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

2011 Annual Report

CONTENTS

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 2011 to 31 December 2011
"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

1. BOARD OF DIRECTORS

Executive Directors

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

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

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 – FCIS, FCS, FCPA, FAIA
(9)	Qualified Accountant	:	LI Cheung Hung – FCIS, FCS, FCPA, FAIA
(10)	Principal Bankers	:	China Merchants Bank China Construction Bank Corporation Bank of China
(11)	Listing Date	:	4 July 2008

(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 PRC 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.

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 and was included in Hang Seng Mainland 100 on 5 March 2012, 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.

1. KEY DATA

(1) Key financial data

(Unit: RMB'000)

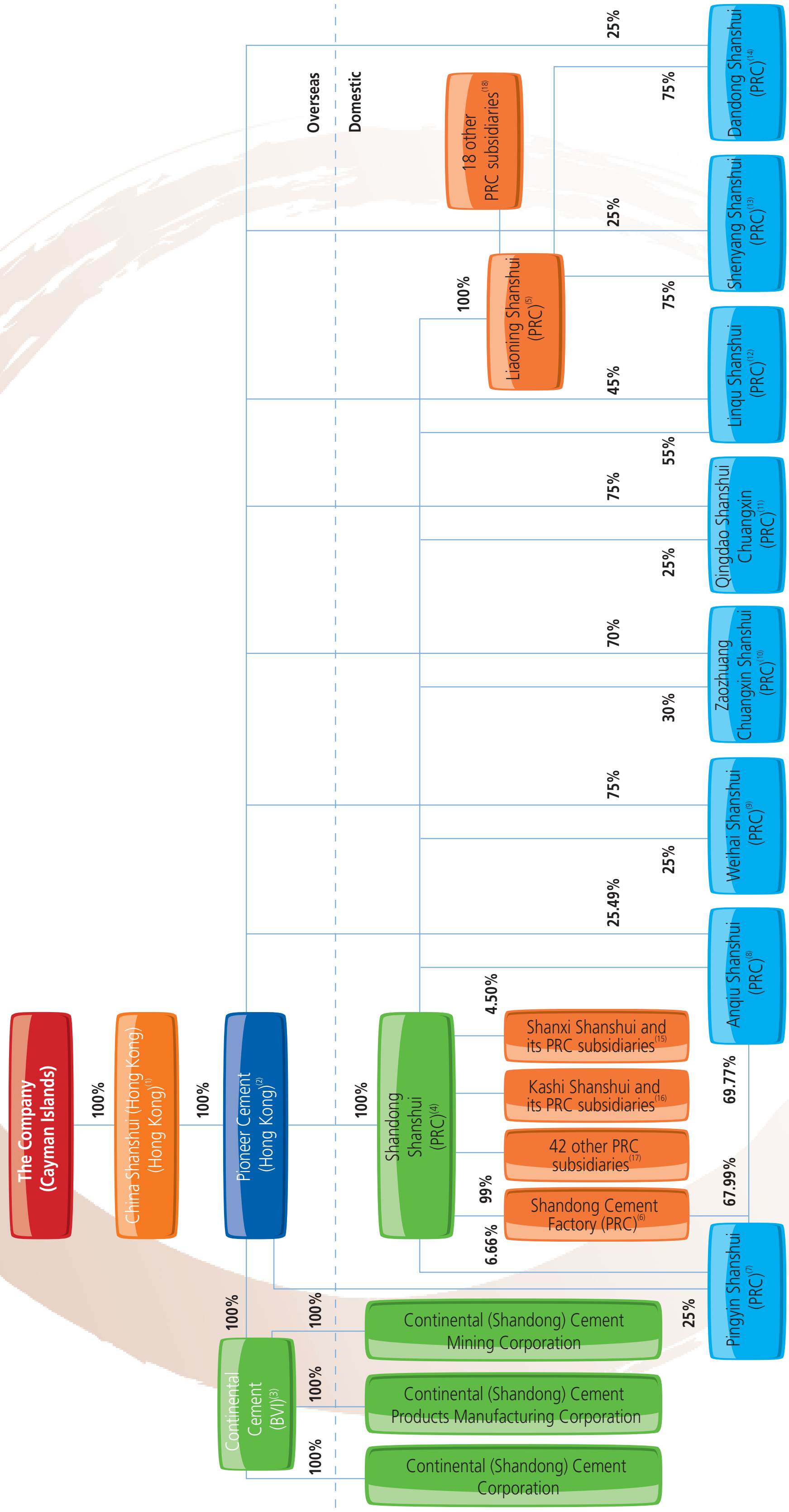
	For the 12 months ended 31 December		
	2011	2010	2009
Revenue	**16,861,956**	11,854,068	8,727,626
Gross profit	**5,079,125**	2,550,102	1,780,475
Gross profit margin	**30.1%**	21.5%	20.4%
Profit from operations	**3,856,493**	1,726,493	1,250,866
Profit margin from operations	**22.9%**	14.6%	14.3%
Profit before tax	**3,254,001**	1,363,205	941,281
Pre-tax profit margin	**19.3%**	11.5%	10.8%
Net profit	**2,311,654**	1,004,917	714,044
Profit attributable to equity shareholders of the Company	**2,225,290**	979,128	701,557
Basic earnings per share (RMB)	**0.79**	0.35	0.25
Net cash generated from operating activities	**1,549,263**	1,789,127	1,025,697

	As at 31 December		
	2011	2010	2009
Total assets	**25,081,673**	18,950,326	14,609,163
Total liability	**16,915,000**	12,801,321	9,380,035
Net gearing ratio	**50.9%**	50.4%	48.2%

(2) Key business data

	2011	2010	2009
Sales volume of cement ('000 tonnes)	**47,943**	39,318	29,388
Sales volume of clinker ('000 tonnes)	**7,000**	9,844	8,422
Sales volume of concrete ('000 m^3)	**937**	785	860
Unit selling price of cement (RMB/tonne)	**294.6**	235.9	224.9
Unit selling price of clinker (RMB/tonne)	**269.5**	197.2	187.5
Unit selling price of concrete (RMB/m^3)	**258.9**	237.5	262.3

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")	Shanxi Shanshui holding 85% of the equity interest; Yangcheng Taiyue Cement Factory holding 15% of the equity interest
Hequ Zhongtianlong Cement Company Limited ("Hequ Zhongtianlong")	Shanxi Shanshui holding 68% of the equity interest; Guo Yongming and Liu Aiming holding 19.5% and 12.5% of the equity interest respectively
Lvliang Yilong Cement Company Limited ("Lvliang Yilong")	Shanxi Shanshui holding 90% of the equity interest; Li Maozhong holding 10% of the equity interest
Jincheng Shanshui Heju Cement Company Limited ("Jincheng Shanshui Heju")	Shanxi Shanshui holding 90% of the equity interest; Shanxi Heju Gongmao Group Limited Holding 10% of the equity interest
Yulin Shanshui Cement Company Limited ("Yulin Shanshui")	Shanxi Shanshui holding 62% of the equity interest; He Weijun, Luan Jing and Bai Liping holding 31.03%, 3.49% and 3.48% of the equity interest respectively
Yulin Shanshui Environmental Building Materials Company Limited ("Yulin Environmental Building Materials")	Shanxi Shanshui holding 85% of the equity interest; Yulin Environmental Building Materials Company Limited holding 15% of the equity interest
Linfen Shanshui Cement Company Limited ("Linfen Shanshui")	Shanxi Shanshui holding 90% of the equity interest; Hongtong Xiaobo Building Materials Company Limited holding 10% of the equity interest
Shuozhou Shanshui New Era Cement Company Limited ("Shuzhou Shanshui")	Shanxi Shanshui holding 75% of the equity interest; Shanxi New Era Real Estate Development Group Company Limited holding 25% of the equity interest
Taiyuan Shanshui Cement Company Limited ("Taiyuan Shanshui")	Shanxi Shanshui holding 60% of the equity interest; Rong Jilin holding 40% 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")	Kashi Shanshui holding 100% of the equity interest;
Shule Shanshui Cement Company Limited ("Shule Shanshui")	Kashi Shanshui holding 100% of the equity interest;
Shache Shanshui Cement Company Limited ("Shache Shanshui")	Kashi Shanshui holding 100% of the equity interest;
Bachu Shanshui Cement Company Limited ("Bachu Shanshui")	Kashi Shanshui holding 100% of the equity interest;

(17) The details of the 42 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")	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest

Name of subsidiary	Shareholders
Dongying Shanshui Cement Company Limited	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Changle Shanshui Cement Company Limited	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Binzhou Shanshui Cement Company Limited	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Gucheng Shanshui Cement Company Limited	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Jinan Shanshui Cement Mechanics Company Limited	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Jinan Shanshui Wuliugang Company Limited	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Zibo Shuangfeng Shanshui Cement Company Limited	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Shandong Shanshui Cement Industrial Design Development Company Limited	Shandong Shanshui holding 90% of the equity interest; Jinan Shanshui holding 10% of the equity interest
Zibo Shanshui Cement Company Limited	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Juye Shanshui Cement Company Limited	Shandong Shanshui holding 96% of the equity interest; Pingyin Shanshui holding 4% of the equity interest
Jinan Shi-ji Chuang-xin Cement Company Limited	Shandong Shanshui holding 95.18% of the equity interest
Weifang Shanshui Cement Company Limited	Shandong Shanshui holding 100% of the equity interest
Weifang Shanshui Packaging Products Company Limited	Weifang Shanshui holding 90% of the equity interest; Changle Shanshui holding 10% of the equity interest
Yantai Shanshui Cement Company Limited	Shandong Shanshui holding 100% of the equity interest
Zaozhuang Shanshui Cement Company Limited	Shandong Shanshui holding 100% of the equity interest
Yishui Shanshui Cement Company Limited	Shandong Shanshui holding 99.38% of the equity interest; Jinan Shanshui holding 0.62% of the equity interest
Yishui Chuangxin Shanshui Cement Company Limited	Shandong Shanshui holding 100% of the equity interest
Qingdao Shanshui Jianxin Cement Company Limited	Shandong Shanshui holding 100% of the equity interest
Weishan Shanshui Cement Company Limited ("Weishan Shanshui")	Shandong Shanshui holding 100% of the equity interest
Caoxian Shanshui Cement Company Limited	Shandong Shanshui holding 100% of the equity interest
Shanxian Shanshui Cement Company Limited	Shandong Shanshui holding 100% of the equity interest
Weifang Binhai Shanshui Cement Company Limited	Shandong Shanshui holding 100% of the equity interest
Tianjin Shanshui Cement Company Limited	Shandong Shanshui holding 100% of the equity interest
Bozhou Shanshui Cement Company Limited	Shandong Shanshui holding 100% of the equity interest
Bengbu Shanshui Cement Company Limited	Shandong Shanshui holding 100% of the equity interest
Jining Shanshui Cement Company Limited ("Jining Shanshui")	Shandong Shanshui holding 100% of the equity interest
Qingdao Shanshui Hengtai Cement Company Limited ("Qingdao Shanshui Hengtai")	Shandong Shanshui holding 100% of the equity interest

Name of subsidiary	Shareholders
Tianjin Tianhui Cement Company Limited ("Tianjin Tianhui")	Shandong Shanshui holding 100% of the equity interest
Laoling Shanshui Cement Company Limited ("Laoling Shanshui")	Shandong Shanshui holding 100% of the equity interest
Shenxian Shanshui Dongchang Cement Company Limited ("Shenxian Shanshui")	Shandong Shanshui holding 100% of the equity interest
Donge Shanshui Dongchang Cement Company Limited ("Donge Shanshui")	Shandong Shanshui holding 49% of the equity interest; Donge Dongchang Cement Company Limited holding 51% of the equity interest
Kenli Shanshui Cement Company Limited ("Kenli Shanshui")	Shandong Shanshui holding 90% of the equity interest; Shengli Oilfield Yinghai Shiye Group Limited holding 10% of the equity interest
Guangrao Shanshui Cement Company Limited ("Guangrao Shanshui")	Shandong Shanshui holding 70% of the equity interest; Shengli Oilfield Yinghai Shiye Group Limited holding 10% of the equity interest; Sun Hongyu holding 20% of the equity interest
Huixian Shanshui Cement Company Limited ("Huixian Shanshui")	Shandong Shanshui holding 100% of the equity interest
Linqing Shanshui Cement Company Limited ("Linqing Shanshui")	Shandong Shanshui holding 100% of the equity interest
Zhoukou Shanshui Pineline Company Limited ("Zhoukuo Shanshui")	Shandong Shanshui holding 100% of the equity interest
Shandong Shanshui Building Materials Company Limited ("Shanshui Building Materials")	Shandong Shanshui holding 100% of the equity interest
Weifang Wanda Building Materials Company Limited	Shanshui Building Materials holding 100% of the equity interest
Dezhou Tianqi Concrete Company Limited	Shanshui Building Materials holding 60% of the equity interest; Dezhou Zhucheng Commercial Concrete Company Limited holding 40% of the equity interest
Liaoyang Qianshan Cement Company Limited ("Qianshan Cement")	Shandong Shanshui holding 73% of the equity interest; Jiang Ming holding 25.9% of the equity interest and Wang Yinlong holding 1.1% of the equity interest
Chifeng Yuanhang Cement Company Limited ("Chifeng Yuanhang Cement")	Shandong Shanshui holding 97% of the equity interest; Lv Junyi holding 3% of the equity interest

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

Name of subsidiary	Shareholders
Dalian Shanshui Cement Company Limited	Liaoning Shanshui holding 100% of the equity interest
Panjin Shanshui Cement Company Limited ("Panjin Shanshui")	Liaoning Shanshui holding 100% of the equity interest
Yingkou Shanshui Cement Company Limited ("Yingkou Shanshui")	Liaoning Shanshui holding 100% of the equity interest
Alu Kerqin Qi Shanshui Cement Company Limited	Liaoning Shanshui holding 85% of the equity interest; Lu Junjie holding 15% of the equity interest

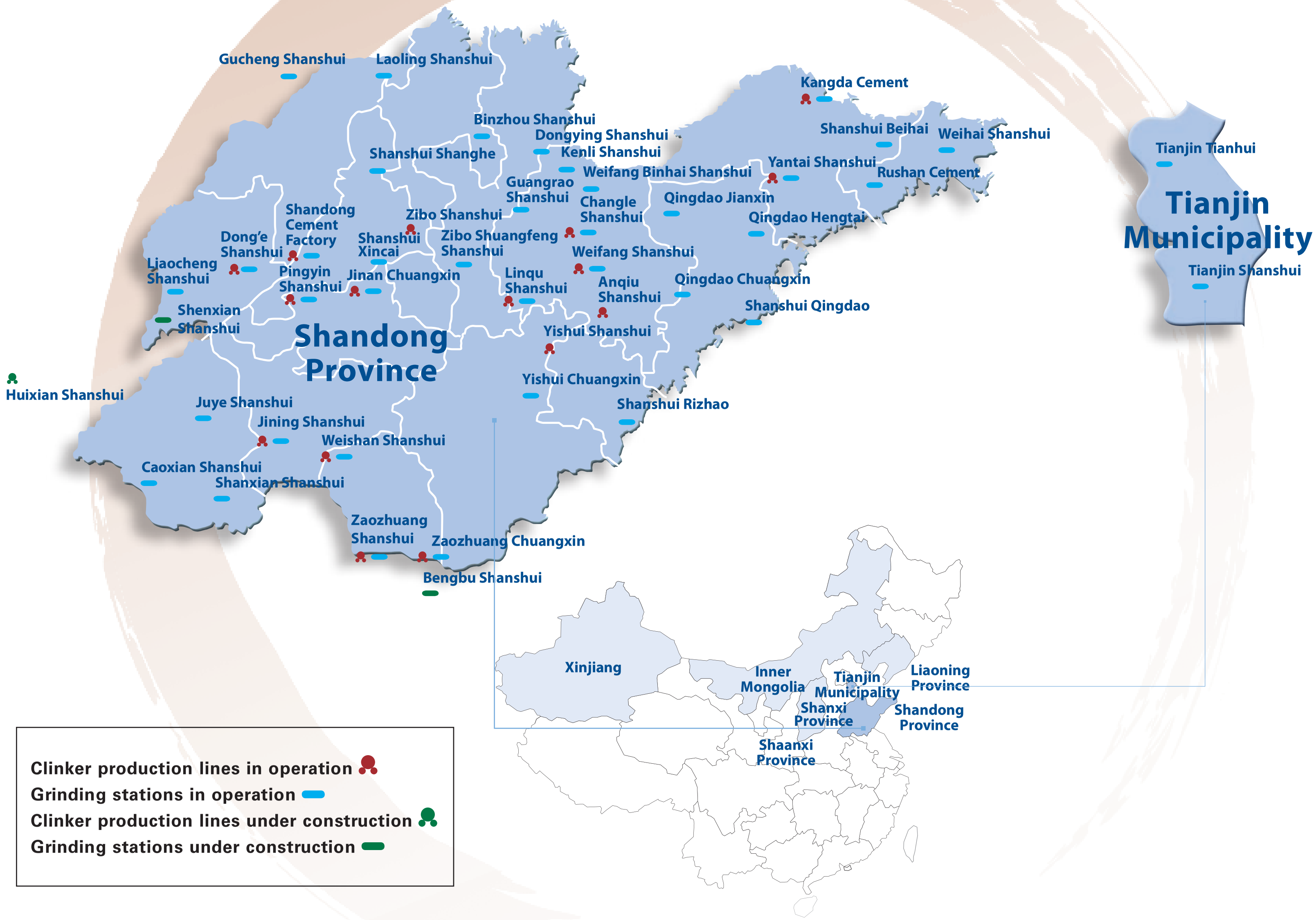
Name of subsidiary	Shareholders
Balinyou Qi Shanshui Cement Company Limited ("Balin Youqi")	Liaoning Shanshui holding 100% of the equity interest
Huolin Guole Shanshui Cement Company Limited ("Huolin Guole")	Liaoning Shanshui holding 85% of the equity interest; Cui Haifeng and Gong Ziming each holding 7.5% of the equity interest
Zhalaite Qi Shanshui Cement Company Limited ("Zhalaite Qi Shanshui")	Liaoning Shanshui holding 90% of the equity interest; Li Tiejun holding 10% of the equity interest
Wulanhaote Tianzhu Cement Company Limited ("Tianzhu Cement")	Liaoning Shanshui holding 90% of the equity interest; Li Tiejun holding 10% of the equity interest
Tongliao Shanshui Gongyuan Cement Company Limited ("Tongliao Shanshui Gongyuan")	Liaoning Shanshui holding 100% of the equity interest
Benxi Shanshui Gongyuan Transportation Company Limited ("Benxi Transportation")	Liaoning Shanshui holding 100% of the equity interest
Benxi Shanshui Mechanics and Electronic Engineering Company Limited	Liaoning Shanshui holding 100% of the equity interest
Benxi Shanshui Gongyuan Packaging Products Company Limited	Liaoning Shanshui holding 100% of the equity interest
Benxi Shanshui Mining Co., Ltd.	Liaoning Shanshui holding 100% of the equity interest
Inner Mongolia Lande Cement Company Limited ("Lande Cement")	Liaoning Shanshui holding 100% of the equity interest
Benxi Shanshui Cement Company Limited	Liaoning Shanshui holding 100% of the equity interest
Keyouzhong Qi Shanshui Cement Company Limited ("Keyou Zhongqi Shanshui")	Liaoning Shanshui holding 100% of the equity interest
Benxi Shanshui Shiye Company Limited	Liaoning Shanshui holding 100% of the equity interest
Baishan Shanshui Cement Company Limited ("Baishan Shanshui")	Liaoning Shanshui holding 70% of the equity interest; Baishan Jiangyuan Dongsheng Cement Company Limited holding 30% of the equity interest

3. DISTRIBUTION OF PRODUCTION FACILITIES AND CAPACITY

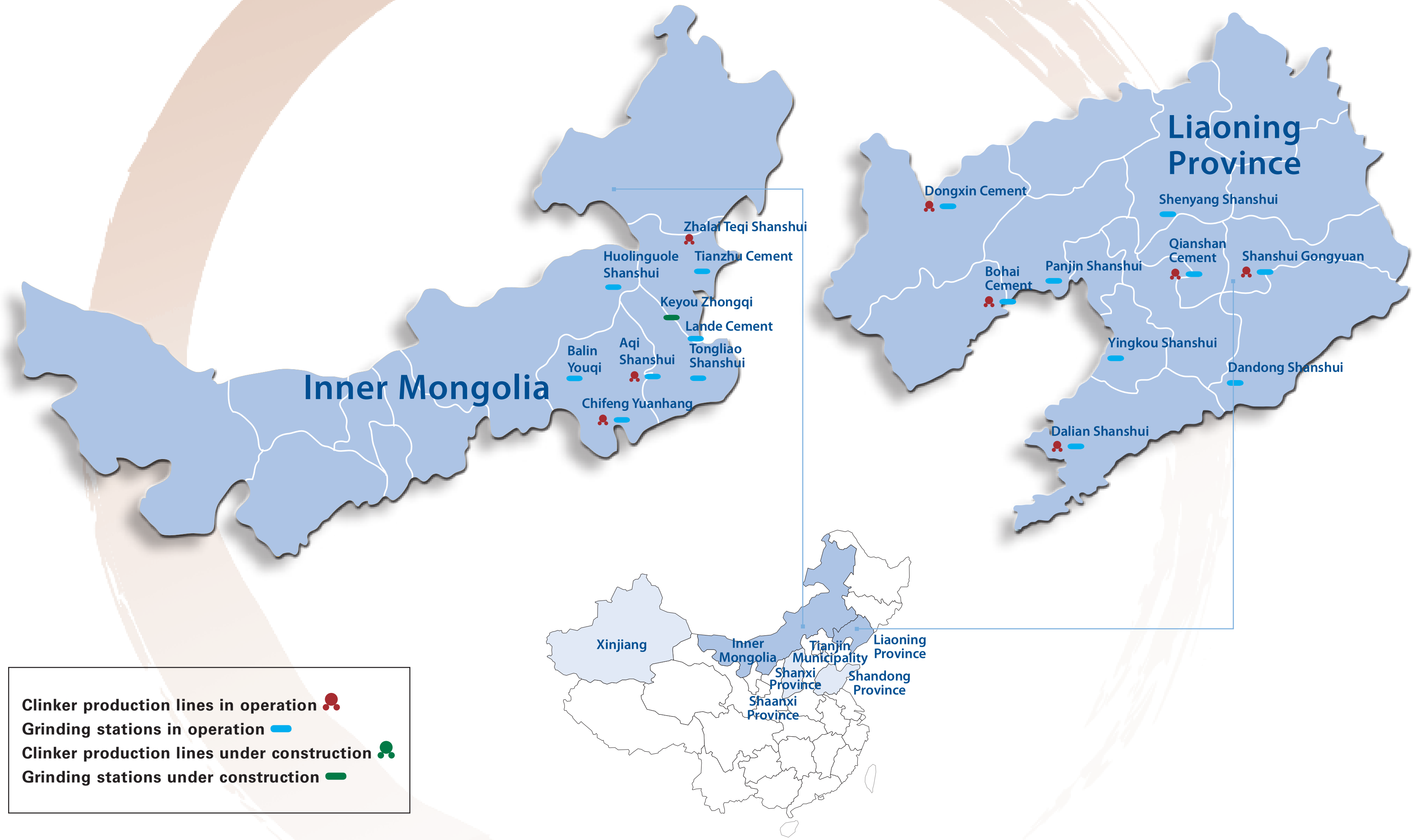
The Group's production facilities are principally located in Shandong Province, Liaoning Province,east part of Inner Mongolia and Shanxi Province, and its clinker production facilities are located near its limestone mines serving cement grinding stations that are strategically located in close proximity 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 2011, The Company had a total production capacity (including production lines in test run and acquisition agreements have been signed)of 84.24 million tonnes of cement and 37.35 million tonnes of clinker. Separately, the total capacity of cement and clinker in Shandong Region reached 53.84 million tonnes and 23.49 million tonnes respectively, while the total capacity of cement and clinker in Northeast Region reached 25.90 million tonnes and 10.98 million tonnes. The cement and clinker capacity in Shanxi Region reached 4.50 million tonnes and 2.88 million tonnes respectively.

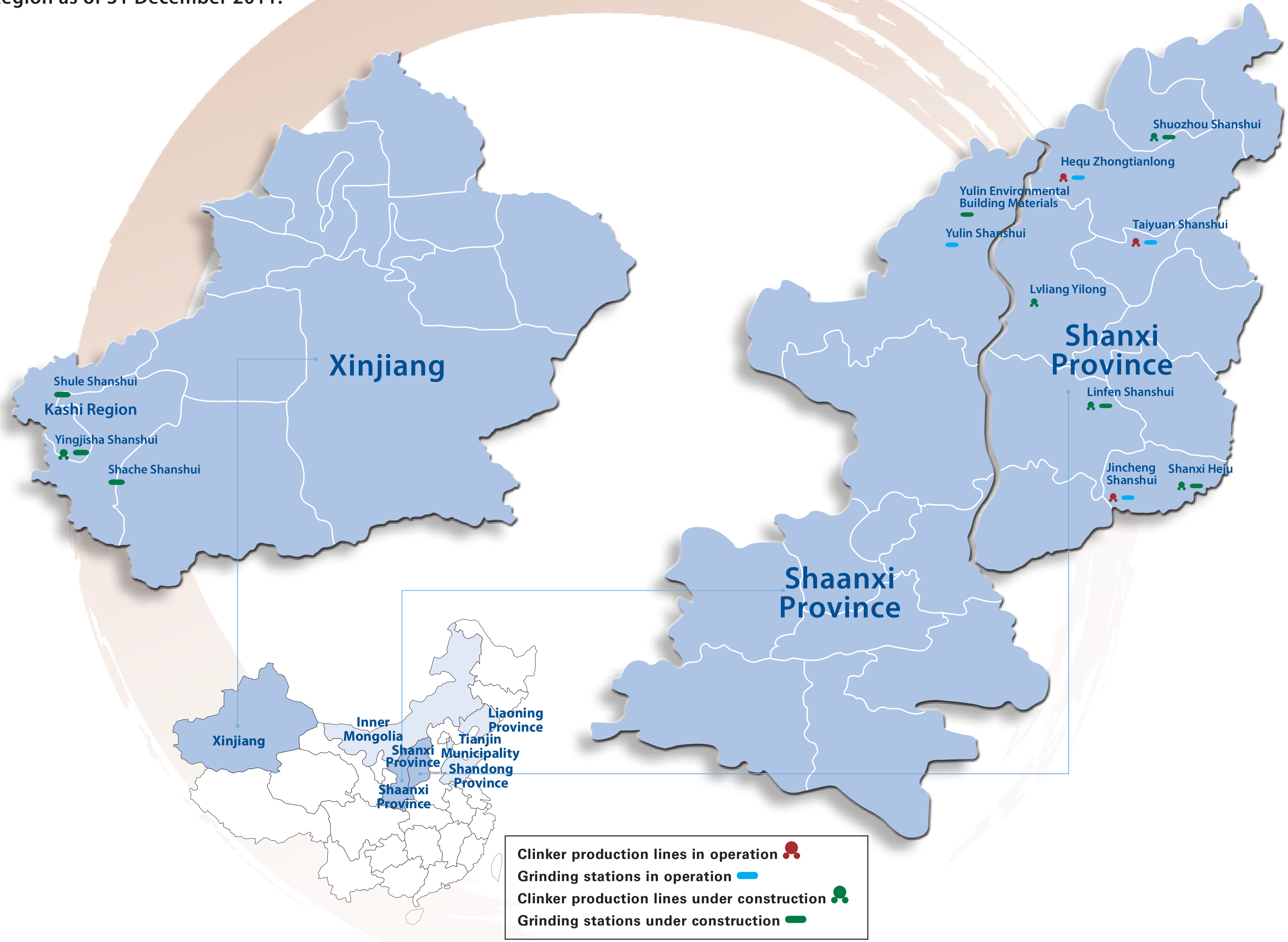
The diagram below shows the locations of our major production facilities (including projects under construction) in Shandong Region as of 31 December 2011:



The diagram below shows the locations of our major production facilities (including projects under construction) in Northeast Region as of 31 December 2011:



The diagram below shows the locations of our major production facilities (including projects under construction) in Xinjiang and Shanxi Region as of 31 December 2011:



The financial data for the year ended 31 December 2011

CONSOLIDATED INCOME STATEMENT

(Unit: RMB'000, unless stated otherwise)

	2011	2010	2009
Revenue	**16,861,956**	11,854,068	8,727,626
Profit from operations	**3,856,493**	1,726,493	1,250,866
Net profit	**2,311,654**	1,004,917	714,044
Attributable to:			
Equity shareholders of the Company	**2,225,290**	979,128	701,557
Minority interests	**86,364**	25,789	12,487
Basic earnings per share (RMB)	**0.79**	0.35	0.25
Diluted earnings per share (RMB)	**0.79**	0.35	0.25

CONSOLIDATED BALANCE SHEET

(Unit: RMB'000)

	2011	2010	2009
Non-current assets	**16,791,916**	14,722,366	11,302,282
Current assets	**8,289,757**	4,227,960	3,306,881
Total assets	**25,081,673**	18,950,326	14,609,163
Total liabilities	**16,915,000**	12,801,321	9,380,035
Equity attributable to equity shareholders of the Company	**7,709,037**	5,687,525	5,160,193
Non-controlling interests	**457,636**	461,480	68,935
Non-current liabilities	**8,833,518**	6,319,680	4,410,101
Current liabilities	**8,081,482**	6,481,641	4,969,934
Total equity and liabilities	**25,081,673**	18,950,326	14,609,163

CONSOLIDATED CASH FLOW STATEMENT

(Unit: RMB'000)

	2011	2010	2009
Net cash generated from operating activities	**1,549,263**	1,789,127	1,025,697
Net cash used in investing activities	**(3,370,683)**	(2,926,815)	(2,136,401)
Net cash generated from financing activities	**3,686,949**	1,398,263	748,631
Net increase/(decrease) in cash and cash equivalents	**1,865,529**	260,575	(362,073)

(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 2011, 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 2010, the Company had a total issued capital of 2,815,950,200 Shares.

During the Reporting Period, the Company did not issue any additional Shares.

2. SUMMARY OF SHARE TRADING PRICES IN 2011

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	6.42	5.58
February	6.15	5.10
March	7.44	5.71
April	8.77	7.11
May	9.04	7.50
June	9.03	7.35
July	10.20	8.75
August	9.86	6.11
September	8.16	4.72
October	6.84	4.25
November	6.85	5.25
December	6.06	4.89

3. SHAREHOLDINGS OF SHAREHOLDERS AND DIRECTORS

(1) Shareholdings of substantial shareholders

As at 31 December 2011, 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	847,908,316(L)[(2)]	Beneficial owner	30.11%
Hillhouse Capital Management, Ltd.[(3)]	242,759,000(L)	Investment manger	8.62%
Gaoling Fund, L.P.[(4)]	242,305,000(L)	Interest in controlled corporations	8.60%
JPMorgan Chase & Co.[(5)]	155,638,325(L)	Custodian corporation/ approved lending agent	5.53%
	33,609,000(L)	Investment manager	1.19%
	8,455,000(L)	Beneficial owner	0.30%
	5,000,000(S)	Beneficial owner	0.18%
T. Rowe Price Associates Inc. and its affiliates[(6)]	142,610,000(L)	Investment manager	5.06%

Notes:

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

(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 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. According to the loan agreement, the loan has been repayed and the pledged shares have been released during the reporting period.

(3) As stated in the form of disclosure of shareholder's interests submitted by Hillhouse Capital Management, Ltd on 6 April 2011 (the date of the relevant event set out in the form was 31 March 2011), these Shares were held via Hillhouse Capital Management, Ltd. and its affiliates.

(4) As stated in the form of disclosure of shareholder's interests submitted by Gaoling Fund, L.P. on 6 April 2011 (the date of the relevant event set out in the form was 31 March 2011), Gaoling Fund, L.P. is the beneficial owner of these Shares.

(5) As stated in the form of disclosure of shareholder's interests submitted by JPMorgan Chase & Co. on 22 December 2011 (the date of the relevant event set out in the form was 19 December 2011), these Shares were held via JPMorgan Chase & Co. and its affiliates.

(6) As stated in the form of disclosure of shareholder's interests submitted by T. Rowe Price Associates Inc.and its affiliates on 4 October 2011 (the date of the relevant event set out in the form was 30 September 2011), these Shares were held via T. Rowe Price Associates Inc. and its affiliates.

Save as disclosed above and so far as the Directors are aware of, as of 31 December 2011, 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.

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

As at 31 December 2011, 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:

Name of director	The Company/ Name of Relevant Organisation	Class of shares	Number of shares held Corporate interests	Total	Percentage of total share capital in issue as of 31 December 2011
Zhang Caikui	The Company	Ordinary share	847,908,316(L)[1]	847,908,316	30.11%
Zhang Bin	The Company	Share options	5,000,000(L)	5,000,000	0.18%[2]

Notes:

(1) The 847,908,316 Shares were held by Shanshui Investment. Mr Zhang Caikui as a discretionary trustee holds, and has the absolute discretion to manage and control, more than 50% of the shares of Shanshui Investment. Therefore, Mr Zhang Caikui is deemed under the SFO to be interested in all the Shares registered in the name of Shanshui Investment

As mentioned in the section "Shareholdings of Substantial Shareholders" above, included in these 847,908,316 Shares are 169,000,000 Shares pledged to Wing Lung Bank.

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 from Shanshui Investment. During the Reporting Period, CCBI Cement exercised all of its purchase right.

(2) Based on our share capital in issue (2,815,950,200 Shares) as of 31 December 2011. For details, please refer to Section 5 "Share Option Scheme" of this Chapter.

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. SHARE OPTION SCHEME

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

Type of Grantee	Date of grant during the Reporting Period	Granted during the Reporting Period	Vesting period	Exercise price	Exercised during the Reporting Period	Lapsed during the Reporting Period	Cancelled during the Reporting Period	Expired during the Reporting Period	Not yet exercised during the Reporting Period
Zhang Bin, *Executive Director*	25 May 2011	Options for subscription of 5,000,000 Shares	Nil	HK$7.90	Nil	Nil	Nil	Nil	Options for subscription of 5,000,000 Shares
Employees	25 May 2011	Options for subscription of 2,300,000 Shares	Nil	HK$7.90	Nil	Nil	Nil	Nil	Options for subscription of 2,300,000 Shares
	Total number of options granted and accepted	Options for subscription of 7,300,000 Shares			Nil	Nil	Nil	Nil	Options for subscription of 7,300,000 Shares

Summary of the principal terms of the Share Option Scheme

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

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

The options that may be granted under the Share Option Scheme shall involve a total number of 7,300,000 Shares, representing approximately 0.26% of our share capital in issue (2,815,950,200 Shares) as of 31 December 2011.

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

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

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

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.

(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	61	1 July 2011 – 30 June 2014
ZHANG Bin (張斌)	Vice Chairman, Executive Director and General Manager	M	33	10 September 2010 – 9 September 2013
DONG Chengtian (董承田)	Executive Director, Deputy General Manager	M	54	1 July 2011 – 30 June 2014
YU Yuchuan (于玉川)	Executive Director, Deputy General Manager and Chief Engineer	M	53	1 July 2011 – 30 June 2014
Homer SUN (孫弘)	Non-Executive Director	M	40	1 July 2011 – 30 June 2014
JIAO Shuge (焦樹閣)	Non-Executive Director	M	46	1 July 2011 – 30 June 2014
SUN Jianguo (孫建國)	Independent Non-Executive Director	M	57	1 July 2011 – 30 June 2014
WANG Yanmou (王燕謀)	Independent Non-Executive Director	M	79	1 July 2011 – 30 June 2014
WANG Jian (王堅)	Independent Non-Executive Director	M	56	1 July 2011 – 30 June 2014
ZHANG Bin (張斌)	Joint Company Secretary	M	33	1 July 2011 – 30 June 2014
LI Cheung Hung (李長虹)	Joint Company Secretary, Qualified Accountant	M	61	1 July 2011 – 30 June 2014

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. ZHANG Caikui (張才奎), aged 61, 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 43 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 33, 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, Legal Affairs, the sourcing and supply centre and Internal Audit, 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 54, 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 53, is the Executive Director, Deputy General Manager and Chief Engineer of the Company, primarily responsible for production management in Shandong Region. 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 40, is a Non-Executive Director of the Company. He is currently the Chief Investment Officer of Morgan Stanley Private Equity Asia and leads the China investments for Morgan Stanley Private Equity Asia. Mr. Sun is also a Managing Director of Morgan Stanley Asia Limited and a member of the China Management Committee which is comprised of Morgan Stanley Asia Limited's most senior business leaders within China. He is currently the Non-Executive Director of Sihuan Pharmaceutical Holdings Group (stock code: 460), China Flooring Holding (stock code: 2083), China XD Plastics (a company listed on the NASDAQ stock exchange, ticker: CXDC) and Yongye International (a company listed on the NASDAQ stock exchange, ticker: YONG). Mr. Sun joined Morgan Stanley Asia Limited in 2000 and worked for six years on various mergers and acquisitions in Greater China in the Investment Banking Division prior to joining Morgan Stanley Private Equity Asia Limited. From 1996 to 2000, he was a corporate attorney with Simpson Thacher & Bartlett in New York and Hong Kong, specializing in mergers and acquisitions. Mr. Sun received a B.S.E. in Chemical Engineering, magna cum laude, from the University of Michigan in 1993 and a J.D, cum laude, from the University of Michigan Law School in 1996.

Mr. JIAO Shuge (alias JIAO Zhen) (焦樹閣), aged 46, is the Non-Executive Director of the Company. He joined our Group on 30 November 2005. He is currently a Director and Managing Partner of CDH China Management Company Limited, 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)), China Mengniu Dairy Company Limited (a company listed on the Hong Kong Stock Exchange (stock code: 2319)) and a Director of Joyoung Company Limited, a company listed in Shenzhen. From December 1995 to August 2002, Mr. Jiao was Vice President 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 Aeronautics and Astronautics in 1989.

Independent Non-Executive Directors

Mr. SUN Jianguo (孫建國), aged 57, 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 79, 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)), an Independent Non-Executive Director of China Tianrui Group Cement Company Limited (a company listed on the Hong Kong Stock Exchange (stock code: 1252)) and is an advisor to the Expert Academic 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.

Mr. WANG Jian (王堅), aged 56, 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 47, 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 30 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 51, 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 over 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 50, 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 31 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 41, is the Deputy General Manager of the Group, primarily responsible for the engineering technology aspects of the Group's operations. Mr. Chen has 17 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.

Mr. TIAN Guang (田光), aged 36, is the Deputy General Manager of the Group, primarily responsible for the strategic development of the Group. Mr. Tian has 19 years of experience in cement industry and gained his experience from working in and managing several cement companies. Mr. Tian joined Shandong Cement Plant in October 1998 and he was appointed as the General Manger of the Group's Jinan Shiji Chuangxin Cement Company Limited in October 2002. In March 2004, he was appointed as the General Manager of the Group's Zibo Shanshui Cement Company Limited. In January 2011, Mr. Tian was appointed as the Deputy General Manager of the Group. Mr. Tian graduated from the Shandong Building Construction College with a Bachelor's degree in Building Construction in July 1996.

Joint Company Secretaries and Qualified Accountant

Mr. LI Cheung Hung (李長虹), aged 61, is one of the Joint Company 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 Institute of Chartered Secretaries & Administrators and The Hong Kong Institute of Chartered Secretaries. He is also a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of International Accountants in England.

Mr. ZHANG Bin (張斌), aged 33, is one of the Joint Company 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 Board Meeting of the Company, which was held on 25 March 2011, approved the re-appointment of Mr. ZHANG Caikui, 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 2011; 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 2011, subject to a renewal of up to three years thereafter.

The Board Meeting of the Company, which was held on 25 March 2011, approved the re-appointment of Mr. ZHANG Bin and Mr. LI Cheung Hung as the Joint Company Secretaries of the Company for a term of office of three years commencing from 1 July 2011.

Pursuant to Article 16.2 of the articles of association, Mr. ZHANG Bin's term of office as director expired at the 2010 annual general meeting held on 20 May 2011, and Mr. ZHANG has been re-elected as director of the Company thereat.

Pursuant to Article 16.18 of the Articles of Association, Mr. DONG Chengtian, Mr. WANG Yanmou and Mr. WANG Jian retired as a Director by rotation at the 2010 Annual General Meeting of the Company held on 20 May 2011, and they all were re-elected as the Directors of the Company at the meeting.

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 25 March 2011 for a term of three years commencing on 1 July 2011, 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 non-controlling 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 RMB1.5 million. 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 25 March 2011. Each letter of appointment is for an initial term of one year commencing from 1 July 2011, 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 25 March 2011. Each letter of appointment is for an initial term of one year commencing from 1 July 2011, 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.

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 2011, the Group had 16,637 employees (10,775 in Shandong Province, 5,104 in Northeast China and 758 in Shanxi Province), including 10,362 production staff, 1,398 sales staff, 811 technical staff 565 finance staff, 1,833 administrative and management staff, and 1,668 other staff. 11,582 of the employees had secondary and higher education, of which 4,322 received tertiary or above education. The aggregate remuneration of the employees of the Group for the year amounted to RMB897.59 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 2011 amounted to RMB98.40 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 2011, the total contributions made by the Group to the housing provident fund amounted to approximately RMB23.36 million.

1. CODE ON CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Board of the Company was not aware of any information which would indicate that the Company did not comply with 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

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

During the Reporting Period, 2 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*	50%
JIAO Shuge	100%
SUN Jianguo	100%
WANG Yanmou	100%
WANG Jian	100%

* Mr. Homer SUN has authorized the Chairman of the Board to exercise his Director's right in his stead in case that he failed to attend Board meetings in person.

Furthermore, the Board has voted on 9 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	100%
DONG Chengtian	100%
YU Yuchuan	100%
Homer SUN	100%
JIAO Shuge	100%
SUN Jianguo	100%
WANG Yanmou	100%
WANG Jian	100%

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 served 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.

The position of General Manager of the Company is served by Mr. ZHANG Bin.

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 25 March 2011. 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 25 March 2011, 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.

At the meeting held on 26 August 2011, 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 2011 in accordance with IFRS; and (ii) the interim results announcement and interim report proposed to publish on the website of the Stock Exchange.

On 16 January 2012, the Joint Company Secretaries of the Company notified the Audit Committee on a timely manner in respect of the schedule of audit work for 2011.

The results of the Group for the year ended 31 December 2011 have been reviewed by the Audit Committee at the meeting held on 23 March 2012. At such meeting, the Audit Committee considered and approved the following resolutions: (i) the financial report for 2011 of the Company; (ii) the audited annual financial report of the Company as at 31 December 2011 prepared in accordance with IFRS, and the auditor report for 2011 submitted by KPMG; (iii) the management letter submitted by KPMG; (iv) the connected transactions of the Company for 2011; (v) the proposal to the Board to re-appoint KPMG as the auditor of the Company in 2012.

The Audit Committee made an objective assessment on the work conducted by KPMG: During the process of conducting the audit of the Company for 2011, 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 2012.

The above proposal proposed by the Board is to be considered and approved at the annual general meeting for 2011.

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") 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 of the Company are Mr. ZHANG Caikui, Mr. ZHANG Bin, Mr. DONG Chengtian and Mr. YU Yuchuan, among them Mr. ZHANG Caikui serves as the chairman.

At the meeting held on 25 March 2011, the Executive Committee considered and approved the following resolutions: (i) the financial report for 2011 of the Company; (ii) the realised items occurred that over the budget of fixed capital expenditure for 2010 of the Company; (iii) the budget of fixed capital expenditure for 2011 of the Company; (iv) the drawdown proposal of bank facilities for 2011 of the Company; (iv) the proposal of issuance of HKD4 billion CNH or USD bond in 2011 of the Company.

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

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") 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.

During the Reporting Period, the Nomination Committee of the Company did not call any meeting.

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 2011. The audit remuneration payable to KPMG by the Company and its subsidiaries for the year ended 31 December 2011 amounted to RMB6.5 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 RMB6.32 million for performing certain agreed-upon procedures on the relevant financial statements of projects 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 2010 was held on 20 May 2011 and five ordinary resolutions (including the adoption of the audited consolidated financial statements for 2010, dividend distribution and rotation of directors), details of which were disclosed in the AGM poll results announcement dated 20 May 2011.

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.

(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.

DOMESTIC OPERATING ENVIRONMENT AND OPERATING CONDITIONS OF THE CEMENT INDUSTRY

In the first year of the "Twelfth Five-year Plan" period, the Chinese government carefully analyzed and evaluated the situation and correctly maintained a balance between promoting a steady and relatively fast economic development, adjusting the economic structure and controlling expected inflation, vigorously increased investments in the well-being of the people, accelerated the progress of urbanization and construction of new rural areas. All these policies enabled the Chinese economy to proceed towards the objectives of macro-economic adjustment and continued to maintain a steady and rapid development. In 2011, China's GDP was expected to reach a total of RMB47,156.4 billion, representing a 9.2% growth over last year. Fixed assets investment of the whole country in the year was RMB31,102.2 billion, representing a 23.6% increase over the previous year. Investment in real estate development during the year reached RMB6,174.0 billion, representing an increase of 27.9% over the previous year. Large scale investment in fixed assets had effectively boosted the market demand for cement. (Source: National Bureau of Statistics of China)

In 2011, the State intensified its efforts on energy conservation and emission reduction and accelerated the phasing out of obsolete production capacity in the cement industry. Meanwhile, the Government tightened the approval on cement projects, which resulted in a continuous improvement in the supply and demand dynamics of the cement industry. In July 2011, the Ministry of Industry and Information Technology ("MIIT") announced the list of obsolete enterprises to be phased out in the cement industry. China planned to eliminate obsolete cement production capacity of 153.27 million tonnes in 2011. Among which, the targets for elimination of obsolete cement production capacity for Shandong province, Liaoning province, Inner Mongolia and Shanxi province, the regions where the Group's operations are located, would be 8.66 million tonnes, 16.30 million tonnes, 2.17 million tonnes and 12.81 million tonnes respectively. At the same time, the State continued to implement a stringent approval system for cement projects and strictly controlled additional cement production capacity. As a result, the market supply-and-demand dynamics of the cement industry improved continuously. In 2011, under the impact of the State's policies on curbing excessive growth of cement production capacity, fixed assets investment in the cement industry was RMB143.9 billion, representing a decrease of 8.3% compared to the previous year, the first time a negative growth was recorded in five years.(Source: MIIT)

In 2011, under the support of the State's policy to promote reorganisation and mergers in the cement industry, big cement conglomerates, leveraging on their remarkable profitability and financing capacity, further expanded their production capacities through mergers and reorganization, thus resulted in further improvement in industry concentration and regional control, which in turn enhanced their pricing ability which formed a good mechanism for price determination, and laid a solid foundation for continuous good performance of the cement industry.

In 2011, total cement output throughout the country reached 2,090 million tonnes, representing an increase of 10.8% over the previous year. With continuous improvement in the supply and demand dynamics of the cement industry, further intensified industrial concentration, and increased market control by cement conglomerates, the cement industry achieved remarkable operating results. According to MIIT, the cement industry in China recorded a profit of RMB102.0 billion, representing a substantial growth of 67% over the previous year and hitting a record high. (Source: National Bureau of Statistics of China and MIIT)

ANALYSIS OF COMPANY OPERATING CONDITIONS

Operations Overview

In 2011, seizing the opportunities brought about by the government's policy of "continuously increasing investments in major infrastructure projects, accelerating the progress of urbanization and the construction of new rural areas as well as restricting additional cement production capacity and eliminating obsolete cement production capacity", by making full use of its integrated competitive strength in market presence, scale and cost, and adhering to a marketing strategy of "clinker for profits and cement for market expansion", the Group vigorously implemented overall budget management to further reduce cost and control expenditure, and achieved remarkable operating results.

During the Reporting Period, the Group's total sales volume of cement and clinker amounted to 54.943 million tonnes, representing a year-on-year increase of 11.8%. The Group's operation revenue reached RMB16,862 million, representing a year-on-year increase of 42.2%. Net profit for the year amounted to RMB2,312 million, representing a year-on-year increase of 130.0%.

Meanwhile, the Group continued to expand its cement production capacity through a dual-development mode of building new production lines and reorganizing acquired enterprises, thus achieved a sustained and rapid growth in its core business of cements production. The Group had further strengthened its control over the cement markets in Shandong, Liaoning and the Eastern part of Inner Mongolia. Moreover, the Group's endeavour in expanding its market presence in areas such as Shanxi province and Kashi region of Xinjiang was basically completed.

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)
New production lines:		
Weishan Shanshui Cement 4,500t/d clinker production line project (equipped with residual heat generation facilities) and 1 million tonnes cement grinding production line	144	100
Aqi Shanshui 0.5 million tonnes cement grinding production line	–	50
Jincheng Shanshui 2,500t/d clinker production line project (equipped with residual heat generation facilities) and 1 million tonnes cement grinding production line*	80	100
Hequ Zhong Tianlong 2,500t/d clinker production line project (equipped with residual heat generation facilities) and 1 million tonnes cement grinding production line*	80	100
Laoling Shanshui 1 million tonnes cement grinding production line	–	100
Weifang Shanshui 1 million tonnes cement grinding production line	–	100
Qingdao Shanshui Chuangxin 1 million tonnes cement grinding production line (Phase II)	–	100
Shanghe branch of Shandong Shanshui 1 million tonnes cement grinding production line	–	100
Balin Youqi Shanshui 800,000 tonnes cement grinding production line	–	80
Sub-total	**304**	**830**
Acquired production lines:		
Rushan Changcheng Cement 1 million tonnes cement grinding production line**	–	100
Lande Cement 0.6 million tonnes cement grinding production line	–	60
Zhalai Teqi Shanshui 0.4 million tonnes cement grinding production line	–	40
Bohai Cement (Huludao) Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities) and 3.2 million tonnes cement grinding production line**	128	320
Liaoning Dongxin Cement Group Company Limited 2,500t/d clinker production line project and 3 million tonnes cement grinding production line**	80	300
Taiyuan Shanshui Cement 2*2,000t/d clinker production line project and 1.5 million tonnes cement grinding production line	128	150
Sub-total	**336**	**970**
Total new production capacity for the year	**640**	**1,800**

* Clinker production line has commenced operation and cement grinding production line is undergoing trail operation

** Acquisition agreement has been signed during the Reporting Period

(VII) Management Discussion and Analysis

During the Reporting Period, the Group added new cement production capacity of 18.00 million tonnes (including those under trial operation) and new clinker cement capacity of 6.40 million tonnes. As at the end of the Reporting Period, all suitable clinker production lines had been equipped with residual heat generation facilities, and the total installed capacity amounted to 182.5 MW. In addition, as at the end of the Reporting Period, the total installed capacity of the Group's commercial concrete production lines amounted to 8.60 million m^3. Furthermore, a number of clinker production lines (equipped with residual heat power generation facilities), including Jincheng Shanshui Heju, Lvliang Yilong, Shuozhou Shanshui, Linfen Shanshui in Shanxi and Yingjisha Shanshui in Xinjiang, and a number of cement grinding production lines were being under construction. With more new projects commencing operations, the Group will further strengthen its leading position and stand out in the cement markets in Shandong, Liaoning, Shanxi provinces and eastern Inner Mongolia.

BUSINESS REVIEW

(I) Business Analysis

1. Sales revenue analysis and the respective year-on-year changes

(Unit: RMB million)

Product	**2011** Sales revenue	**2011** Sales proportion	2010 Sales revenue	2010 Sales proportion	Sales revenue change
Cement	**14,124**	**83.8%**	9,275	78.2%	52.3%
Clinker	**1,887**	**11.2%**	1,941	16.4%	-2.8%
Concrete	**243**	**1.4%**	186	1.6%	30.6%
Others	**608**	**3.6%**	452	3.8%	34.5%
Total	**16,862**	**100.0%**	11,854	100.0%	42.2%

During the Reporting Period, the Company's sales revenue increased by 42.2% to RMB16.862 billion, which was mainly attributable to an increase in the sales volume and selling prices of cement. With regards to revenue breakdown by products, cement revenue amounted to RMB14,124 million, representing a year-on-year growth of 52.3%, and clinker revenue amounted to RMB1,887 million, representing a year-on-year decrease of 2.8%. Concrete revenue amounted to RMB243 million, representing a year-on-year growth of 30.6%.

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	2011 Sales volume ('000 tonnes)	2010 Sales volume ('000 tonnes)	Sales volume change	2011 Unit selling price (RMB/tonne)	2010 Unit selling price (RMB/tonne)	Selling price change
Cement	**47,943**	39,318	21.9%	**294.6**	235.9	24.9%
Clinker	**7,000**	9,844	-28.9%	**269.5**	197.2	36.7%
	('000 m^3)	('000 m^3)		**(RMB/m^3)**	(RMB/m^3)	
Concrete	**937**	785	19.4%	**258.9**	237.5	9.0%

During the Reporting Period, owing to the ideal market presence and the continuous expansion of the production capacity of the Company, the State's control over the additional cement capacity and the phasing-out of obsolete cement capacity, and the continuous demand for cement from infrastructure construction projects and the property development industry (particularly the construction of affordable housing), the sales volume of cement of the Company amounted to 47.943 million tonnes, representing a year-on-year growth of 21.9%, while that of clinker was 7.000 million tonnes, representing a year-on-year decrease of 28.9%. The sales volume of concrete was 0.937 million m^3, representing a year-on-year increase of 19.4%.

Benefited from the enhancement of industry concentration in the market and the Company's improved market control power in the regions, the prices of cement and clink throughout the year soared. The unit selling price of cement increased by 24.9% to RMB294.6 per tonne and the unit selling price of clinker increased by 36.7% to RMB269.5 per tonne, while the unit selling price of concrete was RMB258.9/m^3, representing a year-on-year increase of 9.0%.

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

Region	Average unit selling price in 2011 (RMB/tonne)	Average unit selling price in 2010 (RMB/tonne)	Change in unit selling price
Shandong area	**299.0**	238.0	25.6%
Northeastern China	**282.7**	226.2	25.0%
Shanxi area	**298.3**	314.9	-5.3%

During the Reporting Period, the average unit selling price of cement in Shandong area was RMB299.0 per tonne, representing a year-on-year increase of 25.6%, while that in Northeastern China was RMB282.7 per tonne, representing a year-on-year increase of 25.0%, and the average unit selling price of cement in Shanxi was RMB298.3 per tonne, representing a year-on-year decrease of 5.3%. With the gradual expansion of its production capacity in Shanxi area, the Company will have more bargaining power in this market. It is expected that the selling price of cement in Shanxi area will show an upward trend in the near future.

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

Product	2011 Sales revenue ('000 tonnes)	2011 Sales proportion	2010 Sales revenue ('000 tonnes)	2010 Sales proportion	Change in sales volume
High grade cement	**29,334**	**61.2%**	21,827	55.5%	34.4%
Low grade cement	**18,609**	**38.8%**	17,491	44.5%	6.4%

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, property development industry and the ideal market presence of the Group, the sales volume of high grade cement increased by 34.4% as compared to the same period of 2010.

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

(Unit: RMB'000)

Region	2011 Sales revenue	2011 Sales proportion	2010 Sales revenue	2010 Sales proportion	Sales revenue change
Shandong area	**12,844,711**	**76.2%**	9,791,940	82.6%	31.2%
Northeastern China	**3,904,612**	**23.1%**	2,055,898	17.3%	89.9%
Shanxi area	**112,633**	**0.7%**	6,230	0.1%	1,707.9%
Total	**16,861,956**	**100.0%**	11,854,068	100.0%	42.2%

During the Reporting Period, our branches in Shandong province and Northeastern China performed well, with all key economic indicators showing significant improvement. Among which, our branches in Shandong province recorded a sales revenue of RMB12,845 million in 2011, representing 76.2% of the Group's total sales revenue and a year-on-year increase of 31.2%; our branches in Northeastern China recorded a sales revenue of RMB3,905 million in 2011, representing 23.1% of the Group's total sales revenue and a year-on-year increase of 89.9%; our branches in Shanxi province recorded a sales revenue of RMB113 million in 2011, and with more new projects commencing operation in this area, our branches in the region will contribute more profits to the Group.

(II) Profit analysis

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

(Unit: RMB'000)

	2011	2010	Y-O-Y change
Revenue	**16,861,956**	11,854,068	42.2%
Gross profit	**5,079,125**	2,550,102	99.2%
EBITDA	**4,784,302**	2,533,959	88.8%
Profit from operations	**3,856,493**	1,726,493	123.4%
Profit before taxation	**3,254,001**	1,363,205	138.7%
Net profit for the year	**2,311,654**	1,004,917	130.0%
Profit attributable to equity holders of the Company	**2,225,290**	979,128	127.3%

During the Reporting Period, the Group recorded sales revenue of RMB16,862 million, representing a year-on-year increase of 42.2%; profit from operations was RMB3,856 million, representing a year-on-year increase of 123.4%; net profit for the year was RMB2,312 million, representing a year-on year increase of 130.0%; profit attributable to equity shareholders of the Company was RMB2,225 million, representing a year-on-year increase of 127.3%. The increase in profit was mainly due to higher selling price and sales volume and the Company's effective control over costs and expenses incurred during the period.

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

(Unit: RMB'000)

Cost of sales	2011 Amount	2011 Proportion to revenue	2010 Amount	2010 Proportion to revenue	Y-O-Y change
Raw materials	**3,572,163**	**21.2%**	2,574,232	21.7%	-0.5 P.Pt.
Coal	**3,861,342**	**22.9%**	3,176,645	26.8%	-3.9 P.Pt.
Power	**1,699,728**	**10.1%**	1,471,468	12.4%	-2.3 P.Pt.
Depreciation and amortisation	**778,085**	**4.6%**	708,957	6.0%	-1.4 P.Pt.
Others	**1,871,513**	**11.1%**	1,372,664	11.6%	-0.5 P.Pt.
Total cost of sales	**11,782,831**	**69.9%**	9,303,966	78.5%	-8.6 P.Pt.

During the Reporting Period, benefited from substantial growth in sales revenue and normative procurement of raw materials, the proportion of the Group's total cost of sales to revenue was 69.9%, representing a year-on-year decrease of 8.6 percentage points. Of which, the proportion of raw materials to revenue was 21.2%, a slight decrease compared with the corresponding period of the previous year. Although the average unit purchase price of coal increased by 8.9% to RMB753.5 per ton as compared with the corresponding period of the previous year, the coal expenses to revenue decreased by 3.9% to 22.9%. As for cost reduction, output of residual heat power generation increased by 12.8% to 1,031 million KWH in 2011, thus reducing the cost of clinker by approximately RMB401.32 million.

FINANCIAL REVIEW

1. **Expenses during the year**

(Unit: RMB'000)

	2011 Amount	2011 Proportion to sales revenue	2010 Amount	2010 Proportion to sales revenue	Proportion to sales revenue change
Sales and marketing expenses	**309,315**	**1.83%**	214,165	1.81%	0.02 P.Pt
Administrative expenses	**1,095,831**	**6.50%**	689,621	5.82%	0.68 P.Pt
Finance costs	**619,582**	**3.67%**	363,070	3.06%	0.61 P.Pt
Total	**2,024,728**	**12.00%**	1,266,856	10.69%	1.31 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 was basically at the same level as compared with that of 2010. Along with the continuous expansion of businesses and coverage area of the Group, the labour costs, training expenses, audit and consultant's fees was increased. The proportion of administrative expenses to sales revenue was increased by 0.68 percentage points when compared with that of 2010, and the proportion of the Group's financial costs to sales revenue recorded a small rise due to the increase of borrowings and costs.

2. Changes in balance sheet items

(Unit: RMB'000)

	31 December 2011	31 December 2010	Change
Non-current assets	**16,791,916**	14,722,366	14.1%
Current assets	**8,289,757**	4,227,960	96.1%
Total assets	**25,081,673**	18,950,326	32.4%
Current liabilities	**8,081,482**	6,481,641	24.7%
Non-current liabilities	**8,833,518**	6,319,680	39.8%
Total liabilities	**16,915,000**	12,801,321	32.1%
Non-controlling interest	**457,636**	461,480	-0.8%
Equity attributable to equity shareholders of the Company	**7,709,037**	5,687,525	35.5%
Total liabilities and equity	**25,081,673**	18,950,326	32.4%
Net gearing ratio	**50.9%**	50.4%	0.5 P.Pt

As at 31 December 2011, the Group's total assets were RMB25,082 million, total liabilities were RMB16,915 million and its net assets were RMB8,167 million. The net gearing ratio (net debts/(net debts + equity attributable to equity shareholders of the Company + non-controlling interest)) was 50.9%, representing an increase of 0.5 percentage points as compared with the end of the previous year. The Group's total current assets were RMB8,290 million, its total current liabilities were RMB8,081 million, and its net current assets were RMB209 million. The Group's profits from future operations, its cash flow forecast for 2012, 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 2011	31 December 2010
Short-term borrowings (including long-term borrowings with maturity within one year)	**3,268,177**	1,790,634
Long-term borrowings	**8,197,282**	5,608,114
Total	**11,465,459**	7,398,748

The Company's borrowings increased as a result of the financing activities to fund the expansion of its cement business. As of 31 December 2011, the Company's total borrowings were RMB11,465 million, an increase of RMB4,066 million as compared with the end of 2010. Of which, long-term borrowings with maturity more than 1 year amounted to RMB8,197 million and accounted for 71.5% of the Group's total borrowings.

4. Capital expenditures

During the Reporting Period, the capital expenditures of the Group were approximately RMB3,409 million, which were mainly used as the investments in the construction and acquisition of cement and clinker production lines. And the capital expenditures of the Group are expected to be RMB3,528 million in 2012.

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 as at 31 December 2011:

(Unit: RMB'000)

	31 December 2011	31 December 2010
Authorised and contracted for		
– plants and equipments	**1,081,267**	832,529
– the acquisitions of subsidiaries	**221,710**	52,000
Authorised but not contracted for		
– plants and equipments	**2,447,206**	1,845,926
Total	**3,750,183**	3,723,162

As at 31 December 2011, the capital commitments authorised and contracted for by the Group amounted to RMB1,303 million, representing an decrease of RMB418 million or 47.3% as compared with the end of 2010. Capital commitments authorised but not contracted for amounted to RMB2,447 million.

5. Net cash flow analysis

(Unit: RMB'000)

	2011	2010
Net cash generated from operating activities	**1,549,263**	1,789,127
Net cash used in investing activities	**(3,370,683)**	(2,926,815)
Net cash generated from financing activities	**3,686,949**	1,398,263
Net changes in cash and cash equivalents	**1,865,529**	260,575
Balance of cash and cash equivalents at beginning of the year	**1,144,840**	886,130
Effect on cash from exchange rate changes	**(2,037)**	(1,865)
Balance of cash and cash equivalents at end of the year	**3,008,332**	1,144,840

During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB1,549 million, representing a slight decrease of RMB240 million over the corresponding period of the previous year. In the meantime, as the Group continued to undertake a large number of construction projects in 2011, the negative net cash flow used in investing activities amounted to RMB3,371 million, representing an increase of RMB444 million compared with negative net cash flow used in investing activities during the same period of the previous year. Net cash generated from financing activities increased by RMB2,289 million to RMB3,687 million over the corresponding period of the previous year, which was due to an increase in the issuance of bonds and volume of loans of the Company.

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 2012

Operating Environment Outlook

The year 2012 is an important year for the Twelfth Five-Year Plan as it inherits what has been accomplished and determines the Plan's future course. The Chinese government will continue to implement a proactive fiscal policy and a prudent monetary policy and try to make macroeconomic adjustment policies more focused, flexible and prospective; continue to optimize the relationship between maintaining a steady and relatively fast economic development, adjusting the economic structure, and controlling expected inflation; accelerate economic structure adjustment and the transformation of the pattern of economic development; work harder to boost domestic demand and strive to ensure and improve the well-being of the people so as to maintain a steady and relatively fast economic development and overall price level stability. Though there are some unfavourable factors such as the slowdown of fixed assets investment and regulation on the real estate market, we believe that there will still be new development opportunities for cement conglomerates which will enable them to maintain a continuous and steady growth. They are mainly based on the following considerations:

1. **The cement industry will continue to benefit from a relatively large scale fixed assets investment to be made under the macroeconomic policies for "sustaining economic growth".** Under the complicated and volatile domestic and international environment, the Chinese government is expected to continue to maintain a relatively large scale of fixed assets investment to "achieve progress while maintaining economic stability". The 2012 Central Economic Work Conference clearly set out that, financial borrowings and loans will be mainly used to fuel the real economy and fiscal policies will focus more on ensuring and improving the well-being of the people, accelerating the progress of urbanization as well as the constructions of affordable housing projects and water conservancy facilities. In December 2011, the PBOC lowered the required reserve ratio for the first time in three years, and monetary policies will, based on the basic requirements of "moderation, prudent, flexible and directional support", focus on increasing credit support to key economic and social areas and weak spots, especially strengthen credit support to "agriculture, rural areas, and farmers", small and medium enterprises, affordable housing as well as key projects in progress. In conclusion, under the macroeconomic policies for "sustaining economic growth", the cement industry will continue to benefit from the huge demand for cement generated by the urbanization, infrastructure construction in the building of a new rural areas as well as the construction of affordable housing projects and water conservatory facilities.

2. **Focus on regional development strategy; this will enable cement enterprises with market dominance to be benefited first.** Shandong province will emphasize on the construction of the "two economic locomotives" namely, Shandong Peninsula Blue Economic Zone and Yellow River Delta High-efficiency Ecological Economic Zone, give full play to the "two boosters" namely, Yimeng old revolutionary area and Rizhao Quality Steel Product Base; strive to raise the level of urbanization, give support to expanding rural-level economy and promote balanced development between regions. The State's planned investment in fixed assets will reach approximately RMB3.1 trillion in 2012, far exceeding fixed assets investments of RMB1.9 trillion, RMB2.3 trillion and RMB2.6 trillion respectively in 2009, 2010 and 2011, which were arranged to tackle the impact of the global financial crisis. In February this year, the Chinese government approved the "Twelfth Five-year Plan for the Development of Western China" which places more emphasis on the construction of rural infrastructure and strives to strengthen regional sustainable development. In respect of infrastructure construction, transportation and water conservatory projects will be two priorities, the investment scale will reach RMB17 trillion by 2015. In addition, the implementation of state-level strategies including the setting up of the "Liaoning coastal economic belt, Tianjin Binhai New Zone and Shanxi Province National Comprehensive Supporting Reform Pilot Area for the Transformation of Resource-Based Economy" will surely bring golden opportunities for development of various branches of Shanshui Group located in Shandong, Liaoning, Shanxi, Inner Mongolia and Xinjiang.

3. **Continuous improvement in the demand and supply dynamics of the cement industry will secure a sustained healthy development of China's cement industry.** It is clearly noted in the "Twelfth Five-year Development Plan for the Cement Industry" promulgated in November 2011, that the State will, on the premise that cement production capacity can basically meet market demand, strictly curb the excessive development of the cement industry, tighten industry access threshold and strictly control the approval of new production capacity. Meanwhile, the State will vigorously eliminate obsolete production capacity, with an aim to mainly eliminate obsolete vertical kilns, small grinding production lines and small scale rotary kilns with a nationwide objective of elimination of 250 million tonnes of outdated capacity during the Twelfth Five-year Plan period, for which the eastern region must complete by the end of 2012, and for the western region, by the end of 2015. We believe that the constraint of new capacity and the accelerated elimination of outdated capacity will effectively continue to improve the demand and supply dynamics of the cement market and promote a healthy development of the cement industry.

4. **Mergers, acquisitions and reorganizations in the industry will facilitate price stability and profit stability.** It is stated in the "Twelfth Five-year Development Plan for the Cement Industry" that by the end of 2015, the number of cement enterprise should decrease by one third as compared with 2010, and production concentration ratio of the top ten cement enterprises will reach over 35% with an average production capacity of approximately 70 million tonnes for each enterprise. At its work conference, the MIIT also noted that promoting the mergers and reorganizations will be the focus of its work in 2012 in which a breakthrough shall be made, and that it will publish the implementation measures for the mergers and reorganizations in some key industries including steel, automobile and cement and promote the improvement of the policy system for corporate mergers and reorganizations. As such, we are of the view that, with the further increased industry concentration which will result in substantial decrease of vicious price competition, conglomerates will play a leading role in prices and in the market.

5. **The cement industry will become one of the "Green" industries, and advantageous enterprises will have a bright prospect.** The State encourages advantageous enterprises to increase investment in technological innovations, proactively develop residual heat generation projects and dispose of solid wastes and municipals wastes, which will further enhance their abilities in resource circulation and environment control. In addition, the State, with a view to strengthening corporate core competitiveness, also encourages advantageous enterprises to strengthen and expand product chain and relevant diversified industry through optimizing the allocation of productive elements such as technology, brand, management, resource and market. We believe that, the further increase in the added values of resource energy, the reduction of production costs and the enhancement of profit level will enable advantageous cement enterprises to embrace a bright prospect.

In conclusion, the period from 2012 to the end of the Twelfth Five-year Plan period is a crucial time for the structural adjustment and the optimization and upgrading of the cement industry. It is also a strategic opportunity period for big cement conglomerates to develop, grow and become even stronger.

Company's Business Outlook

In 2012, the Group will adhere to the guidelines of "standardization, concentration, penetration and development" and will grasp opportunities brought about by the in-depth structural adjustment of the cement industry to continuously improve the market presence of its cement business and strive to make its core cement business even stronger and more competitive. At the same time, the Group will continue to implement overall budget management, refine the Group's internal control systems and improve the efficiency of implementation. In this year, the Group will endeavour on the following tasks:

1. **Adhering to the strategy of "Development is the top priority", accelerating market presence so as to enhance regional control.** The Group will tightly grasp opportunities brought about by the State's policies for supporting mergers and reorganizations initiated by cement conglomerates, give full play to the advantages of its regional companies in staying close to and keeping abreast of the market, speed up market investigation and identify suitable targets for mergers and reorganizations and carry out acquisitions at the proper time. Meanwhile, the Group will speed up the construction of its on-going projects in the regional markets of Shanxi, Shaanxi, Kashi region of Xinjiang and Inner Mongolia so as to put them into operation as soon as possible and increase market control and market share.

2. **Taking advantage of its strong regional control to take the lead in market competition.** With gradual maturity of its market presence in Shanshui Group's dominant markets in Shandong region, Northeastern China and Shanxi region, together with significant increase in industry concentration, the Company will timely guide its regional branches to make proactive adjustments to the supply and demand dynamics and raise cement prices so as to secure a reasonable profit and promote a virtuous circle of the cement market within its operation regions.

3. **Promoting total budget management to improve the Company's operation efficiency.** Firstly, taking the opportunity of improving the Group's network construction to increase the accuracy of its budget and pay close attention to process control of budget enforcement and ex post facto analysis and improvement; secondly, further expanding the scope of centralized procurement and making best use of the Group's advantages in centralized procurement to reduce production and operation costs; thirdly, standardizing the work flow systems of various functional departments within the Group and strengthening information communication to ensure an efficient and accurate execution of the Group's decisions; and finally, further standardizing the tender and bidding procedures for project construction and materials procurement, and reinforcing contract management, price management, transportation management and settlement management so as to avoid the risk of market operation.

4. **Improving its technological level to enhance its competitive edge.** While speeding up the construction of new projects and the progress of M&A projects, Shanshui Group also places great emphasis on upgrading and transformation of its existing branches. Through implementation of scientific and effective technological innovation, the Group will further enhance the technical superiority of its production lines to improve the quality of its products and reduce production costs, which will enable the Group to maintain competitive advantages over its neighbouring competitors.

5. **Making preparations for finance and human resources reserves to meet the demand of the Group's rapid development.** Taking an overall consideration of the Group's future business development, the Group will strengthen foundation work which centres on financial management and funds management so as to ensure capital security and a healthy financial condition, in order to meet the requirements for investment and development. Meanwhile, by means of a combination of internal training and external recruitment, the Group will make arrangements in advance for the retention and training of various types of management personnel in order to form a more knowledgeable and professional team.

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

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 and constructed during the Reporting Period

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period (RMB'000)
1	Hequ Zhong Tianlong 2500t/d clinker production line (equipped with residual hear generation facilities) and 1 million tonnes cement grinding production line project	Commenced operation[(1)]	149,119
2	Jincheng Shanshui 2500t/d clinker production line (equipped with residual heat generation facilities) and 1 million tonnes cement grinding production line project	Commenced operation[(2)]	142,785
3	Weishan Shanshui 4500t/d clinker production line (equipped with residual heat generation facilities) and 1 million tonnes cement grinding production line project	Commenced operation	83,782
4	Dong'e Shanshui 2,500 t/d clinker production line project (equipped with residual heat generation facilities) and 1 million tonnes cement grinding production line project	Commenced operation[(3)]	75,196
5	Laoling Shanshui cement grinding production line project with annual production capacity of 1 million tonnes	Commenced operation	48,109
6	Shandong Shanshui Shanghe branch cement grinding production line project with annual production capacity of 1 million tonnes	Commenced operation	29,030

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period (RMB'000)
7	Qingdao Shanshui Chuangxin cement grinding production line with annual production capacity of 1 million tonnes (Phase 2)	Commenced operation	24,923
8	Weifang Shanshui cement grinding production line with annual production capacity of 1 million tonnes (Phase 2)	Commenced operation	24,116
9	Huolin Guole Shanshui cement grinding production line with annual production capacity of 1 million tonnes	Commenced operation	23,292
10	Balin Youqi Shanshui cement grinding production line project with annual production capacity of 0.8 million tonnes	Commenced operation	12,494
11	Yingjisha Shanshui 5000t/d clinker production line (equipped with residual heat generation facilities) and 1 million tonnes cement grinding production line project	Under construction	297,599
12	Jincheng Shanshui Heju 4500t/d clinker production line (equipped with residual heat generation facilities) and 2 million tonnes cement grinding production line project	Under construction	163,697
13	Linqu Shanshui 4000t/d clinker production line project (equipped with residual heat generation facilities) (Phase 2)	Under construction	76,976
14	Lvliang Yilong 4000t/d clinker production line project (equipped with residual heat generation facilities)	Under construction	62,173
15	Linfen Shanshui 4000t/d clinker production line (equipped with residual heat generation facilities) and 2 million tonnes cement grinding production line project	Under construction	57,923

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period (RMB'000)
16	Shuozhou Shanshui 4500t/d clinker production line (equipped with residual heat generation facilities) and 2 million tonnes cement grinding production line project	Under construction	40,890
17	Alukeer Qinqi 3200t/d clinker production line (equipped with residual heat generation facilities) (Phase 2)	Under construction	36,330
18	Shule Shanshui cement grinding production line with annual production capacity of 2 million tonnes (Phase 1)	Under construction	94,196
19	Shache Shanshui cement grinding production line with annual production capacity of 1 million tonnes	Under construction	41,002
20	Keyou Zhongqi Shanshui cement grinding production line with annual production capacity of 0.8 million tonnes	Under construction	40,260
21	Shenxian Shanshui cement grinding production line with annual production capacity of 0.8 million tonnes	Under construction	37,994
22	Yulin Environmental Building Material cement grinding production line with annual production capacity of 1 million tonnes	Under construction	31,297
23	Yulin Shanshui cement grinding production line with annual production capacity of 1 million tonnes (Phase 2)	Under construction	31,237
24	Bengbu Shanshui cement grinding production line with annual production capacity of 1 million tonnes	Under construction	4,931

Notes:

(1) Clinker production line has commenced operation and cement grinding production line is undergoing trial operation

(2) Clinker production line has commenced operation and cement grinding production line is undergoing trial operation

(3) The Group is currently holding 49% of the equity interests of Dong'e Shanshui, therefore it has not been included in the Group's production capacity.

(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	Capital injection amount	Registered capital after capital increase	Remark
1	Inner Mongolia Lande Cement Company Limited		RMB20,000,000	Acquired
2	Benxi Shanshui Cement Company Limited.		RMB50,000,000	Newly established
3	Shandong Shanshui Building Materials Company Limited	RMB280,000,000	RMB300,000,000	Newly established/ Capital Injection
4	Yulin Shanshui Environmental Building Materials Company Limited		RMB80,400,000	Newly established
5	Linfen Shanshui Cement Company Limited		RMB200,000,000	Newly established
6	Shuozhou Shanshui New Era Cement Company Limited		RMB160,000,000	Newly established
7	Keyou Zhongqi Shanshui Cement Company Limited		RMB30,000,000	Newly established
8	Benxi Shanshui Shiye Company Limited		RMB5,000,000	Newly established
9	Huixian Shanshui Cement Company Limited		RMB100,000,000	Newly established
10	Linqing Shanshui Cement Company Limited		RMB2,000,000	Newly established
11	Bachu Shanshui Cement Company Limited		RMB100,000,000	Newly established
12	Zhoukou Shanshui Pineline Company Limited		RMB30,000,000	Newly established
13	Dezhou Tianqi Commercial Concrete Company Limited		RMB10,000,000	Acquired
14	Weifang Wanda Building Materials Company Limited		RMB10,000,000	Acquired

Serial No.	Name of company	Capital injection amount	Registered capital after capital increase	Remark
15	Baishan Shanshui Cement Company Limited		RMB100,000,000	Newly established
16	Taiyuan Shanshui Cement Company Limited		RMB61,224,500	Acquired/ Capital injection
17	Liaocheng Shanshui Cement Company Limited	RMB4,950,000	RMB10,000,000	Capital injection
18	Qingdao Shanshui Chuangxin Cement Company Limited	USD8,000,000	USD28,000,000	Capital injection
19	Tianjin Shanshui Cement Company Limited	RMB80,000,000	RMB100,000,000	Capital injection
20	Shanxi Shanshui Cement Company Limited	RMB850,000,000	RMB1,450,000,000	Capital injection
21	Kashi Shanshui Cement Company Limited	RMB300,000,000	RMB500,000,000	Capital injection
22	Shenxian Shanshui Dongchang Cement Company Limited	RMB8,000,000	RMB10,000,000	Capital injection

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

During the Reporting Period, no subsidiary of the Group underwent de-registration.

3. MAJOR SUBSIDIARIES WITH CONTROLLING INTERESTS

As at 31 December 2011, the Company had controlling interests in 91 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	1,202,266	495,484	387,475
Zibo Shanshui Cement Company Limited	1,058,128	405,009	300,678
Anqiu Shanshui Cement Company Limited	1,034,787	354,351	267,209
Weifang Shanshui Cement Company Limited	827,362	215,333	169,870
Zaozhuang Chuangxin Shanshui Cement Company Limited	561,036	216,334	162,320

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 25 March 2011, the Board of Directors considered and passed the 2010 annual results of the Company and the resolution regarding distribution of dividend for 2010.

2. On 28 March 2011, the Board of Directors resolved and approved the 12,000,000 shares to be transferred to CCBI Cement which was granted by Shanshui Investment in accordance with the agreement on 30 September 2009.

3. On 24 April 2011, the Board of Directors resolved and approved the extension of exclusivity period in relation to memorandum of understanding with Asia Cement to 2 July 2011.

4. On 28 April 2011, the Board of Directors resolved and approved the 11,828,084 shares to be transferred to CCBI Cement which was granted by Shanshui Investment in accordance with the agreement on 30 September 2009.

5. On 6 May 2011, the Board of Directors resolved and approved the issuance of USD Senior Notes.

6. On 25 May 2011, the Board of Directors resolved and approved the share options to be offered to Group's General Manager and certain employees.

7. On 2 July 2011, the Board of Directors resolved and approved the extension of exclusivity period in relation to memorandum of understanding with Asia Cement to 2 August 2011.

8. On 8 July 2011, the Board of Directors resolved and approved the issuance of CNH Senior Notes.

9. On 1 August 2011, the Board of Directors resolved and approved the extension of exclusivity period in relation to memorandum of understanding with Asia Cement to 30 September 2011.

10. On 26 August 2011, the Board of Directors considered and passed the 2011 interim results of the Company and the resolution regarding distribution of interim dividend for 2011.

11. On 28 October 2011, the Board of Directors resolved and approved Shandong Shanshui entering into a strategic cooperation agreement with Bank of China, Jinan Branch.

5. PROFIT DISTRIBUTION PROPOSAL FOR 2011

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 2011 were RMB2,312 million and RMB2,225 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 2011 as follows: HKD681,459,948.40 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 2011 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 2011, 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 2011, 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 2011, the total assets of the Group as confirmed in accordance with IFRS were RMB25,082 million, representing an increase of RMB6,131 million compared to the previous year.

10. RESERVES

Changes in reserves of the Group for the year ended 31 December 2011 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 2011 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 2011 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 RMB46.91 million, the details of which are set out in Note 5 to the Financial Statements prepared in accordance with IFRS.

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

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

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.

KPMG

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 63 to 170, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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.

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 2011 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

23 March 2012

Consolidated Income Statement

For the year ended 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Revenue	3 & 12	**16,861,956**	11,854,068
Cost of sales		**(11,782,831)**	(9,303,966)
Gross profit		**5,079,125**	2,550,102
Other revenue	4	**225,625**	148,455
Other net expenses	4	**(43,111)**	(68,278)
Selling and marketing expenses		**(309,315)**	(214,165)
Administrative expenses		**(1,095,831)**	(689,621)
Profit from operations		**3,856,493**	1,726,493
Finance costs		**(619,582)**	(363,070)
Share of profits less losses of an associate		**17,090**	(218)
Profit before taxation	5	**3,254,001**	1,363,205
Income tax	6	**(942,347)**	(358,288)
Profit for the year		**2,311,654**	1,004,917
Attributable to:			
Equity shareholders of the Company		**2,225,290**	979,128
Non-controlling interests		**86,364**	25,789
Profit for the year		**2,311,654**	1,004,917
Earnings per share	11		
Basic (RMB)		**0.79**	0.35
Diluted (RMB)		**0.79**	0.35

The notes on pages 70 to 170 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).

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Profit for the year		**2,311,654**	1,004,917
Other comprehensive income for the year (after tax adjustments)	10		
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**15,861**	(6,092)
Available-for-sale securities: net movement in the fair value reserve		**(875)**	(3,385)
		14,986	(9,477)
Total comprehensive income for the year		**2,326,640**	995,440
Attributable to:			
Equity shareholders of the Company		**2,240,276**	969,651
Non-controlling interests		**86,364**	25,789
Total comprehensive income for the year		**2,326,640**	995,440

The notes on pages 70 to 170 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Fixed assets	13		
– Property, plant and equipment		**12,786,820**	11,280,448
– Interests in leasehold land held for own use under operating leases		**1,922,627**	1,734,794
		14,709,447	13,015,242
Intangible assets	14	**390,349**	373,715
Goodwill	15	**1,297,770**	991,328
Other financial assets	16	**95,083**	81,652
Investment in an associate	17	**65,872**	48,782
Other long-term assets	19	**89,583**	79,535
Deferred tax assets	31(b)	**143,812**	132,112
		16,791,916	14,722,366
Current assets			
Inventories	20	**1,924,389**	1,137,756
Trade and bills receivable	21	**1,623,504**	963,850
Other receivables and prepayments	22	**1,663,294**	916,149
Pledged bank deposits	23	**70,238**	65,365
Cash and cash equivalents	23	**3,008,332**	1,144,840
		8,289,757	4,227,960
Current liabilities			
Short-term and current portion of interest-bearing borrowings	24(a)	**3,167,200**	1,684,500
Current portion of loans from equity shareholders	24(b)	**100,977**	106,134
Trade and bills payable	25	**2,290,501**	1,953,935
Other payables and accrued expenses	26	**2,111,602**	2,471,491
Obligation under finance lease	28	**1,133**	1,133
Current taxation	31(a)	**410,069**	264,448
		8,081,482	6,481,641
Net current assets/(liabilities)		**208,275**	(2,253,681)
Total assets less current liabilities		**17,000,191**	12,468,685

The notes on pages 70 to 170 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Non-current liabilities			
Interest-bearing borrowings, less current portion	24(a)	**2,046,700**	4,260,000
Loans from equity shareholders, less current portion	24(b)	**230,222**	348,114
Corporate bonds	27	**5,920,360**	1,000,000
Obligation under finance lease	28	**4,779**	5,580
Defined benefit obligations	29(c)	**165,240**	171,430
Deferred income	30	**327,110**	337,095
Long-term payables		**55,644**	103,902
Deferred tax liabilities	31(b)	**83,463**	93,559
		8,833,518	6,319,680
NET ASSETS		**8,166,673**	6,149,005
CAPITAL AND RESERVES			
Share capital	33	**193,198**	193,198
Reserves	33	**7,515,839**	5,494,327
Total equity attributable to equity shareholders of the Company		**7,709,037**	5,687,525
Non-controlling interests		**457,636**	461,480
TOTAL EQUITY		**8,166,673**	6,149,005

Approved and authorised for issue by the board of directors on 23 March 2012.

ZHANG Caikui
Director

ZHANG Bin
Director

The notes on pages 70 to 170 form part of these financial statements.

Statement of Financial Position

At 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Investments in subsidiaries	18	**413,248**	413,248
Other long-term assets	19	**78,484**	–
		491,732	413,248
Current assets			
Amount due from subsidiaries	38	**4,964,850**	2,724,396
Cash and cash equivalents	23(a)	**1,155,639**	38,307
		6,120,489	2,762,703
Current liabilities			
Amount due to subsidiaries	38	**28,365**	19,374
Other payables and accrued expenses	26	**198,349**	18,472
		226,714	37,846
Net current assets		**5,893,775**	2,724,857
Total assets less current liabilities		**6,385,507**	3,138,105
Non-current liabilities			
Corporate bonds	27	**4,020,360**	–
NET ASSETS		**2,365,147**	3,138,105
CAPITAL AND RESERVES			
Share capital	33	**193,198**	193,198
Reserves	33	**2,171,949**	2,944,907
TOTAL EQUITY		**2,365,147**	3,138,105

Approved and authorised for issue by the board of directors on 23 March 2012.

ZHANG Caikui	**ZHANG Bin**
Director	*Director*

The notes on pages 70 to 170 form part of these financial statements.

(XI) Financial Statements
Consolidated Statement of Changes in Equity

For the year ended 31 December 2011
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Statutory reserves	Other reserves	Exchange reserve	Fair value reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2010	192,355	3,433,022	341,830	346,457	(24,601)	7,429	863,701	5,160,193	68,935	5,229,128
Changes in equity for 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 non-controlling interests	–	–	–	(215,280)	–	–	–	(215,280)	–	(215,280)
Increase in non-controlling interests attributable to acquisition of subsidiaries and capital contribution to subsidiaries	–	–	–	–	–	–	–	–	366,756	366,756
Transfer between reserves	–	–	157,032	–	–	–	(157,032)	–	–	–
Balance at 31 December 2010 and 1 January 2011	**193,198**	**3,451,085**	**498,336**	**124,052**	**(30,693)**	**4,044**	**1,447,503**	**5,687,525**	**461,480**	**6,149,005**
Changes in equity for 2011:										
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**2,225,290**	**2,225,290**	**86,364**	**2,311,654**
Other comprehensive income	**–**	**–**	**–**	**–**	**15,861**	**(875)**	**–**	**14,986**	**–**	**14,986**
Total comprehensive income	**–**	**–**	**–**	**–**	**15,861**	**(875)**	**2,225,290**	**2,240,276**	**86,364**	**2,326,640**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**–**	**–**	**(338,160)**	**(338,160)**	**–**	**(338,160)**
Acquisition of non-controlling interests	**–**	**–**	**–**	**97,267**	**–**	**–**	**–**	**97,267**	**(299,038)**	**(201,771)**
Increase in non-controlling interests attributable to acquisition of subsidiaries and capital contribution to subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**208,830**	**208,830**
Equity settled share-based transactions	**–**	**–**	**–**	**22,129**	**–**	**–**	**–**	**22,129**	**–**	**22,129**
Transfer between reserves	**–**	**–**	**263,175**	**–**	**–**	**–**	**(263,175)**	**–**	**–**	**–**
Balance at 31 December 2011	**193,198**	**3,451,085**	**761,511**	**243,448**	**(14,832)**	**3,169**	**3,071,458**	**7,709,037**	**457,636**	**8,166,673**

The notes on pages 70 to 170 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Operating activities			
Cash generated from operations	23(b)	**2,852,955**	2,463,833
Interest paid		**(489,371)**	(356,506)
Income tax paid		**(814,321)**	(318,200)
Net cash generated from operating activities		**1,549,263**	1,789,127
Investing activities			
Payment for purchase of fixed assets		**(2,275,016)**	(2,030,840)
Payment for purchase of intangible assets		**(65,619)**	(41,884)
Acquisition of subsidiaries, net of cash acquired		**(1,068,735)**	(779,197)
Payment for investment in an associate		**–**	(49,000)
New loans to an associate		**(14,598)**	(74,000)
Proceeds from sale of fixed assets		**19,450**	41,337
Interest received		**33,835**	6,769
Net cash used in investing activities		**(3,370,683)**	(2,926,815)
Financing activities			
Capital element of finance lease rentals paid		**(1,200)**	(1,800)
Proceeds from new loans and borrowings		**2,479,000**	2,846,477
Proceeds from issue of corporate bonds		**4,823,062**	991,000
Proceeds from capital injection in subsidiaries by non-controlling interests		**40,750**	26,450
Repayment of loans and borrowings		**(3,314,604)**	(2,225,127)
Interest element of finance lease rentals paid		**(399)**	(443)
Dividends paid to equity shareholders of the Company	33(b)	**(338,160)**	(238,294)
Dividends paid to non-controlling interests of a subsidiary		**(1,500)**	–
Net cash generated from financing activities		**3,686,949**	1,398,263
Net increase in cash and cash equivalents		**1,865,529**	260,575
Cash and cash equivalents at 1 January	23(a)	**1,144,840**	886,130
Effect of foreign exchange rate changes		**(2,037)**	(1,865)
Cash and cash equivalents at 31 December	23(a)	**3,008,332**	1,144,840

The notes on pages 70 to 170 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2011 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 1(c) 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(g)); and

– derivative financial instruments (see note 1(h)).

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 2.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies

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

- IAS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)
- IFRIC 19, *Extinguishing financial liabilities with equity instruments*
- 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*

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

The amendments to IFRIC 14 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. IFRIC 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

The impacts of other developments are discussed below:

- IAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. IAS 24 (revised 2009) also introduces modified disclosure requirements for government related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvements to IFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in IFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in note 35 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) 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 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.

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) or (r) 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(g)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(e)).

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) 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(f) 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.

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(g)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(e)).

In the Company's statement of financial position, investment 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).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) 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.

(g) 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 (w)(iv) and 1 (w)(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)).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Other investments in debt and equity securities *(continued)*

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 (w)(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 (w)(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.

(h) 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.

(i) 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.

(j) 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(y)).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Property, plant and equipment *(continued)*

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.

(k) 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.

(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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Intangible assets (other than goodwill) *(continued)*

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.

(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(j). 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Leased assets *(continued)*

(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.

(n) Impairment of assets

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

Investments in debt and equity securities 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 investments in subsidiaries and an associate (including those recognised using the equity method (see note 1(e)), 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).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment of assets *(continued)*

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

– 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.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's 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 these financial assets 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment of assets *(continued)*

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

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.

(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;
- investment in an associate; 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– 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.

– 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment of assets *(continued)*

(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.

(p) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) 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.

(r) Trade and other payables

Trade and other payables are initially recognised at fair value. 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.

(s) 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.

(t) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Employee benefits *(continued)*

(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.

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 consolidated 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.

(u) 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 business combinations or 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Income tax *(continued)*

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.

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 each 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.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Income tax *(continued)*

- 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.

(v) 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.

(w) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Revenue recognition *(continued)*

(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.

(x) 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.

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 closing foreign exchange rates 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) 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.

(z) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Related parties *(continued)*

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

(aa) 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 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Sources of estimation uncertainty

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 Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(a) Sources of estimation uncertainty *(continued)*

Key sources of estimation uncertainty are as follows: *(continued)*

(i) Impairments

– 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.

– 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 un-collectable amounts may be higher than the amount estimated.

– 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.

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(a) Sources of estimation uncertainty *(continued)*

Key sources of estimation uncertainty are as follows: *(continued)*

(i) Impairments (continued)

– Goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 1(n). 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.

– 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.

(ii) 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.

(iii) 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.

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(a) Sources of estimation uncertainty *(continued)*

Key sources of estimation uncertainty are as follows: *(continued)*

(iv) 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.

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:

	2011	2010
	RMB'000	RMB'000
Sales of cement and clinker	**16,010,510**	11,216,134
Sales of other products and rendering of services	**851,446**	637,934
	16,861,956	11,854,068

4 OTHER REVENUE AND OTHER NET EXPENSES

	Note	2011 RMB'000	2010 RMB'000
Other revenue			
Interest income on bank deposits		**33,835**	6,769
Government grants		**175,165**	126,101
Amortisation of deferred income		**16,625**	15,585
		225,625	148,455
Other net expenses			
Debt restructuring gain		**–**	97,500
Net foreign exchange gain		**54,205**	6,878
Net (loss)/gain from sale of fixed assets		**(13,617)**	1,518
Impairment losses on fixed assets	13	**(7,771)**	(106,533)
Impairment losses on intangible assets	14	**–**	(4,270)
Impairment losses on other long-term assets	19	**(66,935)**	(35,067)
Donations		**(11,797)**	(1,482)
Penalty expenses		**(5,176)**	(12,868)
Losses incurred on flooding		**–**	(10,163)
Others		**7,980**	(3,791)
		(43,111)	(68,278)

(Expressed in Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Note	**2011 RMB'000**	2010 RMB'000
Interest on interest-bearing borrowings and corporate bonds		**626,628**	360,531
Less: capitalised interest expense	(i)	**(46,913)**	(40,374)
Net interest expense		**579,715**	320,157
Unwinding of discount	(ii)	**23,358**	35,552
Finance charges on obligations under finance lease	28	**399**	443
Bank charges		**16,110**	6,918
		619,582	363,070

Notes:

(i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 5.85% (2010: 5.45%) for the year ended 31 December 2011.

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

	Note	**2011 RMB'000**	2010 RMB'000
Convertible notes		**–**	1,193
Defined benefit obligations	29(c)	**7,010**	7,030
Acquisition consideration payable		**16,348**	27,329
		23,358	35,552

5 PROFIT BEFORE TAXATION *(continued)*

(b) Personnel expenses

	Note	2011 RMB'000	2010 RMB'000
Salaries, wages and other benefits		**897,590**	571,722
Contributions to defined contribution retirement plans		**98,400**	62,676
Equity-settled share-based payment expenses	32	**22,129**	–
		1,018,119	634,398

(c) Other items

	2011 RMB'000	2010 RMB'000
Amortisation		
– land lease premium	**44,591**	35,672
– intangible assets	**53,972**	64,361
– other long-term assets	**20,315**	14,157
	118,878	114,190
Depreciation	**808,931**	693,276
Impairment losses		
– trade receivables (note 21(b))	**46,375**	32,520
– inventory (note 20(b))	**2,277**	13,675
	48,652	46,195
Operating lease charges	**21,573**	8,179
Auditors' remuneration		
– audit services	**8,624**	7,701
– other services	**6,320**	3,710
	14,944	11,411
Cost of inventories (note 20(b))	**11,782,831**	9,303,966

Note: Cost of inventories includes RMB1,213,979,000 (2010: RMB1,021,154,000) relating to personnel expenses, depreciation and amortisation expenses and provision of inventories for the year ended 31 December 2011, 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:

	2011 RMB'000	2010 RMB'000
Current tax		
Provision for PRC income tax	**946,903**	408,510
Under-provision in respect of prior years	**13,039**	2,782
Deferred tax		
Origination and reversal of temporary differences	**(17,595)**	(53,004)
	942,347	358,288

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

	2011 RMB'000	2010 RMB'000
Profit before taxation	**3,254,001**	1,363,205
Notional tax on profit before taxation, calculated at the PRC statutory income tax rate of 25% (i)	**813,500**	340,801
Tax rate differential in foreign jurisdictions (ii)	**102,011**	24,536
Effect of tax holiday (iii)	**(2,291)**	(54,894)
Effect of non-deductible expenses (iv)	**44,383**	46,322
Effect of non-taxable income (v)	**(10,231)**	(3,198)
Effect of unused tax losses not recognised	**2,638**	11,322
Effect of tax credit (vi)	**(3,192)**	(9,383)
Tax effect of prior year's tax losses utilised during the year	**(13,237)**	–
Under-provision in respect of prior years	**13,039**	2,782
Share of profits of an associate	**(4,273)**	–
Actual income tax expense	**942,347**	358,288
Effective tax rate	**29.0%**	26.3%

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

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

Notes:

(i) Effective from 1 January 2008, the Group's PRC subsidiaries are subject to PRC income tax at the statutory rate of 25%, unless otherwise specified.

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

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 2011 (2010: Nil).

(iii) Prior to 1 January 2008, Continental (Shandong) Cement Corporation ("Kangda Cement") was registered as a foreign invested enterprise and was entitled to a tax holiday of 2-year full exemption from PRC income tax followed by 3-year 50% reduction in the PRC income tax rate starting from its first profit-making year from PRC income tax perspective.

The prevailing PRC income tax law and its relevant regulations grandfather the above tax holiday and require it to commence on 1 January 2008 should it be not commenced earlier. Accordingly Kangda Cement is subject to income tax at 12.5% from 2010 to 2012, and at 25% from 2013 onwards.

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

(v) 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.

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

7 DIRECTORS' REMUNERATION

Details of the directors' remuneration for the year ended 31 December 2011 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	Subtotal RMB'000	Share-based payment** (note 32) RMB'000	Total RMB'000
Chairman							
Zhang Caikui	4,761	248	143,870	6	148,885	–	148,885
Executive directors							
Zhang Bin*	1,314	195	–	27	1,536	14,952	16,488
Dong Chengtian*	2,837	169	–	18	3,024	–	3,024
Yu Yuchuan	2,642	166	–	17	2,825	–	2,825
Non-executive directors							
Homer Sun	–	–	–	–	–	–	–
Jiao Shuge	–	–	–	–	–	–	–
Independent non-executive directors							
Wang Yanmou*	100	–	–	–	100	–	100
Sun Jianguo	100	–	–	–	100	–	100
Wang Jian*	100	–	–	–	100	–	100
	11,854	778	143,870	68	156,570	14,952	171,522

* Reappointed on 20 May 2011.

** As the share market price is much lower than the exercise price, the granted share options had not been exercised as at 31 December 2011.

7 DIRECTORS' REMUNERATION *(continued)*

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	Subtotal RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Chairman							
Zhang Caikui	2,573	234	30,589	22	33,418	–	33,418
Executive directors							
Li Yanmin*	–	–	–	–	–	–	–
Zhang Bin**	1,101	106	–	28	1,235	–	1,235
Dong Chengtian	1,046	158	–	18	1,222	–	1,222
Yu Yuchuan#	950	157	–	17	1,124	–	1,124
Non-executive directors							
Homer Sun#	–	–	–	–	–	–	–
Jiao Shuge	–	–	–	–	–	–	–
Independent non-executive directors							
Wang Yanmou	100	–	–	–	100	–	100
Sun Jianguo#	100	–	–	–	100	–	100
Wang Jian	100	–	–	–	100	–	100
	5,970	655	30,589	85	37,299	–	37,299

* Resigned on 5 March 2010.

\# Reappointed on 19 May 2010.

** Appointed on 10 September 2010.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four were also directors whose remuneration is disclosed in note 7 for the year ended 31 December 2011 (2010: Four).

The aggregate of the remuneration in respect of the remaining individual (2010: One) is as follows:

	2011 RMB'000	2010 RMB'000
Salaries, allowances and other benefits	**165**	157
Bonuses	**1,441**	1,000
Contributions to defined contribution retirement plans	**29**	28
	1,635	1,185

The remuneration of the remaining individual with the highest remuneration (2010: One) is within the following band:

	2011 Number of individuals	2010 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 RMB335,807,000 in 2011 (2010: RMB8,131,000) (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

	2011			2010		
	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	**15,861**	**–**	**15,861**	(6,092)	–	(6,092)
Available-for-sale securities: net movement in fair value reserve	**(1,167)**	**292**	**(875)**	(4,514)	1,129	(3,385)
Other comprehensive income	**14,694**	**292**	**14,986**	(10,606)	1,129	(9,477)

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

	2011 RMB'000	2010 RMB'000
Available-for-sale securities:		
Changes in fair value recognised during the year	**(1,167)**	(4,514)
Net deferred tax credited to other comprehensive income	**292**	1,129
Net movement in the fair value reserve during the year recognised in other comprehensive income	**(875)**	(3,385)

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2011 is based on the profit attributable to ordinary equity shareholders of the Company of RMB2,225,290,000, and the weighted average number of ordinary shares of 2,815,950,200 shares in issue during the year.

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.

(i) Weighted average number of ordinary shares

	2011	2010
Issued and issuable ordinary shares at 1 January	**2,815,950,200**	2,803,304,000
Effect of the conversion of the convertible notes	**–**	1,053,850
Weighted average number of ordinary shares at 31 December	**2,815,950,200**	2,804,357,850

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2011 is based on the profit attributable to ordinary equity shareholders of the Company of RMB2,225,290,000 (2010: RMB980,321,000) and the weighted average number of 2,815,950,200 ordinary shares (2010: 2,804,357,850 shares), calculated as follows:

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

	2011	2010
	RMB'000	RMB'000
Profit attributable to equity shareholders of the Company (basic)	**2,225,290**	979,128
Unwinding of discount on convertible notes	**–**	1,193
Profit attributable to equity shareholders of the Company (diluted)	**2,225,290**	980,321

On 25 May 2011, the Company had granted 7,300,000 ordinary shares to certain directors and employees, which was vested immediately after granted (see note 32). These options were not included in the calculation of diluted earning per share because they are antidilutive for the year ended 31 December 2011.

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 and Shaanxi 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:

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

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

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 and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

12 SEGMENT REPORTING *(continued)*

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

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 2011 and 2010 is set out below.

	Year ended 31 December 2011				Year ended 31 December 2010			
	Shandong Province RMB'000	Northeastern China RMB'000	Shanxi Province RMB'000	Total RMB'000	Shandong Province RMB'000	Northeastern China RMB'000	Shanxi Province RMB'000	Total RMB'000
Revenue from external customers	12,844,711	3,904,612	112,633	16,861,956	9,791,940	2,055,898	6,230	11,854,068
Inter-segment revenue	23,857	5,426	–	29,283	18,298	5,189	–	23,487
Reportable segment revenue	12,868,568	3,910,038	112,633	16,891,239	9,810,238	2,061,087	6,230	11,877,555
Reportable segment profit/(loss) (adjusted profit/(loss) before taxation)	3,618,605	550,777	(19,664)	4,149,718	1,827,945	3,635	(17,313)	1,814,267
Interest income from bank deposits	3,289	3,449	935	7,673	2,660	1,478	726	4,864
Interest expense	36,858	18,101	2,213	57,172	71,871	25,118	21	97,010
Depreciation and amortisation for the year	605,070	285,465	10,942	901,477	559,415	227,266	1,137	787,818
Impairment of plant and machinery	354	7,417	–	7,771	34,092	71,810	–	105,902
Impairment of intangible assets	–	–	–	–	–	4,270	–	4,270
Reportable segment assets	11,744,201	6,880,855	2,271,334	20,896,390	10,468,343	6,006,300	980,728	17,455,371
Additions to non-current segment assets during the year	1,281,067	404,306	907,679	2,593,052	1,387,025	1,696,221	729,711	3,812,957
Reportable segment liabilities	3,721,565	1,907,427	545,732	6,174,724	3,814,473	2,019,447	349,602	6,183,522

12 SEGMENT REPORTING *(continued)*

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

	2011 **RMB'000**	2010 RMB'000
Revenue		
Reportable segment revenue	**16,891,239**	11,877,555
Elimination of inter-segment revenue	**(29,283)**	(23,487)
Consolidated turnover	**16,861,956**	11,854,068
Profit		
Reportable segment profit	**4,149,718**	1,814,267
Elimination of inter-segment profits	**(1,645)**	(7,373)
Reportable segment profit derived from group's external customers	**4,148,073**	1,806,894
Share of profits less losses of an associate	**17,090**	(218)
Unallocated finance costs	**(570,083)**	(266,060)
Unallocated head office and corporate expenses	**(341,079)**	(177,411)
Consolidated profit before taxation	**3,254,001**	1,363,205

(Expressed in Renminbi unless otherwise indicated)

12 SEGMENT REPORTING *(continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities *(continued)*

	At 31 December 2011 RMB'000	At 31 December 2010 RMB'000
Assets		
Reportable segment assets	**20,896,390**	17,455,371
Elimination of inter-segment profits	**(15,902)**	(14,257)
Elimination of inter-segment receivables	**(42,308)**	(30,886)
	20,838,180	17,410,228
Deferred tax assets	**143,812**	132,112
Interest in an associate	**65,872**	48,782
Unallocated head office and corporate assets	**4,033,809**	1,359,204
Consolidated total assets	**25,081,673**	18,950,326
Liabilities		
Reportable segment liabilities	**6,174,724**	6,183,522
Elimination of inter-segment payables	**(42,308)**	(30,886)
	6,132,416	6,152,636
Deferred tax liabilities	**83,463**	93,559
Unallocated bank borrowings	**4,103,000**	4,814,500
Unallocated corporate bond	**5,920,360**	1,000,000
Unallocated head office liabilities	**675,761**	740,626
Consolidated total liabilities	**16,915,000**	12,801,321

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 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
At 1 January 2011	**3,895,640**	**8,254,283**	**339,831**	**1,569,727**	**14,059,481**	**1,851,039**	**15,910,520**
Additions	**79,986**	**34,594**	**54,003**	**1,847,429**	**2,016,012**	**191,997**	**2,208,009**
Transfers	**644,154**	**1,092,498**	**31,900**	**(1,768,552)**	**–**	**–**	**–**
Additions through business combinations	**120,781**	**169,241**	**15,339**	**33,589**	**338,950**	**41,635**	**380,585**
Disposals	**(18,611)**	**(98,847)**	**(18,423)**	**–**	**(135,881)**	**(1,237)**	**(137,118)**
Reclassification	**535,592**	**(450,191)**	**(85,401)**	**–**	**–**	**–**	**–**
At 31 December 2011	**5,257,542**	**9,001,578**	**337,249**	**1,682,193**	**16,278,562**	**2,083,434**	**18,361,996**
Accumulated depreciation, amortisation and impairment:							
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)
At 1 January 2011	**(458,199)**	**(2,225,289)**	**(95,545)**	**–**	**(2,779,033)**	**(116,245)**	**(2,895,278)**
Charge for the year	**(149,036)**	**(631,659)**	**(28,236)**	**–**	**(808,931)**	**(44,591)**	**(853,522)**
Impairment loss for the year	**(5,264)**	**(2,385)**	**(122)**	**–**	**(7,771)**	**–**	**(7,771)**
Written back on disposals	**7,438**	**86,328**	**10,227**	**–**	**103,993**	**29**	**104,022**
Reclassification	**(37,307)**	**33,878**	**3,429**	**–**	**–**	**–**	**–**
At 31 December 2011	**(642,368)**	**(2,739,127)**	**(110,247)**	**–**	**(3,491,742)**	**(160,807)**	**(3,652,549)**
Net book value:							
At 31 December 2011	**4,615,174**	**6,262,451**	**227,002**	**1,682,193**	**12,786,820**	**1,922,627**	**14,709,447**
At 31 December 2010	3,437,441	6,028,994	244,286	1,569,727	11,280,448	1,734,794	13,015,242

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 RMB1,268,284,000 (2010: RMB676,978,000) for the year ended 31 December 2011, 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 RMB454,213,000 have not been obtained (2010: RMB316,160,000).

(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 2011 was RMB1,734,936,000 (2010: RMB1,679,443,000).

(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 2011 was RMB7,771,000 (2010: RMB106,533,000).

(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 RMB1,346,000 (2010: RMB1,553,000).

(h) As at 31 December 2011, application for the registration of interests in leasehold land acquired during the year for own use under operating leases with cost of approximately RMB253,963,000 (2010: RMB205,305,000) was still in progress.

14 INTANGIBLE ASSETS

	Limestone mining rights RMB'000	Customer relationships RMB'000	Trademarks RMB'000	Software and others RMB'000	Total RMB'000
Cost:					
At 1 January 2010	346,751	25,291	63,100	20,188	455,330
Additions	54,597	–	–	3,754	58,351
Additions through business combinations	5,200	22,890	22,230	510	50,830
At 31 December 2010	406,548	48,181	85,330	24,452	564,511
At 1 January 2011	**406,548**	**48,181**	**85,330**	**24,452**	**564,511**
Additions	**63,768**	**–**	**–**	**2,376**	**66,144**
Additions through business combinations	**4,414**	**–**	**–**	**6**	**4,420**
At 31 December 2011	**474,730**	**48,181**	**85,330**	**26,834**	**635,075**
Accumulated amortisation and impairment:					
At 1 January 2010	(88,504)	(11,172)	(12,620)	(9,869)	(122,165)
Amortisation for the year	(49,067)	(6,331)	(6,310)	(2,653)	(64,361)
Impairment for the year	–	–	(4,270)	–	(4,270)
At 31 December 2010	(137,571)	(17,503)	(23,200)	(12,522)	(190,796)
At 1 January 2011	**(137,571)**	**(17,503)**	**(23,200)**	**(12,522)**	**(190,796)**
Amortisation for the year	**(36,048)**	**(9,479)**	**(5,700)**	**(2,703)**	**(53,930)**
At 31 December 2011	**(173,619)**	**(26,982)**	**(28,900)**	**(15,225)**	**(244,726)**
Net book value:					
At 31 December 2011	**301,111**	**21,199**	**56,430**	**11,609**	**390,349**
At 31 December 2010	268,977	30,678	62,130	11,930	373,715

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 RMB51,778,000 have not been obtained (2010: RMB123,528,000).

(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", and "遠航" brands acquired through acquisitions of Liaoyang Qianshan Cement Co., Ltd. ("Qianshan Cement") and Liaoning Shanshui Gongyuan Cement Co., Ltd. ("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" and "工源" would be phased out in ten years. Management considers the estimated useful lives of trademarks are ten years though their legal rights are renewable.

Due to the good reputation of "遠航" brand in the local area, the Board of Directors of the Group assess that the useful life of "遠航" brand is indefinite. The carrying amount of "遠航" brand as at 31 December 2011 is RMB22,230,000.

15 GOODWILL

	2011	2010
	RMB'000	RMB'000
Cost		
At 1 January	**991,328**	595,498
Additions	**306,442**	395,830
At 31 December	**1,297,770**	991,328

15 GOODWILL *(continued)*

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

	2011 RMB'000	2010 RMB'000
Continental Cement Corporation, Kangda Cement, Continental (Shandong) Cement Products Manufacturing Corporation and Continental (Shandong) Cement Mining Corporation (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 Shanshui Hengtai Cement Co., Ltd.	**7,259**	7,259
Jining Shanshui Cement Co., Ltd. (previously known as "Shandong Lineng Cement Co., Ltd.")	**78,261**	78,261
Yingkou Shanshui Cement Co., Ltd. (previously known as "Yingkou Pengfa Cement Co., Ltd.")	**9,232**	9,232
A group of net assets of Alu Kerqin Bayan Baote Cement Co., Ltd.	**18,693**	18,693
Tianjin Tianhui Cement Co., Ltd.	**4,543**	4,543
A group of net assets of Shengfeng Cement Manufacturing Co., Ltd.	**6,627**	6,627
Lvliang Yilong Cement Co., Ltd.	**12,522**	12,522
Hequ Zhongtianlong Cement Co., Ltd.	**2,762**	2,762
Chifeng Yuanhang	**140,780**	140,780
Guangrao Shanshui Cement Co., Ltd. (previously known as "Dongying Dongxing Cement Co., Ltd.")	**15,058**	15,058
Kenli Shanshui Cement Co., Ltd. (previously known as "Dongying Shenglv Cement Co., Ltd.")	**27,516**	27,516
Yulin Shanshui Cement Co., Ltd. (previously known as "Yulin Yatai Cement Co., Ltd.")	**28,984**	28,984
Jincheng Shanshui Heju Cement Co., Ltd. (previously known as "Shanxi Heju Cement Co., Ltd.")	**48,915**	48,915
Zhalaite Qi Shanshui Cement Co., Ltd. (previously known as "Xing'an Meng Quanxing Cement Co., Ltd.")	**92,874**	76,791
Wulanhaote Tianzhu Cement Co., Ltd.	**12,639**	12,639
Inner Mongolia Lande Cement Co., Ltd.	**20,101**	–
A group of net assets of Huixian Luqiao Cement Co., Ltd.	**12,963**	–
Weifang Wanda Building Materials Co., Ltd.	**18,288**	–
Taiyuan Shanshui Cement Co., Ltd. (previously known as "Taiyuan Guangsha Cement Co., Ltd.")	**239,007**	–
	1,297,770	991,328

15 GOODWILL *(continued)*

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 with a discount rate of 16.19%. 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	**2011** **RMB'000**	2010 RMB'000
Available-for-sale securities, at fair value	(a)	**5,225**	6,392
Unquoted equity investments in non-listed companies	(b)	**1,260**	1,260
Loans to an associate	(c)	**88,598**	74,000
		95,083	81,652

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 is 6.10% (2010: 5.31%) and have no fixed repayment terms.

17 INVESTMENT IN AN ASSOCIATE

	2011 RMB'000	2010 RMB'000
Share of net assets	**65,872**	48,782

As at 31 December 2011, 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	Profit/(loss) for the year RMB'000
2011					
100 percent	**359,201**	**224,768**	**134,433**	**251,475**	**34,878**
Group's effective interest	**176,008**	**110,136**	**65,872**	**123,223**	**17,090**
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 2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	**413,248**	413,248

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

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.

			Proportion of ownership interest			
Name of Company	**Place and date of incorporation/ establishment**	**Issued and fully paid share capital/ registered capital**	**Group's effective interest**	**Held by the Company**	**Held by subsidiaries**	**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	100.00	–	Investment holding
China Pioneer Cement (Hong Kong) Company Limited ("Pioneer Cement")	Hong Kong, PRC 25 January 2005	HKD0.01	100.00	–	100.00	Investment holding
(b) Enterprise established outside the PRC						
Continental Cement Corporation	British Virgin Islands 30 May 2000	USD100	100.00	–	100.00	Investment holding
(c) Wholly foreign owned enterprises established in the PRC						
Shandong Shanshui Cement Group Co., Ltd. ("Shandong Shanshui")	Shandong, PRC 10 August 2001	Registered capital of RMB3,000,000,000 and paid-in capital RMB2,990,028,752	100.00	–	100.00	Investment holding
Kangda Cement	Shandong, PRC 6 April 2002	USD11,980,000	100.00	–	100.00	Production and sales of clinker
Continental (Shandong) Cement Products Manufacturing Corporation	Shandong, PRC 6 April 2002	USD20,484,500	100.00	–	100.00	Production and sales of cement
Continental (Shandong) Cement Mining Corporation	Shandong, PRC 6 April 2002	USD7,101,000	100.00	–	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	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
(d) Sino-foreign equity joint venture enterprises established in the PRC						
Pingyin Shanshui Cement Co., Ltd. ("Pingyin Shanshui")	Shandong, PRC 1 August 2003	RMB178,000,000	98.97	–	99.65	Production and sales of cement and clinker
Anqiu Shanshui Cement Co., Ltd. ("Anqiu Shanshui")	Shandong, PRC 4 August 2003	RMB152,000,000	99.06	–	99.76	Production and sales of cement and clinker
Weihai Shanshui Cement Co., Ltd. ("Weihai Shanshui")	Shandong, PRC 25 March 2008	USD24,000,000	100.00	–	100.00	Manufacturing and selling of cement
Dandong Shanshui Gongyuan Cement Co., Ltd.	Liaoning, PRC 31 March 2008	USD12,000,000	100.00	–	100.00	Production and sales of cement
Qingdao Shanshui Chuang-xin Cement Co., Ltd. ("Qingdao Chuangxin")	Shandong, PRC 25 April 2008	USD28,000,000	100.00	–	100.00	Production and sales of cement
Shenyang Shanshui Gongyuan Cement Co., Ltd.	Liaoning, PRC 9 July 2008	USD12,000,000	100.00	–	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	–	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	–	100.00	Production and sales of cement and clinker
(e) Domestic companies established in the PRC						
Qianshan Cement	Liaoning, PRC 5 June 1989	RMB98,840,700	73.00	–	73.00	Production and sales of cement and clinker
Shandong Cement Factory Co., Ltd.	Shandong, PRC 3 April 1990	RMB182,000,000	99.00	–	99.00	Production and sales of cement and concrete; production of limestone

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

			Proportion of ownership interest			
Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Guangrao Shanshui Cement Co., Ltd.	Shandong, PRC 8 May 1998	RMB18,760,000	70.00	–	70.00	Production and sales of cement
Gongyuan Cement	Liaoning, PRC 13 July 1998	RMB280,000,000	100.00	–	100.00	Production and sales of cement and related products
Taiyuan Shanshui Cement Co., Ltd.	Shanxi, PRC 27 October 1999	RMB61,224,500	60.00	–	60.00	Production and sales of cement
Chifeng Yuanhang	Inner Mongolia, PRC 5 August 2000	RMB66,150,000	97.00	–	97.00	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	–	95.18	Production and sales of cement and related products
Jinan Shanshui Cement Mechanics Co., Ltd.	Shandong, PRC 12 March 2002	RMB1,500,000	99.00	–	99.00	Installation of equipment and spare parts of cement machines
Tianjin Tianhui Cement Co., Ltd.	Tianjin, PRC 22 July 2002	RMB16,000,000	100.00	–	100.00	Production and sales of cement and related products
Changle Shanshui Cement Co., Ltd.	Shandong, PRC 30 July 2002	RMB24,700,000	99.00	–	99.00	Production and sales of cement and concrete; Production of limestone
Yantai Shanshui	Shandong, PRC 22 November 2002	RMB155,500,000	100.00	–	100.00	Production and sales of cement

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

			Proportion of ownership interest			
Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Jinan Shanshui Wuliugang Co., Ltd.	Shandong, PRC 28 March 2003	RMB10,000,000	99.00	–	99.00	Logistic service and sales of coal
Binzhou Shanshui Cement Co., Ltd.	Shandong, PRC 30 July 2003	RMB5,000,000	99.00	–	99.00	Production and sales of cement
Shandong Shanshui Cement Industrial design Development Co., Ltd.	Shandong, PRC 1 August 2003	RMB6,000,000	90.00	–	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	RMB10,000,000	99.00	–	99.00	Production and sales of cement and concrete
Gucheng Shanshui Cement Co., Ltd.	Hebei, PRC 4 August 2003	RMB5,000,000	99.00	–	99.00	Production and sales of cement
Dongying Shanshui Cement Co., Ltd.	Shandong, PRC 4 August 2003	RMB5,000,000	99.00	–	99.00	Production and sales of cement
Zibo Shanshui Cement Co., Ltd.	Shandong, PRC 5 August 2003	RMB60,000,000	99.00	–	99.00	Production and sales of cement, clinker and limestone
Weifang Shanshui Cement Co., Ltd.	Shandong, PRC 29 December 2003	RMB50,000,000	100.00	–	100.00	Production and sales of cement, limestone and concrete
Tongliao Shanshui Gongyuan Cement Co., Ltd.	Inner Mongolia, PRC 2 April 2004	RMB5,000,000	100.00	–	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	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Qingdao Shanshui Hengtai Cement Co., Ltd.	Shandong, PRC 10 June 2004	RMB3,000,000	100.00	–	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	–	99.00	Production and sales of cement
Zaozhuang Shanshui	Shandong, PRC 28 July 2004	RMB70,000,000	100.00	–	100.00	Production and sales of cement and clinker
Jining Shanshui Cement Co., Ltd.	Shandong, PRC 21 January 2005	RMB100,000,000	100.00	–	100.00	Production and sales of cement, clinker, concrete, limestone and related products
Weifang Shanshui Packaging Products Co., Ltd.	Shandong, PRC 30 August 2005	RMB500,000	99.90	–	100.00	Production and sales of cement packaging materials
Zhalaite Qi Shanshui Cement Co., Ltd.	Inner Mongolia, PRC 17 January 2006	RMB20,000,000	90.00	–	90.00	Production and sales of cement and limestone
Juye Shanshui Cement Co., Ltd.	Shandong, PRC 17 May 2006	RMB10,000,000	99.96	–	100.00	Production and sales of cement
Jincheng Shanshui Heju Cement Co., Ltd.	Shanxi, PRC 25 July 2006	RMB240,000,000	90.00	–	90.00	Establishment of cement production line
Yingkou Shanshui Cement Co., Ltd.	Liaoning, PRC 5 December 2006	RMB30,000,000	100.00	–	100.00	Production and sales of cement
Inner Mongolia Lande Cement Co., Ltd.	Inner Mongolia, PRC 6 December 2006	RMB20,000,000	100.00	–	100.00	Production and sales of cement and concrete

(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	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Dalian Shanshui Cement Co., Ltd.	Liaoning, PRC 17 August 2007	RMB180,000,000	100.00	–	100.00	Production and sales of cement clinker and related products
Yishui Shanshui Cement Co., Ltd.	Shandong, PRC 28 September 2007	RMB128,700,000	99.38	–	99.38	Production and sales of clinker and limestone
Lvliang Yilong Cement Co., Ltd.	Shanxi, PRC 16 November 2007	RMB10,000,000	90.00	–	90.00	Establishment of cement and clinker
Kenli Shanshui Cement Co., Ltd.	Shandong, PRC 21 December 2007	RMB12,000,000	90.00	–	90.00	Production and sales of cement
Benxi Shanshui Gongyuan Transportation Co., Ltd.	Liaoning, PRC 26 February 2008	RMB360,000	100.00	–	100.00	Transportation services
Benxi Shanshui Gongyuan Mechanics and Electric Engineering Co., Ltd.	Liaoning, PRC 10 March 2008	RMB500,000	100.00	–	100.00	Installation and maintenance of equipment and spare parts of cement machines
Yulin Shanshui Cement Co., Ltd.	Shaanxi, PRC 7 August 2008	RMB60,000,000	62.00	–	62.00	Production and sales of cement and related products
Benxi Shanshui Gongyuan Packaging Products Co., Ltd.	Liaoning, PRC 11 November 2008	RMB500,000	100.00	–	100.00	Production and sales of cement packaging materials
Benxi Shanshui Mining Co., Ltd.	Liaoning, PRC 18 February 2009	RMB500, 000	100.00	–	100.00	Mining and sales of limestone
Yishui Chuangxin Shanshui Cement Co., Ltd.	Shandong, PRC 2 June 2009	RMB10,000,000	100.00	–	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	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Qingdao Shanshui Jianxin Cement Co., Ltd.	Shandong, PRC 18 June 2009	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Weifang Binhai Shanshui Cement Co., Ltd.	Shandong, PRC 4 August 2009	RMB42,000,000	100.00	–	100.00	Production and sales of cement
Tianjin Shanshui Cement Co., Ltd.	Tianjin, PRC 26 August 2009	RMB100,000,000	100.00	–	100.00	Production and sales of cement
Shanxian Shanshui Cement Co., Ltd.	Shandong, PRC 27 August 2009	RMB60,000,000	100.00	–	100.00	Production and sales of cement
Caoxian Shanshui Cement Co., Ltd.	Shandong, PRC 28 August 2009	RMB22,000,000	100.00	–	100.00	Production and sales of cement
Hequ Zhongtianlong Cement Co., Ltd.	Shanxi, PRC 31 August 2009	RMB80,000,000	68.00	–	68.00	Establishment of cement production line
Panjin Shanshui Cement Co., Ltd.	Liaoning, PRC 1 September 2009	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Bozhou Shanshui Cement Co., Ltd.	Anhui, PRC 3 September 2009	RMB40,000,000	100.00	–	100.00	Establishment of cement production line
Bengbu Shanshui Cement Co., Ltd.	Anhui, PRC 4 September 2009	RMB30,000,000	100.00	–	100.00	Establishment of cement production line
Weishan Shanshui Cement Co., Ltd.	Shandong, PRC 28 September 2009	RMB100,000,000	100.00	–	100.00	Production and sales of cement and clinker

(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	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Wulanhaote Tianzhu Cement Co., Ltd.	Inner Mongolia, PRC 13 November 2009	RMB5,000,000	90.00	–	90.00	Production and sales of cement
Alu Kerqin Qi Shanshui Cement Co., Ltd.	Inner Mongolia, PRC 23 December 2009	RMB76,470,000	85.00	–	85.00	Production and sales of cement and clinker
Shanxi Shanshui Cement Co., Ltd. ("Shanxi Shanshui")	Shanxi, PRC 25 December 2009	RMB1,415,000,000	100.00	–	100.00	Sales of cement and cement related products
Jincheng Shanshui Cement Co., Ltd.	Shanxi, PRC 22 January 2010	RMB150,000,000	85.00	–	85.00	Establishment of cement production line
Laoling Shanshui Cement Co., Ltd.	Shandong, PRC 9 February 2010	RMB30,000,000	100.00	–	100.00	Production and sales of cement and related products
Weifang Wanda Building materials Co.,Ltd.	Shandong, PRC 17 March 2010	RMB10,000,000	100.00	–	100.00	Production and sales of cement and concrete
Balinyou Qi Shanshui Cement Co., Ltd.	Inner Mongolia, PRC 19 March 2010	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Huolin Guole Shanshui Cement Co., Ltd.	Inner Mongolia, PRC 19 April 2010	RMB20,000,000	85.00	–	85.00	Production and sales of cement
Kashi Shanshui Cement Co., Ltd.	Xinjiang, PRC 17 August 2010	RMB500,000,000	100.00	–	100.00	Production and sales of cement and clinker
Shule Shanshui Cement Co., Ltd.	Xinjiang, PRC 24 August 2010	RMB20,000,000	100.00	–	100.00	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	Proportion of ownership interest Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Yingjisha Shanshui Cement Co., Ltd.	Xinjiang, PRC 24 August 2010	RMB120,000,000	100.00	–	100.00	Establishment of cement and clinker production line
Dezhou Tianqi Concrete Co.,Ltd.	Shandong, PRC 31 August 2010	RMB10,000,000	60.00	–	60.00	Production and sales of concrete
Shache Shanshui Cement Co., Ltd.	Xinjiang, PRC 14 October 2010	RMB20,000,000	100.00	–	100.00	Establishment of cement production line
Shenxian Shanshui Cement Co., Ltd.	Shandong, PRC 22 October 2010	RMB10,000,000	100.00	–	100.00	Establishment of cement production line
Yulin Shanshui environmental Building materials Co.,Ltd.	Shaanxi, PRC 18 February 2011	RMB80,400,000	85.00	–	85.00	Establishment of cement production line
Shandong Shanshui Building Materials Co.,Ltd.	Shandong, PRC 2 March 2011	RMB300,000,000	100.00	–	100.00	Production and sales of building materials and related products
Benxi Shanshui Cement Co.,Ltd.	Liaoning, PRC 14 March 2011	RMB50,000,000	100.00	–	100.00	Production and sales of cement and related products; Loading and unloading services
Keyouzhong Qi Shanshui Cement Co.,Ltd.	Inner Mongolia, PRC 7 April 2011	RMB30,000,000	100.00	–	100.00	Production and sales of cement
Linfen Shanshui Cement Co.,Ltd.	Shanxi, PRC 13 May 2011	RMB200,000,000	90.00	–	90.00	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	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Benxi Shanshui Shiye Co., Ltd.	Liaoning, PRC 2 June 2011	RMB5,000,000	100.00	–	100.00	Installation and maintenance of equipment and spare parts of cement machines; Building projects
Shuozhou Shanshui New Era Cement Co.,Ltd.	Shanxi, PRC 10 June 2011	Registered capital of RMB160,000,000 and paid-in capital of RMB127,500,000	75.00	–	75.00	Establishment of cement and related products production line
Huixian Shanshui Cement Co.,Ltd.	Henan, PRC 30 June 2011	RMB100,000,000	100.00	–	100.00	Investment in cement processing projects
Linqing Shanshui Cement Co.,Ltd.	Shandong, PRC 4 July 2011	RMB2,000,000	100.00	–	100.00	Establishment of cement production line
Bachu Shanshui Cement Co.,Ltd.	Xinjiang, PRC 3 August 2011	RMB100,000,000	100.00	–	100.00	Establishment of cement production line
Zhoukou Shanshui Pipeline Co.,Ltd.	Henan, PRC 22 August 2011	RMB30,000,000	100.00	–	100.00	Establishment of cement related production line
Baishan Shanshui Cement Co.,Ltd.	Jilin, PRC 11 November 2011	Registered capital of RMB100,000,000 and paid-in capital RMB70,000,000	70.00	–	70.00	Production and sales of cement and related products; Transportation;

19 OTHER LONG-TERM ASSETS

	The Group		The Company
	2011	2010	**2011**
	RMB'000	RMB'000	**RMB'000**
Cost:			
At 1 January	**147,084**	138,084	**–**
Additions	**97,298**	9,000	**89,198**
At 31 December	**244,382**	147,084	**89,198**
Accumulated amortisation and impairment:			
At 1 January	**(67,549)**	(18,325)	**–**
Amortisation for the year	**(20,315)**	(14,157)	**(10,714)**
Impairment for the year	**(66,935)**	(35,067)	**–**
At 31 December	**(154,799)**	(67,549)	**(10,714)**
Net book value:	**89,583**	79,535	**78,484**

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 RMB66,935,000 as at 31 December 2011.

The addition of other long-term assets during the year ended 31 December 2011 represents the transaction costs of the corporate bonds issued by the Group. These transaction costs will be amortised as an expense over the period of the corporate bonds.

20 INVENTORIES

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

	2011 RMB'000	2010 RMB'000
Raw materials	**807,862**	585,877
Semi-finished goods	**482,604**	157,883
Finished goods	**383,225**	199,696
Spare parts	**250,698**	194,300
	1,924,389	1,137,756

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

	2011 RMB'000	2010 RMB'000
Carrying amount of inventories sold	**11,785,862**	9,301,456
Write-down of inventories	**2,277**	13,675
Reversal of write-down of inventories	**(5,308)**	(11,165)
	11,782,831	9,303,966

21 TRADE AND BILLS RECEIVABLE

	Note	2011 RMB'000	2010 RMB'000
Bills receivable		**1,117,960**	614,472
Trade debtors		**592,564**	403,550
Less: allowance for doubtful debts	21(b)	**(87,020)**	(54,172)
		1,623,504	963,850

(a) Ageing analysis

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

	2011 RMB'000	2010 RMB'000
Current	**1,393,917**	848,214
Less than 3 months past due	**87,172**	24,316
3 to 6 months past due	**107,369**	26,104
6 to 12 months past due	**16,916**	28,256
More than 12 months past due	**18,130**	36,960
Amount past due	**229,587**	115,636
	1,623,504	963,850

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).

21 TRADE AND BILLS RECEIVABLE *(continued)*

(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)).

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

	2011	2010
	RMB'000	RMB'000
At 1 January	**54,173**	33,854
Impairment loss recognised	**46,375**	32,520
Uncollectible amounts written off	**(9,880)**	(11,030)
Reversal of doubtful debt	**(3,648)**	(1,172)
At 31 December	**87,020**	54,172

At 31 December 2011, the Group's trade and bills receivable of RMB92,869,000 (2010: RMB173,035,000) 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.

21 TRADE AND BILLS RECEIVABLE *(continued)*

(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:

	2011 **RMB'000**	2010 RMB'000
Neither pass due nor impaired	**1,393,694**	819,741
Less than 3 month past due	**87,173**	23,452
3 to 6 months past due	**106,337**	175
Over 6 months past due	**30,451**	1,619
Past due but not impaired	**223,961**	25,246
	1,617,655	844,987

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	**2011** **RMB'000**	2010 RMB'000
Prepayments for raw materials		**123,757**	117,841
Prepayments for long-lived assets		**550,825**	349,165
VAT recoverable		**313,087**	225,805
Amount due from related parties	37(c)	**2,999**	2,760
Amount due from third parties		**658,532**	198,584
Others		**14,094**	21,994
		1,663,294	916,149

23 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

		The Group		The Company	
	Note	**2011** **RMB'000**	2010 RMB'000	**2011** **RMB'000**	2010 RMB'000
Cash at bank and in hand		**3,008,332**	1,144,840	**1,155,639**	38,307
Pledged bank deposits	(i)	**70,238**	65,365	**–**	–
		3,078,570	1,210,205	**1,155,639**	38,307
Less: Pledged bank deposits		**(70,238)**	(65,365)	**–**	–
Cash and cash equivalents		**3,008,332**	1,144,840	**1,155,639**	38,307

Note:

(i) Bank deposits of RMB70,238,000 as at 31 December 2011 (2010: RMB65,365,000) 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	2011 RMB'000	2010 RMB'000
Profit before taxation		**3,254,001**	1,363,205
Adjustments for:			
Depreciation	5(c)	**808,931**	693,276
Amortisation of land lease premium for property held for own use	5(c)	**44,591**	35,672
Amortisation of intangible assets	5(c)	**53,972**	64,361
Amortisation of other long-term assets	5(c)	**20,315**	14,157
Impairment losses on fixed assets	5(c)	**7,771**	106,533
Impairment losses on intangible assets	5(c)	**–**	4,270
Impairment losses on other long-term assets	5(c)	**66,935**	35,067
Finance costs	5(a)	**619,582**	363,070
Share of profits less losses of an associate	17	**(17,090)**	218
Interest income	4	**(33,835)**	(6,769)
Loss/(gain) on sale of property, plant and equipment	4	**13,617**	(1,518)
Foreign exchange gain		**(147)**	(13,459)
Equity-settled share-based payment expenses		**22,129**	–
		4,860,772	2,658,083
Changes in working capital:			
Increase in inventories		**(771,570)**	(220,493)
Increase in trade and bills receivable		**(592,201)**	(238,805)
Increase in pledged bank deposits		**(4,873)**	(23,451)
(Increase)/decrease in other receivables and prepayments		**(532,061)**	205,946
Increase in trade and bills payable		**140,944**	263,473
(Increase)/decrease in other payables and accrued expenses		**(224,871)**	(186,656)
Decrease in defined benefit obligations		**(13,200)**	(20,164)
(Decrease)/increase in deferred income		**(9,985)**	25,900
Cash generated from operations		**2,852,955**	2,463,833

(Expressed in Renminbi unless otherwise indicated)

24 LOANS AND BORROWINGS

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

	Note	2011 RMB'000	2010 RMB'000
Long-term interest-bearing borrowings:			
Bank loans – Secured	(i)	**2,558,000**	3,407,500
Bank loans – Unsecured	(ii)	**2,354,900**	2,147,000
Loan from government – Unsecured	(iii)	**10,000**	10,000
		4,922,900	5,564,500
Less: Current portion of long-term bank loans		**(2,876,200)**	(1,304,500)
Interest-bearing borrowings, less current portion		**2,046,700**	4,260,000

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

	2011 RMB'000	2010 RMB'000
After one year but within two years	**1,517,200**	3,363,000
After two years but within five years	**484,500**	852,000
After five years	**45,000**	45,000
Total	**2,046,700**	4,260,000

	Note	2011 RMB'000	2010 RMB'000
Short-term interest-bearing borrowings:			
Bank loans – Secured	(iv)	**211,000**	180,000
Bank loans – Unsecured	(ii)	**80,000**	200,000
		291,000	380,000
Add: Current portion of long-term bank loans		**2,876,200**	1,304,500
Short-term and current portion of interest-bearing borrowings:		**3,167,200**	1,684,500

24 LOANS AND BORROWINGS *(continued)*

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

Notes:

(i) Loans of RMB113,000,000 (2010: RMB247,500,000) as at 31 December 2011, 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 RMB2,354,900,000 (2010: RMB2,147,000,000) and current bank loans with amount of RMB80,000,000 (2010: RMB200,000,000) 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 from 2012.

(iv) All current secured bank loans as at 31 December 2011 were guaranteed by companies within the Group.

(v) Current secured bank loans carried annual interest rates ranging from 5.38% to 6.89% (2010: 4.78% to 5.38%) for the year ended 31 December 2011. Current unsecured bank loans carried annual interest rates from 5.31% to 6.63% (2010: 5.31%) for the year ended 31 December 2011.

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 balance sheet ratio of certain subsidiaries and the aggregate external guarantee provided by a subsidiary exceeded certain limits set out in the covenant of the loan agreements. The relevant outstanding loan balance was RMB75,000,000 (31 December 2010: RMB160,000,000) as at 31 December 2011, which have been classified under current portion of long-term bank loans.

24 LOANS AND BORROWINGS *(continued)*

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

	Note	2011 RMB'000	2010 RMB'000
Long-term loans from equity holders			
– Secured	(i)	**331,199**	454,248
Less: Current portion of loans from equity holders		**(100,977)**	(106,134)
Loans from equity holders, less current portion		**230,222**	348,114

Note:

(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 4% 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.

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 at LIBOR plus 4.75% per annum and are repayable bi-annually from 2010 to 2015 and are secured by certain items of property, plant and equipment of the subsidiaries.

25 TRADE AND BILLS PAYABLE

	2011 RMB'000	2010 RMB'000
Trade payables	**2,213,579**	1,942,587
Bills payable	**76,922**	11,348
	2,290,501	1,953,935

As at 31 December 2011 and 2010, all trade and bills payable of the Group are repayable on demand except for bills payable which are repayable within 6 months. All trade and bills payable are expected to be settled within one year.

26 OTHER PAYABLES AND ACCRUED EXPENSES

		The Group	
		2011	2010
	Note	**RMB'000**	RMB'000
Customer deposits and receipts in advance		**403,780**	514,883
Accrued payroll and welfare		**272,665**	163,223
Taxes payable other than income tax		**153,008**	109,132
Staff compensation and termination provisions	29(b)	**175,657**	180,397
Amount due to related parties	37(c)	**702**	1,839
Payable to third parties of acquired subsidiaries		**140,263**	181,271
Acquisition consideration payable		**586,997**	885,423
Current portion of long-term payables		**24,437**	216,783
Accrued expenses and other payables		**354,093**	218,540
		2,111,602	2,471,491

		The Company	
		2011	2010
	Note	**RMB'000**	RMB'000
Accrued withholding tax for final dividend of year 2008	33(b)	**17,288**	18,094
Accrued interest expenses		**67,593**	–
Other accrued expenses and payables		**113,468**	378
		198,349	18,472

(Expressed in Renminbi unless otherwise indicated)

27 CORPORATE BONDS

	2011 RMB'000	2010 RMB'000
Corporate bonds	**5,920,360**	1,000,000

Shandong Shanshui issued two three-year corporate bonds of RMB1 billion and RMB0.9 billion to corporate investors in the PRC debenture market on 11 October 2010 and 25 March 2011 respectively. These three-year corporate bonds bear fixed interest rates of 4.2% and 5.78% per annum, respectively, and interests are paid annually. Interest payable for the current period was included in other payables.

The Company issued two corporate bonds of USD0.4 billion (five-year period) and RMB1.5 billion (three-year period) to corporate investors in the Singapore Exchange Ltd. on 25 May 2011 and 15 July 2011 respectively. These two corporate bonds bear fixed interest rates of 8.5% and 6.5% per annum, respectively, and interests are paid semi-annually. Interest payable for the current period was included in other payables.

28 OBLIGATION UNDER FINANCE LEASE

At 31 December 2011, the Group had obligation under finance lease payable as follows:

	2011		2010	
	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**	1,133	1,200
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	**849**	**1,200**	1,650	2,400
	4,779	**6,000**	5,580	7,200
Total	**5,912**	**7,200**	6,713	8,400
Less: total future interest expenses		**1,288**		1,687
Present value of lease obligation		**5,912**		6,713

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.

(b) Staff compensation and termination provision

	Note	**2011** **RMB'000**	2010 RMB'000
Staff compensation and termination provision	26	**175,657**	180,397

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:

	2011 **RMB'000**	2010 RMB'000
Present value of the obligations	**189,690**	180,890
Unrecognised actuarial losses	**(24,450)**	(9,460)
Recognised liability for defined benefit plans	**165,240**	171,430

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 Watson Management Consulting (Shenzhen) Co., LTD. Beijing Branch, which is a member of the Society of Actuaries of the United States of America, using the projected unit credit actuarial cost method.

29 EMPLOYEE BENEFITS *(continued)*

(c) Defined benefit 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 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.

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

	2011	2010
	RMB'000	RMB'000
At 1 January	**171,430**	184,564
Payments	**(14,330)**	(15,994)
Current service cost	**1,110**	1,210
Interest expense	**7,010**	7,030
Actuarial loss recognised in consolidated income statement	**270**	90
Gain on settlement	**(250)**	(5,470)
At 31 December	**165,240**	171,430

Expenses recognised in the consolidated income statement are as follows:

	2011	2010
	RMB'000	RMB'000
Interest expense	**7,010**	7,030
Actuarial loss	**270**	90
Current service cost	**1,110**	1,210
Gain on settlement	**(250)**	(5,470)
	8,140	2,860

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:

	2011	2010
	RMB'000	RMB'000
Finance expenses	**7,010**	7,030
Administrative expenses	**1,130**	(4,170)
	8,140	2,860

Principal actuarial assumptions at each statement of financial position date:

	2011	2010
Discount rate	**3.50%**	4.00%
Annual growth rate of cost of living	**3.0%-8%**	2.5%-8%
Social average salary increase rate	**10.00%**	10.00%
Average expected remaining working life of eligible employees	**10 years**	12 years

30 DEFERRED INCOME

	2011 RMB'000	2010 RMB'000
At 1 January	**337,095**	311,195
Additions	**6,640**	41,485
Recognised in consolidated income statement	**(16,625)**	(15,585)
At 31 December	**327,110**	337,095

Deferred income mainly represents the PRC local government grants received from relevant 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 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position

	2011 RMB'000	2010 RMB'000
Provision for PRC income tax for the year	**946,903**	408,510
Under-provision in respect of prior years	**13,039**	2,782
Provisional income tax paid	**(549,873)**	(146,844)
	410,069	264,448

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

(b) Deferred tax assets and liabilities recognised

Movements in deferred tax assets and liabilities for the year ended 31 December 2011 are as follows:

	At 1 January 2011 RMB'000	Acquisition through business combinations RMB'000	Recognised in profit or loss RMB'000	Recognised in other comprehensive income RMB'000	At 31 December 2011 RMB'000
Deferred tax assets					
Intra-group unrealised profits	26,735	–	4,899	–	31,634
Fair value adjustment on fixed assets	–	5,690	(61)	–	5,629
Depreciation of property, plant and equipment	6,284	–	1,624	–	7,908
Intangible assets amortisation	573	–	(573)	–	–
Tax loss(*)	40,707	1,850	(16,582)	–	25,975
Impairment losses for property, plant and equipment	27,547	–	175	–	27,722
Write down of inventory	2,333	–	–	–	2,333
Deferred income	31,061	–	881	–	31,942
Accrued bonus	5,417	–	4,844	–	10,261
Accrued auditor's remuneration	333	–	343	–	676
Long-term payables	11,031	–	(450)	–	10,581
Accrued expenses	3,663	–	11,745	–	15,408
	155,684	7,540	6,845	–	170,069
Deferred tax liabilities					
Change of fair value of available-for-sale securities	(1,346)	–	–	292	(1,054)
Fair value adjustments on:					
Fixed assets	(89,382)	(3,326)	3,707	–	(89,001)
Intangible assets	(26,689)	(305)	7,329	–	(19,665)
Inventory	286	–	(286)	–	–
	(117,131)	(3,631)	10,750	292	(109,720)
Total	38,553	3,909	17,595	292	60,349

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

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

Movements in deferred tax assets and liabilities 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 other comprehensive income RMB'000	At 31 December 2010 RMB'000
Deferred tax assets					
Intra-group unrealised profits	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(*)	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
Long-term payables	–	1,547	2,116	–	3,663
Acquisition consideration payable	11,481	–	(450)	–	11,031
	113,986	1,777	39,921	–	155,684
Deferred tax liabilities					
Change of fair value of available-for-sale securities	(2,475)	–	–	1,129	(1,346)
Fair value adjustments on:					
Fixed assets	(74,776)	(16,824)	2,218	–	(89,382)
Intangible assets	(25,761)	(11,487)	10,559	–	(26,689)
Inventory	–	(20)	306	–	286
	(103,012)	(28,331)	13,083	1,129	(117,131)
Total	10,974	(26,554)	53,004	1,129	38,553

* Deferred tax assets in respect of unused tax losses are related to subsidiaries that were established in recent years. They are now processing to their normal production stage and are deriving profits. Accordingly, it is considered probable that sufficient taxable profits will be available in the future to utilize their unused tax losses before they expire.

Reconciliation to the consolidated statement of financial position

	2011 RMB'000	2010 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**143,812**	132,112
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(83,463)**	(93,559)
	60,349	38,553

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

(c) Deferred tax assets not recognised

As at 31 December 2011, the Group did not recognise deferred tax assets in respect of unused tax losses of certain PRC subsidiaries totalling RMB26,047,000 (2010: RMB68,445,000), as it is not probable that future taxable profits which the losses can be utilised will be available. As at 31 December 2011, tax losses of RMB15,496,000 and RMB10,551,000 will expiry by the end of 2015 and 2016, respectively, if unused.

(d) Deferred tax liabilities not recognised

Under the prevailing PRC income tax law and its relevant regulations, foreign corporate investors are levied PRC dividend withholding tax at 10%, unless reduced by tax treaties/arrangements, on dividends declared by PRC-resident enterprises for profits earned subsequent to 1 January 2008.

As at 31 December 2011, temporary differences relating to the undistributed profits of the Company's PRC subsidiaries amounted to RMB4,367,191,000 (2010: RMB2,004,802,000). Deferred tax liabilities of RMB436,719,100 (2010: RMB200,480,200) 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 these profits will not be distributed in the foreseeable future.

32 EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

Pursuant to the written resolutions of the Company's board of director passed on 25 May 2011, the director of the Company has granted certain directors and employees of the Group to take up options to subscribe for 7,300,000 ordinary shares of the Company under the Share Option Scheme. The exercise price of these options is HKD7.90, being the weighted average closing price of the Company's ordinary shares immediately before the grant. These share options were vested immediately after granted and then be exercisable until 24 May 2021.

No options were exercised during the year ended 31 December 2011.

32 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(a) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value of share options and assumptions

	2011
Fair value at measurement date	**HKD26,499,000**
Share price	**HKD7.83**
Exercise price	**HKD7.90**
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**57.04%**
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**10 years**
Expected dividends	**1.90%**
Risk-free interest rate (based on Hong Kong Exchange Fund Note)	**2.402%**

The expected volatility is based on the volatility of share prices of the Company, adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

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 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 and 1 January 2011	193,198	3,451,085	413,035	(257,263)	(661,950)	3,138,105
Changes in equity for 2011:						
Dividend approved in respect of the previous year	**–**	**–**	**–**	**–**	**(338,160)**	**(338,160)**
Equity settled share-based transactions	**–**	**–**	**22,129**	**–**	**–**	**22,129**
Total comprehensive income for the year	**–**	**–**	**–**	**(121,120)**	**(335,807)**	**(456,927)**
Balance at 31 December 2011	**193,198**	**3,451,085**	**435,164**	**(378,383)**	**(1,335,917)**	**2,365,147**

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

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

	2011 **RMB'000**	2010 RMB'000
Final dividend proposed after the end of the reporting period	**551,914**	343,799

Pursuant to the shareholders' approval at the Annual General Meeting on 20 May 2011, a final dividend of HKD0.145 per share totalling HKD408,312,779.00 in respect of the year ended 31 December 2010 was approved on 20 May 2011.

Pursuant to a resolution passed at the Directors' meeting on 23 March 2012, a final dividend in respect of the year ended 31 December 2011 of HKD0.242 per share totalling HKD681,459,948.40 was proposed for shareholders' approval at the Annual General Meeting. Final dividend of HKD681,459,948.40 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:

	2011 **RMB'000**	2010 RMB'000
Final dividend in respect of the previous financial year, declared and paid during the year	**338,160**	238,294

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 HKD21,305,000 when it distributed the dividends for the year ended 31 December 2008 to its non-resident enterprise shareholders.

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 HKD21,305,000 as at 31 December 2011, to be refunded to the relevant non-resident enterprise shareholders whose tax had been withheld pursuant to the arrangement above.

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital

	2011		2010	
	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	**2,815,950,200**	**193,198**	2,803,304,000	192,355
Issuance of shares:				
– Conversion of the convertible notes	**–**	**–**	12,646,200	843
At 31 December	**2,815,950,200**	**193,198**	2,815,950,200	193,198

Note:

(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 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.

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(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.

(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

(d) the difference between the considerations of acquisition or disposal of equity interests from/to non-controlling equity owners and the carrying amount of the proportionate net assets.

(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 2011, the Company had RMB1,736,785,000 available for distribution to equity shareholders of the Company (2010: RMB2,531,872,000).

After the end of the reporting period the directors proposed a final dividend of HKD0.242 per ordinary share (2010: HKD0.145 per share), amounting to HKD681,459,948.40 (2010: HKD408,312,779.00) (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 corporate bonds, 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 shareholders, 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	
	Note	**2011** **RMB'000**	2010 RMB'000
Current liabilities:			
Short-term and current portion of interest-bearing borrowings	24(a)	**3,167,200**	1,684,500
Current portion of loans from equity shareholders	24(b)	**100,977**	106,134
		3,268,177	1,790,634
Non-current liabilities:			
Interest-bearing borrowings, less current portion	24(a)	**2,046,700**	4,260,000
Loans from equity shareholders, less current portion	24(b)	**230,222**	348,114
Corporate bonds	27	**5,920,360**	1,000,000
		8,197,282	5,608,114
Total debt		**11,465,459**	7,398,748
Less: Cash and cash equivalents	23(a)	**(3,008,332)**	(1,144,840)
Net debt		**8,457,127**	6,253,908
Total equity		**8,166,673**	6,149,005
Total capital		**16,623,800**	12,402,913
Gearing ratio		**50.9%**	50.4%

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 Inner-Mongolia Autonomous Region, Liaoning Province, Shanxi Province, Henan Province and Shandong Province during the year ended 31 December 2011. The acquisition is expected to provide the Group with an increased market share in the respective regions. The fair value of net identifiable assets of the acquirees is determined based on the valuation carried out by a qualified independent valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

From the date of relevant acquisitions to 31 December 2011, these acquirees contributed revenue of RMB62,076,000 and net profit of RMB1,964,000. If these acquisitions had occurred on 1 January 2011, management estimates that consolidated revenue would have been RMB17,076,639,000 and consolidated profit for the year would have been RMB2,293,330,000.

Name of company	Acquired interest	Acquisition date	Principal activities
Inner Mongolia Lande Cement Co., Ltd. 內蒙古蘭德水泥有限公司	100%	20 January 2011	Production and sale of cement and concrete
Zhalaite Qi Shanshui Cement Co., Ltd. (previously known as "Xing'an Meng Quanxing Cement Co., Ltd.") 紮賚特旗山水水泥有限公司	Note (a)	9 August 2011	Production and sale of cement
Huixian Luqiao Cement Co., Ltd. ("Luqiao Cement") 輝縣市路橋水泥有限公司	Note (b)	13 September 2011	Investment in cement processing projects
Dezhou Tianqi Concrete Co., Ltd. 德州天祺商品混凝土有限公司	60%	25 August 2011	Production and sale of concrete
Weifang Wanda Building Materials Co., Ltd. 濰坊萬達建材有限公司	100%	14 October 2011	Production and sale of cement and concrete
Taiyuan Shanshui Cement Co., Ltd. (previously known as "Taiyuan Guangsha Cement Co., Ltd.") 太原山水水泥有限公司	60%	7 December 2011	Production and sale of cement

Notes:

(a) Acquisition of business from Zhalaite Qi Shanshui Cement Co., Ltd ("Zhalaite Qi")

On 8 August 2011, the Group signed an agreement to acquire a group of net assets in Zhalaite Qi for a total cash consideration of RMB43,200,000. The group of net assets acquired constituted a business and therefore is accounted for as business combination in accordance with IFRS 3, Business Combination.

(b) Acquisition of business from Luqiao Cement

On 9 June 2011, the Group signed an agreement to acquire a group of net assets in Luqiao Cement for a total cash consideration of RMB20,000,000. 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)*

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

(i) Acquisition of Taiyuan Guangsha Cement Co., Ltd. ("Taiyuan Guangsha")

On 23 September 2011, the Group signed agreements to acquire 60% equity interests in Taiyuan Guangsha for a total cash consideration approximately of RMB394,804,000.

The acquisition of Taiyuan Guangsha 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	241,796	(2,525)	239,271
Cash and cash equivalents	20,000	–	20,000
Intangible assets	3,199	1,221	4,420
Deferred tax assets	1,850	632	2,482
Trade and other receivables	69,096	–	69,096
Inventories	11,294	–	11,294
Trade and other payables	(86,596)	–	(86,596)
Deferred tax liabilities, net	–	(305)	(305)
Net identifiable assets	260,639	(977)	259,662
Non-controlling interests arising on business combination			(103,865)
Goodwill arising on acquisition			239,007
Total purchase consideration			394,804
Satisfied by:			
Consideration payable			134,804
Cash paid			260,000
Net cash outflow in respect of the acquisition			394,804
Cash flow in respect of the acquisition:			
Cash paid by the Group			260,000
Less: Cash acquired			(20,000)
Net cash outflow in respect of the acquisition			240,000

34 ACQUISITIONS *(continued)*

(ii) Other acquisitions during the year ended 31 December 2011

Except for the acquisition of Taiyuan Guangsha (see note 34(i)), the Group acquired five entities engaged in cement or concrete business during the year ended 31 December 2011 with a total cash consideration approximately of RMB177,179,000.

These acquisitions 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	148,245	(6,931)	141,314
Cash and cash equivalents	15	–	15
Trade and other receivables	11,781	–	11,781
Inventories	3,769	–	3,769
Deferred tax assets	–	5,058	5,058
Trade and other payables	(45,059)	–	(45,059)
Deferred tax liabilities, net	–	(3,326)	(3,326)
Net identifiable assets	118,751	(5,199)	113,552
Non-controlling interests arising on business combination			(3,808)
Goodwill arising on acquisition			67,435
Total purchase consideration			177,179
Satisfied by:			
Consideration payable			170,979
Cash paid			6,200
Net cash outflow in respect of the acquisition			177,179
Cash flow in respect of the acquisition:			
Cash paid by the Group			6,200
Less: Cash acquired			(15)
Net cash outflow in respect of the acquisition			6,185

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.

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, 2% (2010: 3%) and 3% (2010: 3%) 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

The Group's objective is to ensure continuity of sufficient funding and flexibility by utilising a variety of bank and other borrowings with debt maturities spreading over a range of periods, thereby ensuring that the Group's outstanding borrowing obligation is not exposed to excessive repayment risk in any one year.

Shandong Shanshui and the Company are responsible for the Group's overall cash management and the raising of borrowings in the mainland China or overseas market to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements 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

	2011 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
Short-term bank loans and current portion of long-term bank loans (note 24(a))	3,423,150	–	–	–	3,423,150	3,167,200
Long-term bank loans (note 24(a))	–	1,599,603	554,669	–	2,154,272	2,036,700
Loans from government (note 24(a))	1,255	1,230	3,536	5,383	11,404	10,000
Loans from equity shareholders (note 24(b))	118,443	117,469	155,369	–	391,281	331,199
Trade and bills payable (note 25)	2,290,501	–	–	–	2,290,501	2,290,501
Other payables and accrued expense (note 26)	2,111,602	–	–	–	2,111,602	2,111,602
Current tax liabilities (note 31(a))	410,069	–	–	–	410,069	410,069
Corporate bonds (note 27)	405,751	1,405,751	5,712,572	–	7,524,074	5,920,360
Obligation under finance leases (note 28)	1,200	1,200	3,600	1,200	7,200	5,912
Long-term payables	–	36,699	8,254	28,432	73,385	55,644
	8,761,971	3,161,952	6,438,000	35,015	18,396,938	16,339,187

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

(b) Liquidity risk *(continued)*

The Group

	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
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 31(a))	264,448	–	–	–	264,448	264,448
Corporate bonds (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	–	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 Company

	2011					
	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
Other payables and accrued expense (note 26)	198,349	–	–	–	198,349	198,349
Corporate bonds (note 27)	331,731	331,731	4,519,975	–	5,183,437	4,020,360
	530,080	331,731	4,519,975	–	5,381,786	4,218,709

The Company

	2010					
	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
Other payables and accrued expense (note 26)	18,472	–	–	–	18,472	18,472

(c) Interest rate risk

Cash and cash equivalents, pledged bank deposits, interest-bearing borrowings and corporate bonds 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 bonds. Borrowings issued at variable rates and at fixed rates and corporate bonds issued at fixed rates 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 bonds 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 bonds at the end of the reporting period.

The Group

	2011		2010	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Short-term Bank loans	**5.31%~6.63%**	**80,000**	4.78%~5.75%	380,000
Long-term Bank loans	**6.14%~7.05%**	**380,000**	5.40%~5.40%	850,000
Corporate bonds	**4.20%~8.50%**	**5,920,360**	4.2%	1,000,000
		6,380,360		2,230,000
Variable rate borrowings:				
Short-term Bank loans	**5.38%~6.89%**	**211,000**	N/A	N/A
Long-term Bank loans	**5.40%~7.74%**	**4,532,900**	4.86%~7.74%	4,704,500
Loans from equity shareholders	**2.46%~5.53%**	**331,199**	2.46%~4.21%	454,248
Loans from government	**2.55%~4.44%**	**10,000**	2.55%~4.44%	10,000
		5,085,099		5,168,748
Total borrowings		**11,465,459**		7,398,748
Net fixed rate borrowings as a percentage of total borrowings		**56%**		30%

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 2011, 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 RMB34,222,000 (2010: RMB33,127,000). 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 other payables denominated in foreign currencies and 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 corporate bonds (see note 27), 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)			
	2011		2010	
	HKD	**USD**	HKD	USD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and cash equivalents	**7,463**	**13,460**	21,073	41,587
Loans from equity shareholders	**–**	**(331,199)**	–	(454,248)
Corporate bonds	**–**	**(2,520,360)**	–	–
Net exposure arising from recognised assets and liabilities	**7,463**	**(2,838,099)**	21,073	(412,661)

The Company

	Exposure to foreign currencies (expressed in Renminbi)			
	2011		2010	
	HKD	**USD**	HKD	USD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and cash equivalents	**6,406**	**7,095**	20,678	17,626
Corporate bonds	**–**	**(2,520,360)**	–	–
Net exposure arising from recognised assets and liabilities	**6,406**	**(2,513,265)**	20,678	17,626

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

	2011		2010	
	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%**	**(275,535)**	10%	(37,324)
	(10%)	**275,535**	(10%)	37,324
Hong Kong Dollars	**10%**	**746**	10%	2,107
	(10%)	**(746)**	(10%)	(2,107)

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 2010.

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 16).

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 2011, it is estimated that an increase/(decrease) of 50% (2010: 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

	2011		2010	
	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%**	**1,960**	50%	2,397
	(50%)	**(1,960)**	(50%)	(2,397)

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 2010.

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 2011, 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.

2011

	The group			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Assets				
Available-for-sale securities:				
– Listed	**5,225**	**–**	**–**	**5,225**

(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 2011 and 2010.

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.

(iv) Interest-bearing loans and borrowings 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 2011. The interest rates used are disclosed in note 24.

36 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	2011 RMB'000	2010 RMB'000
Authorised and contracted for		
– the acquisitions of fixed assets	**1,081,267**	1,877,236
– the acquisitions of subsidiaries	**221,710**	52,000
Authorised but not contracted for		
– the acquisitions of fixed assets	**2,447,206**	1,845,926
	3,750,183	3,775,162

(b) At 31 December 2011, the total future minimum lease payments under non-cancellable operating lease are payable as follows:

	2011 RMB'000	2010 RMB'000
Within 1 year	**16,002**	15,639
After 1 year but within 2 years	**15,914**	15,579
After 2 years but within 5 years	**46,853**	46,500
After 5 years	**127,655**	131,492
	206,424	209,210

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.

(Expressed in Renminbi unless otherwise indicated)

37 MATERIAL RELATED PARTY TRANSACTIONS

(a) During the years ended 31 December 2011 and 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 2011

(* collectively the "Management Shareholders")

(Expressed in Renminbi unless otherwise indicated)

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) During the years ended 31 December 2011 and 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
International Finance Corporation ("IFC")	Equity shareholder of the Company
Jinan Shanshui	Fellow subsidiary under common ultimate control
Jinan Shanshui Lixin Investment Development Co., Ltd.	Fellow subsidiary under common ultimate control
Jinan Shanshui Jianxin Investment Development Co., Ltd.	Fellow subsidiary under common ultimate control
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 from 1 January 2010 to 16 November 2010
Dongyue Packaging Co., Ltd.	Fellow subsidiary under common ultimate control
Jinan Cement Product Factory	Fellow subsidiary under common ultimate control
Jinan Cement Factory ("Jinan Cement")	Fellow subsidiary under common ultimate control
Jinan Huanghai Cement Co., Ltd.	Fellow subsidiary under common ultimate control
Jinan Dongfanghong Cement Co., Ltd.	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.	Fellow subsidiary under common ultimate control
Dong'e Shanshui	Associate of the Group

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties of the Group

	Note	2011 RMB'000	2010 RMB'000
Recurring transactions			
Sales:	(i)		
– Tianjin Tianhui		–	11,497
– Dong'e Shanshui		43,948	–
		43,948	11,497
Purchase:			
– Dong'e Shanshui	(i)	34,748	–
Rental income:			
– Jinzhu Powder		–	135
– Stanford		–	279
		–	414
Brand royalty income:			
– Tianjin Tianhui		–	49
Management Fees			
– Tianjin Tianhui		–	25
– Jinzhu Powder		–	610
		–	635
Non-recurring transactions			
Loans to an associate and relevant interest income:			
– Dong'e Shanshui	(ii)	69,703	74,680
Repayment of loans to an Associate and related interests by:			
– Dong'e Shanshui	(ii)	55,785	–

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

	Note	2011 RMB'000	2010 RMB'000
Loans from related parties and relevant interest expenses:			
– IFC	(iii)	**18,206**	343,751
– Jinan Shanshui		**200**	1,200
		18,406	344,951
Repayment of loans from related Parties and relevant interests to:			
– IFC	(iii)	**141,197**	125,482
– Jinan Shanshui		**1,400**	–
		142,597	125,482

Notes:

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

(ii) These relate to loans and related interests to Dong'e Shanshui, the associate of the Group. These loans with total principal of RMB63,600,000 bear interest at one-year PRC bank loan interest rate of 6.10% (2010: 5.31%) and the related interest was RMB6,103,000 for the year ended 31 December 2011. During the year ended 31 December 2011, the loan and related interests repaid by Dong'e Shanshui was RMB55,785,000.

(iii) 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 4% 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 4.75% 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:

	2011 RMB'000	2010 RMB'000
Accounts receivable due from:		
– Dong'e Shanshui	**3,235**	–
Advances to suppliers:		
– Dong'e Shanshui	**953**	–
Advances to customers:		
– Dong'e Shanshui	**149**	–
Other receivables due from:		
– China Shanshui Investment	**705**	739
– Property Development	**1,341**	1,341
– Dong'e Shanshui	**–**	680
	2,046	2,760
Other financial asset due from:		
– Dong'e Shanshui	**88,598**	74,000
Other payable due to:		
– Dong'e Shanshui	**6**	–
– IFC	**696**	639
– Jinan Shanshui	**–**	1,200
	702	1,839
Loans due to:		
– IFC	**331,199**	454,248

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:

	2011	2010
	RMB'000	RMB'000
Salary, allowances and other benefits	**161,182**	41,781
Contributions to defined contribution retirement plans	**171**	188
Share-based payments	**14,952**	–
	176,305	41,969

38 AMOUNT DUE FROM/TO SUBSIDIARIES

At 31 December 2011, 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) In December 2011, Gongyuan Cement, a subsidiary of the Group, entered into several equity transfer agreements with certain third parties for the acquisitions of:

– 70% equity interests in Bohai Cement (Huludao) Company Limited and its subsidiaries ("Bohai Cement Group") for an aggregate consideration of RMB290,790,000. Bohai Cement Group is located in Huludao City, Liaoning Province and is principally engaged in the production and sales of cement. At the date of this report, this agreement has not been implemented.

– 80% equity interests in Chifeng Shiyu Cement Manufacturing Company Limited ("Shiyu Cement") for an aggregate consideration of RMB6,120,000. Shiyu Cement is located in Chifeng City, Inner-Mongolia Province and is principally engaged in the production and sales of cement. At the date of this report, this agreement has not been implemented.

39 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD *(continued)*

(b) In December 2011, Gongyuan Cement, a subsidiary of the Group, entered into several equity transfer agreements with certain third parties for the acquisitions of: *(continued)*

– 80% equity interests in Liaoning Dongxin Cement (Group) Company Limited ("Dongxin Cement") for an aggregate consideration of RMB72,000,000. Dongxin Cement is located in Chaoyang City, Liaoning Province and is principally engaged in the production and sales of cement. The transfer was completed on 5 March 2012.

(c) On 25 December 2011, Shandong Shanshui, a subsidiary of the Group, entered into an equity transfer agreement with a third party for the acquisition of the 67% equity interests in Rushan Changcheng Cement Company Limited ("Rushan Changcheng") for an aggregate consideration of RMB67,000,000. Rushan Changcheng is located in Rushan City, Shandong Province and is principally engaged in the production and sales of cement. The transfer was completed on 18 January 2012.

(d) On 6 December 2011, Shanxi Shanshui, a subsidiary of the Group, entered into an equity transfer agreement with a third party for the acquisition of the 55% equity interests in Shanxi Huigong Changjing Cement Company Limited ("Huigong Changjing") for an aggregate consideration of RMB16,800,000. Huigong Changjing is located in Changzhi City, Shanxi Province and is principally engaged in the production and sales of cement. The transfer was completed on 6 February 2012.

40 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The directors consider the ultimate holding company of the Company as at 31 December 2011 to be China Shanshui Investment, which is incorporated in Hong Kong, China. This entity does not produce financial statements available for public use.

(Expressed in Renminbi unless otherwise indicated)

41 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the IASB has issued the following amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
IFRS 9, *Financial instruments*	1 January 2013
IFRS 10, *Consolidated financial statements*	1 January 2013
IFRS 11, *Joint arrangements*	1 January 2013
IFRS 12, *Disclosure of interests in other entities*	1 January 2013
IFRS 13, *Fair value measurement*	1 January 2013
IAS 27, *Separate financial statements* (2011)	1 January 2013
IAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised IAS 19, *Employee benefits*	1 January 2013
IFRIC 20, *Stripping costs in the production phase of a surface mine*	1 January 2013
Amendment to IFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments and new standards 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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