above and so far as the Directors are aware of, as at the end of the Reporting Period, no person, other than Directors or the Chief Executives 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.

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

(2) Directors' and chief executives' interests in the Shares, underlying shares and debentures

As at 31 December 2010, the interests of Directors and Chief Executives of the Company in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) ("Associated Corporations"), which would be required to be notified to the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange"), pursuant to Divisions 7 and 8 and section 352 of Part XV of the SFO to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing of Rules of the Stock Exchange, were as follows:

		Number of shares held		Percentage of total share capital in issue as at 31 December 2010
Name of director	**Class of shares**	**Corporate interests**	**Total**	
Zhang Caikui	Ordinary share	871,736,400(L)[1]	871,736,400	30.96%
		23,828,084(S)[2]		0.85%

Notes:

(1) The 871,736,400 Shares were held by Shanshui Investment. Shanshui Investment is held as to approximately 65.55% by Mr. Zhang Caikui as a discretionary trustee and one of the beneficiaries of the Zhang Trust. As of 24 January 2010, retiring executive director Mr. Li Yanmin was no longer the trustee of the Li Trust, while Mr. Zhang Caikui became discretionary trustee of the Li Trust. The Li Trust controls 16.19% of equity interest of Shanshui Investment.

As mentioned in the section "Shareholdings of Substantial Shareholders" above, included in these 871,736,400 Shares are 169,000,000 Shares and 194,000,000 Shares pledged to Wing Lung Bank and CCBI Cement respectively.

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

Save as disclosed above, as at the end of the Reporting Period, 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 Division 7 and 8 of Part XV of the SFO, or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code contained in the Listing Rules.

(3) Public float

Based on the information publicly available and to the knowledge of the Directors, the Company has been maintaining the public float required by the Listing Rules of the Stock Exchange up to the date of this report.

4. PURCHASE, SALE AND REDEMPTION OF LISTED SHARES

During the Reporting Period, neither the Company nor its subsidiaries purchased, sold or repurchased any listed shares of the Company.

5. CONVERTIBLE NOTES

On 21 September 2007, Convertible Notes in the respective principal amounts of US$10,138,287, US$3,554,021, US$4,107,692 and US$2,200,000 were issued to MS Cement Limited, MS Cement II Limited, CDH Cement Limited and IFC respectively by the Company. The maturity date of the Convertible Notes is 2 July 2011. On conversion, the Convertible Notes will convert into a total of 114,964,200 Shares at approximately US$0.17 or approximately HK$1.32 per Share. If the Company declares any dividends or distribution on its Shares before the notes holders elect to exercise the conversion rights, the notes holders are entitled to receive payments equal to the dividend payable for each Share multiplied by the total number of Shares issuable upon exercise of the conversion rights.

On 30 April 2009, three of these notes holders, namely MS Cement Limited, MS Cement II Limited and CDH Cement Limited, were fully converted their convertible notes, a total of 102,318,000 ordinary shares of USD0.01 each were allotted and issued to these minority equity shareholders.

On 29 November 2010, IFC fully converted its convertible notes, a total of 12,646,200 ordinary shares of USD0.01 each were allotted and issued to this minority equity shareholder.

6. PRE-EMPTIVE RIGHTS

Pursuant to the articles of association of the Company ("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.

7. TRANSACTIONS IN RELATION TO ITS OWN SECURITIES

Pursuant to the resolution passed by the shareholders on 14 June 2008, the Share Option Scheme was conditionally adopted and took effect upon Listing. Since the adoption of the Share Option Scheme, during the Reporting Period, the Company had not granted any share options.

(V) Basic Information on Directors, Senior Management and Employees

1. BASIC INFORMATION ON DIRECTORS AND SENIOR MANAGEMENT

Name	Position	Gender	Age	Term of Office (Subject to renewal)
ZHANG Caikui (張才奎)	Chairman, Executive Director and General Manager	M	60	1 July 2008-30 June 2011
ZHANG Bin (張斌)	Vice Chairman, Executive Director and General Manager	M	32	10 September 2010-9 September 2013
DONG Chengtian (董承田)	Executive Director, Deputy General Manager	M	53	1 July 2008-30 June 2011
YU Yuchuan (于玉川)	Executive Director, Deputy General Manager and Chief Engineer	M	52	1 July 2008-30 June 2011
Homer SUN (孫弘)	Non-Executive Director	M	39	1 July 2008-30 June 2011
JIAO Shuge (焦樹閣)	Non-Executive Director	M	45	1 July 2008-30 June 2011
SUN Jianguo (孫建國)	Independent Non-Executive Director	M	56	1 July 2008-30 June 2011
WANG Yanmou (王燕謀)	Independent Non-Executive Director	M	78	1 July 2008-30 June 2011
WANG Jian (王堅)	Independent Non-Executive Director	M	55	1 July 2008-30 June 2011
ZHANG Bin (張斌)	Joint Company Secretary	M	32	1 July 2008-30 June 2011
LI Cheung Hung (李長虹)	Joint Company Secretary, Qualified Accountant	M	60	1 July 2008-30 June 2011

Note: 1. Mr. Zhang Bin was appointed as an executive Director and the Vice Chairman of the Company with effect from 10 September 2010;

2. Mr. Zhang Bin was appointed as the General Manager of the Company in place of Mr. Zhang Caikui who has resigned as the General Manager of the Company with effect from 8 October 2010.

(V) Basic Information on Directors, Senior Management and Employees

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. ZHANG Caikui (張才奎), aged 60, is the Chairman, Executive Director and founder of the Group, primarily responsible for the overall strategic planning and management of our Group. Mr. Zhang has 42 years of experience in the cement industry, and was appointed as the head of Shandong Cement Plant (the predecessor of Shandong Cement Factory Co., Ltd.) in 1990. He has been the Executive Director and General Manager of Shandong Shanshui since August 2001. Over the years, Mr. Zhang has won a number of honorary titles, including Head of the Jinan Municipal Bureau (Association) of Building Materials ("Jinan Building Materials Bureau") from November 1995 to August 2004; Deputy Head of the China Cement Association since October 2002 and Vice President of China Building Materials Federation since June 2007. He was a deputy to the Tenth and Eleventh National People's Congress and a member of the Jinan Municipal Party Committee. He graduated from the Nankai University with a Master's degree in Business Administration in December 2005. Mr. Zhang Caikui is the father of Mr. Zhang Bin, who is the Vice Chairman of the Board, Executive Director and General Manager of the Group.

Mr. Zhang Bin (張斌), aged 32, is the Vice Chairman of the Board, Executive Director and General Manager of the Group. He is in charge of the management of the Group's daily production and operation as well as the Group's operation in capital market. Mr. Zhang joined the Group in March 2006. He worked at Sinoma International Engineering Company Limited from December 2004 to March 2006. After joining the Group, Mr. Zhang has been responsible for the preparatory work of the listing of the Company, establishing the Group's sourcing and supply centre, overseeing the Group's Department of Securities Affairs and the sourcing and supply centre, and concurrently held the position as the General Manager of Pingyin Branch Corporation. Mr. Zhang graduated from Shandong University of Science and Technology in July 2003. He graduated from the Business Administration Faculty of Nankai University in September 2008 with a Master's degree.

Mr. DONG Chengtian (董承田), aged 53, is the Executive Director and Deputy General Manager of the Company, primarily responsible for the Group's strategic planning and management of the Group's business in Northeast Region. Mr. Dong has nearly 30 years of experience in the cement industry, and joined Shandong Cement Plant in 1982. Mr. Dong was appointed as the Chief Engineer and Deputy Head of Shandong Cement Plant in 1996, and also served as Head of the Research and Development Department of Shandong Cement Plant in 1997. He has been Deputy General Manager of Shandong Shanshui since 2001 and is primarily responsible for the production management of the Group. In September 2007, Mr. Dong was designated to oversee the Group's strategic planning and management in Liaoning Province. In addition, Mr. Dong served as the honorary Deputy Head of the Jinan Building Materials Bureau from March 2000 to August 2004. Mr. Dong graduated from Shanghai Tongji University in January 1982 with a Bachelor's degree in Cement Technologies.

Mr. YU Yuchuan (于玉川), aged 52, is the Executive Director, Deputy General Manager and Chief Engineer of the Company, primarily responsible for production management. He has nearly 30 years of experience in cement technology and engineering. Mr. Yu joined Shandong Cement Plant in 1983, and was appointed as Chief Engineer in 1995. He has been Deputy General Manager and Chief Engineer of Shandong Shanshui since August 2001. Mr. Yu is currently Vice President of the New Type Dry-Process Cement Association (a division under the Chinese Cement Association) and a visiting professor of the University of Jinan.

(V) Basic Information on Directors, Senior Management and Employees

Non-Executive Directors

Mr. Homer SUN (孫弘), aged 39, is Non-Executive Director of the Company. He is currently a Managing Director of the Private Equity Division of Morgan Stanley Asia Limited and commands the Private Equity Division of Morgan Stanley Asia Limited for its investment in China. He is currently the Non-Executive Director of Sihuan Pharmaceutical Holdings Group Ltd. (stock code: 460) and China Flooring Holding Co. Ltd.. Mr. Sun has held office in Morgan Stanley Asia Limited since April 2000, and worked on various mergers and acquisitions in Greater China in the Investment Banking Division prior to joining the Private Equity Division of Morgan Stanley Asia Limited. From September 1996 to March 2000, he was a corporate attorney with Simpson Thacher & Bartlett in New York and Hong Kong, specialising in mergers and acquisitions. Mr. Sun received a B.S.E. in Chemical Engineering with honors from the University of Michigan in 1993 and a J.D with honors from the University of Michigan Law School in 1996.

Mr. JIAO Shuge (alias JIAO Zhen) (焦樹閣), aged 45, is the Non-Executive Director of the Company. He joined our Group on 30 November 2005. He is currently a Managing Director of CDH China Fund L.P., and is also a Non-Executive Director of both China Yurun Food Group Company Limited (a company listed on the Hong Kong Stock Exchange (stock code: 1068)) and China Mengniu Dairy Company Limited (a company listed on the Hong Kong Stock Exchange (stock code: 2319)). From December 1995 to August 2002, Mr. Jiao was Deputy General Manager of the Direct Investment Department of China International Capital Corporation Limited. From September 1989 to January 1995, he was a researcher with the Beijing Information and Control Research Institute. In addition to his directorships in listed companies, Mr. Jiao has also been a Director of various private companies. Mr. Jiao received a Bachelor's degree in Mathematics from Shandong University in 1986 and a Master's degree in Engineering from the Ministry of Space Industry Institute in 1989.

Independent Non-Executive Directors

Mr. SUN Jianguo (孫建國), aged 56, is the Independent Non-Executive Director of the Company. In 1987, he was elected as a member of the Standing Committee of the District Committee and Deputy District Head of Lixia District, Jinan City. In 1996, Mr. Sun acted as the Deputy Head of Jinan Municipal Construction Committee and the General Manager of Jinan Urban Construction, Investment and Development Corporation and the Director of Jinan Urban Construction Fund Administration Office. He was also appointed as the General Manager of Shandong Shengli Company Limited in 1998, the Chairman of Shandong Shengli Company Limited in 2000, and the Chairman of Shandong Construction and Real Estate Development Co., Ltd. and Shandong Borun Chemical Co., Ltd. in 2005.

Mr. WANG Yanmou (王燕謀), aged 78, is the Independent Non-Executive Director of the Company. Mr. Wang currently serves on the Supervisory Board of Anhui Conch Cement Company Limited (a company listed on both the Hong Kong Stock Exchange (stock code: 914) and the Shanghai Stock Exchange (stock code: 600585)) and is an advisor to the Expert Committee of China International Construction Consulting Company, a Special Advisor to China Investment Association and a senior advisor to China Cement Association. From November 1981 to April 1982, Mr. Wang was the Deputy Head and Head of Chinese Building Materials Science Research Institute, and Head of National Building Materials Industry Bureau from February 1982 to May 1994. Mr. Wang graduated from Nanjing Polytechnic Institute in 1956 with a Bachelor degree. He began his overseas study at Leningrad Architectural Engineering Institute of the former Soviet Union in 1958 and obtained Associate Doctoral Degree in Science and Technology of USSR in 1962.

(V) Basic Information on Directors, Senior Management and Employees

Mr. WANG Jian (王堅), aged 55, is the Independent Non-Executive Director of the Company. Mr. Wang is a senior accountant and a certified public accountant in the PRC. From 1996 to 2000, he was the Chief Accountant of Shandong Shengli Company Limited ("Shandong Shengli", stock code: 000407), a company listed on the Shenzhen Stock Exchange. From 2000 to 2003, he was the Deputy General Manager of Shandong Shengli. In May 2003, Mr. Wang resigned from Shandong Shengli and joined Qilu Real Estate Company Limited, a private company, and was appointed as the General Manager.

Senior Management

Mr. ZHAO Yongkui (趙永魁), aged 46, is the Deputy General Manager and Chief Financial Officer of the Group, primarily responsible for overseeing the accounting and finance aspects of the Group's operations and is in charge of the Group's finance department. Mr. Zhao has over 29 years of experience in accounting and gained his experience from working in the cement industry and managing the finance of cement companies. Mr. Zhao joined Shandong Cement Plant as an accountant in July 1984. He was the Deputy Chief Accountant and Assistant to the Head of the Shandong Cement Plant in December 1990. In December 2001, he was appointed as the Deputy General Manager and the Head of the finance department of the Group. In November 2005, Mr. Zhao was appointed as the Deputy General Manager of the Group. Mr. Zhao became a Senior Accountant in 2003. Mr. Zhao graduated from the Shanghai Institute of Building Materials in July 1984.

Mr. ZHAO Liping (趙利平), aged 50, is the Deputy General Manager of the Group, primarily responsible for the strategic planning and management of the Group's businesses in Shaanxi province. He has 30 years of experience in the cement industry and gained his experience from working in the industry and managing cement companies. He joined Shandong Cement Plant as an engineer in July 1980. He was appointed as the Deputy Head and the assistant to the Head of Shandong Cement Plant in June 1990. In December 2001, he was appointed as the Assistant to the General Manager and the General Manager of the sales department of Shandong Shanshui. In July 2004, Mr. Zhao was appointed as the Deputy General Manager of Shandong Shanshui. He graduated from Shandong Construction Industry College (山東建設工業學校) with a Bachelor's degree in July 1980.

Mr. MI Jingtian (宓敬田), aged 49, is the Deputy General Manager of the Group, primarily responsible for assisting Mr. DONG Chengtian in managing the cement business in Northeastern China. Mr. Mi has 30 years of experience in the building materials industry and gained his experience from managing several companies in the industry. Mr. Mi joined Shandong Shanshui as the Assistant to the General Manager in December 2001. In February 2004, he was appointed as the Assistant to the General Manager, the Deputy Secretary and the Deputy Manager of the party branch of the sales department. In August 2007, he was appointed as the Deputy General Manager and the Deputy General Manager of the sales department of Shandong Shanshui. Mr. Mi graduated from the Jinan Provincial Party School with a vocational diploma in June 1994.

Mr. CHEN Zhongsheng (陳仲聖), aged 40, is the Deputy General Manager of the Group, primarily responsible for the engineering technology aspects of the Group's operations. Mr. Chen has 16 years of experience in the cement industry and gained his experience from working in and managing several cement companies. Mr. Chen joined Shandong Cement Plant in August 1994 and has been responsible for the engineering technology aspects of the Group's operations as the Deputy Chief Engineer and the Deputy Head of the technology centre of the Group. He was appointed as the Deputy General Manager of Shandong Shanshui in November 2007. Mr. Chen has published a number of academic essays in national journals such as Cement Engineering Journal since 2000. He was also appointed as the Vice President of the Professional Cement and Concrete Division of the Shandong Silicate Association in March 2007. Mr. Chen graduated from the Shandong Building Materials Technical School with a Bachelor's degree in Silicate Engineering in July 1994.

(V) Basic Information on Directors, Senior Management and Employees

Joint Company Secretaries and Qualified Accountant

Mr. LI Cheung Hung (李長虹), aged 60, is one of the Joint Secretaries and the Qualified Accountant of the Company. He is committed to the information disclosure of the listed company, the management of investor relationship and the Group's operation in capital markets. Mr. Li is ordinarily resident in Hong Kong and joined the Group in January 2006. Mr. Li is employed by the Group on a full-time basis and is a member of the senior management of the group in accordance with Rule 3.24 of the Listing Rules. Mr. Li has over 20 years of experience in accounting and finance. Prior to joining the Group, Mr. Li held various positions with a number of companies and listed companies in Hong Kong, which include the subsidiaries of Royal Dutch Shell Group in the PRC and Hong Kong, Neo-Neon Holdings Limited and Top Form International Limited. Mr. Li holds a Master's degree in Business Administration jointly granted by the Business School of the University of Manchester and the University of Wales. Mr. Li is a fellow member of both The Hong Kong Institute of Certified Public Accountants and the Association of International Accountants in England. He is also an associate of both the Institute of Chartered Secretaries & Administrators and The Hong Kong Institute of Chartered Secretaries.

Mr. ZHANG Bin (張斌), aged 32, is one of the Joint Secretaries of the Group. His biographical details are set out in the paragraph headed "Senior Management" above.

2. APPOINTMENT OR RETIREMENT OF DIRECTORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

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

On 5 March 2010, Mr. LI Yanmin resigned as a Director, the Deputy General Manager and other positions of the Group. Details of his resignation are set out in the announcement of the Company dated 5 March 2010.

Pursuant to Clause 16.18 of the Articles of Association, Mr. YU Yuchuan, Mr. Homer SUN and Mr. SUN Jianguo retired as a Director by rotation at the 2009 Annual General Meeting of the Company held on 19 May 2010, and they all were re-elected as the Directors of the Company at the meeting.

On 10 September 2010, Mr. Zhang Bin was appointed as the Vice Chairman and Executive Director of the Company. Please refer to the Company's announcement dated 10 September 2010 for details.

On 8 October 2010, Mr. Zhang Bin was appointed as the General Manager of the Company. Please refer to the Company's announcement dated 8 October 2010 for details.

3. THE SERVICE CONTRACTS AND THE INTEREST OF CONTRACTS OF DIRECTORS

Each of ZHANG Caikui, DONG Chengtian and YU Yuchuan, all being Executive Directors of the Company, has entered into a service contract with the Company on 14 June 2008 for a term of three years commencing on 1 July 2008, subject to termination before expiry by either party by giving not less than three months' notice in writing to the other, provided that such termination shall not occur during the first 12 months of the contract. Under these service contracts, each of ZHANG Caikui, DONG Chengtian and YU Yuchuan will receive an annual salary (including any director's fees) of RMB5 million, RMB3 million and RMB2.8 million, respectively (such annual salary is subject to annual review by the Board and the Remuneration Committee) and in the case of ZHANG Caikui, the amount of his management bonus is calculated with reference to the pre-set performance target of the Group (as calculated by the audited consolidated net profits ("Net Profits") of the Group after taxation and minority interests but before extraordinary items) as the Board may approve and shall be equal to 10% of the excess of the Net Profits of the Group over the pre-set performance target of the Group in any given year.

Mr. Zhang Bin, being an Executive Director, has entered into a service contract with the Company for an initial term of three years commencing on 10 September 2010, subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company. Under the service contract, Mr. ZHANG will be entitled to receive an annual salary (including any director's fees) of RMB1,500,000. Mr. Zhang's remuneration (including any bonus) is determined by the Board with reference to his performance, position and duties in the Company and its subsidiaries.

Such Executive Director shall abstain from voting, and not be counted in the quorum, in respect of any resolution of the Board approving the determination of the salary, bonus and other benefits payable to him.

Each of Homer SUN and JIAO Shuge, both being our Non-executive Directors, has entered into a letter of appointment with our Company on 14 June 2008. Each letter of appointment is for an initial term of one year commencing from 1 July 2008, and thereafter shall be renewed for a maximum of three years provided it can be terminated by either party by giving at least one month's notice in writing. Non-executive Directors will not receive any remuneration from our Company.

Each of SUN Jianguo, WANG Yanmou and WANG Jian, all being Independent Non-executive Directors, has entered into a letter of appointment with our Company on 14 June 2008. Each letter of appointment is for an initial term of one year commencing from 1 July 2008, and thereafter shall be renewed for a maximum of three years provided it can be terminated by either party by giving at least one month's notice in writing. The annual fee for each Independent Non-executive Director is RMB100,000.

Save as disclosed above, none of our Directors has or is proposed to enter into any service contract with any member of our Group.

During the Reporting Period, none of the Directors or senior management of the Company had any material interest in any contract entered into by the Company or its subsidiaries.

(V) Basic Information on Directors, Senior Management and Employees

4. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT FOR THE YEAR

Please refer to Note 7 to the financial statements prepared under IFRS in this annual report for details of the remuneration of Directors and senior management of the Group during the Reporting Period.

5. HIGHEST PAID INDIVIDUALS

Please refer to Note 8 to the financial statements prepared under IFRS in this annual report for details of the remuneration of the five highest paid individuals of the Group during the Reporting Period,.

6. EMPLOYEES

As at 31 December 2010, the Group had 14,714 employees (10,341 in Shandong Province, 4,249 in Northeast China and 124 in Shanxi Province), including 9,506 production staff, 1,363 sales staff, 589 technical staff 495 finance staff, 1,365 administrative and management staff, and 1,396 other staff. 10,072 of the employees had secondary and higher education, of which 3,335 received tertiary or above education. The aggregate remuneration of the employees of the Group for the year amounted to RMB571.72 million. For expenses related to employees who have resigned or retired, please refer to Note 29 to the financial statements prepared under IFRS in this annual report.

7. PENSION INSURANCE

Details of the pension insurance are set out in Note 5 to the financial statements prepared under IFRS. Pension booked in the income statement of the Group for the year ended 31 December 2010 amounted to RMB62.68 million.

8. STAFF HOUSING

Pursuant to the relevant regulations of the PRC government, the Group shall make contributions to the housing provident fund for employees based on a certain percentage of their salaries. Except for this, the Group has no other obligation nor any plan for providing housing benefits to the staff. For the year ended 31 December 2010, the total contributions made by the Group to the housing provident fund amounted to approximately RMB16.81 million.

(VI) Report on Corporate Governance

1. CODE ON CORPORATE GOVERNANCE PRACTICES

Mr. Zhang Bin was appointed by the Company as the General Manager on 8 October 2010. The Board of the Company was not aware of any information which would indicate that the Company did not comply with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules of the Stock Exchange.

2. MODEL CODE

The Company has adopted a set of code of practice with standards no less exacting than those prescribed in the Model Code as set out in Appendix 10 to the Listing Rules of the Stock Exchange regarding securities transactions by Directors ("Model Code"). Having made specific enquiries with all Directors, the Company confirmed that all Directors have complied with the required standard regarding securities transactions by Directors as set out in the Model Code during the Reporting Period.

3. THE BOARD

Composition of the Board is as follows:

Name	**Position**
ZHANG Caikui	Chairman, Executive Director
Zhang Bin*	Vice Chairman, Executive Director and General Manager
DONG Chengtian	Executive Director, Deputy General Manager
YU Yuchuan	Executive Director, Deputy General Manager and Chief Engineer
Homer SUN	Non-executive Director
JIAO Shuge	Non-executive Director
SUN Jianguo	Independent Non-executive Director
WANG Yanmou	Independent Non-executive Director
WANG Jian	Independent Non-executive Director

* Mr. Zhang Bin was appointed as our Executive Director and Vice Chairman of the Board on 10 September 2010.

Save that Mr. Zhang Bin is the son of our Chairman, there is no financial, business or other material relationship between members of the Board.

(VI) Report on Corporate Governance

During the Reporting Period, 3 meetings of the Board were held on-site, and the attendance rates of the Directors at on-site meetings are as follows:

Name	**Attendance rate(%)**
ZHANG Caikui	100%
Zhang Bin*	100%
DONG Chengtian	100%
YU Yuchuan	100%
Homer SUN	100%
JIAO Shuge	66.7%
SUN Jianguo	100%
WANG Yanmou	66.7%
WANG Jian	100%

* Before being appointed as Executive Director and Vice Chairman of the Board, Mr. Zhang Bin attended meetings as a Joint Company Secretary; JIAO Shuge and WANG Yanmou (both being Directors)have authorized the Chairman of the Board to exercise their Director's right in stead in case that they failed to attend Board meetings in person.

Furthermore, the Board has voted on relevant resolutions by means of written resolutions during the Reporting Period, the voting rates of the Directors are as follows:

Name	**Voting rate (%)**
ZHANG Caikui	100%
Zhang Bin*	50%
DONG Chengtian	100%
YU Yuchuan	100%
Homer SUN	100%
JIAO Shuge	100%
SUN Jianguo	100%
WANG Yanmou	100%
WANG Jian	100%

* Abstained from voting in respect of the resolution to appoint Mr. Zhang Bin as our Executive Director and Vice Chairman of the Board.

During the Reporting Period, the Board exercised its powers pursuant to Chapters 16, 17 and 18 of the Articles of Association, and the management exercised its powers pursuant to Chapter 19 of the Articles of Association. Please refer to "Report of the Directors" of the annual report for details of the work of the Board.

4. CHAIRMAN AND GENERAL MANAGER

The position of Chairman of the Company is filled by Mr. ZHANG Caikui.

The principal duties of the Chairman are: (a) to lead the Board and ensure that the Board operates effectively and performs its duties and discusses any significant and appropriate matters on a timely basis; (b) to ensure that all the Directors at the meetings of the Board are properly informed of the current affairs; and (c) to ensure that the Directors receive sufficient information which are complete and reliable, on a timely basis; and (d) to review the implementation of the Board resolutions passed.

Mr. Zhang Bin was appointed as our General Manager on 8 October 2010.

The principal duties of our General Manager are: (a) to oversee the management of the of the Group's daily production and operations with the assistance of executive Directors and senior management; (b) to implement major strategies and development plans adopted by the Board, including coordination of implementing the Board resolutions, annual business plans and investment proposals of the Company; (c) to prepare the proposal on the establishment of internal management structure, to organize and formulate the roles and responsibilities of various departments, standards of various positions and professional management procedures, to formulate the basic management system and the standards for performance appraisal of management officers of various levels; (d) to propose the engagement, dismissal or re-designation of deputy general managers or financial controller of the Company; (e) to convene and chair the general manager office meetings and professional management seminars; and (f) to perform other duties and exercise other powers granted by the Articles of Association and the Board.

5. TENURE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

For the tenure of Independent Non-Executive Directors, please refer to the aforementioned section "1. Basic information on Directors and senior management" of "Basic Information on Directors, Senior Management and Employees". The Company has received the confirmation letters from Mr. SUN Jianguo, Mr. WANG Yanmou and Mr. WANG Jian, being Independent Non-Executive Directors, pursuant to Rule 3.13 of the Listing Rules of the Stock Exchange in respect of their independence for the year. The Company concurs with their independence.

6. REMUNERATION COMMITTEE OF THE BOARD

Pursuant to the Listing Rules of the Stock Exchange, the Board of the Company has established the Remuneration Committee under the Board, which is principally responsible for formulating the remuneration policy for the Executive Directors and senior management of the Company, determining the remuneration proposal for the above people. The Remuneration Committee is a standing committee under the Board and accountable to the Board.

Members of the Remuneration Committee of the Board of the Company were Mr. SUN Jianguo, Mr. WANG Yanmou and Mr. WANG Jian, of them Mr. SUN Jianguo served as the chairman.

Please refer to "The service contracts and the interest of contracts of directors" (V.3 of this report) for details of the remuneration of the Directors of the Company during the Reporting Period.

The Remuneration Committee of the Company held a meeting on 9 April 2010. All committee members attended the meeting. The committee considered and approved the resolution for the remuneration of the senior management to be proposed to seek the Board's approval.

During the Reporting Period, the Remuneration Committee of the Company performed its responsibility in accordance with the written terms of reference of the Remuneration Committee.

7. AUDIT COMMITTEE OF THE BOARD

The Board of the Company has established the Audit Committee under the Board pursuant to the Listing Rules of the Stock Exchange to monitor the independence and work efficiency of external auditors, the financial reporting procedures and the efficiency of the internal control system of the Company, in order to assist the Board in its work. The Audit Committee is a standing committee under the Board and accountable to the Board.

The Audit Committee of the Board of the Company comprised Mr. WANG Yanmou, Mr. SUN Jianguo and Mr. WANG Jian, of them Mr. WANG Yanmou served as the chairman.

During the Reporting Period, the Audit Committee held two meetings which were attended by all of the committee members.

At the meeting held on 9 April 2010, the Audit Committee considered and approved the following resolutions: (i) the financial report for 2009 of the Company; (ii) the audited annual financial report of the Company as at 31 December 2009 prepared in accordance with IFRS, and the auditor report for 2009 submitted by KPMG; (iii) the management letter submitted by KPMG; (iv) the connected transactions of the Company for 2009; (v) the recommendations to the Board on exercising all share options of Tianjin Tianhui;(vi) the fixed capital expenditure budget for 2010 of the Company; (vii) the bank loan facilities granted to the Company in 2010; (viii) the proposal to the Board to re-appoint KPMG as the auditor of the Company in 2010.

At the meeting held on 20 August 2010, the Audit Committee considered and approved the following resolutions: (i) the unaudited interim financial report of the Company for the six months ended 30 June 2010 in accordance with IFRS; and (ii) the interim results announcement and interim report proposed to publish on the website of the Stock Exchange.

On 18 February 2011, the company secretary of the Company notified the Audit Committee on a timely manner in respect of the schedule of audit work for 2010.

The results of the Group for the year ended 31 December 2010 have been reviewed by the Audit Committee at the meeting held on 25 March 2011. At such meeting, the Audit Committee considered and approved the following resolutions: (i) the financial report for 2010 of the Company; (ii) the audited annual financial report of the Company as at 31 December 2010 prepared in accordance with IFRS, and the auditor report for 2010 submitted by KPMG; (iii) the management letter submitted by KPMG; (iv) the connected transactions of the Company for 2010; (v) the proposal to the Board to re-appoint KPMG as the auditor of the Company in 2011.

The Audit Committee made an objective assessment on the work conducted by KPMG: During the process of conducting the audit of Shanshui Cement for 2010, KPMG was able to adhere strictly to Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants and other regulations in performing its audit and was able to perform its audit functions well. Accordingly, the Board was proposed to re-appoint KPMG as the auditor of the Company in 2011.

The above proposal is to be considered and approved at the annual general meeting for 2010 by the Board.

8. EXECUTION COMMITTEE OF THE BOARD

In order to improve its corporate governance structure, the Company established an execution committee under the Board (the "Execution Committee") on 20 August 2010 upon approval at the annual general meeting to manage and develop its overall business and to assist the Board in performing its duties by exercising the power granted by the Board. The Execution Committee is a standing committee under the Board and accountable to the Board.

Members of the Execution Committee under the Board are Mr. ZHANG Caikui, Mr. ZHANG Bin, Mr. DONG Chengtian and Mr. YU Yuchuan, among them Mr. ZHANG Caikui serves as the chairman.

No meeting has been convened by the Execution Committee since its establishment up to the end of the Reporting Period. From 2011 onwards, the Execution Committee will convene meetings as required and perform its duties according to its terms of reference.

9. NOMINATION COMMITTEE OF THE BOARD

In order to improve its corporate governance structure, the Company established a nomination committee under the Board (the "Nomination Committee") on 20 August 2010 upon approval at the annual general meeting, with its principal duties including (i) to review the structure, size and composition of the Board on a regular basis; (ii) to consider the succession arrangement of the Directors and other senior management members; (iii) where necessary, to identify suitable candidates to fill the vacancy of the Board and recommend such candidates to the Board for approval; (iv) to review the length of time which Non-executive Directors are required to contribute and the independence of each Independent Non-executive Director; and (v) to make recommendations to the Board in respect of the appointment and re-appointment of Directors. The Nomination Committee is a standing committee under the Board and accountable to the Board.

Members of the Nomination Committee under the Board of the Company are Mr. ZHANG Caikui, Mr. WANG Yanmou and Mr. SUN Jianguo, among them Mr. ZHANG Caikui serves as the chairman.

On 10 September 2010, the Nomination Committee nominated Mr. ZHANG Bin as a Director and a member of the Execution Committee by way of signing a written resolution, which was subsequently submitted to the Board for review and approval.

On 8 October 2010, the Nomination Committee nominated Mr. ZHANG Bin as the General Manager of the Company by way of signing a written resolution, which was subsequently submitted to the Board for review and approval.

The Nomination Committee has performed its duties according to its terms of reference since its establishment up to the end of the Reporting Period.

10. AUDITORS AND REMUNERATION

Pursuant to the proposal from the Audit Committee of the Board of the Company, the Company engaged KPMG as the auditor of the Company and its two subsidiaries in Hong Kong for the year ended 31 December 2010. The audit remuneration payable to KPMG by the Company and its subsidiaries for the year ended 31 December 2010 amounted to RMB6 million and HKD136,000 respectively. In addition, the Company was required to reimburse KPMG for travelling and accommodation expenses incurred for on-site auditing.

During the Reporting Period, the auditors also received a fee of approximately RMB3.71 million for performing certain agreed-upon procedures on the relevant financial statements of Chifeng Yuanhang Cement, Quanxing Cement, Tianzhu Cement, Yulin Yatai, Dongying Shenglv, Dongying Dongxing, etc. to be acquired by the Group.

11. SHAREHOLDER AND GENERAL MEETING

To protect all shareholders of the Company to exercise their rights effectively, the Company shall convene an annual general meeting every year and shall hold an extraordinary general meeting whenever the Board considers appropriate in accordance with the articles of association of the Company ("Articles").

The annual general meeting ("AGM") of the Company for 2009 was held on 19 May 2010 and five ordinary resolutions (including the adoption of the audited consolidated financial statements for 2009 and the reports of the directors and auditors) and a special resolution to approve certain amendments to the Articles were approved, details of which were disclosed in the AGM poll results announcement dated 19 May 2010.

12. ESTABLISHMENT AND SOUNDNESS OF INTERNAL CONTROL SYSTEM

During the Reporting Period, pursuant to the requirements of the Company Law, the Articles of the Company, the requirements of the Hong Kong Stock Exchange and relevant laws and regulations, with an aim to establish a comprehensive corporate governance structure and speed up the transformation of internal management, the Group has continuously endeavoured to amend and improve various systems, thereby it has established a comparatively sound internal control system. During the period, the audit department of the Group proceeded with supervision and examination on the implementation of the internal control system, and ensured the effective implementation of the internal control system and the continued improvement of the risk management standard and operation quality through regular or irregular special auditing on the operating activities of the Group. Details are as follows:

(1) Production management: The Group implements a stringent product planning system for production target setting up, implementation and result analysis. After scientific measurement and communication and verification with its subsidiaries, the Group will issue annual and monthly production plans on a unified basis. In accordance with real-time statistical data generated by the production digital system, the monitoring centre at the Group's headquarters is responsible for daily reporting, weekly dispatch and monthly analysis. The technology centre is responsible for providing necessary technical consultation to ensure the smooth implementation of the production plan.

(2) Equipment management: The Group has established a sound equipment examination and overhaul process system. The overhaul of small equipment of its subsidiaries will be carried out by themselves after demonstration and approval. The overhaul of large equipment shall be carried out after demonstration and approval by the headquarters of the Group and the strict acceptance procedures are implemented. The Group's headquarters and the technical departments of its subsidiaries monitor data on the operation of equipment so as to effectively prevent equipment accident risks.

(3) Quality control: The Group strictly enforces national quality standards, develops quality control standards for all production processes on a unified basis, retains professional technical management talents, implements real-time quality control and has established a sound product quality control system. The Group has also established a central laboratory for quality sampling inspection of its subsidiaries and new product research and development to ensure the products of the Group attaining national standards.

(4) Financial management: The Group carries out a comprehensive budget management system, formulates a set of unified financial management policy and procedures and implements a financial chief appointment system to ensure financial independence. It also implements a centralised funding management system. All financing activities are required to be approved by the Group's headquarters and financing channels are arranged on a unified basis. The Group implements a strict funding approval procedure. The Group's Financial Management Department supervises the use of fund through the funding settlement centre to control financial risks. The Group has kept improving the perpetual inventory system to warrant the truthfulness of stock data. The Group also warrants that its financial statements have complied with the preparation requirements of IFRS and have given a true and fair view of its financial position by providing to the Board of the Company a management representation letter signed by general managers and financial chiefs of subsidiaries of the Company.

(5) Material purchasing management: The Group has established a set of sound material purchasing procedures for the sourcing and supply centre of the Group to implement unified bidding and to make purchases by comparing quality and prices for bulk raw materials such as coal for production use, general spare parts as well as supplies and equipment for the construction of new projects. The Group and its subsidiaries control material purchasing risks by monitoring quality, price, inventory and payment through the "one vehicle one inspection, one vehicle one settlement" system for raw materials and the intelligent storage management system for spare parts.

(6) Sales management: The Company implements a unified policy for regional market development, product pricing and sales, and has been carrying out a "no credit, no debt" selling policy to ordinary customers not belonged to major accounts. The sales centre of the Group monitors the status in respect of invoicing, goods delivery and pricing of its subsidiaries through the intelligent sales system, and collects market information and customer feedbacks to the Group and its subsidiaries for the quality improvement of product and sales service and the continued enhancement of the brand influence of cement products of the Group.

(VI) Report on Corporate Governance

(7) Project investment management: The Group formulates medium-to-long-term development strategic plans on a unified basis and conducts discussions and demonstrations on newly constructed and acquired projects and submits them for approval by the Board of the Group on a unified basis prior to implementation. As for newly constructed projects, by adhering to the principle of "low investment, short completion time, attaining standard swiftly", the technical centre at the Group's headquarters was responsible for the design and debugging of projects; the investment and development department was responsible for works construction management; the audit department was responsible for the auditing of project budgets and final accounts so as to effectively evade investment risks.

(8) Human resources management: Pursuant to the "Labour Contract Law" which came into effect on 1 January 2008, the Group has amended and improved the original contract management system, employment system, work and rest system and appraisal, rewards and punishment system, and has developed staffing and wage standards on a unified basis for its subsidiaries. The human resources department at the Group's headquarters has implemented supervision to control employment risks. The Group implements a unified talent recruitment and development plan and has established and improved the staff training system. Besides, it has adopted an approach of assessing and promoting its staff based on their work ethics and work performance to further enhance the cohesiveness of staff, thereby providing manpower and intellectual support for the healthy and rapid development of the Group.

From now onwards, the Group will continually improve the establishment and implementation of the internal control system by reference to the guidelines of the listed companies on the Stock Exchange concerning their internal control system.

(VII) Management Discussion and Analysis

DOMESTIC OPERATING ENVIRONMENT AND OPERATING CONDITIONS OF THE CEMENT INDUSTRY

In order to consolidate and expand the achievements in tackling the international financial crisis, the PRC government continued to adopt a proactive fiscal policy and a moderately easing monetary policy and implement a package of stimulus plan in dealing with the crisis, including promoting the construction of infrastructure, the construction of affordable housing projects for low-and-middle-income families, the urbanization and the new rural construction. As a consequence, the national economy has maintained a sustained, rapid growth. In 2010, China's GDP was expected to reach a total of RMB39,798.3 billion, representing a 10.3% increase over last year. Fixed assets investment of the country in the year was RMB27,814.0 billion, representing a 23.8% increase over the previous year. Among which, urban fixed assets investment amounted to RMB24,141.5 billion, representing a 24.5% increase from the previous year, and rural fixed assets investment was RMB3,672. 5 billion, representing a 19.7% increase from the previous year. Investment in real estate development in the year reached RMB4,826.7 billion, representing an increase of 33.2% over the previous year. The rapid growth of investment greatly boosted the demands in the cement market. From January to December 2010, the country's cement output amounted to 1,870 million tones, representing a 15.5% increase over the previous year. (Source: National Bureau of Statistics of China)

2010 was also a crucial year for the Chinese government to meet its obligatory targets for energy conservation and emission reduction set forth in the Eleventh Five-year Plan. Sticking to the requirements of "Promoting economic adjustment and changing development pattern", the State enforced a more restricted approval procedure on new projects related to excess production capacity, or "energy intensive or highly polluting and resource consuming nature". The nation also carried out the accountability system to eliminate obsolete production capacity. Differential power tariff policy and even the rationing of power supply were implemented, so as to eliminate vertical kiln cement plants out of the market. In 2010, a total of 91.55 million tonnes of obsolete cement production capacity was eliminated, and in the past five years, an accumulated amount of 434 million tonnes of obsolete clinker production capacity were closed down. Among the 2010 total, 20.657 million tonnes were in Shandong, and an accumulated amount of 75.958 million tonnes of vertical kiln clinker production capacity in the province were eliminated in the past five years. While in Liaoning, the eliminated cement production capacity in 2010 was 5.43 million tonnes and the total eliminated cement production capacity in the past five years amounted to 17.43 million tonnes. (Source: Ministry of Industry and Information Technology, China Cement Net Business, Shandong Economic and Information Technology Committee, Liaoning Daily)

Driven by increasing demand in the cement market and due to the slowdown of newly-added production capacity as well as the elimination of a large number of obsolete cement plants, the prices of cement began to pick up in certain industry-intensive areas of some provinces including Shandong, thus bringing higher profit margin to some leading enterprises. According to Digital Cement (http://www.dcement.com), for the first 11 months of 2010, the cement industry recorded a profit of RMB48.695 billion, representing a growth of 34.6% over the previous year, hitting a record high. (Source: Digital Cement)

(VII) Management Discussion and Analysis

ANALYSIS OF COMPANY OPERATING CONDITIONS

Operations Overview

In 2010, the Group seized the opportunity brought by the PRC government's policy of "boosting domestic demands and expanding investment as well as conserving energy and reducing emission and eliminating obsolete cement capacity", and adopted a marketing strategy of "controlling external sales volume of clinker, raising the prices of cement and expanding cement market". Moreover, the Group proactively launched overall budget management activities so as to reduce costs and control expenditure. Consequently, the Group achieved remarkable operating results, despite bad weather impact caused by snowstorms and extremely low temperatures in the beginning of the year.

During the Reporting Period, the Group's sales volume of cement amounted to 39.32 million tonnes, representing a year-on-year increase of 33.8%; and its sales volume of clinker was 9.84 million tonnes, representing a year-on-year increase of 16.9%. The Group's operation revenue reached RMB11,854 million, representing a year-on-year increase of 35.8%. Net profit for the year amounted to RMB1,005 million, representing a year-on-year increase of 40.7%.

Meanwhile, the Group continued to expand its cement production capacity through building new production lines and reorganizing acquired enterprises in parallel to strengthen its control over the cement market in Shandong and Liaoning provinces. In this way, the Group's endeavour in expanding its market presence in areas such as eastern Inner Mongolia, Shanxi province, Kashi of Xinjiang appeared to achieve initial success.

During the Reporting Period, the following projects had commenced operation (or under trial operation):

	Added clinker capacity (10,000 tonnes)	Added cement capacity (10,000 tonnes)
Clinker production lines:		
Zaozhuang Chuangxin Shanshui Cement Company Limited 4,000 t/d clinker production line (equipped with 6 MW residual heat generation project)	128	–
Linqu Shanshui 4,000 t/d clinker production line (equipped with 9 MW residual heat generation project)	128	–
Aqi Shanshui 2,500 t/d clinker production line	80	–
Sub-total	**336**	**–**
Cement grinding lines:		
Yishui Chuangxin Shanshui 1 million tonnes cement grinding production line	–	100
Qingdao Shanshui Jianxin 1 million tonnes cement grinding production line	–	100
Weifang Shanshui 1 million tonnes cement grinding production line	–	100
Weifang Binhai Shanshui 1 million tonnes cement grinding production line	–	100
Caoxian Shanshui 1 million tonnes cement grinding production line	–	100
Panjin Shanshui 1 million tonnes cement grinding production line	–	100
Yingkou Shanshui 0.6 million tonnes cement grinding production line	–	60
Tongliao Shanshui 0.4 million tonnes cement grinding production line	–	40
Liaocheng Shanshui 0.5 million tonnes technological upgrading project	–	50
Tianjin Shanshui 2 million tonnes cement grinding production line	–	200
Shanxian Shanshui 1 million tonnes cement grinding production line	–	100
Huolinguole Shanshui 1 million tonnes cement grinding production line (under trial operation)	–	100
Sub-total	**–**	**1,150**
Acquired production lines:		
Chifeng Yuanhang Cement 2*2,500t/d clinker production lines and 2.6 million tonnes cement grinding production line	160	260
Quanxing Cement 2,500 t/d clinker production line (under trial operation)	80	–
Tianjin Tianhui 0.6 million tonnes cement grinding production line	–	60
Tianzhu Cement 1.2 million tonnes cement grinding production line (under trial operation)	–	120
Yulin Yatai 1 million tonnes cement grinding production line	–	100
Dongying Shenlu 0.7 million tonnes cement grinding production line	–	70
Dongying Dongxing 0.6 million tonnes cement grinding production line	–	60
Sub-total	**240**	**670**
Total added production capacity for the year	**576**	**1,820**

(VII) Management Discussion and Analysis

During the Reporting Period, the Group added new cement production capacity of 18.20 million tonnes (including those under trial operation) and new clinker cement production capacity of 5.76 million tonnes. As at the end of the Reporting Period, all qualified clinker production lines had been equipped with residual heat power generators, and the total installed capacity amounted to 151 MW. In addition, a number of clinker production lines (with residual heat power generators), including Weishan Shanshui, Dong'e Shanshui in Shandong province, Jincheng Shanshui, Hequ Zhongtianlong, Lvliang Yilong in Shanxi province and Yingjisha Shanshui in Xinjiang, and many supporting cement grinding production lines are under construction. With more new projects commencing operations, the Group will further strengthen its dominant market position and stand out in the cement markets in Shandong, Liaoning provinces and eastern Inner Mongolia.

BUSINESS REVIEW

(I) Business analysis

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

(Unit: RMB million)

Product	2010 Sales revenue	2010 Sales proportion	2009 Sales revenue	2009 Sales proportion	Sales Revenue change
Cement	**9,275**	**78.2%**	6,608	75.7%	40.4%
Clinker	**1,941**	**16.4%**	1,579	18.1%	22.9%
Concrete	**186**	**1.6%**	226	2.6%	-17.7%
Others	**452**	**3.8%**	315	3.6%	43.5%
Total	**11,854**	**100.0%**	8,728	100.0%	35.8%

During the Reporting Period, the increase in the Company's sales revenue was principally attributable to an increase in cement sales volume and selling prices. With regards to revenue breakdown by products, cement revenue amounted to RMB9,275 million, representing a year-on-year growth of 40.4%, and clinker revenue amounted to RMB1,941 million, representing a year-on-year growth of 22.9%. Concrete revenue amounted to RMB186 million, representing a year-on-year decrease of 17.7%.

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

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

Product	**2010 Sales volume ('000 tonnes)**	2009 Sales volume ('000 tonnes)	Sales volume change	**2010 Unit selling price (RMB/tonne)**	2009 Unit selling price (RMB/tonne)	Selling price change
Cement	**39,318**	29,388	33.8%	**235.9**	224.9	4.9%
Clinker	**9,844**	8,422	16.9%	**197.2**	187.5	5.2%
	('000 m³)	('000 m³)		**(RMB/m³)**	(RMB/m³)	
Concrete	**785**	860	-8.7%	**237.5**	262.3	-9.5%

During the Reporting Period, thanks to the ideal market presence of the Company, the phasing-out of obsolete cement capacity, and the sustained demand from infrastructure construction projects and the property development industry, the Company's sales volume of cement amounted to 39.318 million tonnes, representing a year-on-year growth of 33.8%, while that of clinker increased to 9.844 million tonnes, representing a year-on-year growth of 16.9%. The sales volume of concrete was 785,000 cubic metres, representing a decrease of 8.7% from the previous year.

Benefited from the soaring prices of cement and clinker in the second half of 2010 (especially in the fourth quarter), the unit selling price of cement increased by 4.9% to RMB235.9 per tonne and the unit selling price of clinker increased by 5.2% to RMB197.2 per tonne, while the unit selling price of concrete decreased by 9.5% to RMB237.5 per cubic metre from the 2009 high to a rational price range.

(2) Comparison of unit selling price of cement by region

Region	**Average unit selling price in 2010 (RMB/tonne)**	Average unit selling price in 2009 (RMB/tonne)	Change in selling price
Shandong area	**238.0**	221.5	7.5%
Northeastern China	**226.2**	245.8	-8.0%
Shanxi area	**314.9**	–	–

Note: Since Yulin Yatai was acquired by the Company in September 2010, no information about this area's average unit selling price in 2009 is available.

During the Reporting Period, the average unit selling price of cement in Shandong area was RMB238.0 per tonne, representing a year-on-year increase of 7.5%, while that in Northeastern China was RMB226.2 per tonne, representing a year-on-year decrease of 8.0%, and the average unit selling price of cement in Shanxi was RMB314.9 per tonne. With the Company expanding its production capacity in Northeastern China, the Company will have more discourse power in this market. It is expected that the selling price of cement in Northeastern China will show an upward trend in the near future.

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

	2010		2009		
Product	**Sales volume ('000 tonnes)**	**Sales proportion**	Sales volume ('000 tonnes)	Sales proportion	Change in sales volume
High grade cement	**21,827**	**55.5%**	14,845	50.5%	47.0%
Low grade cement	**17,491**	**44.5%**	14,543	49.5%	20.3%

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

Driven by the demand for high quality cement as a result of the government's substantial investment in infrastructure projects, and the ideal market presence of the Group, the sales volume of high grade cement increased by 47.0% as compared to the same period of 2009.

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

(Unit: RMB'000)

	2010		2009		
Region	**Sales revenue**	**Sales proportion**	Sales revenue	Sales proportion	Sales revenue change
Shandong area	**9,791,940**	**82.6%**	7,511,209	86.1%	30.4%
Northeastern China	**2,055,898**	**17.3%**	1,216,417	13.9%	69.0%
Shanxi area	**6,230**	**0.1%**	–	–	–
Total	**11,854,068**	**100.0%**	8,727,626	100.0%	35.8%

During the Reporting Period, our cement production enterprises in Shandong province and Northeastern China performed well, with all key economic indicators showing significant improvement. Among which, our enterprises in Shandong province recorded a sales revenue of RMB9.744 billion in 2010, accounting for 82.2% of the Group's total sales revenue, representing a year-on-year increase of 29.7%; our enterprises in Northeastern China recorded a sales revenue of RMB2.104 billion in 2010, accounting for 17.7% of the Group's total sales revenue, representing a year-on-year increase of 72.9%; our enterprises in Shanxi province recorded a sales revenue of RMB6,230,000 in 2010, and with more newly built projects commencing operation in this area, our cement production enterprises in the region will contribute more profits to the Group in the future.

(II) Profit Analysis

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

(Unit: RMB'000)

	2010	2009	Y-O-Y change
Revenue	**11,854,068**	8,727,626	35.8%
Gross profit	**2,550,102**	1,780,475	43.2%
EBITDA	**2,533,959**	1,898,775	33.5%
Profit from operation	**1,726,493**	1,250,866	38.0%
Profit before taxation	**1,363,205**	941,281	44.8%
Net profit for the year	**1,004,917**	714,044	40.7%
Profit attributable to equity holders of the Company	**979,128**	701,557	39.6%

During the Reporting Period, the Group recorded a sales revenue of RMB11,854 million, representing a year-on-year increase of 35.8%; profit from operations was RMB1,726 million, representing a year-on-year increase of 38.0%; net profit for the year was RMB1,005 million, representing a year-on-year increase of 40.7%; profit attributable to equity holders of the Company was RMB979 million, representing a year-on-year increase of 39.6%. The increase in profit was mainly attributable to an overall increase in sales volume, the increase of selling prices and our effective cost control during the year.

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

(Unit: RMB'000)

Cost of sales	2010 Amount	2010 Proportion to revenue	2009 Amount	2009 Proportion to revenue	Change of Proportion to revenue
Raw materials	**2,574,232**	**21.7%**	2,085,164	23.9%	-2.2 P.Pt.
Coal	**3,176,645**	**26.8%**	2,190,160	25.1%	1.7 P.Pt.
Power	**1,471,468**	**12.4%**	1,124,755	12.9%	-0.5 P.Pt.
Depreciation and amortisation	**708,957**	**6.0%**	562,313	6.4%	-0.4 P.Pt.
Others	**1,372,664**	**11.6%**	984,759	11.3%	0.3 P.Pt.
Total cost of sales	**9,303,966**	**78.5%**	6,947,151	79.6%	-1.1 P.Pt.

During the Reporting Period, the proportion of the Group's total cost of sales to revenue was 78.5%, representing a year-on-year decrease of 1.1 percentage points, of which the proportion of raw materials to revenue decreased by 2.2 percentage points to 21.7% as compared with last year due to the decrease in the purchase prices of raw materials as a result of further standardized procurement procedure and the use of alternative raw materials through technology innovation. The Group's average unit purchase price of coal in 2010 increased significantly by 21.4% to RMB691.8 per tonne, resulting in a 1.7 percentage points increase of the proportion of coal costs to revenue, advancing to 26.8%. However, thanks to the technological transformation conducted by the Group and the use of higher grade coal, the unit coal consumption recorded certain degree of decrease. As a result of that, the proportion of coal costs to sales revenue showed a relatively smaller increase compared to the increase in purchase price of coal. During the year 2010, output of residual heat power generation increased by 27.8% to 914 million KWH on cost savings, reducing the clinker cost by approximately RMB346.59 million.

FINANCIAL REVIEW

1. Expenses during the year

(Unit: RMB'000)

	2010 Amount	2010 Proportion to sales revenue	2009 Amount	2009 Proportion to sales revenue	Proportion to sales revenue changes
Sales and marketing expenses	**214,165**	**1.81%**	196,535	2.25%	-0.44 P.Pt.
Administrative expenses	**689,621**	**5.82%**	469,138	5.38%	0.44 P.Pt.
Finance costs	**363,070**	**3.06%**	309,585	3.54%	-0.48 P.Pt.
Total	**1,266,856**	**10.69%**	975,258	11.17%	-0.48 P.Pt.

During the Reporting Period, all expenses of the Group were controlled effectively. Thanks to the substantial increase in sales volumes, the proportion of sales and marketing expenses to sales revenue recorded a decline as compared with that of 2009. In addition, along with the continuous expansion of operations and the rise in salaries and labour costs, there was also an increase in the proportion of administrative expenses to sales revenue as compared with that of the previous year. Benefiting from the lower interest rates on its debts in 2010, the proportion of the Group's financial costs to sales revenue recorded a decline as compared with that of the previous year.

2. Changes in balance sheet items

(Unit: RMB'000)

	31 December 2010	31 December 2009	Change
Non-current assets	**14,722,366**	11,302,282	30.2%
Current assets	**4,227,960**	3,306,881	27.9%
Total assets	**18,950,326**	14,609,163	29.7%
Current liabilities	**6,481,641**	4,969,934	30.4%
Non-current liabilities	**6,319,680**	4,410,101	43.3%
Total liabilities	**12,801,321**	9,380,035	36.5%
Minority interest	**461,480**	68,935	565.3%
Equity attributable to equity shareholders of the Company	**5,687,525**	5,160,193	10.2%
Total liabilities and equity	**18,950,326**	14,609,163	29.7%
Net gearing ratio	**50.4%**	48.2%	2.2%

As at 31 December 2010, the Group's total assets were RMB18,950 million, total liabilities were RMB12,801 million and its net assets were RMB6,149 million. The net gearing ratio (net debts/(net debts + equity attributable to equity shareholders of the Company + minority interest)) was 50.4%, representing an increase of 2.2 percentage points as compared with the end of the previous year. The Group's total current assets were RMB4,228 million, its total current liabilities were RMB6,482 million, and its net current liabilities were RMB2,254 million. The Group's profits from future operations, its cash flow forecast for 2011, and the banking facilities granted to the Group are sufficient to satisfy the capital requirements for its continuing operations.

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

(Unit: RMB'000)

Term of borrowings	31 December 2010	31 December 2009
Short-term borrowings (including long-term borrowings with maturity within one year)	**1,790,634**	2,205,527
Long-term borrowings	**5,608,114**	3,549,691
Total	**7,398,748**	5,755,218

The Company's borrowings increased as a result of the financing activities to fund the expansion of its cement business. As at 31 December 2010, the Company's total borrowings were RMB7,399 million, an increase of RMB1,644 million as compared with the end of 2009. Among which, long-term borrowings with maturity after one year were RMB5,608 million, representing 75.8% of the total borrowings, increased by 14.1 percentage points as compared with the end of 2009. The loan portfolio was further optimized.

4. Capital expenditures

During the Reporting Period, the capital expenditures of the Group were approximately RMB2,901 million, which were mainly used as the investments in the construction of and acquisition of cement and clinker production lines. And the capital expenditures of the Group are expected to be RMB4.3 billion in 2011.

Below is the outstanding capital commitments under the production facility construction contract and the equipment purchase contract which has not been provided for in the financial statements on 31 December 2010:

(Unit: RMB'000)

	31 December 2010	31 December 2009
Authorised and contracted for	**1,877,236**	374,148
Authorised but not contracted for	**1,845,926**	4,508,601
Total	**3,723,162**	4,882,749

As at 31 December 2010, the capital commitments authorised and contracted for by the Group amounted to RMB1,877 million, representing an increase of RMB1,503 million or 401.7% as compared with the end of 2009. Capital commitments authorised but not contracted for amounted to RMB1,846 million.

5. Net cash flow analysis

(Unit: RMB'000)

	2010	2009
Net cash generated from operating activities	**1,789,127**	1,025,697
Net cash used in investing activities	**(2,926,815)**	(2,136,401)
Net cash generated from financing activities	**1,398,263**	748,631
Net changes in cash and cash equivalents	**260,575**	(362,073)
Balance of cash and cash equivalents at beginning of the year	**886,130**	1,248,414
Effect on cash from exchange rate changes	**(1,865)**	(211)
Balance of cash and cash equivalents at end of the year	**1,144,840**	886,130

During the Reporting Period, net cash generated from operating activities of the Group was RMB1,789 million, representing a year-on-year increase of RMB763 million, which was mainly attributable to the expansion in the scale of our core business and the strong market demand. At the same time, the Group continued to make substantial capital investments in a relatively large number of construction projects in 2010, which resulted in the net cash used in investing activities reaching RMB2,927 million. Net cash generated from financing activities amounted to RMB1,398 million.

FINANCIAL REPORTING AND CORPORATE ACCOUNTING POLICY

The Board, supported by the Chief Financial Officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group. In the preparation of financial statements, the Company has adopted the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the IASB, since its listing date.

OUTLOOK FOR 2011

Operating Environment Outlook

2011 is the first year of the "Twelfth Five-year Plan" period, and is also the pivotal year for the Chinese government to adjust its economic strategies by emphasizing scientific development concept and accelerating the transformation of its economic development pattern. The Chinese Government will continue to implement its proactive fiscal policy and prudent monetary policy, enhance the pertinence, flexibility and effectiveness of its macroeconomic control measures, endeavour to ensure and improve people's livelihood, and strengthen and expand the nation's achievements in combating global financial crisis, so as to maintain a stable and rapid economic growth. We are of the view that the cement industry will benefit from the following favourable policies:

(VII) Management Discussion and Analysis

1. Cement industry will have ample room for expansion amid stable and rapid economic growth, in particular the strong instigation of fixed assets investments. The demand for cement will be driven by a number of favourable initiatives, among which the most popular ones include implementation of regional development strategies, further development of Western China, rejuvenating Northeast China, enriching border areas and elevating people's living standard there, accelerating development and openness of Yanbian area, constructing more transportation facilities, border cities and cross-border checkpoints for the purpose of national defence, promoting urbanization and construction of new villages, constructing more infrastructures, developing high-speed railway system supported by government policies and financial resources, elevating people's livelihood more quickly, accelerating construction of large-scale affordable housing projects for low-income residents, implementing preschool education programs and constructing public facilities aiming at improving the happiness index amongst the nation's residents. In 2011, a large amount of the central government's budgetary expenditure will be allocated to support the construction of affordable homes, water facilities and agricultural infrastructure. According to the Ministry of Housing and Urban-Rural Development of the PRC, the Chinese government is targeted to build 10,000,000 units affordable homes in 2011, nearly doubling the 5,800,000 units in 2010. In addition, it is stated clearly in the "Twelfth Five-year Plan" that China will enhance the construction of rural infrastructures. By focusing on the construction of water facilities, the Chinese government will fully enhance the construction of farmland irrigation facilities, promote the upgrading of rural power grids, and improve the safety of drinking water in rural areas, the construction of roads and biogas facilities and the reconstruction of decrepit houses in rural areas. It is believed that these initiatives will drive continuous growth in the demand for cement.

2. Industry policies encourage restructuring and merger of good enterprises and the profit margin will improve gradually along with rationalization of market competition. The Chinese government encourages restructuring and merger of conglomerates in cement industry while sparing no effort to eliminate obsolete ones. It is stated clearly in the "Opinions on Promoting Corporate Merger and Restructuring" promulgated by the State Council in 2010 that China's automobile, steel, cement, mechanical manufacturing, electrolytic aluminium and rare-earth industries are strongly recommended to carry out merger between competitive conglomerates, cross-region merger and restructuring and overseas M&A and cooperative investments. These initiatives are aimed to enhance industrial concentration, promote economy of scale and integrated operations, accelerate the establishment of pivotal enterprises with their own intellectual property rights and renowned brands, forge a number of conglomerates with international competitiveness, and optimize the industrial structure. On 1 January 2011, the "Criteria for Entry to Cement Industry" was formally promulgated and more stringent requirements were adopted, which will effectively control the growth of production capacity and improve the balance between demand and supply of cement. As disclosed in the "Twelfth Five-year Plan", total output of the top 10 cement enterprises account for more than 35% of the national cement output (2009: 22.6%), and the average production capacity of the top 10s will be more than 70,000,000 tons of cement (Source: China Building Material website). It is predictable that, as industrial concentration ratio becomes higher, cement prices will continue to rise and profit margin will grow bigger.

3. The new policy of "Bringing Construction Materials to Rural Areas" has progressed satisfactorily, and its full implementation will boost sales of cement in rural areas. In September 2010, the Chinese government selected Shandong and Ningxia as the pilot provinces for implementing the policy of "Bringing Construction Materials to Rural Areas" which will be formally put into practice in 2011. We expect that the policy will be rolled out to other areas on a bigger scale after its pilot implementation, which will create significant market opportunities for cement conglomerates that have complete distribution network in rural areas and offer quality products. The implementation of such policy will inevitably accelerate the urbanization and the construction of new villages, thus ensuring a strong and long-lasting growth in the demand for cement.

4. Chinese government encourages cement enterprises to extend operations in their industrial chains and make comprehensive use of resources. The Chinese government encourages cement enterprises to extend their operations towards upstream and downstream sectors, produce and market concrete products in addition to cement products, and accelerate the development of the downstream sectors such as cement products, premixed concretes, dry-mixed sand mortar, coarse and fine aggregates, so as to reasonably extend the cement industrial chain. Meanwhile, in order to promote energy conservation and emission reduction, the Chinese government encourages cement enterprises to make comprehensive use of resources and reasonably recycle industrial wastes and home scraps. In our opinion, these initiatives will add values to the cement sector, promote technical innovation in cement industry, improve the utilization of resources and reduce production costs, thereby facilitating the growth of cement conglomerates.

Based on the foregoing analysis, we believe that 2011 and the years onwards will be a significant strategic period for the Group to develop its cement business and gradually extend its industrial chain.

Company's Business Outlook

Leveraging on its integrated competitive strength on market presence, scale, system and mechanism, the Group took the initiative of development while the government speeded up the pace of "development pattern change and structural adjustment" and promoted mergers and acquisitions and reorganizations in the cement industry, thus to achieve a sustained growth led by the expansion of production capacity and efficiency enhancement. In particular, the business of the Group is strategically located at Kashi, a state-level special economic zone, being the locomotive for the development of Western China; and four state-level development zones, namely Shandong Blue Economic Zone, Yellow River Delta High-efficiency Ecological Economic Zone, Liaoning Coastal Economic Belt and Tianjin Binhai New Area. The "Twelfth Five-Year Plan" period will see a peak investment period, and the Group will face valuable growth opportunities rarely seen in history.

In 2011, the Group will unswervingly implement its development policy of "putting equal emphasis on development and management". The Group will not only continue to improve its market presence in Shandong and Liaoning, but also proactively increase its market share in the surrounding provinces and autonomous regions such as Shanxi, Inner Mongolia and Xinjiang. At the same time, the Group will continue to promote total budget management with a view to further improve the Group's internal control system. In the current year, the Group will particularly focus on the following priorities:

(VII) Management Discussion and Analysis

1. *Putting equal emphasis on new project construction and reorganization, increasing market presence and enhancing regional market control*

In compliance with the state policy of phasing out outdated enterprises and supporting reorganization, merger and acquisition initiated by large enterprises, and leveraging on its own competitive strength in terms of system and mechanism, the Group will proactively carry out market research for its strategic locations, seek for opportunities for reorganizations, mergers and acquisitions, improve its market presence in advantageous markets, and accelerate the expansion of production capacity for new markets. In this respect, the Group will integrate its internal organizations and human resources, establish a strategic development center and focus on the plan of doubling its production capacity within the next three years. By the end of 2011, its cement production capacity is expected to reach 80 million tonnes.

2. *Vigorously promoting total budget management initiatives to enhance operational management efficiency*

The Group will revise and improve the various management systems introduced in 2010, and establish new internal control systems for new problems identified, and strengthen various fundamental management functions. The Group will focus on the following four priorities: firstly, use the established procurement and supply centre as the platform for centralized purchase of bulk raw materials, fuel and general equipment, and further regulate tender procedures, reduce procurement cost and enhance the cooperation between upstream and downstream industries; secondly, optimize the integrated production-sale business model for companies under the supervision of Group, further regulate the management of contracts, prices, transportation and settlement to reduce market and operational risks; thirdly, continue to implement strict funds approval and granting procedures, to improve financial management where the focus is put on funds management and increase the efficiency in the use of funds; fourthly, enhance internal audit and supervision, establish and improve various processes, procedures and systems to ensure the effective control of the Group to cope with rapid business expansion and enlarged management scope.

3. *Focusing on the internal and external sale of clinker, promoting the virtuous cycle of the cement market*

In accordance with the supply and demand condition of clinker in areas covered by the Group and the operational philosophy of "clinker for profits and cement for market expansion", the Group will further improve both internal and external sales model for clinker, to stabilize and increase the price of clinker so as to ensure the reasonable pricing for cement to be reasonably priced, to achieve maximum profit for the Group and the virtuous cycle of the cement market in areas covered by the Group. For internally sold clinker, the Group will adopt market pricing mechanism to determine the agreed price for clinker with cement enterprises in order to raise the cement price; for external sales of the remaining clinker, the Group will adopt scientific planning and management so as to avoid developing new competitors, thereby achieve the goals of full utilization of its own cement grinding capacity, increase the sales volume of cement and increase its market share. In addition, an increase in cement price will adopt a record system, whereas a decrease in cement price will adopt an examination and approval system so as to increase the profit margin for the Group.

4. *Accelerating the preparation work for businesses such as concrete and aggregate, thereby cultivating new driver for profit growth*

Leveraging on the favourable government policy of supporting the extension of the whole industry chain and comprehensive utilization of resources, and based on prudent investigation and research, the Group will use Shandong province, where the Group's cement business is most concentrated, as the pilot to extend the whole cement industry chain and accelerate the preparation work for businesses such as concrete and aggregate. After the pilot project in Shandong has proved successful, it will be promoted in other regional markets covered by the Group in order to cultivate new growth points for the Group in the future.

Looking ahead, the management of the Group will proactively implement the development strategies, aiming to achieve fruitful operating results and to create higher value for investors.

(VIII) Report of the Directors

1. PRINCIPAL BUSINESS

As the largest cement producer in Shandong and Liaoning Provinces, the Company will focus on developing its core business, namely, the production and sales of various types of quality cements, and the production of commodity clinker necessary for various types of high grade cements. The commodity clinker produced by the Company is mainly sold to clients with cement grinding station. The cement produced by the Company under the brand of "Shanshui Dongyue" is widely used in construction works for roads, bridges, housing and various types of landmark construction projects, and has achieved a good reputation among customers. In September 2008, the "Shanshui Dongyue" brand was honoured the "Famous Trademark of Shandong Province".

2. MAJOR INVESTMENTS DURING THE REPORTING PERIOD

(1) Significant projects invested during the Reporting Period

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period (RMB'000)
1	Linqu Shanshui 4,000 t/d clinker production line project (including 9MW residual heat generation project) and 1 million tonnes cement grinding production line project	Commenced operation	63,137
2	Zaozhuang Chuangxin Shanshui 4,000 t/d clinker production line project (including 6MW residual heat generation project) and 1 million tonnes cement grinding production line project	Commenced operation	71,196
3	Aqi Shanshui 2500t/d clinker production line project (equipped with residual heat generation facilities) and 0.5 million tonnes cement grinding production line project	Commenced operation (1)	178,907
4	Yishui Chuangxin Shanshui cement grinding production line project with annual production of 1 million tonnes	Commenced operation	24,239
5	Qingdao Shanshui Jianxin cement grinding production line project with annual production of 1 million tonnes	Commenced operation	50,883
6	Weifang Shanshui technological upgrading project for cement grinding production line project with annual production of 1 million tonnes	Commenced operation	30,713

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period (RMB'000)
7	Weifang Binhai Shanshui cement grinding production line project with annual production of 1 million tonnes	Commenced operation	41,806
8	Caoxian Shanshui cement grinding production line project with annual production of 1 million tonnes	Commenced operation	60,261
9	Panjin Shanshui cement grinding production line project with annual production of 2 million tonnes (phase one)	Commenced operation	77,760
10	Yingkou Shanshui cement grinding production line project with annual production of 0.6 million tonnes	Commenced operation	18,910
11	Tongliao Shanshui Gongyuan cement grinding production line project with annual production of 0.4 million tonnes	Commenced operation	6,072
12	Tianjin Shanshui cement grinding production line project with annual production of 2 million tonnes	Commenced operation	69,464
13	Shanxian Shanshui cement grinding production line project with annual production of 1 million tonnes	Commenced operation	57,028
14	Liaocheng Shanshui technological upgrading project for cement grinding production line project with annual production of 0.5 million tonnes	Commenced operation	13,102
15	Weishan Shanshui 4,500t/d clinker production line project (including 9MW residual heat generation project) and 1 million tonnes cement grinding production line project	Under construction	230,420

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period (RMB'000)
16	Dong'e Shanshui 2500t/d clinker production line project (equipped with residual heat generation facilities)	Under construction	168,610
17	Jincheng Shanshui 2500t/d clinker production line project (equipped with residual heat generation facilities) and 1 million tonnes cement grinding production line project	Under construction	204,303
18	Hequ Zhong Tianlong 2500t/d clinker production line project (equipped with residual heat generation facilities) and 1 million tonnes cement grinding production line project	Under construction	144,259
19	Lvliang Yilong 4,000t/d clinker production line project (equipped with residual heat generation facilities) and 1 million tonnes cement grinding production line project	Under construction	1,147
20	Yingjisha Shanshui 5,000t/d clinker production line project (equipped with residual heat generation facilities) and 1 million tonnes cement grinding production line project	Under construction	26,998
21	Huolinguole Shanshui 1 million tonnes cement grinding production line project	Under pilot operation	90,363
22	Balin Youqi Shanshui 0.8 million tonnes cement grinding production line project	Under construction	67,320
23	Shanghe branch of Shandong Shanshui 1 million tonnes cement grinding production line project	Under construction	58,647
24	Laoling Shanshui cement grinding production line project with annual production of 1 million tonnes	Under construction	43,534

Notes: (1) During the Reporting Period, the 2500t/d clinker production line had commenced operation.

(2) Capital increase in subsidiaries during the Reporting Period

In order to further improve the corporate governance structure and to implement project construction plans of the Company, the Company made investments to establish or acquire a number of subsidiaries during the Reporting Period. Meanwhile, to satisfy the operation and development needs of some subsidiaries of the Company, additional capital was injected by the Company into these subsidiaries during the Reporting Period. Details of the capital increases are as follows:

Serial No.	Name of company	Registered capital after capital increase	Remark
1	Jincheng Shanshui Cement Co., Ltd.	RMB150,000,000	Newly established
2	Laoling Shanshui Cement Co., Ltd.	RMB30,000,000	Newly established
3	Dong'e Shanshui Dongchang Cement Co., Ltd.	RMB100,000,000	Newly established
4	Shenxian Shanshui Dongchang Cement Co., Ltd.	RMB10,000,000	Newly established
5	Balin Youqi Shanshui Cement Co., Ltd.	RMB20,000,000	Newly established
6	Huolinguole Shanshui Cement Co., Ltd.	RMB20,000,000	Newly established
7	Kashi Shanshui Cement Co., Ltd.	RMB200,000,000	Newly established
8	Yingjisha Shanshui Cement Co., Ltd.	RMB120,000,000	Newly established
9	Shule Shanshui Cement Co., Ltd.	RMB20,000,000	Newly established
10	Shache Shanshui Cement Co., Ltd.	RMB20,000,000	Newly established
11	Tianjin Tianhui Cement Company Limited	RMB16,000,000	Acquired
12	Hequ County Zhong Tianlong Cement Co., Ltd.	RMB80,000,000	Acquired
13	Lvliang Yilong Cement Co., Ltd.	RMB10,000,000	Acquired
14	Yulin Yatai Chemical Technology Co., Ltd.	RMB60,000,000	Acquired
15	Shanxi Heju Group Heju Cement Manufacturing Co., Ltd	RMB120,000,000	Acquired
16	Xinganmeng Quanxing Cement Manufacturing Co., Ltd	RMB20,000,000	Acquired

Serial No.	Name of company	Registered capital after capital increase	Remark
17	Wulanhaote Tianzhu Cement Co., Ltd.	RMB5,000,000	Acquired
18	Chifeng Yuanhang Cement Company Limited	RMB66,150,000	Acquired
19	Dongying Shenglv Cement Co., Ltd.	RMB12,000,000	Acquired
20	Dongying Dongxing Cement Co., Ltd.	RMB18,760,000	Acquired

(3) De-registration of subsidiaries during the Reporting Period

Cangzhou Shanshui Cement Co., Ltd, a subsidiary of the Group, underwent de-registration in April 2010.

3. MAJOR SUBSIDIARIES WITH CONTROLLING INTERESTS

As at 31 December 2010, the Company had controlling interests in 75 subsidiaries. For details, please refer to Note 18 to the Financial Statements of this report prepared in accordance with IFRS.

During the Reporting Period, the top 5 major subsidiaries generating highest profits were as follows:

Name of company	Revenue (RMB'000)	Profit from operations (RMB'000)	Net profit (RMB'000)
Pingyin Shanshui Cement Company Limited	993,378	260,276	239,553
Anqiu Shanshui Cement Company Limited	825,476	173,071	152,123
Zibo Shanshui Cement Company Limited	815,380	201,896	150,903
Weifang Shanshui Cement Company Limited	633,133	102,933	82,727
Shandong Cement Factory Company Limited	765,087	134,855	96,685

4. GENERAL DUTIES OF THE BOARD OF DIRECTORS

During the Reporting Period, major resolutions and approved matters of the Board of Directors were as follows:

1. On 9 April 2010, the Board of Directors considered and passed the 2009 annual results of the Company and the resolution regarding distribution of dividend for 2009.

2. On 20 August 2010, the Board of Directors considered and passed the 2010 interim results of the Company and the resolution regarding distribution of interim dividend for 2010.

3. On 10 September 2010, the Board of Directors resolved and approved the written proposal to appoint Mr. Zhang Bin as an executive Director and the Vice Chairman of the Company.

4. On 8 October 2010, the Board of Directors resolved and approved the written proposal to appoint Mr. Zhang Bin as the General Manager of the Company.

5. On 19 November 2010, the Board of Directors considered and approved the Memorandum of Understanding entered into by the Company with Asia Cement Corporation and Asia Cement (China) Holdings Corporation in relation to business cooperation and other proposals.

5. PROFIT DISTRIBUTION PROPOSAL FOR 2010

According to the financial information prepared in accordance with IFRS, the Group's after tax profit and profit attributable to equity holders of the Company for 2010 were RMB1,005 million and RMB979 million respectively. Considering the intensive competition in the cement industry, the development plan of the Company in the next stage and the cash return to shareholders, the Board of Directors has proposed to distribute profit for the year ended 31 December 2010 as follows: HK$408,312,779 will be used for the distribution of dividends, and the balance will be used for the development and general operation of the Company, so as to further enlarge the scale of production capacity of the Company and to enhance the competitive strength of the Company.

The above proposal is required to be considered and approved by shareholders at the 2010 Annual General Meeting.

6. TAXATION

Details relating to taxation matters of the Group for the Reporting Period are set out in Note 6 to the Financial Statements prepared in accordance with IFRS.

7. MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2010, total sales attributable to the top five customers of the Group were less than 30% of total sales of the Group, and total purchases attributable to the top five suppliers of the Group were less than 30% of total purchases of the Group.

8. LAND LEASES, REAL PROPERTIES, PLANT AND EQUIPMENT

During the Reporting Period for the year ended 31 December 2010, the changes in the land leases, real estate to properties, plant and equipment are set out in Note 13 to the Financial Statements prepared in accordance with IFRS.

9. TOTAL ASSETS

For the year ended 31 December 2010, the total assets of the Group as confirmed in accordance with IFRS were RMB18,950 million, representing an increase of RMB4,341 million compared to the previous year.

10. RESERVES

Changes in reserves of the Group for the year ended 31 December 2010 are set out in Note 33 to the Financial Statements prepared in accordance with IFRS.

11. DEPOSITS, LOANS AND CAPITALISED INTEREST

Details of the Company's loans for the year ended 31 December 2010 are set out in Note 24 of the Financial Statements prepared in accordance with IFRS. Deposits of the Company for the year ended 31 December 2010 are placed with commercial banks with good creditworthiness. The Group has no entrusted deposits or any fixed deposits that cannot be withdrawn upon maturity. During the year, capitalised interest for projects under construction amounted to RMB40.37 million, the details of which are set out in Note 5 to the Financial Statements prepared in accordance with IFRS.

(IX) Significant Events

1. MATERIAL LITIGATION AND ARBITRATION MATTERS

During the Reporting Period, the Group was not involved in any material litigation or arbitration matters.

2. MATERIAL ASSET ACQUISITIONS, DISPOSALS AND RESTRUCTURING MATTERS

During the Reporting Period, there were no material asset acquisitions, disposals and restructuring matters.

3. CONTINUING CONNECTED TRANSACTIONS

On 14 June 2008, the Company entered into a framework agreement (the "Framework Agreement") with Tianjin Tianhui Cement Company Limited ("Tianjin Tianhui") for a term commencing from the listing date of 4 July 2008 to 31 December 2010 for the purpose of regulating the purchase by Tianjin Tianhui of clinker produced by the Group from time to time. The transactions under the Framework Agreement are of regular and continuing nature and in the ordinary and usual course of business of the Group. The transactions under the Framework Agreement constituted continuing connected transactions for the Company under the Listing Rules.

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

On 10 April 2010, the Company exercised the Tianjin Tianhui Option to acquire the entire equity interest in Tianjin Tianhui. During the period from 1 January 2010 to 10 April 2010, the transaction amount under the Framework Agreement between the Group and Tianjin Tianhui was RMB11,497,000.

The above continuing connected transactions have been reviewed by the directors of the Company (including the independent non-executive directors). The independent non-executive directors have noted that the transaction value under the Framework Agreement as stated above has not exceeded the cap of RMB71,000,000 as disclosed in the announcement of the Company dated 30 March 2009. The independent non-executive directors have confirmed that save as disclosed above, these continuing connected transactions have been entered into:

(a) in the ordinary and usual course of business of the Company;

(b) on normal commercial terms, or if there are insufficient comparable transactions to judge whether the terms of those transactions are on normal commercial terms, as far as the Company is concerned, the terms of the above transactions are no less favourable to the Company than terms available to or provided by independent third parties (as the case may be); and

(c) under the terms of the Framework Agreement and the transaction terms are fair and reasonable and are in the interest of shareholders of the Company as a whole.

The auditors of the Company have also confirmed that these continuing connected transactions:

(a) have been approved by the board of directors of the Company;

(b) are in accordance with the pricing policies of the Group;

(c) have been entered into in accordance with the Framework Agreement; and

(d) as disclosed above, have not exceeded the caps of the connected transactions for 2010.

4. MATERIAL CONTRACTS

(1) Signing of material contracts

The Group did not sign any material contracts during this Reporting Period.

(2) Guarantees

The Group did not provide any form of guarantee for any company outside the Group during this Reporting Period.

(3) Signing of material trustee arrangements

During the Reporting Period, the Company did not enter into any material trustee arrangement in respect of financial management.

(4) Performance of commitments

Details of the performance of the Company's commitments during the Reporting Period are set out in Note 36 to the Financial Statements prepared in accordance with IFRS.

(X) Independent Auditor's Report

Independent auditor's report to the shareholders of
China Shanshui Cement Group Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Shanshui Cement Group Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") set out on pages 65 to 176, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

(X) Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

25 March 2011

(XI) Financial Statements
Consolidated income statement

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Revenue	3 & 12	**11,854,068**	8,727,626
Cost of sales		**(9,303,966)**	(6,947,151)
Gross profit		**2,550,102**	1,780,475
Other revenue	4	**148,455**	138,346
Other net expenses	4	**(68,278)**	(2,282)
Selling and marketing expenses		**(214,165)**	(196,535)
Administrative expenses		**(689,621)**	(469,138)
Profit from operations		**1,726,493**	1,250,866
Finance costs		**(363,070)**	(309,585)
Share of profits less losses of an associate		**(218)**	–
Profit before taxation	5	**1,363,205**	941,281
Income tax	6	**(358,288)**	(227,237)
Profit for the year		**1,004,917**	714,044
Attributable to:			
Equity shareholders of the Company		**979,128**	701,557
Non-controlling interests		**25,789**	12,487
Profit for the year		**1,004,917**	714,044
Earnings per share	11		
Basic (RMB)		**0.35**	0.25
Diluted (RMB)		**0.35**	0.25

The notes on pages 72 to 176 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 33(b).

(XI) Financial Statements

Consolidated statement of comprehensive income

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	**2010** **RMB'000**	2009 RMB'000
Profit for the year		**1,004,917**	714,044
Other comprehensive income for the year (after tax adjustments)	10		
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**(6,092)**	223
Available-for-sale securities: net movement in the fair value reserve		**(3,385)**	4,033
		(9,477)	4,256
Total comprehensive income for the year		**995,440**	718,300
Attributable to:			
Equity shareholders of the Company		**969,651**	705,813
Non-controlling interests		**25,789**	12,487
Total comprehensive income for the year		**995,440**	718,300

The notes on pages 72 to 176 form part of these financial statements.

(XI) Financial Statements
Consolidated statement of financial position

At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Fixed assets	13		
– Property, plant and equipment		**11,280,448**	8,695,576
– Interests in leasehold land held for own use under operating leases		**1,734,794**	1,451,568
		13,015,242	10,147,144
Intangible assets	14	**373,715**	333,165
Goodwill	15	**991,328**	595,498
Other financial assets	16	**81,652**	12,166
Investment in an associate	17	**48,782**	–
Other long-term assets	19	**79,535**	119,759
Deferred tax assets	32(b)	**132,112**	94,550
		14,722,366	11,302,282
Current assets			
Inventories	20	**1,137,756**	840,345
Trade and bills receivable	21	**963,850**	703,877
Other receivables and prepayments	22	**916,149**	834,615
Pledged bank deposits	23	**65,365**	41,914
Cash and cash equivalents	23	**1,144,840**	886,130
		4,227,960	3,306,881
Current liabilities			
Short-term and current portion of interest-bearing borrowings	24(a)	**1,684,500**	2,147,000
Current portion of loans from equity shareholders	24(b)	**106,134**	58,527
Trade and bills payable	25	**1,953,935**	1,345,619
Other payables and accrued expenses	26	**2,471,491**	1,309,017
Obligation under finance lease	28	**1,133**	1,733
Current taxation	32(a)	**264,448**	108,038
		6,481,641	4,969,934
Net current liabilities		**(2,253,681)**	(1,663,053)
Total assets less current liabilities		**12,468,685**	9,639,229

The notes on pages 72 to 176 form part of these financial statements.

(XI) Financial Statements
Consolidated statement of financial position

At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current liabilities			
Interest-bearing borrowings, less current portion	24(a)	**4,260,000**	3,361,000
Loans from equity shareholders, less current portion	24(b)	**348,114**	177,832
Convertible notes	24(c)	**–**	10,859
Corporate bond	27	**1,000,000**	–
Obligation under finance lease	28	**5,580**	6,337
Defined benefit obligations	29(c)	**171,430**	184,564
Deferred income	30	**337,095**	311,195
Long-term payables	31	**103,902**	274,738
Deferred tax liabilities	32(b)	**93,559**	83,576
		6,319,680	4,410,101
NET ASSETS		**6,149,005**	5,229,128
CAPITAL AND RESERVES			
Share capital	33	**193,198**	192,355
Reserves	33	**5,494,327**	4,967,838
Total equity attributable to equity shareholders of the Company		**5,687,525**	5,160,193
Non-controlling interests		**461,480**	68,935
TOTAL EQUITY		**6,149,005**	5,229,128

Approved and authorised for issue by the board of directors on 25 March 2011.

ZHANG Caikui
Director

ZHANG Bin
Director

The notes on pages 72 to 176 form part of these financial statements.

(XI) Financial Statements
Statement of financial position

At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Investments in subsidiaries	18	**413,248**	413,248
Current assets			
Amount due from subsidiaries	38	**2,724,396**	3,033,137
Cash and cash equivalents	23(a)	**38,307**	64,895
		2,762,703	3,098,032
Current liabilities			
Amount due to subsidiaries	38	**19,374**	22,365
Other payables and accrued expenses	26	**18,472**	19,035
		37,846	41,400
Net current assets		**2,724,857**	3,056,632
Total assets less current liabilities		**3,138,105**	3,469,880
Non-current liabilities			
Convertible notes	24(c)	**–**	10,859
NET ASSETS		**3,138,105**	3,459,021
CAPITAL AND RESERVES			
Share capital	33	**193,198**	192,355
Reserves	33	**2,944,907**	3,266,666
Total Equity		**3,138,105**	3,459,021

Approved and authorised for issue by the board of directors on 25 March 2011.

ZHANG Caikui
Director

ZHANG Bin
Director

The notes on pages 72 to 176 form part of these financial statements.

(XI) Financial Statements
Consolidated statement of changes in equity

For the year ended 31 December 2010
(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 reserve RMB'000	Fair value reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2009	185,372	3,299,353	232,788	404,244	(24,824)	3,396	460,242	4,560,571	44,978	4,605,549
Changes in equity for 2009:										
Profit for the year	–	–	–	–	–	–	701,557	701,557	12,487	714,044
Other comprehensive income	–	–	–	–	223	4,033	–	4,256	–	4,256
Total comprehensive income	–	–	–	–	223	4,033	701,557	705,813	12,487	718,300
Dividends approved in respect of the previous year	–	–	–	–	–	–	(188,652)	(188,652)	–	(188,652)
Conversion of convertible notes	6,983	133,669	–	(57,787)	–	–	–	82,865	–	82,865
Use of reserves	–	–	(404)	–	–	–	–	(404)	–	(404)
Increase in non-controlling interests attributable to subsidiaries	–	–	–	–	–	–	–	–	11,470	11,470
Transfer between reserves	–	–	109,446	–	–	–	(109,446)	–	–	–
Balance at 31 December 2009 and 1 January 2010	**192,355**	**3,433,022**	**341,830**	**346,457**	**(24,601)**	**7,429**	**863,701**	**5,160,193**	**68,935**	**5,229,128**
Changes in equity for 2010:										
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**979,128**	**979,128**	**25,789**	**1,004,917**
Other comprehensive income	**–**	**–**	**–**	**–**	**(6,092)**	**(3,385)**	**–**	**(9,477)**	**–**	**(9,477)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(6,092)**	**(3,385)**	**979,128**	**969,651**	**25,789**	**995,440**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**–**	**–**	**(238,294)**	**(238,294)**	**–**	**(238,294)**
Conversion of convertible notes	**843**	**18,063**	**–**	**(7,125)**	**–**	**–**	**–**	**11,781**	**–**	**11,781**
Use of reserves	**–**	**–**	**(526)**	**–**	**–**	**–**	**–**	**(526)**	**–**	**(526)**
Purchase option in minority interests (Note)	**–**	**–**	**–**	**(215,280)**	**–**	**–**	**–**	**(215,280)**	**–**	**(215,280)**
Increase in non-controlling interests attributable to acquisition of subsidiaries and contribution to subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**366,756**	**366,756**
Transfer between reserves	**–**	**–**	**157,032**	**–**	**–**	**–**	**(157,032)**	**–**	**–**	**–**
Balance at 31 December 2010	**193,198**	**3,451,085**	**498,336**	**124,052**	**(30,693)**	**4,044**	**1,447,503**	**5,687,525**	**461,480**	**6,149,005**

Note: Pursuant to the Cooperation Framework Agreement entered between Shandong Shanshui Cement Group Co., Ltd. ("Shandong Shanshui") and Chifeng Yuanhang Cement Co., Ltd. ("Chifeng Yuanhang") dated 18 August 2010, Shandong Shanshui acquired 50% equity interests in Chifeng Yuanhang in September 2010 and promises to acquire 30% additional equity interests in Chifeng Yuanhang from non-controlling shareholders in 2011. The balance represents the discounted value of the forward purchase option of Shandong Shanshui for acquiring 30% additional equity interests in Chifeng Yuanhang.

The notes on pages 72 to 176 form part of these financial statements.

(XI) Financial Statements
Consolidated cash flow statement

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Cash generated from operations	23(b)	**2,463,833**	1,586,642
Interest paid		**(356,506)**	(301,897)
Income tax paid		**(318,200)**	(259,048)
Net cash generated from operating activities		**1,789,127**	1,025,697
Investing activities			
Payment for purchase of fixed assets		**(2,030,840)**	(1,828,173)
Payment for purchase of intangible assets		**(41,884)**	(85,172)
Acquisition of subsidiaries, net of cash acquired		**(779,197)**	(241,905)
Payment for investment in an associate		**(49,000)**	–
New loans to an associate		**(74,000)**	–
Proceeds from sale of property, plant and equipment		**41,337**	14,438
Interest received		**6,769**	4,411
Net cash used in investing activities		**(2,926,815)**	(2,136,401)
Financing activities			
Capital element of finance lease rentals paid		**(1,800)**	(600)
Proceeds from new loans and borrowings		**2,846,477**	3,675,000
Proceeds from issue of corporate bond		**991,000**	–
Proceeds from capital injection in subsidiaries by non-controlling interests		**26,450**	–
Repayment of loans and borrowings		**(2,225,127)**	(2,755,375)
Interest element of finance lease rentals paid		**(443)**	(487)
Dividends paid to equity shareholders of the Company	33(b)	**(238,294)**	(169,907)
Net cash generated from financing activities		**1,398,263**	748,631
Net increase/(decrease) in cash and cash equivalents		**260,575**	(362,073)
Cash and cash equivalents at 1 January	23(a)	**886,130**	1,248,414
Effect of foreign exchange rate changes		**(1,865)**	(211)
Cash and cash equivalents at 31 December	23(a)	**1,144,840**	886,130

The notes on pages 72 to 176 form part of these financial statements.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in an associate.

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The financial statements is presented in Renminbi ("RMB") (the "presentation currency"), rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- available-for-sale securities (see note 1(f)); and

- derivative financial instruments (see note 1(g)).

The financial statements have been prepared on the basis that the Group will continue to operate throughout the next twelve months as a going concern. The Group's current liabilities exceeded its current assets by RMB2,253,681,000 as at 31 December 2010. Based on future projections of the Group's profits and cash inflows from operations and the ability of the Group to obtain continued bank financing to finance its continuing operation, the Company's directors have prepared the financial statements on a going concern basis.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 41.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries and non-controlling interests *(continued)*

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1 (q), (r) or (s) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(d)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1 (n)).

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(e) and (n)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Associates *(continued)*

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(d)).

In the Company's statement of financial position, investments in an associate is stated at cost less impairment losses (see note 1(n)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1 (n)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and an associate, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in notes 1 (x)(iv) and 1 (x)(v).

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 1 (n)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1 (n)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1 (x)(iv) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1 (x)(v). When these investments are derecognised or impaired (see note 1 (n)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(h) Leasehold land held for own use under operating leases

Leasehold land held for own use under operating leases represents land use rights paid to the relevant government authorities. Land use rights are carried at cost less the accumulated amount charged to expense and impairment losses (note 1 (n)). The cost of leasehold land held for own use under operating leases is charged to expenses on a straight-line basis over the respective periods of the rights.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(n)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(z)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives.

The estimated useful lives of property, plant and equipment are as follows:

Plants and buildings	10 – 40 years
Equipment	10 – 20 years
Motor vehicles and others	5 – 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 1(n)). Cost comprises direct costs of construction as well as interest expense capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

(k) Long-term consulting service contract

Long-term consulting service contract represents payments made to consultants. Long-term consulting service contract is carried at cost less accumulated amortisation and impairment loss (see note 1 (n)). Amortisation is charged to the income statement over the service period.

(l) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(n)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation for intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use.

The estimated useful lives are as follows:

Limestone mining rights	2 – 13 years
Customer relationships	5 years
Trademarks	10 years
Software and others	3 – 10 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present values of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(n). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investment in subsidiaries (see note 1(n)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investment in an associate recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(n)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(n)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment of assets *(continued)*

(i) Impairment of investments in equity securities and other receivables (continued)

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the financial assets' original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment of assets *(continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- leasehold land held for own use under operating leases;
- intangible assets other than goodwill;
- other long-term assets;
- investment in subsidiaries; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1 (n)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase in recognised in other comprehensive income and not profit or loss.

(o) Inventories

Inventories are measured at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(n)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(q) Convertible notes

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

(r) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(w)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statements.

(u) Employee benefits

(i) Short-term benefits

Salaries, wages, bonuses and other benefits and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

(ii) Defined contribution retirement plans

Obligations for contributions to defined contribution retirement plans are accrued in the year in which the associated services are rendered by employees of the Group. The contribution payables under the Group's retirement plans are recognised as expense in profit or loss as incurred.

(iii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate is the yield at the end of the reporting period on high quality corporate bond that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Employee benefits *(continued)*

(iii) Defined benefit retirement plan obligations (continued)

In calculating the Group's obligations, to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligation at the end of reporting period, that portion is recognised in the income statement. Otherwise, the gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(v) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Income tax *(continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(w)(iii) if and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

(ii) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Services rendered

Revenue from the rendering of services is recognised upon the delivery of performance of the services.

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(iv) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(y) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Translation of foreign currencies *(continued)*

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(z) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(aa) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(aa) Related parties *(continued)*

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(bb) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 CHANGES IN ACCOUNTING POLICIES

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

- IFRS 3 (revised 2008), *Business combinations*
- Amendments to IAS 27, *Consolidated and separate financial statements*
- Improvements to IFRSs (2009)

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

The Improvements to IFRSs (2009) has had no material impact on the Group's financial statements as the amendment was consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

- The impact of the majority of the revisions to IFRS 3 and IAS 27 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

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

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

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

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

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

  – Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

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

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

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

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

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

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

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

3 REVENUE

The principal activities of the Group are manufacturing and sale of cement and clinker.

Revenue represents the sales value of cement and clinker supplied to customers, cement related products and the installation services.

The amount of each significant category of revenue recognised during the year is as follows:

	2010	2009
	RMB'000	RMB'000
Sales of cement and clinker	**11,216,134**	8,187,087
Sales of other products and rendering of services	**637,934**	540,539
	11,854,068	8,727,626

4 OTHER REVENUE AND OTHER NET EXPENSES

	Note	2010 RMB'000	2009 RMB'000
Other revenue			
Interest income on bank deposits		**6,769**	4,411
Government grants		**126,101**	100,073
Sales of power generation right		**–**	21,000
Amortisation of deferred income		**15,585**	12,862
Amortisation of financial guarantee issued		**–**	33,450
Amortisation of financial guarantee received		**–**	(33,450)
		148,455	138,346
Other net expenses			
Debt restructuring gain	(i)	**97,500**	5,586
Net foreign exchange gain/(loss)		**6,878**	(374)
Net gain/(loss) from sale of fixed assets		**1,518**	(7,130)
Impairment losses on fixed assets	13	**(106,533)**	–
Impairment losses on intangible assets	14	**(4,270)**	–
Impairment losses on other long-term assets	19	**(35,067)**	–
Donations		**(1,482)**	(1,466)
Penalty expenses		**(12,868)**	(476)
Losses incurred on flooding	(ii)	**(10,163)**	–
Others		**(3,791)**	1,578
		(68,278)	(2,282)

Notes:

(i) Liaoyang Qianshan Cement Co., Ltd. ("Qianshan Cement") had past due bank loans of RMB140,000,000 with the Industrial and Commercial Bank of China Limited, Liaoyang Branch ("ICBC") with accumulated overdue interests of RMB14,765,000 at the acquisition date as of 28 December 2007. As at 31 December 2010, the loan has passed the two years statutory claim period. Based on the legal advice from the legal consultant of the Group, claims are no longer enforceable by the applicable PRC laws and regulations after the two years statutory claim period. As the management considered the risk of payment for such loans are remote, thus, the Group has written back the relevant net balance in 2010.

(ii) Dandong city of Liaoning Province suffered from a serious flood in August 2010. Certain inventories of Dandong Shanshui Gongyuan Cement Co., Ltd were damaged and the Company incurred a loss as a result.

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Note	2010 RMB'000	2009 RMB'000
Interest on borrowings and corporate bond		**360,531**	304,092
Less: interest capitalised	(i)	**(40,374)**	(35,967)
Net interest expense		**320,157**	268,125
Unwinding of discount	(ii)	**35,552**	42,681
Finance charges on obligations under finance lease	28	**443**	487
Bank charges		**6,918**	1,241
Gain on termination of interest rate swap contracts		**–**	(2,949)
		363,070	309,585

Notes:

(i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant is 5.45% (2009: 5.73%) for the year ended 31 December 2010.

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

	Note	2010 RMB'000	2009 RMB'000
Convertible notes	24(c)	**1,193**	4,273
Defined benefit obligations	29(c)	**7,030**	6,710
Acquisition consideration payable	31	**27,329**	31,698
		35,552	42,681

5 PROFIT BEFORE TAXATION *(continued)*

(b) Personnel expenses

	2010 RMB'000	2009 RMB'000
Salaries, wages and other benefits	**571,722**	408,341
Contributions to defined contribution retirement plans	**62,676**	44,765
	634,398	453,106

(c) Other items

	2010 RMB'000	2009 RMB'000
Amortisation		
– land lease premium	**35,672**	29,222
– intangible assets	**64,361**	53,846
– other long-term assets	**14,157**	13,407
	114,190	96,475
Depreciation	**693,276**	551,434
Impairment losses		
– trade receivables (note 21(b))	**32,520**	15,296
– inventory (note 20(b))	**13,675**	11,709
	46,195	27,005
Operating lease charges	**8,179**	16,395
Auditors' remuneration		
– audit services	**7,701**	6,835
– other services	**3,710**	76
	11,411	6,911
Cost of inventories (note 20(b))	**9,303,966**	6,947,151

Note: Cost of inventories includes RMB1,021,154,000 (2009: RMB807,811,000) relating to personnel expenses, depreciation and amortisation expenses and provision of inventories for the year ended 31 December 2010, which are also included in the respective amounts disclosed separately above or in note 5(b) for each type of expenses.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2010 RMB'000	2009 RMB'000
Current tax		
Provision for the PRC income tax	**411,292**	215,506
Deferred tax		
Origination and reversal of temporary differences	**(53,004)**	11,731
	358,288	227,237

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in those jurisdictions.

(ii) No provision for Hong Kong Profits Tax has been made as the subsidiaries incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax during the year ended 31 December 2010 (2009: Nil).

(iii) Pursuant to the currently applicable income tax rules, the PRC regulations and local income tax concessions granted, the companies comprising the Group in the PRC are liable to the PRC enterprise income tax at a rate of 25% during the year ended 31 December 2010 (2009: 25%), except for the following:

Continental (Shandong) Cement Corporation ("Kangda Cement"), Continental (Shandong) Cement Products Manufacturing Corporation ("Kangda Products"), Continental (Shandong) Cement Mining Corporation ("Kangda Mining"), Shandong Shanshui Cement Group Co., Ltd. ("Shandong Shanshui"), Pingyin Shanshui Cement Co., Ltd. ("Pingyin Shanshui") and Anqiu Shanshui Cement Co., Ltd. ("Anqiu Shanshui") are registered as foreign invested enterprises and are entitled to a tax concession period during which they are fully exempted from the PRC enterprise income tax for two years starting from its first tax profit-making year, followed by a 50% reduction in the PRC enterprise income tax rate for the next three years.

The year 2010 is the fifth profit-making year of Kangda Products, Kangda Mining, Shandong Shanshui, Pingyin Shanshui and Anqiu Shanshui, therefore, the applicable enterprise income tax rate for the year ended 31 December 2010 is 12.5% (2009: 12.5%). The year 2010 is the third profit-making year of Kangda Cement, therefore, the applicable enterprise income tax rate for the year ended 31 December 2010 is 12.5% (2009: 12.5%).

(iv) According to the new tax law and implementation rules of the new tax law, enterprises that enjoyed a fixed period of tax exemption and reduction under previous applicable rules and regulations would continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment had not commenced due to lack of taxable profit, such preferential tax treatment would commence from 1 January 2008.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Note	**2010 RMB'000**	2009 RMB'000
Profit before taxation		**1,363,205**	941,281
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	(i)	**340,801**	235,320
Effect of tax rates in foreign jurisdictions		**24,536**	6,120
Tax holiday	6(a)(iii)	**(54,894)**	(35,617)
Tax effect of non-deductible expenses	(ii)	**49,104**	24,612
Tax effect of non-taxable income	(iii)	**(3,198)**	(6,748)
Tax effect of unused tax losses not recognised		**11,322**	6,608
Tax credit	(iv)	**(9,383)**	(3,058)
Actual income tax expense		**358,288**	227,237
Effective tax rate		**26.3%**	24.1%

Notes:

(i) The provision for current income tax is based on the PRC statutory rate of 25% (2009: 25%) of the taxable profit of the companies comprising the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries of the Company, which are tax-exempted.

(ii) Non-deductible expenses mainly represent miscellaneous expenses in excess of statutory deductible limits for tax purposes according to the PRC tax laws and regulations.

(iii) Non-taxable income mainly represents the income generated from production of certain products utilising industrial waste which is tax-exempted pursuant to the applicable PRC tax laws and regulations.

(iv) Tax credit represents credit on income tax for purchase of certain energy saving equipments pursuant to the applicable PRC tax laws and regulations.

7 DIRECTORS' REMUNERATION

Details of the directors' remuneration for the year ended 31 December 2010 are as follows:

	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Bonuses RMB'000	Contributions to defined contribution retirement plans RMB'000	Total RMB'000
Chairman					
Zhang Caikui	2,573	234	30,589	22	33,418
Executive directors					
Li Yanmin*	–	–	–	–	–
Zhang Bin**	1,101	106	–	28	1,235
Dong Chengtian	1,046	158	–	18	1,222
Yu Yuchuan#	950	157	–	17	1,124
Non-executive directors					
Homer Sun#	–	–	–	–	–
Jiao Shuge	–	–	–	–	–
Independent non-executive directors					
Sun Jianguo#	100	–	–	–	100
Wang Yanmou	100	–	–	–	100
Wang Jian	100	–	–	–	100
	5,970	655	30,589	85	37,299

* Resigned on 5 March 2010.

Reappointed on 19 May 2010.

** Appointed on 10 September 2010.

7 DIRECTORS' REMUNERATION *(continued)*

Details of the directors' remuneration for the year ended 31 December 2009 are as follows:

	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Bonuses RMB'000	Contributions to defined contribution retirement plans RMB'000	Total RMB'000
Chairman					
Zhang Caikui*	2,411	229	–	15	2,655
Executive directors					
Li Yanmin**	1,643	193	–	8	1,844
Dong Chengtian	1,373	157	–	12	1,542
Yu Yuchuan	1,376	153	–	12	1,541
Non-executive directors					
Homer Sun	–	–	–	–	–
Jiao Shuge*	–	–	–	–	–
Independent non-executive directors					
Sun Jianguo	100	–	–	–	100
Wang Yanmou	100	–	–	–	100
Wang Jian*	100	–	–	–	100
	7,103	732	–	47	7,882

* Reappointed on 5 June 2009.

** Resigned on 5 March 2010.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 4 were also directors whose remuneration is disclosed in note 7 for the year ended 31 December 2010 (2009: Four).

The aggregate of the remuneration in respect of the remaining individual (2009: One) is as follows:

	2010 **RMB'000**	2009 RMB'000
Salaries, allowances and other benefits	**157**	153
Bonuses	**1,000**	1,382
Contributions to defined contribution retirement plans	**28**	17
	1,185	1,552

The remuneration of the remaining individual with the highest remuneration (2009: One) is within the following band:

	2010 **Number of individuals**	2009 Number of individuals
HKD1,000,000 to HKD1,500,000	**1**	–
HKD1,500,001 to HKD2,500,000	**–**	1
	1	1

9 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The loss attributable to equity shareholders of the Company includes a loss of RMB8,131,000 in 2010 (2009: RMB10,742,000) (See note 33(a))) which has been dealt with in the financial statements of the Company.

10 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	2010			2009		
	Before-tax amount RMB'000	**Tax expense RMB'000**	**Net-of-tax amount RMB'000**	Before-tax amount RMB'000	Tax benefit RMB'000	Net-of-tax amount RMB'000
Exchange differences on translation of:						
– financial statement of overseas subsidiaries	**(6,092)**	**–**	**(6,092)**	223	–	223
Available-for-sale securities: net movement in fair value reserve	**(4,514)**	**1,129**	**(3,385)**	5,377	(1,344)	4,033
Other comprehensive income	**(10,606)**	**1,129**	**(9,477)**	5,600	(1,344)	4,256

(b) Reclassification adjustments relating to components of other comprehensive income

	2010 RMB'000	2009 RMB'000
Available-for-sale securities:		
Changes in fair value recognised during the year	**(4,514)**	5,377
Net deferred tax credited/(debited) to other comprehensive income	**1,129**	(1,344)
Net movement in the fair value reserve during the year recognised in other comprehensive income	**(3,385)**	4,033

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2010 is based on the profit attributable to ordinary equity shareholders of the Company of RMB979,128,000, and the weighted average number of ordinary shares of 2,804,357,850 shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2009 is based on the profit attributable to ordinary equity shareholders of the Company of RMB701,557,000 and the weighted average number of ordinary shares of 2,769,198,000 shares in issue during the year.

(i) Weighted average number of ordinary shares

	2010	2009
Issued and issuable ordinary shares at 1 January	**2,803,304,000**	2,700,986,000
Effect of the conversion of the convertible notes	**1,053,850**	68,212,000
Weighted average number of ordinary shares at 31 December	**2,804,357,850**	2,769,198,000

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2010 is based on the profit attributable to ordinary equity shareholders of the Company of RMB980,321,000 (2009: RMB705,830,000) and the weighted average number of 2,804,357,850 ordinary shares (2009: 2,781,844,200 shares), calculated as follows:

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

	2010 **RMB'000**	2009 RMB'000
Profit attributable to equity shareholders of the Company (basic)	**979,128**	701,557
Unwinding of discount on convertible notes	**1,193**	4,273
Profit attributable to equity shareholders of the Company (diluted)	**980,321**	705,830

11 EARNINGS PER SHARE *(continued)*

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

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

	2010	2009
Weighted average number of ordinary shares (basic)	**2,804,357,850**	2,769,198,000
Effect of conversion of shares for convertible notes	**–**	12,646,200
Weighted average number of ordinary shares (diluted)	**2,804,357,850**	2,781,844,200

12 SEGMENT REPORTING

As the Group operates in a single business, the manufacturing and trading of cement and clinker in the PRC, the Group's risk and rates of return are affected predominantly by differences in the areas it operates.

The Group manages its businesses by geographical areas. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments. Each reportable segment has aggregated those operating segments which located in the geographical areas.

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

(a) Segment results, assets and liabilities

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

12 SEGMENT REPORTING *(continued)*

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out below.

	Year ended 31 December 2010				Year ended 31 December 2009		
	Shandong Province RMB'000	**Northeastern China RMB'000**	**Shanxi Province RMB'000**	**Total RMB'000**	Shandong Province RMB'000	Northeastern China RMB'000	Total RMB'000
Revenue from external customers	**9,791,940**	**2,055,898**	**6,230**	**11,854,068**	7,511,209	1,216,417	8,727,626
Inter-segment revenue	**18,298**	**5,189**	**–**	**23,487**	56,642	484	57,126
Reportable segment revenue	**9,810,238**	**2,061,087**	**6,230**	**11,877,555**	7,567,851	1,216,901	8,784,752
Reportable segment profit/(loss) (adjusted profit/(loss) before taxation)	**1,827,945**	**3,635**	**(17,313)**	**1,814,267**	1,190,514	69,932	1,260,446
Interest income from bank deposits	**4,565**	**1,478**	**726**	**6,769**	3,407	1,004	4,411
Interest expense	**71,871**	**25,118**	**21**	**97,010**	69,333	24,774	94,107
Depreciation and amortisation for the year	**564,662**	**228,583**	**1,137**	**794,382**	481,065	153,437	634,502
Impairment of plant and machinery	**34,723**	**71,810**	**–**	**106,533**	–	–	–
Impairment of intangible assets	**–**	**4,270**	**–**	**4,270**	–	–	–

12 SEGMENT REPORTING *(continued)*

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

	2010 **RMB'000**	2009 RMB'000
Revenue		
Reportable segment revenue	**11,877,555**	8,784,752
Elimination of inter-segment revenue	**(23,487)**	(57,126)
Consolidated turnover	**11,854,068**	8,727,626
Profit		
Reportable segment profit	**1,814,267**	1,260,446
Elimination of inter-segment profits	**(7,373)**	(23,821)
Reportable segment profit derived from group's external customers	**1,806,894**	1,236,625
Share of profits less losses of an associate	**(218)**	–
Unallocated finance costs	**(266,060)**	(215,478)
Unallocated head office and corporate expenses	**(177,411)**	(79,866)
Consolidated profit before taxation	**1,363,205**	941,281

(XI) Financial Statements
Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

13 FIXED ASSETS

	Plants and buildings RMB'000	Equipment RMB'000	Motor vehicles and others RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total fixed assets RMB'000
Cost:							
At 1 January 2009	2,295,608	4,853,891	168,136	1,579,025	8,896,660	1,321,106	10,217,766
Additions	12,757	69,023	36,941	1,553,388	1,672,109	145,862	1,817,971
Transfers	78,035	2,213,388	2,110	(2,293,533)	–	–	–
Additions through business combinations	73,837	153,340	1,042	–	228,219	67,421	295,640
Disposals	(10,435)	(25,311)	(8,160)	–	(43,906)	(2,248)	(46,154)
Reclassification	216,301	(238,089)	21,788	–	–	–	–
At 31 December 2009	2,666,103	7,026,242	221,857	838,880	10,753,082	1,532,141	12,285,223
At 1 January 2010	**2,666,103**	**7,026,242**	**221,857**	**838,880**	**10,753,082**	**1,532,141**	**12,285,223**
Additions	**17,113**	**62,285**	**46,304**	**2,059,888**	**2,185,590**	**128,140**	**2,313,730**
Transfers	**587,540**	**1,212,200**	**93,054**	**(1,892,794)**	**–**	**–**	**–**
Additions through business combinations	**288,587**	**385,232**	**7,507**	**563,753**	**1,245,079**	**190,758**	**1,435,837**
Disposals	**(27,331)**	**(69,956)**	**(26,983)**	**–**	**(124,270)**	**–**	**(124,270)**
Reclassification	**363,628**	**(361,720)**	**(1,908)**	**–**	**–**	**–**	**–**
At 31 December 2010	**3,895,640**	**8,254,283**	**339,831**	**1,569,727**	**14,059,481**	**1,851,039**	**15,910,520**
Accumulated depreciation, amortisation and impairment:							
At 1 January 2009	(233,631)	(1,243,074)	(51,705)	–	(1,528,410)	(51,573)	(1,579,983)
Charge for the year	(66,179)	(463,407)	(21,848)	–	(551,434)	(29,222)	(580,656)
Written back on disposals	6,459	11,860	4,019	–	22,338	222	22,560
Reclassification	(58,242)	78,326	(20,084)	–	–	–	–
At 31 December 2009	(351,593)	(1,616,295)	(89,618)	–	(2,057,506)	(80,573)	(2,138,079)
At 1 January 2010	**(351,593)**	**(1,616,295)**	**(89,618)**	**–**	**(2,057,506)**	**(80,573)**	**(2,138,079)**
Charge for the year	**(80,113)**	**(585,761)**	**(27,402)**	**–**	**(693,276)**	**(35,672)**	**(728,948)**
Impairment loss for the year	**(35,428)**	**(70,838)**	**(267)**	**–**	**(106,533)**	**–**	**(106,533)**
Written back on disposals	**13,127**	**46,445**	**18,710**	**–**	**78,282**	**–**	**78,282**
Reclassification	**(4,192)**	**1,160**	**3,032**	**–**	**–**	**–**	**–**
At 31 December 2010	**(458,199)**	**(2,225,289)**	**(95,545)**	**–**	**(2,779,033)**	**(116,245)**	**(2,895,278)**
Net book value:							
At 31 December 2010	**3,437,441**	**6,028,994**	**244,286**	**1,569,727**	**11,280,448**	**1,734,794**	**13,015,242**
At 31 December 2009	2,314,510	5,409,947	132,239	838,880	8,695,576	1,451,568	10,147,144

13 FIXED ASSETS *(continued)*

(a) All plants, buildings and interests in leasehold land held for own uses under operating leases are located in the PRC. The Group's interests in leasehold land held for own uses under operating leases expire between 20 years and 70 years.

(b) Certain properties, equipment and interests in leasehold land held for own use under operating leases with an aggregate carrying amount of RMB676,978,000 (2009: RMB1,338,873,000) for the year ended 31 December 2010, are pledged to secure bank loans (see note 24) granted to the Group.

(c) As at the date of this report, the ownership certificates for certain plants and buildings with a carrying amount of RMB316,160,000 have not been obtained (2009: RMB29,228,000).

(d) Construction in progress represents cement and clinker plants and residual heat generation plants.

(e) As at the date of this report, the Group is in the process of obtaining construction permits for certain clinker and cement production lines. The carrying amount for these clinker and cement production lines as at 31 December 2010 was RMB1,679,443,000 (2009: RMB1,816,445,000).

(f) Certain property, plant and equipment which were obsolete, damaged or that could not generate future economic benefits were provided against for impairment for the year ended 31 December 2010 was RMB106,533,000 (2009: Nil).

(g) Property, plant and equipment held under finance lease

The Group leases a concrete mixer truck under finance lease expiring in 2017 (See note 28). The lease did not include contingent rentals. The carrying amount for the equipment held under finance lease was RMB1,553,000 (2009: RMB1,759,000).

(h) As at 31 December 2010, application for the registration of interests in leasehold land acquired during the year for own use under operating leases with cost of approximately RMB205,305,000 (2009: RMB90,718,000) was still in progress.

14 INTANGIBLE ASSETS

	Limestone mining rights RMB'000	Customer relationships RMB'000	Supplier relationship RMB'000	Trademarks RMB'000	Software and others RMB'000	Total RMB'000
Cost:						
At 1 January 2009	250,947	25,291	5,897	63,100	14,443	359,678
Additions	93,954	–	–	–	5,745	99,699
Additions through business combinations	1,850	–	–	–	–	1,850
At 31 December 2009	346,751	25,291	5,897	63,100	20,188	461,227
At 1 January 2010	**346,751**	**25,291**	**5,897**	**63,100**	**20,188**	**461,227**
Additions	**54,597**	**–**	**–**	**–**	**3,754**	**58,351**
Additions through business combinations	**5,200**	**22,890**	**–**	**22,230**	**510**	**50,830**
Disposal	**–**	**–**	**(5,897)**	**–**	**–**	**(5,897)**
At 31 December 2010	**406,548**	**48,181**	**–**	**85,330**	**24,452**	**564,511**
Accumulated amortisation and impairment:						
At 1 January 2009	(50,076)	(6,114)	(5,523)	(6,310)	(6,193)	(74,216)
Amortisation for the year	(38,428)	(5,058)	(374)	(6,310)	(3,676)	(53,846)
At 31 December 2009	(88,504)	(11,172)	(5,897)	(12,620)	(9,869)	(128,062)
At 1 January 2010	**(88,504)**	**(11,172)**	**(5,897)**	**(12,620)**	**(9,869)**	**(128,062)**
Amortisation for the year	**(49,067)**	**(6,331)**	**–**	**(6,310)**	**(2,653)**	**(64,361)**
Impairment for the year	**–**	**–**	**–**	**(4,270)**	**–**	**(4,270)**
Disposal	**–**	**–**	**5,897**	**–**	**–**	**5,897**
At 31 December 2010	**(137,571)**	**(17,503)**	**–**	**(23,200)**	**(12,522)**	**(190,796)**
Net book value:						
At 31 December 2010	**268,977**	**30,678**	**–**	**62,130**	**11,930**	**373,715**
At 31 December 2009	258,247	14,119	–	50,480	10,319	333,165

14 INTANGIBLE ASSETS *(continued)*

(a) The limestone mining rights which are granted from the respective land bureaux are valid for a period of 2 to 13 years. The limestone mines are located in Shandong, Liaoning and Shanxi provinces and Inner Mongolia.

As at the date of this report, the ownership certificates for certain limestone mining rights with a carrying amount of RMB123,528,000 have not been obtained (2009: RMB57,877,000).

(b) The customer relationships amounting to RMB48,181,000 are non-contractual customer relationships acquired through acquisitions of Yantai Shanshui Cement Co., Ltd. ("Yantai Shanshui") and Zaozhuang Shanshui Cement Co., Ltd. ("Zaozhuang Shanshui") in September 2007 and Chifeng Yuanhang Cement Co., Ltd. ("Chifeng Yuanhang") in September 2010. They are amortised over five years based on the Group's estimate on how long the Group could retain the customers.

(c) Trademarks represent valuation of "千山", "工源", "長白山", and "遠航" brands acquired through acquisitions of Qianshan Cement and Gongyuan Cement in December 2007 and Chifeng Yuanhang in September 2010.

According to the resolution of the Board of Directors of the Group, trademarks of "千山", "工源" and "長白山" would be phased out in ten years. Management considers the estimated useful lives of trademarks are ten years though their legal rights are renewable. In order to enhance the reputation of the Shanshui Dongyue brand, the management determine to cease the use of "長白山" brand from 2011, as such, an impairment provision of RMB4,270,000 was made against such trademark.

Due to the good reputation of "遠航" brand in the local area, the management of the Group assesses that the useful life of "遠航" brand is indefinite. The carrying amount of "遠航" brand as at 31 December 2010 is RMB22,230,000.

15 GOODWILL

	2010	2009
	RMB'000	RMB'000
Cost		
At 1 January	**595,498**	500,746
Additions	**395,830**	94,752
At 31 December	**991,328**	595,498

15 GOODWILL *(continued)*

Goodwill is allocated to the following groups of cash-generating units:

	2010 **RMB'000**	2009 RMB'000
Continental Cement Corporation, Kangda Cement, Kangda Products and Kangda Mining (the "Kangda Cement Group")	**2,078**	2,078
Yantai Shanshui	**240,075**	240,075
Zaozhuang Shanshui	**65,169**	65,169
Qianshan Cement	**99,568**	99,568
Gongyuan Cement and its subsidiaries (the "Gongyuan Cement Group")	**93,856**	93,856
Qingdao Hengtai Cement Co., Ltd. ("Hengtai Cement")	**7,259**	7,259
Jining Shanshui Cement Co., Ltd. ("Jining Shanshui")	**78,261**	78,261
Yingkou Shanshui Cement Co., Ltd. ("Yingkou Shanshui")	**9,232**	9,232
A group of net assets of Alu Kerqin Bayan Baote Cement Co., Ltd. ("AKBB Cement")	**18,693**	–
Tianjin Tianhui Cement Co., Ltd. ("Tianjin Tianhui")	**4,543**	–
A group of net assets of Shengfeng Cement Manufacturing Co., Ltd. ("Shengfeng Cement")	**6,627**	–
Lvliang Yilong Cement Co., Ltd.	**12,522**	–
Hequ Zhongtianlong Cement Co., Ltd.	**2,762**	–
Chifeng Yuanhang Cement Co., Ltd.	**140,780**	–
Dongying Dongxing Cement Co., Ltd.	**15,058**	–
Dongying Shenglv Cement Co., Ltd.	**27,516**	–
Yulin Yatai Chemical Technology Co., Ltd.	**28,984**	–
Jincheng Shanshui Heju Cement Co., Ltd.	**48,915**	–
Xing'an Meng Quanxing Cement Co., Ltd.	**76,791**	–
Wulanhaote Tianzhu Cement Co., Ltd.	**12,639**	–
	991,328	595,498

The recoverable amounts of the cash-generating unit are determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 15.09%. One major assumption is annual growth rates in revenue which vary among different subsidiaries. The growth rates are based on the subsidiaries' growth forecasts and the average long-term growth rate for the relevant industry. Another key assumption for the value-in-use calculations is the stable budgeted gross margin, which is determined based on the subsidiaries' past performance and its expectation for market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of each subsidiary to exceed its recoverable amount. The discount rates used are pre-tax and reflect specific risks relating to the Group.

16 OTHER FINANCIAL ASSETS

	Note	**2010 RMB'000**	2009 RMB'000
Available-for-sale securities, at fair value	(a)	**6,392**	10,906
Unquoted equity investments in non-listed companies	(b)	**1,260**	1,260
Loans to an associate	(c)	**74,000**	–
		81,652	12,166

Notes:

(a) Available-for-sale securities are valued with reference to the trading price at the end of the reporting period.

(b) Unquoted equity investments are equity shares of the PRC non-listed companies.

(c) The loans to an associate are unsecured, bear interest at one-year PRC bank loan interest rate and have no fixed repayment terms.

17 INVESTMENT IN AN ASSOCIATE

	2010 RMB'000	2009 RMB'000
Share of net assets	**48,782**	–

As at 31 December 2010, the Group held an investment in the following associate:

Name of associate	Place and date of incorporation	Principal activities	Registered capital	Paid-in capital	Proportion of ownership interest Direct	Proportion of ownership interest Indirect
Dong'e Shanshui Dongchang Cement Co., Ltd. ("Dong'e Shanshui")	Shandong, PRC 2 February 2010	Production and sales of cement, clinker and related products	RMB100,000,000	RMB79,600,000	–	49%

Summary of financial information on the associate is as follows:

	Assets RMB'000	**Liabilities RMB'000**	**Equity RMB'000**	**Revenue RMB'000**	**Loss for the year RMB'000**
2010					
100 percent	**181,049**	**101,894**	**79,155**	**–**	**445**
Group's effective interest	**111,578**	**62,796**	**48,782**	**–**	**218**

18 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	**413,248**	413,248

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Indirect %	Principal activities
(a) Enterprise established in Hong Kong					
China Shanshui Cement Group (Hong Kong) Company Limited ("Shanshui Cement Hong Kong")	Hong Kong, PRC 25 January 2005	HKD10,000	100.00	–	Investment holding
China Pioneer Cement (Hong Kong) Company Limited ("Pioneer Cement")	Hong Kong, PRC 25 January 2005	HKD0.01	–	100.00	Investment holding
(b) Enterprise established outside the PRC					
Continental Cement Corporation ("Continental Cement")	British Virgin Islands 30 May 2000	USD100	–	100.00	Investment holding
(c) Wholly foreign owned enterprises established in the PRC					
Shandong Shanshui	Shandong, PRC 10 August 2001	RMB2,342,000,000	–	100.00	Investment holding
Kangda Cement	Shandong, PRC 6 April 2002	USD11,980,000	–	100.00	Production and sales of clinker
Kangda Products	Shandong, PRC 6 April 2002	USD20,484,500	–	100.00	Production and sales of cement
Kangda Mining	Shandong, PRC 6 April 2002	USD7,101,000	–	100.00	Mining, storage and sales of limestone

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Attributable equity interest Indirect %	Principal activities
(d) Sino-foreign equity joint venture enterprises established in the PRC					
Pingyin Shanshui	Shandong, PRC 1 August 2003	RMB178,000,000	–	98.97	Production and sales of cement and clinker
Anqiu Shanshui	Shandong, PRC 4 August 2003	RMB152,000,000	–	99.06	Production and sales of cement and clinker
Weihai Shanshui Cement Co., Ltd. ("Weihai Shanshui")	Shandong, PRC 25 March 2008	USD24,000,000	–	100.00	Manufacturing and selling of cement
Dandong Shanshui Gongyuan Cement Co., Ltd.	Liaoning, PRC 31 March 2008	USD12,000,000	–	100.00	Production and sales of cement
Qingdao Shanshui Chuang-xin Cement Co., Ltd. ("Qingdao Chuangxin")	Shandong, PRC 25 April 2008	USD20,000,000	–	100.00	Production and sales of cement
Shenyang Shanshui Gongyuan Cement Co., Ltd.	Liaoning, PRC 9 July 2008	USD12,000,000	–	100.00	Production and sales of cement
Linqu Shanshui Cement Co., Ltd. ("Linqu Shanshui")	Shandong, PRC 18 July 2008	Registered capital of USD25,000,000 and paid-in capital USD24,990,700	–	100.00	Production and sales of cement and clinker
Zaozhuang Chuang-xin Shanshui Cement Co., Ltd. ("Zaozhuang Chuangxin")	Shandong, PRC 5 September 2008	USD30,000,000	–	100.00	Production and sales of cement
(e) Domestic companies established in the PRC					
Qianshan Cement	Liaoning, PRC 5 June 1989	RMB98,840,700	–	73.00	Production and sales of cement and concrete
Shandong Cement Factory Co., Ltd. ("Shandong Cement Factory")	Shandong, PRC 3 April 1990	RMB182,000,000	–	99.00	Production and sales of cement; production of limestone
Dongying Dongxing Cement Co., Ltd. ("Dongying Dongxing")	Shandong, PRC 8 May 1998	RMB18,760,000	–	70.00	Production and sales of cement

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Attributable equity interest Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Gongyuan Cement	Liaoning, PRC 13 July 1998	RMB280,000,000	–	100.00	Production and sales of cement
Chifeng Yuanhang Cement Co., Ltd. ("Chifeng Yuanhang")	Inner Mongolia, PRC 5 August 2000	RMB66,150,000	–	50.00 (Note#)	Production and sales of cement and related products
Jinan Shi-ji Chuang-xin Cement Co., Ltd.	Shandong, PRC 17 January 2002	RMB41,460,000	–	95.18	Production and sales of cement and related products
Weifang Shanshui Packaging Products Co., Ltd.	Shandong, PRC 22 January 2002	RMB500,000	–	99.90	Production and sales of cement packaging materials
Jinan Shanshui Cement Mechanics Co., Ltd.	Shandong, PRC 12 March 2002	RMB1,500,000	–	99.00	Installation of equipment and spare parts of cement machines
Tianjin Tianhui Cement Co., Ltd. ("Tianjin Tianhui")	Tianjin, PRC 22 July 2002	RMB16,000,000	–	100.00	Production and sales of cement and related products
Changle Shanshui Cement Co., Ltd. ("Changle Shanshui")	Shandong, PRC 30 July 2002	RMB24,700,000	–	99.00	Production and sales of cement; Production of limestone
Yantai Shanshui	Shandong, PRC 22 November 2002	RMB155,500,000	–	100.00	Production and sales of cement
Jinan Shanshui Wuliugang Co., Ltd. ("Wuliugang")	Shandong, PRC 28 March 2003	RMB10,000,000	–	99.00	Logistic service and sales of coal
Binzhou Shanshui Cement Co., Ltd.	Shandong, PRC 30 July 2003	RMB5,000,000	–	99.00	Production and sales of cement

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Attributable equity interest Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Shandong Shanshui Cement Industrial Design Development Co., Ltd.	Shandong, PRC 1 August 2003	RMB6,000,000	–	90.00	Development, manufacture, sales and technical support of cement related equipments, and consultation service
Liaocheng Shanshui Cement Co., Ltd.	Shandong, PRC 1 August 2003	RMB5,000,000	–	99.00	Production and sales of cement
Gucheng Shanshui Cement Co., Ltd.	Hebei, PRC 4 August 2003	RMB5,000,000	–	99.00	Production and sales of cement
Dongying Shanshui Cement Co., Ltd.	Shandong, PRC 4 August 2003	RMB5,000,000	–	99.00	Production and sales of cement
Zibo Shanshui Cement Co., Ltd.	Shandong, PRC 5 August 2003	RMB60,000,000	–	99.00	Production and sales of cement, clinker and limestone
Weifang Shanshui Cement Co., Ltd. ("Weifang Shanshui")	Shandong, PRC 29 December 2003	RMB50,000,000	–	100.00	Production and sales of cement and limestone
Tongliao Gongyuan Cement Co., Ltd.	Inner Mongolia, PRC 2 April 2004	RMB5,000,000	–	100.00	Production and sales of cement
Qingdao Hengtai	Shandong, PRC 10 June 2004	RMB3,000,000	–	100.00	Production and sales of cement and related products
Zibo Shuangfeng Shanshui Cement Co., Ltd.	Shandong, PRC 1 July 2004	RMB10,000,000	–	99.00	Production and sales of cement
Zaozhuang Shanshui	Shandong, PRC 28 July 2004	RMB70,000,000	–	100.00	Production and sales of cement

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Jining Shanshui	Shandong, PRC 21 January 2005	RMB100,000,000	–	100.00	Production and sales of cement, clinker, limestone and related products
Xing'an Meng Quanxing Cement Co., Ltd. ("Quanxing Cement")	Inner Mongolia, PRC 17 January 2006	RMB20,000,000	–	90.00	Production and sales of cement and limestone
Juye Shanshui Cement Co., Ltd.	Shandong, PRC 17 May 2006	RMB10,000,000	–	99.96	Production and sales of cement
Jincheng Shanshui Heju Cement Co., Ltd. ("Heju Shanshui")	Shanxi, PRC 25 July 2006	RMB120,000,000	–	90.00	Establishment of cement production line
Yingkou Shanshui Cement Co., Ltd. ("Yingkou Shanshui")	Liaoning, PRC 5 December 2006	RMB30,000,000	–	100.00	Production and sales of cement
Dalian Shanshui Cement Co., Ltd. ("Dalian Shanshui")	Liaoning, PRC 17 August 2007	RMB180,000,000	–	100.00	Production and sales of cement clinker and related products
Yishui Shanshui Cement Co., Ltd. ("Yishui Shanshui")	Shandong, PRC 28 September 2007	RMB128,700,000	–	99.38	Production and sales of clinker and limestone
Lvliang Yilong Cement Co., Ltd. ("Lvliang Yilong")	Shanxi, PRC 16 November 2007	RMB10,000,000	–	90.00	Establishment of cement and clinker
Dongying Shenglv Cement Co., Ltd. ("Dongying Shenglv")	Shandong, PRC 21 December 2007	RMB12,000,000	–	90.00	Production and sales of cement
Benxi Shanshui Gongyuan Transportation Co., Ltd.	Liaoning, PRC 26 February 2008	RMB360,000	–	100.00	Transportation services

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Attributable equity interest Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Benxi Shanshui Gongyuan Mechanics and Electric Engineering Co., Ltd.	Liaoning, PRC 10 March 2008	RMB500,000	–	100.00	Installation and maintenance of equipment and spare parts of cement machines
Yulin Yatai Chemical Technology Co., Ltd. ("Yulin Yatai")	Shaanxi, PRC 7 August 2008	RMB60,000,000	–	62.00	Establishment of cement production line
Benxi Shanshui Gongyuan Packaging Products Co., Ltd.	Liaoning, PRC 11 November 2008	RMB500,000	–	100.00	Production and sales of cement packaging materials
Benxi Shanshui Mining Co., Ltd.	Liaoning, PRC 18 February 2009	RMB500, 000	–	100.00	Mining and sales of limestone
Yishui Chuang-xin Shanshui Cement Co., Ltd. ("Yishui Chuang-xin")	Shandong, PRC 2 June 2009	RMB10,000,000	–	100.00	Production and sales of cement
Qingdao Shanshui Jianxin Cement Co., Ltd. ("Qingdao Jianxin")	Shangdong, PRC 18 June 2009	RMB20,000,000	–	100.00	Production and sales of cement
Weifang Binhai Shanshui Cement Co., Ltd. ("Weifang Binhai")	Shandong, PRC 4 August 2009	RMB42,000,000	–	100.00	Production and sales of cement
Tianjin Shanshui Cement Co., Ltd. ("Tianjin Shanshui")	Tianjin, PRC 26 August 2009	RMB20,000,000	–	100.00	Production and sales of cement
Shanxian Shanshui Cement Co., Ltd. ("Shanxian Shanshui")	Shandong, PRC 27 August 2009	RMB60,000,000	–	100.00	Production and sales of cement
Caoxian Shanshui Cement Co., Ltd. ("Caoxian Shanshui")	Shandong, PRC 28 August 2009	RMB22,000,000	–	100.00	Production and sales of cement
Hequ Zhongtianlong Cement Co., Ltd. ("Hequ Zhongtianlong")	Shanxi, PRC 31 August 2009	RMB80,000,000	–	68.00	Establishment of cement production line

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Attributable equity interest Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Panjin Shanshui Cement Co., Ltd. ("Panjin Shanshui")	Liaoning, PRC 1 September 2009	RMB20,000,000	–	100.00	Production and sales of cement
Bozhou Shanshui Cement Co., Ltd. ("Bozhou Shanshui")	Anhui, PRC 3 September 2009	RMB40,000,000	–	100.00	Production and sales of cement
Bengbu Shanshui Cement Co., Ltd. ("Bengbu Shanshui")	Anhui, PRC 4 September 2009	RMB30,000,000	–	100.00	Establishment of cement production line
Weishan Shanshui Cement Co., Ltd. ("Weishan Shanshui")	Shandong, PRC 28 September 2009	RMB100,000,000	–	100.00	Establishment of cement and clinker production line
Wulanhaote Tianzhu Cement Co., Ltd. ("Tianzhu Cement")	Inner Mongolia, PRC 13 November 2009	RMB5,000,000	–	90.00	Production and sales of cement
Alu Kerqin Qi Shanshui Cement Co., Ltd. ("Alu Kerqin Cement")	Inner Mongolia, PRC 23 December 2009	RMB76,470,000	–	85.00	Production and sales of clinker
Shanxi Shanshui Cement Co., Ltd.	Shanxi, PRC 25 December 2009	RMB500,000,000	–	100.00	Sales of cement and cement related products
Jincheng Shanshui Cement Co., Ltd.	Shanxi, PRC 22 January 2010	RMB150,000,000	–	85.00	Establishment of cement production line
Laoling Shanshui Cement Co., Ltd.	Shandong, PRC 9 February 2010	RMB30,000,000	–	100.00	Establishment of cement production line
Balinyouqi Shanshui Cement Co., Ltd.	Inner Mongolia, PRC 19 March 2010	RMB20,000,000	–	100.00	Establishment of cement production line
Huolinguole Shanshui Cement Co., Ltd.	Inner Mongolia, PRC 19 April 2010	RMB20,000,000	–	85.00	Establishment of cement production line

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Attributable equity interest Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Kashi Shanshui Cement Co., Ltd.	Xinjiang, PRC 17 August 2010	RMB200,000,000	–	100.00	Production and sales of cement and clinker
Shule Shanshui Cement Co., Ltd.	Xinjiang, PRC 24 August 2010	RMB20,000,000	–	100.00	Production and sales of cement
Yingjisha Shanshui Cement Co., Ltd.	Xinjiang, PRC 24 August 2010	RMB120,000,000	–	100.00	Production and sales of cement and clinker
Shache Shanshui Cement Co., Ltd.	Xinjiang, PRC 14 October 2010	RMB20,000,000	–	100.00	Production and sales of cement
Shenxian Shanshui Dongchang Cement Co., Ltd.	Shandong, PRC 22 October 2010	RMB10,000,000	–	55.00	Production and sales of cement and related products

The Group acquired 50% equity interests in Chifeng Yuanhang in September 2010 and promised to acquire 30% additional equity interests in Chifeng Yuanhang from non-controlling shareholders in 2011. Pursuant to the Article of Associates of Chifeng Yuanhang, the Group appointed the majority of the board of directors, which made the Group to obtain the control over Chifeng Yuanhang.

19 OTHER LONG-TERM ASSETS

	2010 RMB'000	2009 RMB'000
Cost:		
At 1 January	**138,084**	138,084
Additions	**9,000**	–
At 31 December	**147,084**	138,084
Accumulated amortisation and impairment:		
At 1 January	**(18,325)**	(4,918)
Amortisation for the year	**(14,157)**	(13,407)
Impairment for the year	**(35,067)**	–
At 31 December	**(67,549)**	(18,325)
Net book value:	**79,535**	119,759

19 OTHER LONG-TERM ASSETS *(continued)*

In December 2007, Pioneer Cement entered into a service agreement (the "Service Agreement") with China Northeastern Building Materials Consulting Limited ("Northeastern Consulting") for HKD150,000,000. Under the Service Agreement, Northeastern Consulting will provide the Group with various services from 1 January 2008 to 31 December 2019. The amounts are amortised over the service period as stated in the Service Agreement. The management considered that certain services are no longer required, thus a provision for impairment on such service was made in the sum of RMB35,067,000 as at 31 December 2010.

20 INVENTORIES

(a) Inventories in the statement of financial position comprise:

	2010	2009
	RMB'000	RMB'000
Raw materials	**585,877**	295,805
Semi-finished goods	**157,883**	144,230
Finished goods	**199,696**	225,682
Spare parts	**194,300**	174,628
	1,137,756	840,345

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2010	2009
	RMB'000	RMB'000
Carrying amount of inventories sold	**9,301,456**	6,935,639
Write-down of inventories	**13,675**	11,709
Reversal of write-down of inventories	**(11,165)**	(197)
	9,303,966	6,947,151

21 TRADE AND BILLS RECEIVABLE

	Note	2010 RMB'000	2009 RMB'000
Bills receivable		**614,472**	302,440
Trade debtors		**403,550**	435,291
Less: allowance for doubtful debts	21(b)	**(54,172)**	(33,854)
		963,850	703,877

(a) Ageing analysis

An ageing analysis of trade and bills receivable (net of allowance for bad and doubtful debts) is as follows:

	2010 RMB'000	2009 RMB'000
Current	**848,214**	630,247
Less than 3 months past due	**24,316**	27,552
3 to 6 months past due	**26,104**	20,287
6 to 12 months past due	**28,256**	7,008
More than 12 months past due	**36,960**	18,783
Amount past due	**115,636**	73,630
	963,850	703,877

All of the trade and bills receivable (net of impairment losses for bad and doubtful debts) are expected to be recovered within one year. The detailed credit policy of bills receivable and trade debtors are set out in note 35(a).

(b) Impairment of trade and bills receivable

Impairment losses in respect of trade and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivable directly (see note 1(n)(i)).

21 TRADE AND BILLS RECEIVABLE *(continued)*

(b) Impairment of trade and bills receivable *(continued)*

The movement in the allowance for doubtful debts during the year is as follows:

	2010 **RMB'000**	2009 RMB'000
At 1 January	**33,854**	22,534
Impairment loss recognised	**32,520**	15,296
Uncollectible amounts written off	**(11,030)**	(3,976)
Reversal of doubtful debt	**(1,172)**	–
At 31 December	**54,172**	33,854

At 31 December 2010, the Group's trade and bills receivable of RMB173,035,000 (2009: RMB132,804,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. The Group does not hold any collateral over these balances.

(c) Trade and bills receivable that are not impaired

The ageing analysis of trade and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2010 **RMB'000**	2009 RMB'000
Neither pass due nor impaired	**819,741**	586,052
Less than 3 month past due	**23,452**	10,334
3 to 6 months past due	**175**	6,616
Over 6 months past due	**1,619**	1,925
Past due but not impaired	**25,246**	18,875
	844,987	604,927

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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

22 OTHER RECEIVABLES AND PREPAYMENTS

	Note	**2010** **RMB'000**	2009 RMB'000
Prepayments for raw materials		**117,841**	106,220
Prepayments for long-lived assets		**349,165**	358,840
VAT recoverable		**225,805**	140,383
Amounts due from related parties	37(c)	**2,760**	8,140
Amounts due from third parties		**198,584**	174,912
Amount due from CPI Northeast Power Company Limited		**–**	21,000
Others		**21,994**	25,120
		916,149	834,615

23 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	Note	**The Group**		**The Company**	
		2010 **RMB'000**	2009 RMB'000	**2010** **RMB'000**	2009 RMB'000
Cash at bank and in hand		**1,144,840**	886,130	**38,307**	64,895
Pledged bank deposits	(i)	**65,365**	41,914	**–**	–
		1,210,205	928,044	**38,307**	64,895
Less: Pledged bank deposits		**(65,365)**	(41,914)	**–**	–
Cash and cash equivalents		**1,144,840**	886,130	**38,307**	64,895

Notes:

(i) Bank deposits of RMB65,365,000 as at 31 December 2010 (2009: RMB41,914,000) were pledged to banks as security for certain of the Group's banking facilities in relation to bills payable (see note 25). The pledged bank deposits will be released upon the expiry of the relevant banking facilities.

23 CASH AND CASH EQUIVALENTS *(continued)*

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	**2010 RMB'000**	2009 RMB'000
Profit before taxation		**1,363,205**	941,281
Adjustments for:			
Depreciation	5(c)	**693,276**	551,434
Amortisation of land lease premium for property held for own use	5(c)	**35,672**	29,222
Amortisation of intangible assets	5(c)	**64,361**	53,846
Amortisation of other long-term assets	5(c)	**14,157**	13,407
Impairment losses on fixed assets	5(c)	**106,533**	–
Impairment losses on intangible assets	5(c)	**4,270**	–
Impairment losses on other long-term assets	5(c)	**35,067**	–
Finance costs	5(a)	**363,070**	309,585
Share of profits less losses of an associate	17	**218**	–
Interest income	4	**(6,769)**	(4,411)
(Gain)/loss on sale of property, plant and equipment	4	**(1,518)**	7,130
Foreign exchange (gain)/loss		**(13,459)**	251
		2,658,083	1,901,745
Changes in working capital:			
(Increase)/decrease in inventories		**(220,493)**	58,387
Increase in trade and bills receivable		**(238,805)**	(352,096)
Increase in pledged bank deposits		**(23,451)**	(9,479)
Decrease/(increase) in other receivables and prepayments		**205,946**	(113,197)
Increase in trade and bills payable		**263,473**	48,590
(Decrease)/increase in other payables and accrued expenses		**(186,656)**	54,596
Decrease in defined benefit obligations		**(20,164)**	(16,776)
Increase in deferred income		**25,900**	14,872
Cash generated from operations		**2,463,833**	1,586,642

24 LOANS AND BORROWINGS

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

	Note	**2010** **RMB'000**	2009 RMB'000
Long-term interest-bearing borrowings:			
Bank loans – Secured	(i)	**3,407,500**	3,608,000
Bank loans – Unsecured	(ii)	**2,147,000**	1,180,000
Loan from government – Unsecured	(iii)	**10,000**	10,000
		5,564,500	4,798,000
Less: Current portion of long-term bank loans		**(1,304,500)**	(1,437,000)
Interest-bearing borrowings, less current portion		**4,260,000**	3,361,000

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

	2010 **RMB'000**	2009 RMB'000
After one year but within two years	**3,363,000**	1,313,000
After two years but within five years	**852,000**	2,003,000
After five years	**45,000**	45,000
Total	**4,260,000**	3,361,000

24 LOANS AND BORROWINGS *(continued)*

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

	Note	**2010** **RMB'000**	2009 RMB'000
Short-term interest-bearing borrowings:			
Bank loans – Secured	(iv)	**180,000**	380,000
Bank loans – Unsecured	(ii)	**200,000**	330,000
		380,000	710,000
Add: Current portion of long-term bank loans		**1,304,500**	1,437,000
Short-term and current portion of interest-bearing borrowings:		**1,684,500**	2,147,000

Notes:

(i) Loans of RMB247,500,000 (2009: RMB383,000,000) as at 31 December 2010, were guaranteed by third party. Other balances were either pledged by certain items of property, plant and equipment and interests in leasehold land held for own use under operating leases as disclosed in note 13, or guaranteed by companies within the Group.

(ii) Non-current bank loans with amount of RMB2,147,000,000 (2009: RMB1,180,000,000) and current bank loans with amount of RMB200,000,000 (2009: RMB330,000,000) are unsecured loans.

(iii) The government loan was received by Gongyuan Cement for constructing an environmental friendly production line. The loan is unsecured, bears interest at one-year PRC deposit interest rate plus 0.3% and is repayable in 2012.

(iv) All current secured bank loans as at 31 December 2010 and 2009 were guaranteed by companies within the Group.

(v) Current secured bank loans carried annual interest rates ranging from 4.78% to 5.38% (2009: 5.31% to 7.84%) for the year ended 31 December 2010. Current unsecured bank loans carried annual interest rates at 5.31% (2009: 5.31% to 7.47%) for the year ended 31 December 2010.

24 LOANS AND BORROWINGS *(continued)*

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

Some of the Group's banking facilities are subject to the fulfilment of covenants relating to certain subsidiaries' statement of financial position ratios or the aggregate external guarantee limit, as are commonly found in lending arrangements with financial institutions, or conditions of assets relating to production of cements. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance of these covenants.

The statement of financial position ratio of certain subsidiaries and the aggregate external guarantee provided by a subsidiary exceeded certain limits set out in the covenants of long-term loan agreements with the Weihai City Commercial Bank Jinan Branch, Shanghai Pudong Development Bank Jinan Branch and Qilu Bank Jinan Wangguanzhuang Branch. The relevant outstanding loan balances as at 31 December 2010 stood at RMB160,000,000 (2009: RMB285,000,000). The Group obtained confirmations from the relevant banks dated 28 June 2010, in which the relevant banks confirmed such breaches of the ratio and guarantee would not trigger early repayment of these loans.

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

	Note	**2010** **RMB'000**	2009 RMB'000
Long-term loans from equity holders – Secured	(i)	**454,248**	236,359
Less: Current portion of loans from equity holders		**(106,134)**	(58,527)
Loans from equity holders, less current portion		**348,114**	177,832

Notes:

(i) Anqiu Shanshui and Pingyin Shanshui entered into loan agreements with one of the Company's equity shareholders, International Finance Corporation ("IFC"), totalling USD50,000,000 in 2006. The loans bear interest at London Inter Bank Offered Rate ("LIBOR") plus 2% per annum and are repayable bi-annually from 2008 to 2014 and are secured by certain items of property, plant and equipment of the subsidiaries as disclosed in notes 13.

Weihai Shanshui, Qingdao Chuangxin, Linqu Shanshui and Zaozhuang Chuangxin entered into loan agreements with IFC, totalling USD50,000,000 in 2010. The loans bear interest plus 2.75% per annum and are repayable bi-annually from 2010 to 2015. Loans of Weihai Shanshui are secured by certain items of property, plant and equipment of the subsidiaries as disclosed in notes 13. As at the date of this report, the collateral agreements on these loans contracts are in process.

24 LOANS AND BORROWINGS *(continued)*

(c) Convertible notes

	Liability portion RMB'000	Equity portion RMB'000	Total RMB'000
At 1 January 2009	89,577	64,774	154,351
Interest charged	4,273	–	4,273
Foreign exchange gain	(126)	–	(126)
Conversion of convertible notes	(82,865)	82,865	–
At 31 December 2009	10,859	147,639	158,498
At 1 January 2010	**10,859**	**147,639**	**158,498**
Interest charged	**1,193**	**–**	**1,193**
Foreign exchange gain	**(271)**	**–**	**(271)**
Conversion of convertible notes	**(11,781)**	**11,781**	**–**
At 31 December 2010	**–**	**159,420**	**159,420**

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

According to the terms of the convertible notes, the notes holders may elect to require the Company to redeem in whole or in part the convertible notes at a price equal to the outstanding principal amount at any time after 2 July 2011. The convertible notes are convertible into a total of 191,607 of the Company's ordinary shares (enlarged to 114,964,200 shares after the capitalisation issues) of USD0.01 each at a conversion price of USD104.4 per share six months after the completion of an initial public offering. If the Company declares any dividends or distribution on its shares before the notes holders elect to exercise the conversion rights, the notes holders are entitled to receive payments equal to the dividend payable for each share multiplied by the total number of shares issuable upon exercise of the conversion rights.

The notes holder, IFC, fully convert notes on 29 November 2010. A total of 12,646,000 ordinary shares of USD0.01 each were allotted and issued to IFC.

25 TRADE AND BILLS PAYABLE

	2010 RMB'000	2009 RMB'000
Trade payables	**1,942,587**	1,335,445
Bills payable	**11,348**	10,174
	1,953,935	1,345,619

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

	2010 RMB'000	2009 RMB'000
Within 3 months	**1,516,724**	1,028,671
Over 3 months but less than 6 months	**202,237**	60,760
Over 6 months but less than 12 months	**97,837**	128,526
Over 12 months	**137,137**	127,662
	1,953,935	1,345,619

26 OTHER PAYABLES AND ACCRUED EXPENSES

		The Group	
	Note	2010 RMB'000	2009 RMB'000
Customer deposits and receipts in advance		**514,883**	390,344
Accrued payroll and welfare		**163,223**	137,620
Taxes payable other than income tax		**109,132**	91,391
Staff compensation and termination provisions	29(b)	**180,397**	175,589
Amounts due to related parties	37(c)	**1,839**	309
Payable to third parties of acquired subsidiaries		**181,271**	128,064
Acquisition consideration payable		**885,423**	10,145
Current portion of long-term payables	31	**216,783**	182,593
Accrued expenses and other payables		**218,540**	192,962
		2,471,491	1,309,017

26 OTHER PAYABLES AND ACCRUED EXPENSES *(continued)*

		The Company	
	Note	**2010** **RMB'000**	2009 RMB'000
Accrued withholding tax for final dividend of year 2008	33(b)	**18,094**	18,744
Other accrued expenses and payables		**378**	291
		18,472	19,035

27 CORPORATE BOND

	2010 **RMB'000**	2009 RMB'000
Corporate bond	**1,000,000**	–

Shandong Shanshui issued a three-year corporate bond of RMB1 billion to corporate investors in the PRC debenture market on 11 October 2010. The three year corporate bond bears a fixed interest rate of 4.2% per annum and interest is paid annually. Interest payable for the current period was included in other payables.

28 OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2010, the Group had obligation under finance lease payable as follows:

	2010		2009	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	1,133	1,200	1,733	1,800
After 1 year but within 2 years	1,069	1,200	1,069	1,200
After 2 years but within 5 years	2,861	3,600	2,861	3,600
After 5 years	1,650	2,400	2,407	3,600
	5,580	7,200	6,337	8,400
Total	6,713	8,400	8,070	10,200
Less: total future interest expenses		1,687		2,130
Present value of lease obligation		6,713		8,070

29 EMPLOYEE BENEFITS

(a) Defined contribution retirement plans

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial government authorities for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 20% to 24% of the salaries, wages, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date.

The Group has no other material obligation for the payment of pension benefits associated with these plans and other post-retirement beyond the annual contributions described above.

29 EMPLOYEE BENEFITS *(continued)*

(b) Staff compensation and termination provision

	Note	2010 RMB'000	2009 RMB'000
Staff compensation and termination provision	26	**180,397**	175,589

Note: Pursuant to relevant agreements with related local governments, certain subsidiaries of the Group are responsible for the compensation and termination obligation of their employees.

(c) Defined benefit obligations

Net liabilities recognised in the consolidated statement of financial position represent:

	2010 RMB'000	2009 RMB'000
Present value of the obligations	**180,890**	194,814
Unrecognised actuarial losses	**(9,460)**	(10,250)
Recognised liability for defined benefit plans	**171,430**	184,564

The balance represents the provision for the post-employment benefits according to the non-cancellable staff relocation plans agreed in respect of Shandong Shanshui, Weifang Shanshui, Qianshan Cement (excluding the compensation stated in note 29(b)) and Gongyuan Cement. The Group's obligations in respect of the defined benefit obligations at the end of the reporting period were reviewed by an independent actuary, Towers Perrin (Shenzhen) Consulting Co., Ltd. Shanghai Branch, which is a member of the Society of Actuaries of the United States of America, using the projected unit credit actuarial cost method.

In calculating the Group's obligations, to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligations at the end of the reporting period, that portion is amortised within the estimated remaining life (any junior family member to age of 18) of the employees in the consolidated income statements.

29 EMPLOYEE BENEFITS *(continued)*

(c) Defined benefit obligations *(continued)*

Movements in the defined benefit obligations are set out as follows:

	2010	2009
	RMB'000	RMB'000
At 1 January	**184,564**	194,630
Payments	**(15,994)**	(12,346)
Current service cost	**1,210**	1,360
Interest expense	**7,030**	6,710
Actuarial loss recognised in consolidated income statement	**90**	300
Gain on settlement	**(5,470)**	(6,090)
At 31 December	**171,430**	184,564

Expenses recognised in the consolidated income statement are as follows:

	2010	2009
	RMB'000	RMB'000
Interest expense	**7,030**	6,710
Actuarial loss	**90**	300
Current service cost	**1,210**	1,360
Gain on settlement	**(5,470)**	(6,090)
	2,860	2,280

29 EMPLOYEE BENEFITS *(continued)*

(c) Defined benefit obligations *(continued)*

Interest expense and actuarial loss arising from defined benefit obligations are recognised in the following line items in the consolidated income statement:

	2010	2009
	RMB'000	RMB'000
Finance expenses	**7,030**	6,710
Administrative expenses	**(4,170)**	(4,430)
	2,860	2,280

Principal actuarial assumptions at each statement of financial position date:

	2010	2009
Discount rate	**4.00%**	3.75%
Annual growth rate of living expenditure	**2.5%-8%**	2.5%-8%
Social average salary increase rate	**10.00%**	10.00%
Average expected remaining working life of eligible employees	**12 years**	13 years

30 DEFERRED INCOME

	2010	2009
	RMB'000	RMB'000
At 1 January	**311,195**	296,323
Additions	**41,485**	27,734
Recognised in consolidated income statement	**(15,585)**	(12,862)
At 31 December	**337,095**	311,195

Deferred income mainly represents the PRC local government grants received from relative PRC authorities for fixed asset investment, such as cement and clinker plants and residual heat generation plants. The subsidies are recognised in the consolidated income statement over the estimated useful lives of the respective assets. There are no unfulfilled conditions and contingencies relating to the grants.

31 LONG-TERM PAYABLES

	2010 RMB'000	2009 RMB'000
Acquisition consideration payable (note)	**33,667**	211,011
Others	**70,235**	63,727
	103,902	274,738

Note: This balance mainly represents the consideration payable for the acquisition of Kangda Cement Group. The nominal value of consideration is RMB225,585,000 and is payable over a period of two years. The amount has been discounted to present value as at 31 December 2010.

32 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position

	2010 RMB'000	2009 RMB'000
Provision for PRC income tax for the year	**411,292**	215,506
Provisional income tax paid	**(146,844)**	(107,468)
	264,448	108,038

32 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets and liabilities recognised

Movements in deferred tax assets and liabilities (prior to offsetting of balances) for the year ended 31 December 2010 are as follows:

	At 1 January 2010 RMB'000	Acquisition through business combinations RMB'000	Recognised in profit or loss RMB'000	Recognised in equity RMB'000	At 31 December 2010 RMB'000
Deferred tax assets					
Unrealised profits resulted from intra-group transactions	20,122	–	6,613	–	26,735
Depreciation of property, plant and equipment	4,315	–	1,969	–	6,284
Intangible assets amortisation	987	–	(414)	–	573
Tax loss carry-forwards	20,179	230	20,298	–	40,707
Impairment losses for property, plant and equipment	17,251	–	10,296	–	27,547
Write down of inventory	3,596	–	(1,263)	–	2,333
Impairment losses for trade and other receivables	2,685	–	(2,685)	–	–
Deferred income	29,450	–	1,611	–	31,061
Accrued bonus	3,670	–	1,747	–	5,417
Accrued auditor's remuneration	250	–	83	–	333
Deferred expenses	–	1,547	2,116	–	3,663
Acquisition consideration payable	11,481	–	(450)	–	11,031
	113,986	1,777	39,921	–	155,684
Offset deferred tax liabilities (*)	(19,436)				(23,572)
Deferred tax assets at 1 January/31 December	94,550				132,112
Deferred tax liabilities					
Change of fair value of available-for-sale securities	2,475	–	–	(1,129)	1,346
Revaluation surplus of property, plant and equipment	74,776	16,824	(2,218)	–	89,382
Revaluation surplus of intangible assets	25,761	11,487	(10,559)	–	26,689
Revaluation surplus of inventory	–	20	(306)	–	(286)
	103,012	28,331	(13,083)	(1,129)	117,131
Offset deferred tax assets (*)	(19,436)				(23,572)
Deferred tax liabilities at 1 January/31 December	83,576				93,559

* This represents the offset balances between deferred tax assets and deferred tax liabilities because the Group has the legally enforceable right to set off them.

32 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets and liabilities recognised *(continued)*

Movements in deferred tax assets and liabilities (prior to offsetting of balances) for the year ended 31 December 2009 are as follows:

	At 1 January 2009 RMB'000	Acquisition through business combinations RMB'000	Recognised in profit or loss RMB'000	Recognised in equity RMB'000	At 31 December 2009 RMB'000
Deferred tax assets					
Unrealised profits resulted from intra-group transactions	15,985	–	4,137	–	20,122
Depreciation of property, plant and equipment	3,014	–	1,301	–	4,315
Intangible assets amortisation	1,528	–	(541)	–	987
Tax loss carry-forwards	3,316	8,389	8,474	–	20,179
Impairment losses for property, plant and equipment	13,071	5,301	(1,121)	–	17,251
Write down of inventory	1,115	521	1,960	–	3,596
Impairment losses for trade and other receivables	2,000	–	685	–	2,685
Deferred income	64,636	–	(35,186)	–	29,450
Accrued bonus	9,106	–	(5,436)	–	3,670
Accrued auditor's remuneration	–	–	250	–	250
Change of fair value of interest swap derivatives	532	–	(532)	–	–
Acquisition consideration payable	–	11,930	(449)	–	11,481
	114,303	26,141	(26,458)	–	113,986
Deferred tax liabilities					
Accrued staff welfare	765	–	(765)	–	–
Change of fair value of available-for-sale securities	1,131	–	–	1,344	2,475
Revaluation surplus of property, plant and equipment	99,619	(19,405)	(5,438)	–	74,776
Revaluation surplus of intangible assets	33,823	462	(8,524)	–	25,761
	135,338	(18,943)	(14,727)	1,344	103,012

32 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets and liabilities recognised *(continued)*

As at 31 December 2010, the Group did not recognise deferred tax assets in respect of cumulative tax losses of PRC subsidiaries totalling RMB45,288,000 (2009: RMB63,265,000). It is not probable that future taxable profits generated by these PRC subsidiaries against which the losses can be utilised will be available within five years.

Under the "Corporate Income Tax Law of the People's Republic of China" (the "Corporate Income Tax Law"), the Company's subsidiaries in the PRC are levied a 10% withholding tax on dividends declared to their foreign investment holding companies arising from profits earned subsequent to 1 January 2008. As at 31 December 2010, temporary differences relating to the undistributed profits of these subsidiaries amounted to RMB946,214,000 (2009: RMB655,903,000). Deferred tax liabilities of RMB94,621,400 (2009: RMB65,590,300) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

33 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2009	185,372	3,299,353	477,947	(168,559)	(216,131)	3,577,982
Changes in equity for 2009:						
Conversion of convertible notes	6,983	133,669	(57,787)	–	–	82,865
Dividend approved in respect of the previous year	–	–	–	–	(188,652)	(188,652)
Total comprehensive income for the year	–	–	–	(2,432)	(10,742)	(13,174)
Balance at 31 December 2009 and 1 January 2010	192,355	3,433,022	420,160	(170,991)	(415,525)	3,459,021
Changes in equity for 2010:						
Conversion of convertible notes	**843**	**18,063**	**(7,125)**	**–**	**–**	**11,781**
Dividend approved in respect of the previous year	**–**	**–**	**–**	**–**	**(238,294)**	**(238,294)**
Total comprehensive income for the year	**–**	**–**	**–**	**(86,272)**	**(8,131)**	**(94,403)**
Balance at 31 December 2010	**193,198**	**3,451,085**	**413,035**	**(257,263)**	**(661,950)**	**3,138,105**

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2010	2009
	RMB'000	RMB'000
Final dividend proposed after the end of the reporting period	**343,799**	240,296

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

Pursuant to a resolution passed at the Directors' meeting on 25 March 2011, a final dividend in respect of the year ended 31 December 2010 of HKD0.145 per share totalling HKD408,312,779.00 was proposed for shareholders' approval at the Annual General Meeting. Final dividend of HKD408,312,779.00 proposed after the statement of financial position date has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year approved and paid during the year:

	2010	2009
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, declared and paid during the year	**238,294**	169,907

Pursuant to the Corporate Income Tax Law and the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China" (the "Implementation Rules"), the Company is likely to be required to withhold and pay corporate income tax for its non-resident enterprise shareholders to whom the Company pays the dividends for the year ended 31 December 2008. The Company withheld 10% corporate income tax of RMB18,744,439 when it distributed the dividends for the year ended 31 December 2008 to its non-resident enterprise shareholders.

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends *(continued)*

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year approved and paid during the year: *(continued)*

Till now, the Company is in the process to negotiate with the relevant PRC tax authorities. If the relevant PRC tax authorities finally determined that the Corporate Income Tax Law and the Implementation Rules are not applicable to the Company, and hence no enterprise income tax should have been withheld, the Company will procure such tax, amounting to RMB18,094,000 as at 31 December 2010, to be refunded to the relevant non-resident enterprise shareholders whose tax had been withheld pursuant to the arrangement above.

(c) Share capital

	2010		2009	
	Number of shares	**RMB equivalent RMB'000**	Number of shares	RMB equivalent RMB'000
Authorised:				
Ordinary shares of the Company of USD0.01 each	**10,000,000,000**	**701,472**	10,000,000,000	701,472
Ordinary shares of the Company, issued and fully paid:				
At 1 January	**2,803,304,000**	**192,355**	2,700,986,000	185,372
Issuance of shares:				
– Conversion of the convertible notes (see note 24(c))	**12,646,200**	**843**	102,318,000	6,983
At 31 December	**2,815,950,200**	**193,198**	2,803,304,000	192,355

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital *(continued)*

Notes:

(i) Authorised share capital

The Company was incorporated in the Cayman Islands under the Companies Law (Revised) as an exempted company with limited liability on 26 April 2006 with an authorised share capital of USD10,000,000 divided into 1,000,000,000 shares of USD0.01 each, of which one subscriber share was issued to MS Cement Limited.

Pursuant to the written resolutions of the shareholders of the Company passed on 14 June 2008, the authorised share capital of the Company was increased from USD10,000,000 to USD100,000,000 by the creation of additional 9,000,000,000 shares of USD0.01 each.

On 4 July 2008, the Company listed its shares on the Main Board of the Stock Exchange of Hong Kong Limited. On 25 July 2008, the Global Coordinator fully exercised the over-allotment option on behalf of the International Underwriters. The notes holders of the Company's convertible notes (see note 24) were fully convert their notes on 30 April 2009 and 29 November 2010 respectively. Except for these, no new shares were issued by the Company.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands.

(ii) Statutory reserves

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserves were approved by the respective boards of directors.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance after such conversion is not less than 25% of the registered capital.

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves *(continued)*

(iii) Other reserves

Other reserves include:

(a) the differences of consideration over the net assets of subsidiaries acquired under common control in 2005;

(b) the differences of consideration over the net assets of non-controlling interests acquired by Shandong Shanshui in 2005;

(c) the difference between the nominal value of the share capital of the Company and the nominal value of the share capital and share premium of Shanshui Cement Hong Kong on the Share Swap; and

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(v) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period.

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(e) Distributability of reserves

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the contributed surplus account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

At 31 December 2010, the Company had RMB2,531,872,000 available for distribution to equity shareholders of the Company (2009: RMB2,846,506,000).

After the end of the reporting period the directors proposed a final dividend of HKD0.145 per ordinary share (2009: HKD0.097 per share), amounting to HKD408,312,779.00 (2009: HKD273,147,169.40) (note 33(b)). This dividend has not been recognised as a liability at the end of the reporting period.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all loans and borrowings as well as convertible notes and corporate bond, as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as total equity plus net debt. The Group may adjust the amount of dividends paid to equity holders, issue new shares, return capital to shareholders or sell assets to reduce debt.

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(f) Capital management *(continued)*

The gearing ratio is as follows:

		The Group	
		2010	2009
	Note	**RMB'000**	RMB'000
Current liabilities:			
Short-term and current portion of interest-bearing borrowings	24(a)	**1,684,500**	2,147,000
Current portion of loans from equity shareholders	24(b)	**106,134**	58,527
		1,790,634	2,205,527
Non-Current liabilities:			
Interest-bearing borrowings, less current portion	24(a)	**4,260,000**	3,361,000
Loans from equity shareholders, less current portion	24(b)	**348,114**	177,832
Convertible notes	24(c)	**–**	10,859
Corporate bond	27	**1,000,000**	–
		5,608,114	3,549,691
Total debt		**7,398,748**	5,755,218
Less: Cash and cash equivalents	23(a)	**(1,144,840)**	(886,130)
Net debt		**6,253,908**	4,869,088
Total equity		**6,149,005**	5,229,128
Total capital		**12,402,913**	10,098,216
Gearing ratio		**50.4%**	48.2%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(Expressed in Renminbi unless otherwise indicated)

34 ACQUISITIONS

The Group acquired the equity interests of the following entities engaged in cement business in Shanxi Province, Shaanxi Province, Inner-Mongolia Autonomous Region and Tianjin city during the year ended 31 December 2010. The acquisitions are expected to provide the Group with an increased market share in the respective regions. The fair value of net identifiable assets of the acquirees is determined based on the valuation carried out by two qualified independent valuers, Jones Lang LaSalle Sallmanns Limited and Shandong Ruihua Assets Valuation Company Limited (山東瑞華資產評估有限公司).

From the date of relevant acquisitions to 31 December 2010, these acquirees contributed revenue of RMB236,832,000 and net profit of RMB10,272,000. If these acquisitions had occurred on 1 January 2010, management estimates that consolidated revenue would have been RMB12,324,465,000 and consolidated profit for the year would have been RMB1,046,205,000.

Name of company	Acquired interest	Acquisition date	Principal activities
AKBB Cement 阿魯科爾沁巴彥包特水泥有限公司	Note (a)	7 January 2010	Production and sale of cement and clinker
Shengfeng Cement 聖豐水泥製造有限公司	Note (b)	2 March 2010	Production and sale of cement
Hequ Zhongtianlong 河曲縣中天隆水泥有限公司	68%	9 April 2010	Production and sale of cement and clinker
Tianjin Tianhui 天津天輝水泥有限公司	100%	10 April 2010	Production and sale of cement
Lvliang Yilong 呂梁億龍水泥有限公司	90%	25 May 2010	Production and sale of cement and clinker
Chifeng Yuanhang 赤峰遠航水泥有限責任公司	50%	15 September 2010	Production and sale of cement and clinker
Quanxing Cement 興安盟全興水泥製造有限責任公司	90%	30 September 2010	Production and sale of clinker
Tianzhu Cement 烏蘭浩特市天柱水泥有限公司	90%	30 September 2010	Production and sale of cement

(Expressed in Renminbi unless otherwise indicated)

34 ACQUISITIONS *(continued)*

Name of company	Acquired interest	Acquisition date	Principal activities
Yulin Yatai 榆林亞泰化工科技有限公司	62%	31 October 2010	Production and sale of cement and related products
Dongying Dongxing 東營市東興水泥有限公司	70%	28 December 2010	Production and sale of cement
Dongying Shenglv 東營市勝鋁水泥有限公司	90%	28 December 2010	Production and sale of cement and clinker
Heju Shanshui 晉城山水合聚水泥有限公司	90%	31 December 2010	Establishment of cement production line

Notes:

(a) Acquisition of business from AKBB Cement

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

(b) Acquisition of business from Shengfeng Cement

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

34 ACQUISITIONS *(continued)*

Summary of the effects from these acquisitions on the Group's assets and liabilities as at the date of acquisition are as follows:

	Pre-acquisition carrying amount RMB'000	**Fair value adjustment** RMB'000	**Recognised values on acquisition** RMB'000
Fixed assets	1,367,672	68,165	1,435,837
Cash and cash equivalents	98,621	–	98,621
Intangible assets	2,561	48,269	50,830
Trade and other receivables	322,629	–	322,629
Inventories	76,808	110	76,918
Deferred tax assets	1,777	–	1,777
Short-term loans	(40,000)	–	(40,000)
Trade and other payables	(627,824)	–	(627,824)
Long-term payable	(1,000)	–	(1,000)
Deferred tax liabilities	–	(28,331)	(28,331)
Net identifiable assets	1,201,244	88,213	1,289,457
Non-controlling interests arising on business combination			(340,306)
Goodwill arising on acquisition			395,830
Total purchase consideration			1,344,981
Satisfied by:			
Consideration payable			1,189,181
Cash paid			155,800
			1,344,981
Cash flow in respect of the acquisition:			
Cash paid by the Group			155,800
Cash contributed by the non-controlling interests			5,600
Less: Cash acquired			(98,621)
Net cash outflow in respect of the acquisitions			62,779

34 ACQUISITIONS *(continued)*

Details of the Group's significant acquisitions during the year are as follows:

(i) Acquisition of Chifeng Yuanhang

On 16 September 2010, the Group signed an agreement to acquire 50% equity interests in Chifeng Yuanhang from independent third parties for a total cash consideration approximately of RMB375,927,000.

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

	Pre-acquisition carrying amount RMB'000	**Fair value adjustment** RMB'000	**Recognised values on acquisition** RMB'000
Fixed assets	470,491	86,907	557,398
Cash and cash equivalents	30,061	–	30,061
Intangible assets	1,891	45,503	47,394
Trade and other receivables	115,832	–	115,832
Inventories	44,964	1,220	46,184
Deferred tax assets	1,546	–	1,546
Trade and other payables	(294,714)	–	(294,714)
Deferred tax liabilities	–	(33,408)	(33,408)
Net identifiable assets	370,071	100,222	470,293
Non-controlling interests arising on business combination			(235,146)
Goodwill arising on acquisition			140,780
Total purchase consideration			375,927
Satisfied by:			
Consideration payable			345,927
Cash paid			30,000
Net cash outflow in respect of the acquisition			375,927
Cash flow in respect of the acquisition:			
Cash paid by the Group			30,000
Less: Cash acquired			(30,061)
Net cash outflow in respect of the acquisition			(61)

34 ACQUISITIONS *(continued)*

(ii) Acquisition of Quanxing Cement and Tianzhu Cement

On 16 September 2010, the Group signed agreements to acquire 90% equity interests both in Quanxing Cement and Tianzhu Cement, both of which were previously controlled by same independent third parties, for a total cash consideration approximately of RMB414,000,000.

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

	Pre-acquisition carrying amount	**Fair value adjustment**	**Recognised values on acquisition**
	RMB'000	RMB'000	RMB'000
Fixed assets	367,465	(30,181)	337,284
Cash and cash equivalents	1,002	–	1,002
Intangible assets	–	487	487
Trade and other receivables	47,294	–	47,294
Short-term loans	(40,000)	–	(40,000)
Trade and other payables	8,142	–	8,142
Long-term payable	(1,000)	–	(1,000)
Deferred tax liabilities	–	7,424	7,424
Net identifiable assets	382,903	(22,270)	360,633
Non-controlling interests arising on business combination			(36,063)
Goodwill arising on acquisition			89,430
Total purchase consideration			414,000
Satisfied by:			
Consideration payable			414,000
Cash flow in respect of the acquisition:			
Cash acquired			(1,002)
Net cash inflow in respect of the acquisition			(1,002)

34 ACQUISITIONS *(continued)*

(iii) Acquisition of Heju Shanshui

On 31 December 2010, the Group signed an agreement to acquire 90% equity interests in Heju Shanshui from independent third parties for a total cash consideration approximately of RMB216,000,000.

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

	Pre-acquisition carrying amount	**Fair value adjustment**	**Recognised values on acquisition**
	RMB'000	RMB'000	RMB'000
Fixed assets	189,057	87	189,144
Cash and cash equivalents	4	–	4
Trade and other receivables	120,600	–	120,600
Inventories	98	–	98
Trade and other payables	(124,174)	–	(124,174)
Deferred tax liabilities	–	(22)	(22)
Net identifiable assets	185,585	65	185,650
Non-controlling interests arising on business combination			(18,565)
Goodwill arising on acquisition			48,915
Total purchase consideration			216,000
Satisfied by:			
Consideration payable			187,200
Cash paid			28,800
Net cash outflow in respect of the acquisition			216,000
Cash flow in respect of the acquisition:			
Cash paid by the Group			28,800
Less: Cash acquired			(4)
Net cash outflow in respect of the acquisition			28,796

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and bills receivable. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

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

In respect of trade and bills receivable for sales of cement, clinker and bubble bricks, individual credit evaluations are only performed when the customers required credit. These evaluations focus on the customer's construction project size, the customer's payment history take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors with balances that are more than two months past due are requested to settle all outstanding balances before further credit is granted.

In respect of trade and bills receivable for sales of pipes and concrete, individual credit evaluations are performed on all customers requiring credit over a certain amount. The evaluation method is similar to the above. Debtors with balances that are more than six months past due are requested to settle all outstanding balances before any further credit is granted.

The Group generally does not require collateral from customers on credit.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 3% (2009: 20%) and 3% (2009: 21%) of the total trade and bills receivable were due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Group does not provide any other guarantees which would expose the Group to credit risk.

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, subject to approval by the holding company when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

The Group

	2010 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	1-2 years RMB'000	2-5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Short-term bank loans and current portion of long-term bank loans (note 24(a))	1,945,134	–	–	–	1,945,134	1,684,500
Long-term bank loans (note 24(a))	–	3,506,422	913,508	36,735	4,456,665	4,250,000
Loans from government (note 24(a))	1,164	1,141	3,284	5,941	11,530	10,000
Loans from equity shareholders (note 24(b))	120,402	117,584	255,896	–	493,882	454,248
Trade and bills payable (note 25)	1,953,935	–	–	–	1,953,935	1,953,935
Other payables and accrued expense (note 26)	2,482,330	–	–	–	2,482,330	2,471,491
Current tax liabilities (note 32(a))	264,448	–	–	–	264,448	264,448
Corporate bond (note 27)	42,000	42,000	1,042,000	–	1,126,000	1,000,000
Obligation under finance leases (note 28)	1,200	1,200	3,600	2,400	8,400	6,713
Long-term payables (note 31)	–	54,324	35,597	16,375	106,296	103,902
	6,810,613	3,722,671	2,253,885	61,451	12,848,620	12,199,237

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Liquidity risk *(continued)*

The Group

	2009					
	Contractual undiscounted cash outflow					Balance sheet carrying amount
	Within 1 year or on demand RMB'000	1-2 years RMB'000	2-5 years RMB'000	More than 5 years RMB'000	Total RMB'000	RMB'000
Short-term bank loans and current portion of long-term bank loans (note 24(a))	2,393,848	–	–	–	2,393,848	2,147,000
Long-term bank loans (note 24(a))	–	1,457,792	2,118,944	36,953	3,613,689	3,351,000
Loans from government (note 24(a))	255	1,164	3,353	7,013	11,785	10,000
Loans from equity shareholders (note 24(b))	56,842	57,040	142,603	–	256,485	236,359
Convertible notes (note 24(c))	–	–	15,022	–	15,022	10,859
Trade and bills payable (note 25)	1,345,619	–	–	–	1,345,619	1,345,619
Other payables and accrued expense (note 26)	1,309,017	–	–	–	1,309,017	1,309,017
Current tax liabilities (note 32(a))	108,038	–	–	–	108,038	108,038
Obligation under finance leases (note 28)	1,800	1,200	3,600	3,600	10,200	8,070
Long-term payables (note 31)	–	207,257	68,171	16,375	291,803	274,738
	5,215,419	1,724,453	2,351,693	63,941	9,355,506	8,800,700

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Liquidity risk *(continued)*

The Company

	2010					
	Contractual undiscounted cash outflow					Balance sheet carrying amount
	Within 1 year or on demand	1-2 years	2-5 years	More than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Convertible notes (note 24(c))	–	–	–	–	–	–

The Company

	2009					
	Contractual undiscounted cash outflow					Balance sheet carrying amount
	Within 1 year or on demand	1-2 years	2-5 years	More than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Convertible notes (note 24(c))	–	–	15,022	–	15,022	10,859

(c) Interest rate risk

Cash and cash equivalents, pledged bank deposits, interest-bearing borrowings and corporate bond are the major types of the Group's financial instruments subject to interest rate risk. The Group does not anticipate significant impact to cash and cash equivalents and the pledged bank deposits because the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk arises primarily from interest-bearing borrowings and corporate bond. Borrowings issued at variable rates and at fixed rates and corporate bond issued at fixed rate expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of the Group's and the Company's borrowings and corporate bond are disclosed in note 24 and 27 respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Interest rate risk *(continued)*

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's interest-bearing borrowings and corporate bond at the end of the reporting period.

The Group

	2010		2009	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Short-term Bank loans	**4.78%~5.75%**	**380,000**	5.31%~7.47%	660,000
Long-term Bank loans	**5.40%~5.40%**	**850,000**	5.50%~6.75%	200,000
Corporate bond	**4.2%**	**1,000,000**		–
		2,230,000		860,000
Variable rate borrowings:				
Short-term Bank loans	**N/A**	**N/A**	5.31%~7.84%	50,000
Long-term Bank loans	**4.86%~7.74%**	**4,704,500**	4.86%~8.32%	4,588,000
Loans from equity shareholders	**2.46%~4.21%**	**454,248**	5.13%~6.83%	236,360
Loans from government	**2.55%~4.44%**	**10,000**	2.55%~4.44%	10,000
		5,168,748		4,884,360
Total borrowings		**7,398,748**		5,744,360
Net fixed rate borrowings as a percentage of total borrowings		**30%**		15%

The interest rate of the variable rate borrowing of the Group is based on the base rate announced by the People's Bank of China or applicable market rates.

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB63,160,000 (2009: RMB57,707,300). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

(d) Currency risk

(i) Forecast transactions

The Group is exposed to currency risk primarily through cash balances and borrowings that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Hong Kong dollars and United State dollars.

The Group did not hedge its foreign currency exposure other than by retaining its foreign currency denominated earnings and receipts to the extent permitted by the State Administration of Foreign Exchange.

(ii) Recognised assets and liabilities

In respect of the payment for foreign currency borrowings, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Except for the loans due to equity shareholders (see note 24(b)) and convertible notes (see note 24(c)), all the Group's borrowings are denominated in Renminbi. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(d) Currency risk *(continued)*

(iii) Exposure to currency risk

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the Renminbi. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date.

The Group

	Exposure to foreign currencies (expressed in Renminbi)			
	2010		2009	
	HKD	**USD**	HKD	USD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and cash equivalents	**21,073**	**41,587**	28,480	38,168
Loans from equity shareholders	**–**	**(454,248)**	–	(236,359)
Convertible notes	**–**	**–**	–	(10,859)
Net exposure arising from recognised assets and liabilities	**21,073**	**(412,661)**	28,480	(209,050)

The Company

	Exposure to foreign currencies (expressed in Renminbi)			
	2010		2009	
	HKD	**USD**	HKD	USD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and cash equivalents	**20,678**	**17,626**	28,411	36,473
Convertible notes	**–**	**–**	–	(10,859)
Net exposure arising from recognised assets and liabilities	**20,678**	**17,626**	28,411	25,614

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(d) Currency risk *(continued)*

(iv) *Sensitivity analysis*

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

The Group

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States Dollars	**10%**	**(37,324)**	10%	(17,960)
	(10%)	**37,324**	(10%)	17,960
Hong Kong Dollars	**10%**	**2,107**	10%	2,848
	(10%)	**(2,107)**	(10%)	(2,848)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2009.

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(e) Equity price risk

The Group is exposed to equity price changes primarily arising from the listed investment classified as available-for-sale equity securities (see note 17).

The Group's listed investment is listed on the Shanghai Stock Exchange. Listed investment held in the available-for-sale securities has been chosen based on its longer term growth potential and is monitored regularly for performance against expectations.

At 31 December 2010, it is estimated that an increase/(decrease) of 50% (2009: 50%) in the relevant stock price (for listed investment), with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) as follows:

The Group

	2010		2009	
	Increase/ (decrease) in the relevant risk variable rates	**Effect on other components of equity RMB'000**	Increase/ (decrease) in the relevant risk variable rates	Effect on other components of equity RMB'000
Change in the stock price of the listed investment	**50%**	**2,397**	50%	4,090
	(50%)	**(2,397)**	(50%)	(4,090)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the changes in the stock price had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock price, that none of the Group's available-for-sale securities would be considered impaired as a result of the decrease in the relevant stock price, and that all other variables remain constant. The analysis is performed on the same basis for 2009.

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(f) Fair Values

(i) Financial instruments carried at fair value

As a result of the adoption of the amendments to IFRS 7, the fair value measurement of the Group's financial instruments categorises into a three-level fair value hierarchy according to the extent to which they are based on observable market data. As at 31 December 2010, the Group only has available-for-sale securities which was measured at fair value at the end of the reporting period under Level 1 of the fair value hierarchy defined in IFRS 1, Financial Instruments: Disclosures. Level 1 is defined as follows:

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

2010

	The group			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Assets				
Available-for-sale securities:				
– Listed	**6,392**	**–**	**–**	**6,392**

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's significant financial assets and liabilities, which are carried at cost or amortised cost, are not materially different from their fair values as at 31 December 2010 and 2009.

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Available-for-sale securities

The fair value of available-for-sale securities is determined by reference to their quoted bid price at the end of the reporting period. When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

(ii) Trade and bills receivable and other receivables and prepayments

The fair value of trade and bills receivable and other receivables and prepayments is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(iii) Non-derivative financial liabilities

The fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability portion of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

(iv) Interest-bearing loans and borrowings, corporate bonds and finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(v) Interest rates used for determining fair value

The Group uses the market rate of interest-bearing borrowings as of 31 December 2010. The interest rates used are disclosed in note 24.

36 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2010 not provided for in the financial statements were as follows:

	2010	2009
	RMB'000	RMB'000
Authorised and contracted for		
– plants and equipments	**1,877,236**	374,148
Authorised but not contracted for		
– plants and equipments	**1,845,926**	4,508,601
	3,723,162	4,882,749

(b) At 31 December 2010, the total future minimum lease payments under non-cancellable operating lease are payable as follows:

	2010	2009
	RMB'000	RMB'000
Within 1 year	**15,639**	15,924
After 1 year but within 2 years	**15,579**	15,864
After 2 years but within 5 years	**46,500**	45,805
After 5 years	**131,492**	133,031
	209,210	210,624

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

37 MATERIAL RELATED PARTY TRANSACTIONS

(a) During the year ended 31 December 2010, transactions with the following parties are considered as related party transaction.

Name of party	Relationship
Mr. Zhang Caikui*	Equity holder of the ultimate holding company and chairman of the Company
Mr. Li Yanmin*	Equity holder of the ultimate holding company and director of the Company for the period from 1 January 2010 to 5 March 2010
Mr. Yu Yuchuan*	Equity holder of the ultimate holding company and director of the Company
Mr. Dong Chengtian*	Equity holder of the ultimate holding company and director of the Company
Mr. Zhao Liping*	Equity holder of the ultimate holding company and key management member of the Company
Mr. Zhao Yongkui*	Equity holder of the ultimate holding company and key management member of the Company
Mr. Mi Jingtian*	Equity holder of the ultimate holding company and key management member of the Company
Mr. Li Maohuan*	Equity holder of the ultimate holding company and key management member of the Company
Mr. Wang Yongping*	Equity holder of the ultimate holding company and key management member of the Company
Mr. Zhang Bin	Director of the Company for the period from 10 September 2010 to 31 December 2010

(* collectively the "Management Shareholders")

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) During the year ended 31 December 2010, transactions with the following parties are considered as related party transaction. *(continued)*

Name of party	Relationship
China Shanshui Investment Company Limited ("China Shanshui Investment")	Ultimate holding company
MS Cement Limited ("MS Cement")	Equity shareholder of the Company
MS Cement II Limited ("MS Cement II")	Equity shareholder of the Company
CDH Cement Limited ("CDH Cement")	Equity shareholder of the Company
International Finance Corporation ("IFC")	Equity shareholder of the Company
Jinan Shanshui	Fellow subsidiary under common
ultimate control Jinan Shanshui Lixin Investment	Fellow subsidiary under common ultimate control
Development Co., Ltd. ("Shanshui Lixin") Jinan Shanshui Jianxin Investment	Fellow subsidiary under common ultimate control
Development Co., Ltd. ("Shanshui Jianxin") Tianjin Tianhui	Fellow subsidiary under common ultimate control for the period from 1 January 2010 to 9 April 2010
Shanshui Stanford New Building Materials Co., Ltd. ("Stanford")	Fellow subsidiary under common ultimate control from 1 January 2010 to 12 July 2010
Shanshui Jinzhu Powder Co., Ltd. ("Jinzhu Powder")	Fellow subsidiary under common ultimate control
Dongyue Packaging Co., Ltd. ("Dongyue")	Fellow subsidiary under common ultimate control
Jinan Cement Product Factory ("Jinan Cement Product")	Fellow subsidiary under common ultimate control
Jinan Cement Factory ("Jinan Cement")	Fellow subsidiary under common ultimate control
Jinan Huanghai Cement Co., Ltd. ("Jinan Huanghai")	Fellow subsidiary under common ultimate control
Jinan Dongfanghong Cement Co., Ltd. ("Jinan Dongfanghong")	Fellow subsidiary under common ultimate control
Jinan Shanshui Group Property Development Co., Ltd. ("Property Development")	Fellow subsidiary under common ultimate control
Jinan Shanshui Commercial City Co., Ltd. ("Commercial City")	Fellow subsidiary under common ultimate control

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties of the Group

	Note	2010 RMB'000	2009 RMB'000
Recurring transactions			
Sales:	(i)		
– Tianjin Tianhui		**11,497**	39,285
– Stanford		**–**	734
		11,497	40,019
Rental income:			
– Jinzhu Powder		**135**	135
– Stanford	(ii)	**279**	559
		414	694
Brand royalty income:			
– Tianjin Tianhui	(iii)	**49**	379
Management Fees			
– Tianjin Tianhui	(iv)	**25**	384
– Jinzhu Powder		**610**	610
		635	994
Non-recurring transactions			
Advances to:			
– China Shanshui Investment		**–**	26
– Property Development		**–**	1,341
		–	1,367
Loans to an associate and relevant interest income:			
– Dong'e Shanshui	(v)	**74,680**	–
Loans from related parties and relevant interest expenses:			
– IFC	(vi)	**343,751**	–
– Jinan Shanshui		**1,200**	–
		344,951	–

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties of the Group *(continued)*

	Note	2010 RMB'000	2009 RMB'000
Repayment of loans from related parties and relevant interests to:			
– IFC	(vi)	**125,482**	61,843

Notes:

(i) This represents sales of clinkers which were carried out in accordance with the terms of the underlying agreements. The directors of the Company are of the opinion that the sales were conducted on normal commercial terms and in the ordinary course of business of the Group. On 10 April 2010, Tianjin Tianhui became a wholly-owned subsidiary of the Group and its transactions with the Group since 10 April 2010 were eliminated on consolidation.

(ii) Shanshui Group signed the tenancy agreement with Standford for a term of eighteen years commencing on 14 January 2008 and expiring on 31 December 2022 for an annual rent of RMB558,500. Pursuant to the equity transfer agreement entered between Jinan Shanshui and USA Standford Capital Limited ("USA Standford") dated 12 July 2010, Jinan Shanshui had transferred all its interests in Standford to USA Standford. Since then, Standford was not a related party of the Group.

(iii) The Group entered into a trademark licence agreement with Tianjin Tianhui in 2008. The agreement allows Tianjin Tianhui to use the Shanshui Dongyue brand for a trademark fee of RMB1 per ton of cement produced by Tianjin Tianhui. The latter produced 48,977 tons of cement during the period from 1 January 2010 to 9 April 2010.

(iv) Pursuant to the management agreement between Tianjin Tianhui and Shandong Shanshui, Shandong Shanshui is entitled to an annual management fee of RMB100,000 plus 5% share of the annual gross profits of Tianjin Tianhui. This represents the total management fees of Shandong Shanshui for the period from 1 January 2010 to 9 April 2010.

(v) These relate to loans and related interests to Dong'e Shanshui, the associate of the Group. These loans with total principal of RMB74,000,000 bear interest at one-year PRC bank loan interest rate (2010: 5.31%) and the related interest receivables as at 31 December 2010 was RMB680,000.

(vi) Anqiu Shanshui and Pingyin Shanshui entered into loan agreements with one of the Company's equity shareholders, International Finance Corporation ("IFC"), totalling USD50,000,000 in 2006. The loans bear interest at London Inter Bank Offered Rate ("LIBOR") plus 2% per annum and are repayable bi-annually from 2008 to 2014.

Weihai Shanshui, Qingdao Chuangxin, Linqu Shanshui and Zaozhuang Chuangxin entered into loan agreements with IFC, totalling USD50,000,000 in 2010. The loans bear interest plus 2.75% per annum and are repayable bi-annually from 2010 to 2015.

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties of the Group:

	2010	2009
	RMB'000	RMB'000
Other receivables due from:		
– Tianjin Tianhui	**–**	4,480
– Stanford	**–**	1,018
– Jinzhu Powder	**–**	541
– China Shanshui Investment	**739**	760
– Property Development	**1,341**	1,341
– Dong'e Shanshui	**680**	–
	2,760	8,140
Customer deposits and receipts in advance from:		
– Tianjin Tianhui	**–**	51
Other financial asset due from:		
– Dong'e Shanshui	**74,000**	–
Other payable due to:		
– IFC	**639**	258
– Jinan Shanshui	**1,200**	–
	1,839	258
Loans due to:		
– IFC	**454,248**	236,359
Liability portion of convertible notes due to:		
– IFC	**–**	10,859

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(d) 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, including amounts paid to the directors as disclosed in note 7, is as follows:

	2010	2009
	RMB'000	RMB'000
Salary, allowances and other benefits	**41,781**	30,279
Contributions to defined contribution retirement plans	**188**	146
	41,969	30,425

38 AMOUNTS DUE FROM/TO SUBSIDIARIES

At 31 December 2010, these represent cash advances to Shanshui Cement Hong Kong and cash advances from Shandong Shanshui. These amounts are unsecured, interest-free and repayable on demand.

39 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 33.

(b) On 20 January 2011, Gongyuan Cement entered into an equity transfer agreement with a third party for the acquisition of the entire equity interests in Inner-Mongolia Lande Cement Company Limited ("Lande Cement") for an aggregate consideration of RMB52,000,000. "Lande Cement" is located in Tongliao City, Inner-Mongolia Province and is principally engaged in the production and sales of cement.

40 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The directors consider the ultimate holding company of the Company as at 31 December 2010 to be China Shanshui Investment, which is incorporated in Hong Kong, China. This entity does not produce financial statements available for public use.

41 ACCOUNTING JUDGMENTS AND ESTIMATES

Key sources of estimation uncertainty are as follows:

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an ongoing basis, the Group evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set out in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Impairments

(i) Property, plant and equipment

In considering the impairment losses that may be required for the Group's property, plant and equipment and construction in progress, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate the net selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to items such as the level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling prices and amount of operating costs.

41 ACCOUNTING JUDGMENTS AND ESTIMATES *(continued)*

(a) Impairments *(continued)*

(ii) Trade and other receivables

Impairment losses for trade and other receivables are assessed and provided based on the Group's regular review of aging analysis and evaluation of collectibles.

In considering the impairment losses that may be required for current receivables, future cash flows need to be determined. One of the key assumptions that has to be adopted is about the ability of the debtors to settle the receivables. Even though the Group has used all available information to make this estimation, inherent uncertainty exists and actual uncollectable amounts may be higher than the amount estimated.

(iii) Inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. The Group will reassess the estimations at each statement of financial position date.

(iv) Goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 1(m). The recoverable amounts of cash-generating units have been determined based on the higher of the cash-generating units' fair value less costs to sell and its value in use. These calculations require the use of estimates which are disclosed in note 15.

(v) Impairment of customer relationship and trademarks

The Group assesses at each statement of financial position date whether there is any indication that customer relationships and trademarks may be impaired. The estimation is based on recoverable amount which is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to those intangible assets for which the estimates of future cash flows have not been adjusted.

41 ACCOUNTING JUDGMENTS AND ESTIMATES *(continued)*

(b) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Both the period and method of amortisation are reviewed annually. The depreciation and amortisation expense for future periods are adjusted if there are significant changes from previous estimates.

(c) Actuarial determined benefit obligations

The Group assesses the actuarial assumptions and methodology periodically to ensure their reasonableness at each end of the reporting period.

The Group would assess the assumptions of recognition, such as the discount rate and the benefit increase rate to assess the reasonableness of the methodology adopted. Should any of these factors change significantly and render the existing method inappropriate, the Group will consider a more appropriate methodology.

(d) Taxation

The Group assesses the tax effect of all transactions and make provision for tax obligations. The Group reviews the tax treatment of these transactions, considering all amendments of tax laws and regulations.

The Group consumed industrial waste in the production of cement and clinker. Such consumption may qualify for certain government subsidies and corresponding income tax exemptions pursuant to the applicable PRC tax laws and regulations. The tax refund or exemption is not recognised until the refund is received or the formal approval of exemption from the tax authorities is obtained.

Deferred tax assets of the Group were recognised from unused tax loss allowance and deductible temporary differences. As the deferred tax assets cannot be recognised until the allowance is probable for deduction against future taxable profits, the Group estimates the expected realisation of future taxable profits. The Group reviews the judgment continuously and recognises additional deferred tax assets if taxable profits are probable to be recognised.

41 ACCOUNTING JUDGMENTS AND ESTIMATES *(continued)*

(e) Going concern basis

Management makes an assessment of the Group's ability to continue as a going concern when preparing the financial statements. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the statement of financial position date. The degree of consideration depends on the facts in each case.

The Group is dependent upon future projections of the Group's profits and cash inflows from operations and the ability of the Group to obtain continued bank financing to finance its continuing operations to meet the Group's future working capital and financing requirements. Management believes the Group is able to continue as a going concern after taking into account future projections of the Group's profits and cash inflows from operations and the ability of the Group to obtain continued bank financing to finance its continuing operation. Accordingly, management has prepared the financial statements on a going concern basis. An adverse change in any of the above conditions would require the financial statements to be prepared on an alternative authoritative basis and such basis, together with the fact that the financial statements is not prepared on a going concern basis, would need to be disclosed. If the Group were unable to continue as a going concern, adjustments relating to the recoverability and classification of recorded asset amounts or classification of liabilities may need to be incorporated in the financial statements.

(Expressed in Renminbi unless otherwise indicated)

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Amendment to IAS 32, *Financial instruments: Presentation – Classification of rights issues*	1 February 2010
IFRIC 19, *Extinguishing financial liabilities with equity instruments*	1 July 2010
Improvements to IFRSs 2010	1 July 2010 or 1 January 2011
Revised IAS 24, Related party disclosures	1 January 2011
Amendments to IFRIC 14, IAS 19 – *The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement*	1 January 2011
Amendments to IFRS 7, *Financial Instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to IAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
IFRS 9, *Financial Instruments*	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations in the period of initial application and has so far concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

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