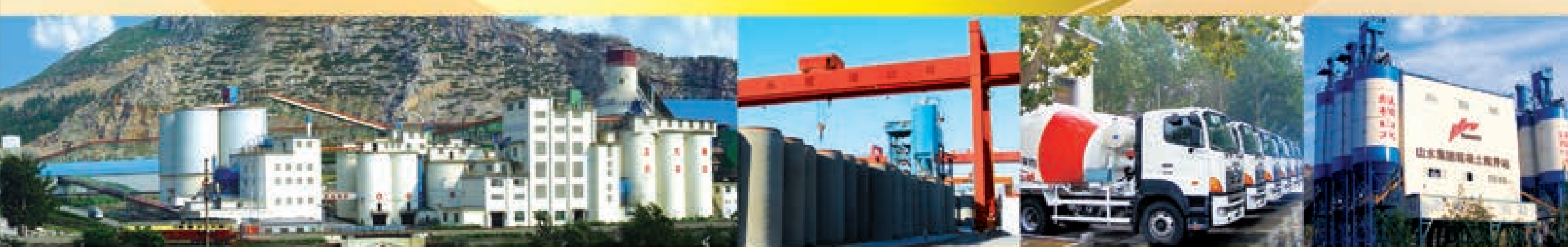
CHINA SHANSHUI CEMENT GROUP LIMITED
中國山水水泥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 691

2013 Annual Report



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Definitions

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

"Company" or "Shanshui Cement"	China Shanshui Cement Group Limited
"Group" or "Shanshui Group"	the Company and its subsidiaries
"Reporting Period"	1 January 2013 to 31 December 2013
"Directors"	Directors of the Company
"Board"	Board of Directors of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"SFO"	Securities and Futures Ordinance (Cap. 571) (as amended, supplemented or otherwise modified from time to time)
"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, Henan Province, Tianjin etc.
"Northeast Region"	Liaoning Province and the areas covered by the Company's business, including Eastern part of Inner Mongolia, Jilin Province etc.
"Shanxi Region"	Shanxi Province and the areas covered by the Company's business, including Shaanxi Province etc.
"Xinjiang Region"	The areas covered by the Company's business in Kashi, Xinjiang
"National Bureau of Statistics of China"	The National Bureau of Statistics of the People's Republic of China

1. BOARD OF DIRECTORS

Executive Directors

ZHANG Bin *(Chairman and General Manager)*
ZHANG Caikui
LI Cheung Hung

Note: Mr. LI Cheung Hung has been appointed as Executive Director of the Company with effect from 23 August 2013.

Non-Executive Directors

JIAO Shuge (alias JIAO Zhen)
XIAO Yu

Note: Mr. XIAO Yu has been appointed as Non-Executive Director of the Company with effect from 24 May 2013.

Independent Non-Executive Directors

WANG Yanmou
WANG Jian
HOU Huailiang

Note: Mr. HOU Huailiang has been appointed as Independent Non-Executive Director of the Company with effect from 23 August 2013.

Audit Committee

WANG Yanmou *(Chairman)*
WANG Jian
HOU Huailiang

Remuneration Committee

HOU Huailiang *(Chairman)*
WANG Yanmou
WANG Jian

Executive Committee

ZHANG Bin *(Chairman)*
ZHANG Caikui
LI Cheung Hung

Nomination Committee

ZHANG Bin *(Chairman)*
WANG Yanmou
HOU Huailiang

(I) Company Profile

2. COMPANY PROFILE

(1)	Company Name		
	Company Name in Chinese	:	中國山水水泥集團有限公司
	Official English Name of the Company	:	China Shanshui Cement Group Limited
(2)	Registered Office	:	Offices of Maples Corporate Services Limited PO Box 309, Ugland House, Grand Cayman, KY 1-1104, Cayman Islands
(3)	Principal Places of Business		
	Principal Place of Business in China	:	Sunnsy Industrial Park, Gushan Town, Changqing District, Jinan, Shandong, China
	Principal Place of Business in Hong Kong	:	Room 2609, 26/F, Tower 2, Lippo Centre, 89 Queensway, Admiralty, Hong Kong
(4)	Contact details of the Company		
	Telephone	:	+86-531-88360218 +852-25257918
	Fax	:	+86-531-88360218 +852-25257998
	E-mail address	:	ir@shanshuigroup.com
(5)	Website	:	www.shanshuigroup.com
(6)	Authorised Representatives	:	ZHANG Bin, ZHANG Caikui
(7)	Alternate Authorised Representative	:	LI Cheung Hung
(8)	Joint Company Secretary	:	ZHANG Bin, LI Cheung Hung –FCPA,FCIS
(9)	Qualified Accountant	:	LI Cheung Hung –FCPA,FCIS
(10)	Principal Bankers	:	China Merchants Bank 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 Fulbright 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 eastern part of Inner Mongolia, Shanxi and Kashi region of Xinjiang, and a number of green-field and M & A projects were pushed forward. The Group is taking a leading position in these regions. 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. Under the guideline of the government's macroeconomic policy, 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 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; Shanshui Cement was ranked as "Top 100 Hong Kong Listed Company" and "Top 10 Net Profit Growth" in 2012 as well as "Top 10 Consolidated Strength" of mid-cap in 2013 in "Top 100 Hong Kong Stock" jointly organised by Hong Kong financial media Finet Group Limited and Chinese server provider QQ.COM; Shanshui Cement was awarded "Best Company for Leadership" in China construction and building materials sector by International Alternative Investment Review (IAIR) for two consecutive years in February 2013 and February 2014 respectively, a prize for excellences in global finance and global economy. These marked the capital markets' recognition of the Group's performance, including its positioning, business and financial strength. The inclusion of the Group in these index series and the awards granted further improved the Group's reputation and position in the international capital markets.

(II) Corporate Information

1. KEY DATA

(1) Key financial data

(Unit: RMB'000)

	For the 12 months ended 31 December		
	2013	2012	2011
Revenue	**16,535,204**	16,160,981	16,861,956
Gross profit	**3,829,237**	4,111,316	5,079,125
Gross profit margin	**23.2%**	25.4%	30.1%
Profit from operations	**2,557,206**	3,099,324	3,856,493
Profit margin from operations	**15.5%**	19.2%	22.9%
EBITDA	**3,798,678**	4,264,574	4,801,392
EBITDA margin	**23.0%**	26.4%	28.5%
Net profit	**1,074,712**	1,603,763	2,311,654
Profit attributable to equity shareholders of the Company	**1,016,707**	1,518,529	2,225,290
Basic earnings per share (RMB)	**0.36**	0.54	0.79
Dividend per share (HK$) *	**0.092**	0.233	0.242
Net cash generated from operating activities	**1,924,751**	1,930,088	1,549,263

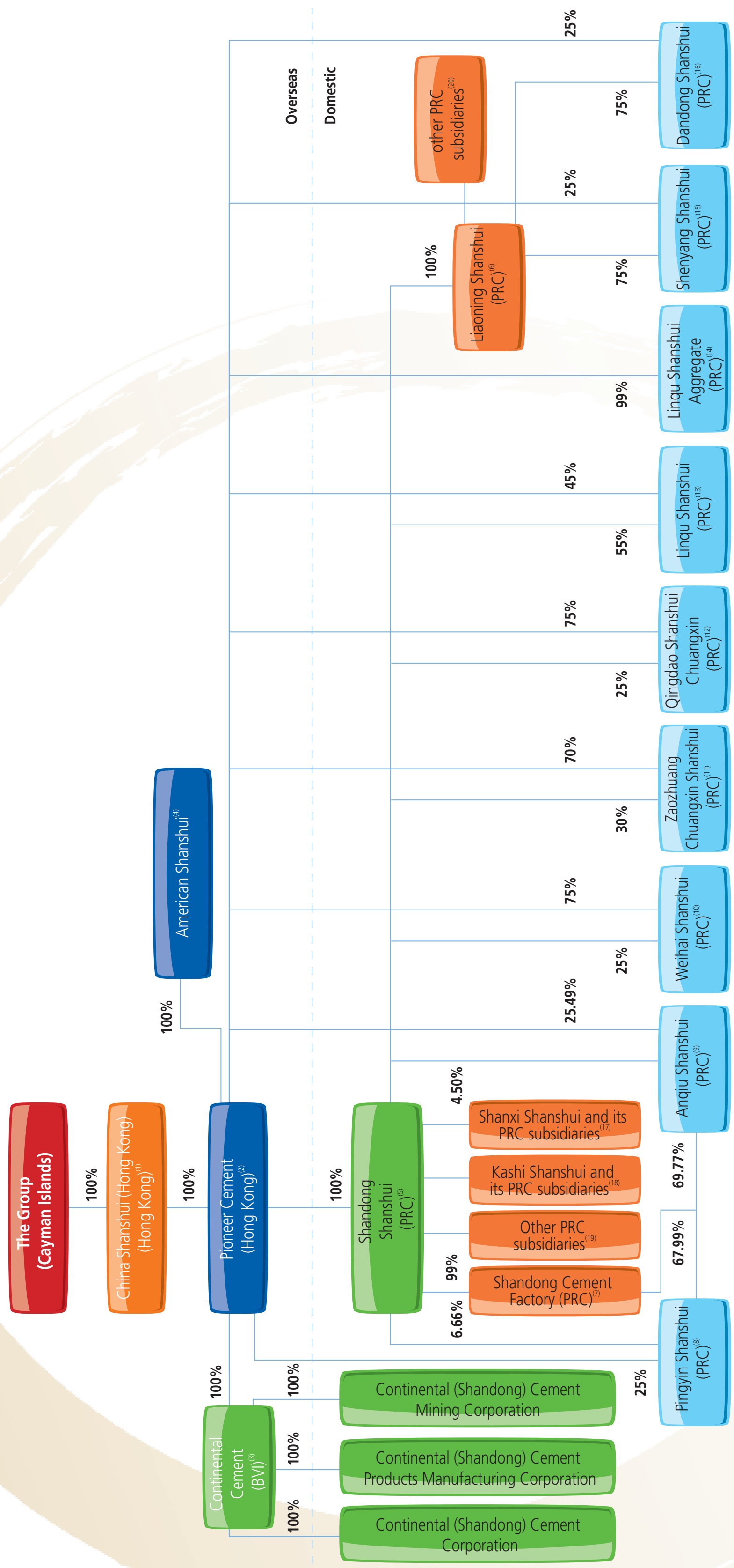
* The Board proposed to declare a payment of final dividend of HK$0.092 per share for the year ended 31 December 2013, subject to approval of shareholders of the Company at the forthcoming annual general meeting.

	As at 31 December		
	2013	2012	2011
Total assets	**32,236,396**	28,033,377	25,081,673
Total liability	**22,269,670**	18,636,875	16,915,000
Net gearing ratio	**60.4%**	56.9%	50.9%

(2) Key business data

	2013	2012	2011
Sales volume of cement ('000 tonnes)	**53,422**	47,834	47,943
Sales volume of clinker ('000 tonnes)	**9,218**	9,024	7,000
Sales volume of concrete ('000 m^3)	**2,864**	1,661	937
Unit selling price of cement (RMB/tonne)	**249.9**	277.2	294.6
Unit selling price of clinker (RMB/tonne)	**195.3**	211.0	269.5
Unit selling price of concrete (RMB/m^3)	**296.7**	280.0	258.9

2. DIAGRAM OF SHAREHOLDING STRUCTURE OF THE GROUP



(II) Corporate Information

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) American Shanshui Development Inc. ("American Shanshui). Its principal business is being the agent of sales of cement, cement products and construction materials.

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

(6) 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.

(7) 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.

(8) 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.

(9) 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.

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

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

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

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

(14) Linqu Shanshui Building Materials Aggregate Company Limited ("Linqu Shanshui Aggregate"). The remaining 1% of the equity interest is held by Shandong Shanshui Building Materials Company Limited. Its principal businesses are research, manufacturing and sale of various aggregate as well as desulfurized limestone powder processing.

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

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

(17) The details of Shanxi Shanshui Cement Company Limited ("Shanxi Shanshui") and its subsidiaries are set out in Note 17 to Financial Statements.

(18) The details of Kashi Shanshui Cement Company Limited ("Kashi Shanshui") and its subsidiaries are set out in Note 17 to Financial Statements.

(19) The details of other subsidiaries of Shandong Shanshui are set out in Note 17 to Financial Statements.

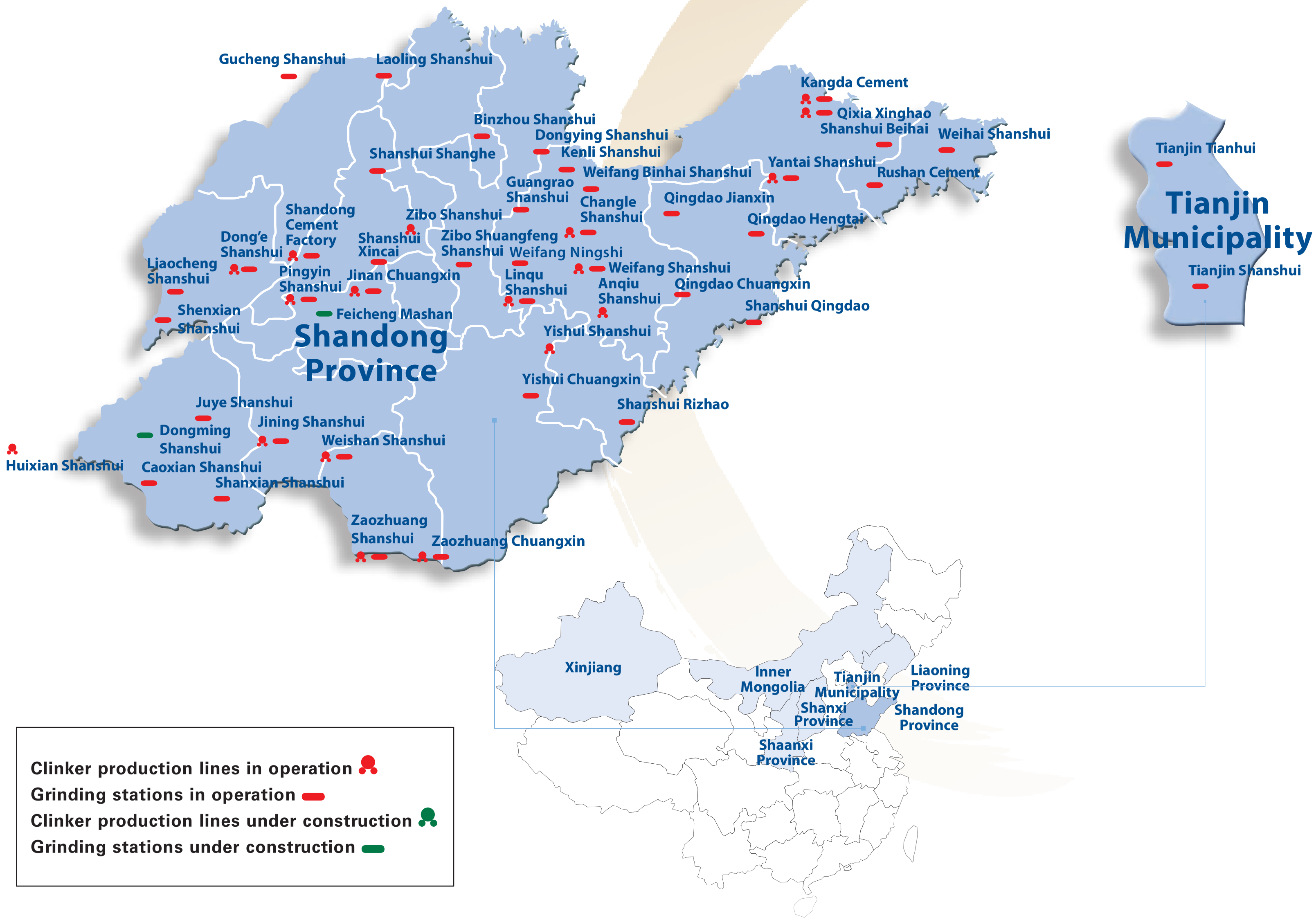
(20) The details of other subsidiaries of Liaoning Shanshui are set out in Note 17 to Financial Statements.

3. DISTRIBUTION OF PRODUCTION FACILITIES AND CAPACITY

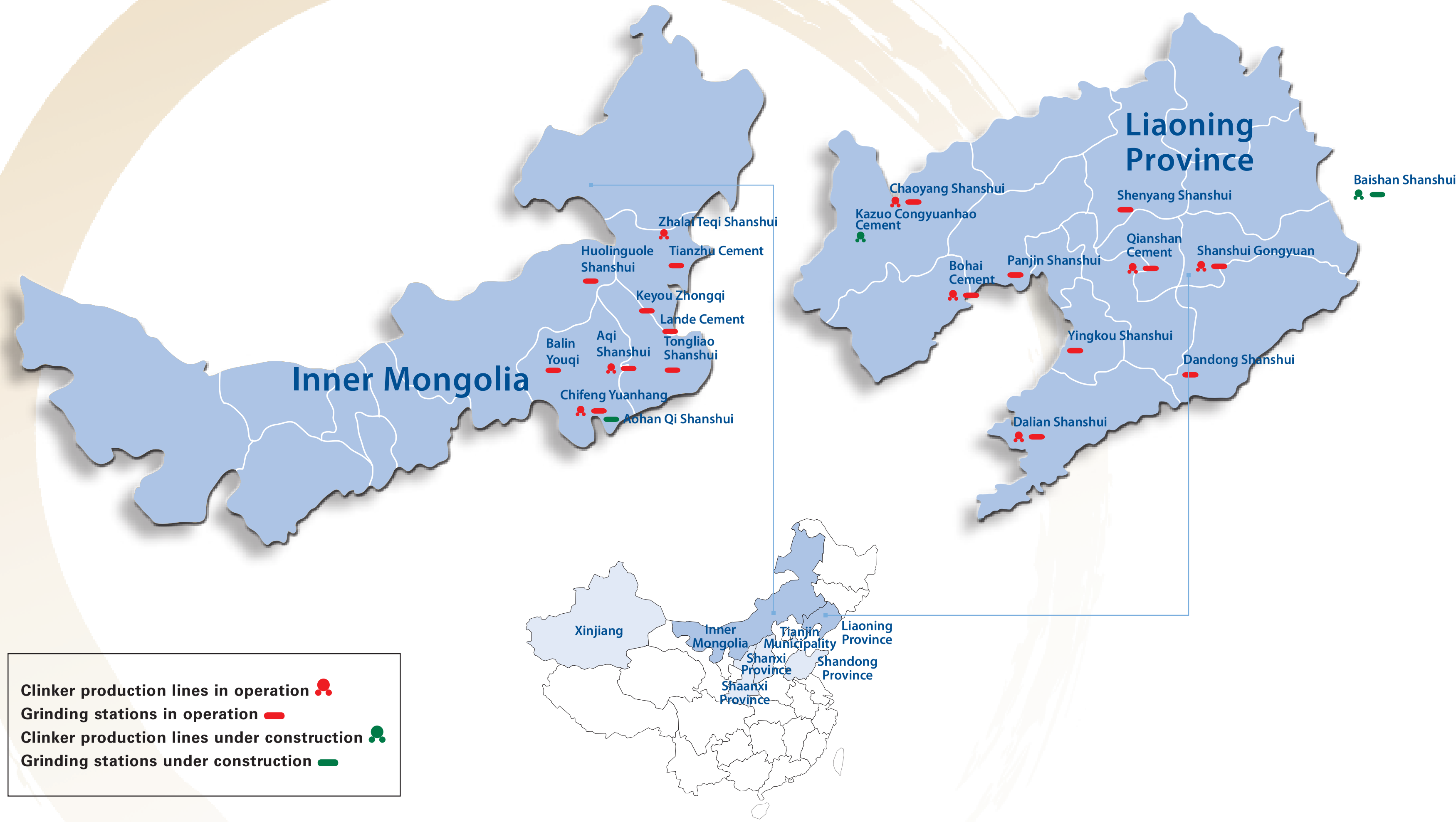
The Group's production facilities are principally located in Shandong Province, Liaoning Province, the eastern part of Inner Mongolia, Shanxi Province and Kashi region in Xinjiang Province, and its clinker production facilities are located near its limestone mines serving cement grinding stations that 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 2013, The Company had a total cement production capacity of 94.20 million tonnes and clinker production capacity (including production lines in test run) of 45.35 million tonnes. Separately, the total capacity of cement and clinker in Shandong Region reached 57.00 million tonnes and 26.21 million tonnes respectively, while the total capacity of cement and clinker in Northeast Region reached 26.70 million tonnes and 10.98 million tonnes respectively. The cement and clinker capacity in Shanxi Region reached 7.50 million tonnes and 6.56 million tonnes respectively. The cement and clinker capacity in Xinjiang Region reached 3.00 million tonnes and 1.60 million tons respectively.

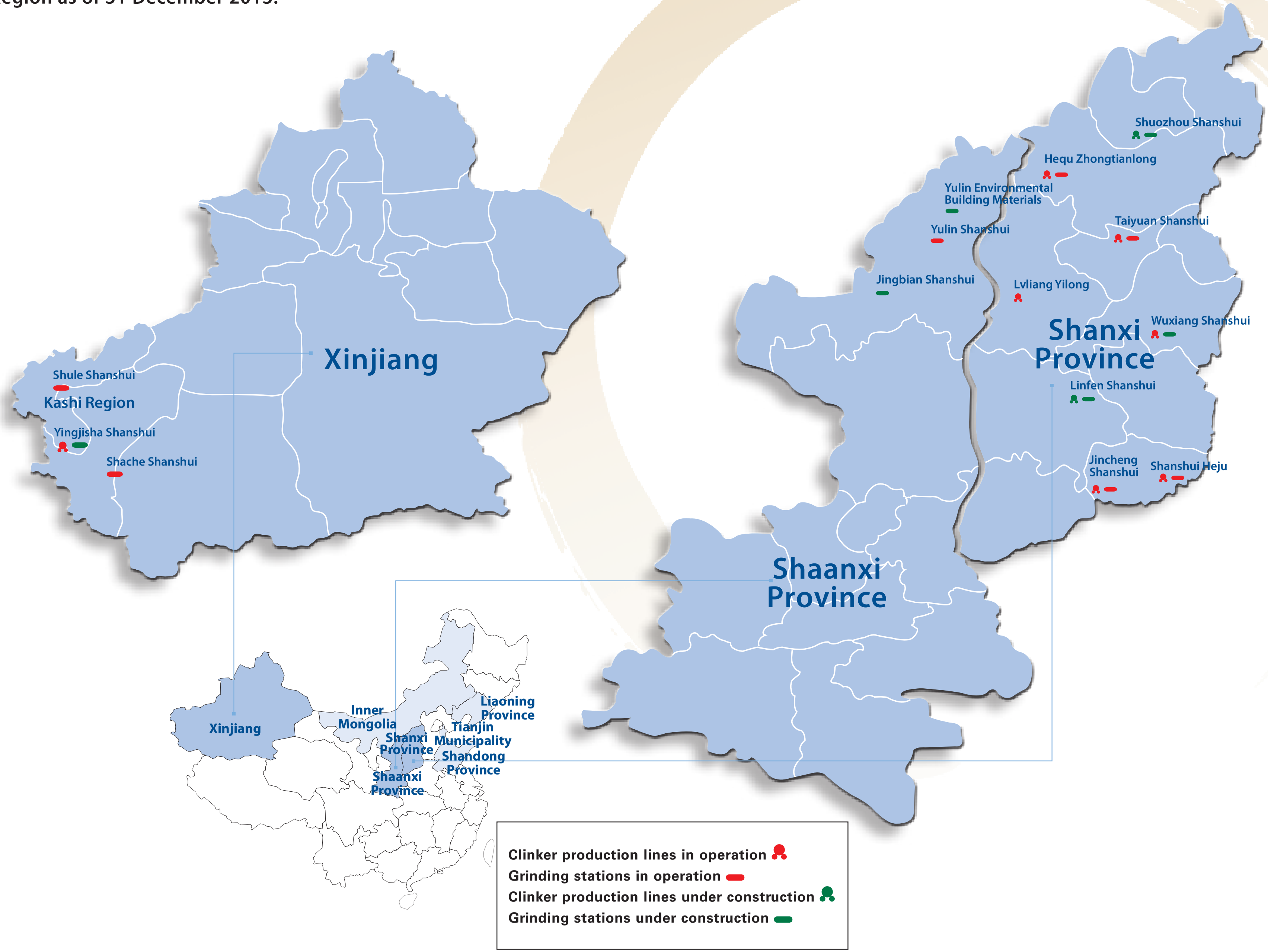
The diagram below shows the locations of our major production facilities (including projects under construction) in Shandong Region as of 31 December 2013:



The diagram below shows the locations of our major production facilities (including projects under construction) in Northeast Region as of 31 December 2013:



The diagram below shows the locations of our major production facilities (including projects under construction) in Xinjiang and Shanxi Region as of 31 December 2013:



(III) Financial Data Summary

The financial data for the year ended 31 December 2013

CONSOLIDATED INCOME STATEMENT

(Unit: RMB'000, unless stated otherwise)

	2013	2012	2011
Revenue	**16,535,204**	16,160,981	16,861,956
Profit from operations	**2,557,206**	3,099,324	3,856,493
Net profit	**1,074,712**	1,603,763	2,311,654
Attributable to:			
Equity shareholders of the Company	**1,016,707**	1,518,529	2,225,290
Minority interests	**58,005**	85,234	86,364
Basic earnings per share (RMB)	**0.36**	0.54	0.79
Diluted earnings per share (RMB)	**0.36**	0.54	0.79

CONSOLIDATED BALANCE SHEET

(Unit: RMB'000)

	2013	2012	2011
Non-current assets	**24,992,311**	21,725,658	16,791,916
Current assets	**7,244,085**	6,307,719	8,289,757
Total assets	**32,236,396**	28,033,377	25,081,673
Total liabilities	**22,269,670**	18,636,875	16,915,000
Equity attributable to equity shareholders of the Company	**9,245,952**	8,650,849	7,709,037
Non-controlling interests	**720,774**	745,653	457,636
Non-current liabilities	**10,222,513**	11,115,759	8,833,518
Current liabilities	**12,047,157**	7,521,116	8,081,482
Total equity and liabilities	**32,236,396**	28,033,377	25,081,673

CONSOLIDATED CASH FLOW STATEMENT

(Unit: RMB'000)

	2013	2012	2011
Net cash generated from operating activities	**1,924,751**	1,930,088	1,549,263
Net cash used in investing activities	**(4,395,283)**	(4,339,932)	(3,370,683)
Net cash generated from financing activities	**2,665,505**	485,264	3,686,949
Net increase/(decrease) in cash and cash equivalents	**194,973**	(1,924,580)	1,865,529

(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 2013, 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 2013, 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 2013

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

Month	**Highest price** (HK$)	**Lowest price** (HK$)
January	5.98	5.31
February	6.18	5.30
March	5.78	4.41
April	4.75	4.19
May	4.68	4.02
June	4.07	2.93
July	3.80	3.04
August	3.76	3.06
September	3.35	2.97
October	3.24	2.70
November	3.25	2.48
December	3.50	3.05

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

3. SHAREHOLDINGS OF SHAREHOLDERS AND DIRECTORS

(1) Shareholdings of substantial shareholders

As at 31 December 2013, 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)	Beneficial owner	30.11%
Gaoling Fund, L.P. [2]	261,147,000(L)	Beneficial owner	9.27%
Hillhouse Capital Management, Ltd.[3]	258,377,000(L)	Investment manager	9.18%
Asia Cement Corporation[4]	253,561,000 (L)	Interests of corporations controlled by substantial shareholder	9.00%
Deutsche Bank Aktiengesellschaft[5]	147,080,000(L)	Person having a security interest in shares	5.22%
	11,260,600(L)	Custodian corporation/ approved lending agent	0.40%
	10,862,271(L)	Beneficial owner	0.39%
	10,816,587(S)	Beneficial owner	0.38%
	1,014,000(L)	Interests of corporations controlled by substantial shareholder	0.04%
	62,000(S)	Person having a security interest in shares	0.002%
T. Rowe Price Associates Inc. and its affiliates[6]	168,175,000(L)	Beneficial owner	5.97%
JPMorgan Chase & Co.[7]	104,727,000(L)	Custodian corporation/ approved lending agent	3.72%
	34,623,000(L)	Investment manager	1.23%
	2,356,052(L)	Beneficial owner	0.08%
	455,001(S)	Beneficial owner	0.02%
Credit Suisse Group AG[8]	141,127,526(L)	Interests of corporations controlled by substantial shareholder	5.01%
	8,047,000(S)	Interests of corporations controlled by substantial shareholder	0.29%

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

Notes:

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

(2) As stated in the form of disclosure of shareholder's interests submitted by Gaoling Fund,L.P on 3 December 2013 (the date of the relevant event set out in the form was 28 November 2013), these Shares were held via Gaoling Fund,L.P.

(3) As stated in the form of disclosure of shareholder's interests submitted by Hillhouse Capital Management, Ltd on 2 December 2013 (the date of the relevant event set out in the form was 27 November 2013), 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 Asia Cement Corporation on 13 June 2013 (the date of the relevant event set out in the form was 10 June 2013), there Shares were held via Asia Cement Corporation and its affiliates.

(5) As stated in the form of disclosure of shareholder's interests submitted by Deutsche Bank Aktiengesellschaft on 12 December 2013 (the date of the relevant event set out in the form was 9 December 2013), these Shares were held via Deutsche Bank Aktiengesellschaft 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 9 August 2013 (the date of the relevant event set out in the form was 6 August 2013), these Shares were held via T. Rowe Price Associates Inc. and its affiliates.

(7) As stated in the form of disclosure of shareholder's interests submitted by JPMorgan Chase & Co. on 24 December 2013 (the date of the relevant event set out in the form was 19 December 2013), these Shares were held via JPMorgan Chase & Co. and its affiliates.

(8) As stated in the form of disclosure of shareholder's interests submitted by Credit Suisse Group AG on 3 January 2014 (the date of the relevant event set out in the form was 31 December 2013), these Shares were held via Credit Suisse Group AG and its affiliates.

Save as disclosed above, and so far as the Directors are aware, as of 31 December 2013, no person, other than Directors or the Chief Executive of the Company, had an interest or short position in the Shares or underlying shares of the Company which would need to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register maintained pursuant to Section 336 of the SFO.

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

As at 31 December 2013, 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 Associated Corporations	Nature of Interests	Number of Shares Interested(1)	Percentage of shares in issue as of 31 December 2013
Zhang Caikui	The Company	Interest in a controlled corporation	847,908,316 (L)(2)	30.11%
Zhang Bin	The Company	Beneficial owner	5,000,000 (L)(3)	0.18%
Li Cheung Hung	The Company	Beneficial owner	200,000 (L)(4)	0.007%
Xiao Yu	The Company	Beneficial owner	100,000 (L)(5)	0.004%

Notes:

(1) The Letter "L" donates a long position in such Shares.

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

(3) The 5,000,000 Shares are the Shares to be issued upon full exercise of the options granted to Zhang Bin on 25 May 2011. For details, please refer to Section 5 "Share Option Scheme" of this Chapter.

(4) The 200,000 Shares are the Shares to be issued upon full exercise of the options granted to Li Cheung Hung on 25 May 2011. For details, please refer to Section 5 "Share Option Scheme" of this Chapter.

(5) The 100,000 Shares are the Shares to be issued upon full exercise of the options granted to Xiao Yu on 25 May 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.

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

(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. 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	Granted	Vesting period	Exercise price	Exercised during the Reporting Period	Lapsed during the Reporting Period	Cancelled during the Reporting Period	Expired during the Reporting Period	Not yet exercised during the Reporting Period
Zhang Bin, *Executive Director*	25 May 2011	Options for subscription of 5,000,000 Shares	Nil	HK$7.90	Nil	Nil	Nil	Nil	Options for subscription of 5,000,000 Shares
Li Cheung Hung, *Executive Director*	25 May 2011	Options for subscription of 200,000 Shares	Nil	HK$7.90	Nil	Nil	Nil	Nil	Options for subscription of 200,000 Shares
Xiao Yu, Non-*Executive Director*	25 May 2011	Options for subscription of 100,000 Shares	Nil	HK$7.90	Nil	Nil	Nil	Nil	Options for subscription of 100,000 Shares
Employees	25 May 2011	Options for subscription of 2,000,000 Shares	Nil	HK$7.90	Nil	Nil	Nil	Nil	Options for subscription of 2,000,000 Shares
	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

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

Summary of the principal terms of the Share Option Scheme

The purpose of the Share Option Scheme is to provide an incentive for the Qualified Participants (as defined below) to work with commitment towards enhancing the value of our Company and the Shares for the benefit of our Shareholders, and to retain and attract 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 Shares that will be issued upon full exercise of the options currently granted under the Share Option Scheme are 7,300,000 Shares, representing approximately 0.26% of our share capital in issue (2,815,950,200 Shares) as of 31 December 2013.

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 Bin (張斌)	Chairman, Executive Director and General Manager	M	35	10 September 2013 –9 September 2016
ZHANG Caikui (張才奎)	Executive Director	M	63	1 July 2011–30 June 2014
LI Cheung Hung (李長虹)*	Executive Director	M	63	23 August 2013 –22 August 2016
JIAO Shuge (焦樹閣)	Non-Executive Director	M	48	1 July 2011–30 June 2014
XIAO Yu (肖瑜)*	Non-Executive Director	M	88	24 May 2013–23 May 2016
WANG Yanmou (王燕謀)	Independent Non-Executive Director	M	81	1 July 2011–30 June 2014
WANG Jian (王堅)	Independent Non-Executive Director	M	58	1 July 2011–30 June 2014
HOU Huailiang (侯懷亮)*	Independent Non-Executive Director	M	71	23 August 2013 –22 August 2016
ZHANG Bin (張斌)	Joint Company Secretary	M	35	1 July 2011–30 June 2014
LI Cheung Hung (李長虹)	Joint Company Secretary, Qualified Accountant	M	63	23 August 2013 –22 August 2016

* Mr. LI Cheung Hung has been appointed as Executive Director with effect from 23 August 2013.

* Mr. XIAO Yu has been appointed as Non-executive Director with effect from 24 May 2013.

* Mr. HOU Huailiang has been appointed as Independent Non-executive Director with effect from 23 August 2013.

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

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. ZHANG Bin (張斌), aged 35, is the 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 markets. 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. ZHANG Caikui (張才奎), aged 63, is the Executive Director and founder of the Company. Mr. Zhang has 45 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, Eleventh and Twelfth 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 Chairman of the Board, Executive Director and General Manager of the Group.

Mr. LI Cheung Hung (李長虹), aged 63, is the Executive Director, Joint Company Secretary and Qualified Accountant of the Company. He has been committed to the information disclosure of the listed company, the management of investor relationship and the Group's operation in capital markets. Mr. Li has over 30 years of experience in corporate governance, 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 (stock code: 01868) and Top Form International Limited (stock code: 00333). 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, the Association of International Accountants in England and a member of Society of Registered Financial Planners in Hong Kong.

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

Non-Executive Directors

Mr. JIAO Shuge (alias JIAO Zhen) (焦樹閣), aged 48, 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 an Independent Non-Executive Director and Vice Chairman of the Board of China Mengniu Dairy Company Limited (stock code: 02319) and Directors of Joyoung Company Limited and Henan Shuanghui Investment & Development Co. Limited., the companies 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.

Mr. XIAO Yu (肖瑜), aged 88, is the senior financial adviser to the Company and its subsidiaries (the"Group"). Mr. Xiao has over 60 years of financial experience. He had served as a division chief and a chief accountant at the Department of Finance of Shandong Province from 1948 to 1995. During the period from 1996 to 2002, he was a financial adviser to Shandong Shengli Company Limited (a company listed on the Shenzhen Stock Exchange, stock code: 000407). From 1998 to 2003, he served as an independent director of Shandong Xinhua Pharmaceutical Company Limited (a company listed on the Shenzhen Stock Exchange, stock code: 000756). Mr. Xiao joined the Group in April 2004. Mr. Xiao is a senior expert in the financial field and enjoys special government allowances assessed by the State Council. He has won various recognitions and awards from the Shandong Provincial Government. Mr. Xiao graduated from Shandong Provincial Commercial College in 1949 majoring in cost accounting.

Independent Non-Executive Directors

Mr. WANG Yanmou (王燕謀), aged 81, is the Independent Non-Executive Director of the Company. Mr. Wang is an advisor to the Expert Academic Committee of China International Construction Consulting Company and a Special Advisor to China Investment Association. From November 1981 to April 1982, Mr. Wang was the Deputy Head and Head of Chinese Building Materials Science Research Institute, and Head of National Building Materials Industry Bureau from February 1982 to May 1994. Mr. Wang graduated from Nanjing Polytechnic Institute in 1956 with a Bachelor degree. He began his overseas study at Leningrad Architectural Engineering Institute of the former Soviet Union in 1958 and obtained Associate Doctoral Degree in Science and Technology of USSR in 1962.

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

Mr. WANG Jian (王堅), aged 58, 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 (a company listed on the Shenzhen Stock Exchange, stock code: 000407). From 2000 to 2003, he was the Deputy General Manager of Shandong Shengli Company Limited. In May 2003, Mr. Wang resigned from Shandong Shengli Company Limited and joined Qilu Real Estate Company Limited, a private company, and was appointed as the General Manager. Mr. Wang was appointed as a Director of Shandong Shengli Company Limited in May 2012.

Mr. HOU Huailiang (侯懷亮), aged 71, is the Independent Non-Executive Director of the Company. Mr. Hou has over 40 years of experience in corporate management, is currently an independent director of Sinotruk Group Jinan Truck Co., LTD (a company listed on the Shenzhen Stock Exchange, stock code: 000951). Prior to joining the Group, Mr. Hou had served as a deputy factory head and factory head of Jinan Zhangqiu Electrical and Mechanical Plant from 1968 to 1983. Mr. Hou also had served as a standing committee member and deputy-secretary of County Committee of Zhangqiu, Jinan from 1984 to 1986. He also held the positions of vice-director and deputy-secretary of party committee of Committee for Economic Affairs in Jinan from 1987 to 2001. He has been the chairman of Jinan Enterprises Confederation since 2001. Mr. Hou graduated from Shandong Industrial College (山東工學院) (currently known as Shandong University (山東大學)) with a bachelor's degree majoring in mechanical engineering and manufacturing in 1968.

Senior Management

Mr. SUI Qinghuai (隋清懷), aged 49, is the Deputy General Manager of the Group, primarily responsible for the sales and marketing of the Group. Mr. Sui has over 30 years of production and sales experience in cement industry. Mr. Sui has started his career since 1982 and he was appointed the positions as Division Head and Deputy General Manager of Weifang Cement Plant. In December 2001, he was appointed as the Deputy General Manager of Sales Department in the subsidiary Weifang Shanshui Cement Company Limited. In December 2009, he was appointed as the General Manager of Sales Department in Shanxi Shanshui. In December 2010, Mr. Sui was appointed as the Assistant of Group General Manager. In March 2013, He was appointed as the Deputy General Manager of the Group.

Mr. TIAN Guang (田光), aged 38, is the Deputy General Manager of the Group, primarily responsible for the strategic development of the Group. Mr. Tian has 18 years of experience in cement industry as well as working and management experiences of several cement companies. Mr. Tian joined Shandong Cement Plant in October 1998 and he was appointed as the General Manger of the subsidiary Jinan Shiji Chuangxin Cement Company Limited in October 2002. In March 2004, he was appointed as the General Manager of the subsidiary 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.

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

Mr. YU Zhihai (于志海), aged 57, is the Deputy General Manager of the Group and Shandong Shanshui Machinery Company Limited ("Shanshui Machinery"), primarily responsible for the management and decision making of Shanshui Machinery. Mr. Yu has started his career since 1974 and he was appointed the positions as Deputy Division Head, Division Head, Plant Manager Assistant, Department Head, Assistant Plant Manager and Deputy Plant Manager of Jinan First Machine Tool Plant. He was appointed the positions as General Manager, Deputy Secretary of Party's Committee, Secretary of Party's Committee, Chairman and General Manager of restructured Jinan First Machine Tool Group Company Limited from 1996 to 2010. In July 2011, Mr. Yu joined Shanshui Group and was appointed as General Manager of Shanshui Machinery. In March 2013, Mr. Yu was appointed as the Deputy General Manager of the Group.

Joint Company Secretary and Qualified Accountant

Mr. LI Cheung Hung (李長虹), aged 63, is one of the Joint Company Secretary and the Qualified Accountant of the Company. His biographical details are set out in the paragraph headed "Senior Management" above.

Mr. ZHANG Bin (張斌), aged 35, is one of the Joint Company Secretary 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

Mr. ZHANG Caikui retired as Chairman but remained as Executive Director of the Company in the board meeting held on 18 March 2013. Mr. ZHANG Bin was appointed as the Chairman in the same meeting.

Pursuant to Article 16.18 of the Articles of Association, Mr. DONG Chengtian, Mr. Homer SUN and Mr. WANG Jian retired as a Director by rotation at the 2012 Annual General Meeting of the Company held on 24 May 2013, and Mr. SUN and Mr. WANG were re-elected as the Directors of the Company at the meeting while Mr. DONG did not offer himself for the re-election. Mr. XIAO Yu was appointed as the Non-Executive Director of the Company during the Annual General Meeting.

Mr. YU Yuchuan and Mr. SUN Jianguo tendered their resignation as directors of the Company in the board meeting held on 23 August 2013. Mr. LI Cheung Hung was appointed as Executive Director and Mr. HOU Huailiang was appointed as Independent Non-Executive Director of the Company during the same meeting.

Mr. Homer SUN tendered his resignation as Non-Executive Director of the Company on 15 October 2013.

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

Mr. ZHANG Bin, being an Executive Director of the Company, has entered into a service contract with the Company for a term of three years commencing on 10 September 2013. Under the service contract, Mr. ZHANG Bin will be entitled to receive an annual salary of RMB3 million, and such annual salary is subject to annual review by the Board and the Remuneration Committee. 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's remuneration (including any bonus) is determined with reference to his performance, position and duties in the Company and the subordinate companies.

Mr. ZHANG Caikui, being an Executive Director, 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 the service contract, Mr. ZHANG Caikui will be entitled to receive an annual salary (including any director's fees) of RMB5 million, and such annual salary is subject to annual review by the Board and the Remuneration Committee.

Mr. LI Cheung Hung, being an Executive Director, has entered into a service contract with the Company for a term of three years commencing on 23 August 2013, subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company. Under the service contract, Mr. LI will receive an annual salary (including any director's fees) of RMB1.2 million, and such annual salary is subject to annual review by the Board and the Remuneration Committee. Mr. LI's remuneration is determined with reference to his performance, position and duties in the Company.

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.

Mr. JIAO Shuge, being our Non-executive Director, has entered into a letter of appointment with our Company on 25 March 2011. Such 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. Mr. JIAO will not receive any remuneration from our Company.

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

Mr. XIAO Yu, being our Non-executive Director, has entered into a letter of appointment with our Company on 24 May 2013. Such letter of appointment is for an initial term of one year commencing from 24 May 2013, 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. Mr. XIAO will not receive any director's fees from our Company.

Each of 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 of Wang Yanmou and Wang Jian is RMB100,000.

Mr. HOU Huailiang, being our Independent Non-executive Director, has entered into a letter of appointment with our Company. Such letter of appointment is for an initial term of one year commencing from 23 August 2013, 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. Mr. HOU will not receive any remuneration from our Company.

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 2013, the Group had 22,170 employees, 12,257 in Shandong Region, 7,151 in Northeast Region, 2,205 in Shanxi Region and 557 in Xinjiang Region, including 13,409 production staff, 1,727 sales staff, 1,073 technical staff, 855 finance staff, 2,454 administrative and management staff, and 2,652 other staff. 15,109 of the employees had secondary and higher education, of which 5,553 received tertiary or above education. The aggregate remuneration of the employees of the Group for the year amounted to RMB1,147.97 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 2013 amounted to RMB116.12 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 2013, the total contributions made by the Group to the housing provident fund amounted to approximately RMB34.71 million.

(VI) Report on Corporate Governance

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 unless otherwise indicated.

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

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

The Board is account for the formulation of the Company's business directions and the management of general businesses. The running of the day-to-day businesses of the Company is delegated by the Board to General Manager and the management.

Composition of the Board is as follows:

Name	Position
ZHANG Bin	Chairman, Executive Director and General Manager
ZHANG Caikui	Executive Director
LI Cheung Hung	Executive Director, Joint Company Secretary
JIAO Shuge	Non-executive Director
XIAO Yu	Non-executive Director
WANG Yanmou	Independent Non-executive Director
WANG Jian	Independent Non-executive Director
HOU Huailiang	Independent Non-executive Director

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

During the Reporting Period, having considered the content of each resolution as well as the location and diary of each director, and after thorough communications with directors in relation to the arrangements of the meetings, 2 meetings of the Board were held on-site and the Board had voted on 1 written resolution. In view of the above considerations, the Board meeting has not convened in accordance with the code provisions where regular meetings should be held at least four times per year.

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 Bin	100%
ZHANG Caikui	100%
LI Cheung Hung*	100%
JIAO Shuge	100%
XIAO Yu	100%
WANG Yanmou	100%
WANG Jian	100%
HOU Huailiang*	50%

* Mr. LI Cheung Hung participated the board meeting held on 18 March 2013 as Joint Company Secretary.
* Mr. HOU Huailiang has been appointed as Independent Non-executive Director with effect from 23 August 2013.

Furthermore, the Board has voted on 1 resolution by means of written resolution, the voting rates of the Directors are as follows:

Name	**Voting rate (%)**
ZHANG Bin	100%
ZHANG Caikui	100%
LI Cheung Hung	100%
JIAO Shuge	100%
XIAO Yu	100%
WANG Yanmou	100%
WANG Jian	100%
HOU Huailiang	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 positions of Chairman and General Manager of the Company are jointly served by Mr. ZHANG Bin.

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 principal duties of our General Manager are: (a) to oversee the management 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.

The considerations of the combined roles of Chairman and General Manager of the Company have been explained in above section "Code on Corporate Governance Practices".

5. TENURE OF NON-EXECUTIVE DIRECTORS AND CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

For the tenure of 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. WANG Yanmou, Mr. WANG Jian and Mr. HOU Huailiang, 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. It has adopted the model that making recommendations to the Board on the remuneration packages of individual executive directors and senior management and 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 and make recommendations to the Board of the Company. 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. HOU Huailiang, Mr. WANG Yanmou and Mr. WANG Jian, of them Mr. HOU Huailiang served as the chairman. Mr. HOU has been appointed as the chairman of the Remuneration Committee with effect from 23 August 2013.

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 18 March 2013. All committee members attended the meeting. The committee considered and approved the resolution of proposal of senior management remuneration for 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. WANG Jian and Mr. HOU Huailiang, of them Mr. WANG Yanmou served as the chairman. Mr. HOU has been appointed as a member of the Audit Committee with effect from 23 August 2013.

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

At the meeting held on 18 March 2013, the Audit Committee considered and approved the following resolutions: (i) the report on work of finance for 2012 of the Company; (ii) the audited annual financial report of the Company as at 31 December 2012 prepared in accordance with IFRS, and the auditor report for 2012 submitted by KPMG; (iii) the management letter submitted by KPMG; (iv) the connected transactions of the Company for 2012; (v) the proposal to the Board to re-appoint KPMG as the auditor of the Company in 2013.

At the meeting held on 23 August 2013, 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 2013 in accordance with IFRS; (ii) the interim results announcement and interim report proposed to publish on the website of the Stock Exchange; and (iii) the management letter submitted by KPMG.

On 10 January 2014, the Joint Company Secretary of the Company notified the Audit Committee on a timely manner in respect of the schedule of audit work for 2013.

The results of the Group for the year ended 31 December 2013 have been reviewed by the Audit Committee at the meeting held on 21 March 2014. At such meeting, the Audit Committee considered and approved the following resolutions: (i) the report on work of finance for 2013 of the Company; (ii) the audited annual financial report of the Company as at 31 December 2013 prepared in accordance with IFRS, and the auditor report for 2013 submitted by KPMG; (iii) the management letter submitted by KPMG; (iv) the connected transactions of the Company for 2013; (v) the proposal to the Board to re-appoint KPMG as the auditor of the Company in 2014.

The Audit Committee made an objective assessment on the work conducted by KPMG: During the process of conducting the audit of the Company for 2013, 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 2014.

The above proposal proposed by the Board is to be considered and approved at the annual general meeting for 2013.

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 and the power granted by the Board to manage and develop its overall business and to assist the Board in performing its duties. 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 Bin, Mr. ZHANG Caikui, and Mr. LI Cheung Hung, among them Mr. ZHANG Bin serves as the chairman. Mr. ZHANG Bin has been appointed as the Chairman and Mr. LI Cheung Hung has been appointed as a member of the Executive Committee with effect from 23 August 2013 respectively.

The Executive Committee was delegated by the Board to perform the duties relating to corporate governance of the Company, of which includes developing and reviewing the Company's policies and practices on corporate governance and make recommendations to the Board; reviewing and monitoring the training and continuous professional development of directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and directors; and reviewing the Company's compliance with the code and disclosure in the corporate governance report.

At the meeting held on 18 March 2013, the Executive Committee considered and approved the following resolutions: (i) the report on work for 2012 of the Company; (ii) the budget of fixed capital expenditure for 2013 of the Company; (iii) the proposal of bank facilities for 2013 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 Bin, Mr. WANG Yanmou and Mr. HOU Huailiang, among them Mr. ZHANG Bin serves as the chairman.

On 5 March 2013, the Nomination Committee nominated Mr. XIAO Yu as a Non-executive Director of the Company by a written resolution. The nomination was approved by the Board.

On 8 August 2013, the Nomination Committee nominated Mr. LI Cheung Hung as an Executive Director and Mr. HOU Huailiang as an Independent Non-executive Director of the Company respectively by written resolutions. The above nominations were approved by the Board.

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

10. DIRECTOR TRAININGS

On 23 August 2013, the Company delivered the training materials named "Continuous Responsibilities of the Company and Directors" compiled by Hong Kong legal professional firm to all directors of the Company. All directors are required to disclose their training records to the Company in accordance with the new code.

11. DUTIES OF COMPANY SECRETARY

Joint Company Secretary of the Company are Mr. ZHANG Bin and Mr. LI Cheung Hung.

The principal duties of the Company Secretary are: (a) to assist directors in daily operations of the Board, to provide and support directors in understanding the rules, policies and requirements set out by supervisory authorities on a regular basis and to assist directors in compliance of regulations and ordinances; (b) to organize the preparation of board meeting materials, to provide illustration for the items on the agenda so that directors could fully understand the content of each resolutions and to provide directors the relevant information and figures.

12. 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 2013. The audit remuneration payable to KPMG by the Company and its subsidiaries for the year ended 31 December 2013 amounted to RMB6.2 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 RMB630,000 for performing certain agreed-upon procedures on the relevant financial statements of projects acquired by the Group.

13. 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").

General meetings shall also be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong (or in the event the Company ceases to have such a principal office, the registered office) specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the

Company in Hong Kong (or in the event the Company ceases to have such a principal office, the registered office) specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

The written requisition clearly specifying the objects of the meeting by the requisitionists is required. Shareholders are able to put forward their inquiries to the Board through communication with Joint Company Secretary by email and telephone number indicated in the sector "Company Profile" of this Report.

The annual general meeting ("AGM") of the Company for 2012 was held on 24 May 2013. Five ordinary resolutions (including the adoption of the audited consolidated financial statements for 2012, dividend distribution and rotation of directors) were approved and adopted, details of which were disclosed in the AGM poll results announcement dated 24 May 2013.

During the Reporting Period, 1 AGM was held and representatives from auditor attended the meeting.

The attendance rates of the Directors are as follows:

Name	**Attendance rate (%)**
ZHANG Bin	100%
ZHANG Caikui	100%
LI Cheung Hung*	100%
JIAO Shuge	0%
XIAO Yu	100%
WANG Yanmou	100%
WANG Jian	100%
HOU Huailiang*	0%

* Mr. LI Cheung Hung participated the annual general meeting held on 24 May 2013 as Joint Company Secretary.

* Mr. HOU Huailiang has been appointed as Independent Non-executive Director with effect from 23 August 2013.

14. AMENDMENTS TO THE MEMORANDUM OF ASSOCIATION AND THE ARTICLES OF ASSOCIATION

During the Reporting Period, there was no amendment in the Memorandum of Association and the Articles of Association.

15. 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 issues annual and monthly production plans on a unified basis. In accordance with real-time statistical data generated by the production digital system, the Monitoring Department at the Group's headquarters is responsible for daily reporting, weekly dispatch and monthly analysis. The Technical Department 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 Technical Department of the Group and the strict acceptance procedures are implemented. The Technical Department and the technical departments of 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 Quality Control Department 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 financial manager appointment procedures 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 sources are arranged on unified channels. The Group implements a strict funding approval procedure. The Group's Treasury Department supervises the use of fund through the funding settlement centre to prevent funding risks.

(5) Material procurement management: The Group has established a set of sound material procurement procedures for the Sourcing and Procurement Department of the Group to implement unified bidding procedures and to make purchases by comparing quality and prices for bulk raw materials such as coal, general spare parts for production use as well as supplies and equipment for the construction of new projects. The Group and its subsidiaries control material procurement 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 unified policies for regional market development, pricing and product sales, and has been carrying out a "cash before delivery" selling policy to ordinary customers not belonged to major accounts. The Sales and Marketing Department 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 improvement of product quality and sales service, and the continued enhancement of brand name and influence for 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 argumentation on new and target projects and submits the result for approval by the Board of the Group on a unified basis before implementation. As for projects under construction, by adherence to the principle of "low investment, short completion time, attaining standard swiftly", the Engineer Department at the Group's headquarters is responsible for project design; the Strategic Department is responsible for project construction management and production debugging; the Audit Department is 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 policies and procedures for contract management, employment, work and rest, performance appraisal, rewards and punishment, and has developed staffing and wage standards on a unified basis for its subsidiaries. The Human Resources Department of the Group 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 ethics and 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 issued by the Stock Exchange.

(VII) Management Discussion and Analysis

DOMESTIC OPERATING ENVIRONMENT AND OPERATING CONDITIONS OF THE CEMENT INDUSTRY

Since the beginning of the year, in response to the complicated domestic and international environment, the Chinese government accelerated the transformation of economic development pattern and the adjustment in economic structure, and effectively managed the market expectations. As a result, China's economic and social development realized a steady yet advancing and positive development, which could be evidenced by the fact that the key indicators were still within a reasonable range expected for the year. In 2013, China's GDP totalled RMB56.8845 trillion, representing a year-on-year growth of 7.7%. While total investment by real estate development completed RMB8,601.3 billion, representing a year-on-year growth of 19.8% with an acceleration of 3.6 percentage points in growth rate as compared with the previous year, fixed assets investment of the whole country was RMB43.6528 trillion, representing a year-on-year growth of 19.6% with a decrease of 1.1 percentage points in growth rate as compared with the previous year. (Source: National Bureau of Statistics of China)

In 2013, sizable cement enterprises throughout the country in aggregate produced 2.414 billion tonnes of cement, representing an increase of 9.6% as compared with the previous year. The cement industry in China recorded a profit of 76.6 billion, representing a year-on-year increase of 16.4%. Due to the domestic microeconomic situation, especially the supply-demand dynamics of each regional cement market, the regional differentiation in profit became more apparent and demonstrated a feature of "high in South China and low in North China", i.e. the profit of cement enterprises in South China grew faster than that in North China. (Source: Digital Cement)

The major profit-generating regions of Shanshui Group are Shandong Region and Northeast Region. In 2013, the cement price in Shandong Region was lower than that of 2012, while the cement price in Northeast Region was fluctuating at high levels. As a result, the cement price of Shanshui Group declined and the overall profitability dropped as compared with that of 2012.

OPERATIONS OVERVIEW

In 2013, the Group speeded up the development of its core cement business while getting well-prepared for the in-depth expansion on the industrial product chain, improving, refining fundamental internal management and enhancing the quality of production, operation and keeping sustainable profitability.

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

	Added clinker capacity (10,000 tonnes)	Added cement capacity (10,000 tonnes)
New production lines:		
4,500t/d clinker production line project (equipped with residual heat generation facilities) of Jincheng Shanshui Heju Cement Co., Ltd. with an annual output of 2 million tonnes cement grinding production line	144	200
4,000t/d clinker production line project (equipped with residual heat generation facilities) of Lvliang Yilong Cement Co., Ltd.	128	–
3,000t/d clinker production line project (equipped with residual heat generation facilities) of Wuxiang Shanshui Cement Co., Ltd.	96	–
4,500t/d clinker production line project (equipped with residual heat generation facilities) of Huixian City Shanshui Cement Co., Ltd.*	144	–
Cement grinding production line (Phase 2) of Shule Shanshui Cement Co., Ltd. with an annual output of 1 million tonnes	–	100
Sub-total	**512**	**300**
Acquired production lines:		
4,000t/d clinker production line project of Qixia City Xinghao Cement Co., Ltd with an annual output of 1.56 million tonnes cement grinding production line	128	156
Sub-total	**128**	**156**
Total new production capacity for the year	**640**	**456**

* The production line project is undergoing trial operation.

(VII) Management Discussion and Analysis

During the Reporting Period, the Group added new cement production capacity of 4.56 million tonnes and new clinker production capacity (including those under trial operation) 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 232.0 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 16.20 million m^3. Furthermore, a number of clinker production lines and ancillary cement grinding production lines are currently under construction. With more new projects commencing operations, the Group will further strengthen its control over and stand out in the cement markets in Shandong, Liaoning, Shanxi provinces, eastern Inner Mongolia and Kashi region of Xinjiang.

During the Reporting Period, the Group sold in total of 62.64 million tonnes of cement and clinker, representing a year-on-year growth of 10.2%. Sales revenue was RMB16,535 million, representing a year-on-year growth of 2.3%. Net profit for the year was RMB1,074 million, representing a year-on-year decline of 33.0%.

BUSINESS REVIEW

(I) Sales revenue analysis and the respective year-on-year changes

(Unit: RMB million)

Product	**2013** Sales revenue	**2013** Sales proportion	2012 Sales revenue	2012 Sales proportion	Change in sales revenue
Cement	**13,349**	**80.7%**	13,262	82.1%	0.7%
Clinker	**1,800**	**10.9%**	1,904	11.8%	-5.5%
Concrete	**850**	**5.1%**	465	2.9%	82.8%
Others	**536**	**3.3%**	530	3.2%	1.1%
Total	**16,535**	**100%**	16,161	100.0%	2.3%

During the Reporting Period, the Company's sales revenue increased by 2.3% to RMB16,535 million. With regard to revenue breakdown by products, cement revenue amounted to RMB13,349 million, representing a year-on-year growth of 0.7%, and clinker revenue amounted to RMB1,800 million, representing a year-on-year decline of 5.5%. The revenue from concrete amounted to RMB850 million, representing a year-on-year growth of 82.8%.

1. *Sales volume, unit selling prices and their respective year-on-year changes*

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

Product	**2013 Sales volume ('000 tonnes)**	2012 Sales volume ('000 tonnes)	Sales volume change	**2013 Unit selling price (RMB/ tonne)**	2012 Unit selling price (RMB/ tonne)	Change in selling price
Cement	**53,422**	47,834	11.7%	**249.9**	277.2	-9.8%
Clinker	**9,218**	9,024	2.1%	**195.3**	211.0	-7.4%
	('000 m^3)	('000 m^3)		**(RMB/m^3)**	(RMB/m^3)	
Concrete	**2,864**	1,661	72.4%	**296.7**	280.0	6.0%

During the Reporting Period, the sales volume of cement of the Company amounted to 53.42 million tonnes, representing a year-on-year growth of 11.7%, while the sales volume of commercial clinker increased to 9.22 million tonnes, representing a year-on-year growth of 2.1%. The unit selling price of cement decreased by 9.8% to RMB249.9 per tonne, while the unit selling price of clinker decreased by 7.4% to RMB195.3 per tonne. The sales volume of concrete increased to 2.86 million cubic meters, representing a year-on-year growth of 72.4%. The unit selling price of concrete increased by 6.0% to RMB296.7/m^3.

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

Region	**Average unit selling price in 2013 (RMB/tonne)**	Average unit selling price in 2012 (RMB/tonne)	Change in selling price
Shandong Region	**243.9**	268.3	-9.1%
Northeastern Region	**270.3**	303.8	-11.0%
Shanxi Region	**218.9**	239.9	-8.8%
Xinjiang Region	**226.8**	200.0	13.4%

During the Reporting Period, the average unit selling price of cement of our operating companies in Shandong Region was RMB243.9 per tonne, representing a year-on-year decrease of 9.1%, that in Northeast Region was RMB270.3 per tonne, representing a year-on-year decrease of 11.0%, that in Shanxi Region was RMB218.9 per tonne, representing a year-on-year decrease of 8.8%, and that in Xinjiang Region was RMB226.8 per tonne, representing a year-on-year increase of 13.4%.

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

Product	**2013**		2012		Change in sales volume
	Sales volume ('000 tonnes)	**Sales proportion**	Sales volume ('000 tonnes)	Sales proportion	
High grade cement	**35,538**	**66.5%**	29,502	61.7%	20.5%
Low grade cement	**17,884**	**33.5%**	18,332	38.3%	-2.4%

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

During the Reporting Period, sales volume of high grade cement was 35.54 million tonnes, representing a year-on-year increase of 20.5%, and sales volume of low grade cement was 17.88 million tonnes, representing a year-on-year decrease of 2.4%.

2. *Analysis of sales revenue by region and their respective year-on-year changes*

(Unit: RMB'000)

Region	2013 Sales revenue	2013 Sales proportion	2012 Sales revenue	2012 Sales proportion	Change in sales revenue
Shandong Region	**10,853,362**	**65.6%**	10,692,350	66.2%	1.5%
Northeastern Region	**4,553,538**	**27.5%**	4,677,010	28.9%	-2.6%
Shanxi Region	**838,485**	**5.1%**	706,670	4.4%	18.7%
Xinjiang Region	**289,819**	**1.8%**	84,951	0.5%	241.2%
Total	**16,535,204**	**100%**	16,160,981	100.0%	2.3%

In 2013, our operating companies in Shandong Region recorded sales revenue of RMB10,853 million, accounting for 65.6% of the Group's total sales revenue, representing a year-on-year increase of 1.5%. Our operating companies in Northeast Region reported sales revenue of RMB4,554 million, accounting for 27.5% of the Group's total sales revenue and representing a year-on-year decrease of 2.6%. The commencement of operations for operating companies in Shanxi and Xinjiang will make more contributions to the Group's sales revenue.

(II) Profit analysis

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

(Unit: RMB'000)

	2013	2012	Y-O-Y change
Revenue	**16,535,204**	16,160,981	2.3%
Gross profit	**3,829,237**	4,111,316	-6.9%
EBITDA	**3,798,678**	4,264,574	-10.9%
Profit from operations	**2,557,206**	3,099,324	-17.5%
Profit before taxation	**1,613,894**	2,204,989	-26.8%
Net profit for the year	**1,074,712**	1,603,763	-33.0%
Profit attributable to equity holders of the Company	**1,016,707**	1,518,529	-33.0%

During the Reporting Period, the Group recorded sales revenue of RMB16,535 million, representing a year-on-year increase of 2.3%; profit from operations was RMB2,557 million, representing a year-on-year decrease of 17.5%; profit for the year was RMB1,075 million, representing a year-on-year decrease of 33.0%; profit attributable to equity shareholders of the Company was RMB1,017 million, representing a year-on-year decrease of 33.0%. The decrease in profit was mainly due to the fall of selling prices.

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

(Unit: RMB'000)

Cost of sales	2013 Amount	2013 Proportion to revenue	2012 Amount	2012 Proportion to revenue	Change of proportion to revenue
Raw materials	**4,222,236**	**25.5%**	3,791,772	23.5%	2.0 P.Pt.
Coal	**3,326,077**	**20.1%**	3,516,193	21.8%	-1.7 P.Pt.
Power	**1,863,420**	**11.3%**	1,830,230	11.3%	0 P.Pt.
Depreciation and amortisation	**1,016,019**	**6.1%**	957,952	5.9%	0.2 P.Pt.
Others	**2,278,215**	**13.8%**	1,953,519	12.1%	1.7 P.Pt.
Total cost of sales	**12,705,967**	**76.8%**	12,049,665	74.6%	2.2 P.Pt.

During the Reporting Period, the proportion of the Group's total cost of sales to revenue was 76.8%, representing a year-on-year increase of 2.2 percentage points. Of which, the proportion of raw materials costs to revenue was 25.5%, an increase of 2.0 percentage points over last year. The proportion of coal costs to revenue was 20.1%, a decrease of 1.7 percentage points over last year. The Group's average unit purchase price of coal in 2013 decreased by 11.8% to RMB573.9/tonne compared with the corresponding period of the previous year. As for cost reduction, output of residual heat power generation was 1,105 million KWH in 2013, thus reducing the cost of clinker by RMB453 million.

FINANCIAL REVIEW

1. Expenses during the year

(Unit: RMB'000)

	2013 Amount	2013 Proportion to sales revenue	2012 Amount	2012 Proportion to sales revenue	Proportion to sales revenue change
Sales and marketing expenses	**477,618**	**2.89%**	390,582	2.42%	0.47 P.Pt.
Administrative expenses	**1,092,379**	**6.61%**	910,365	5.63%	0.98 P.Pt.
Finance costs	**967,688**	**5.85%**	925,434	5.73%	0.12 P.Pt.
Total	**2,537,685**	**15.35%**	2,226,381	13.78%	1.57 P.Pt.

During the Reporting Period, the proportion of sales and marketing expenses to sales revenue increased by 0.47 percentage point as compared with that of 2012. The proportion of administrative expenses to sales revenue increased by 0.98 percentage point as compared with that of 2012. In addition, the proportion of the Group's finance costs to sales revenue increased by 0.12 percentage point as compared with that of 2012.

2. Changes in balance sheet items

(Unit: RMB'000)

	31 December 2013	31 December 2012	Change
Non-current assets	**24,992,311**	21,725,658	15.0%
Current assets	**7,244,085**	6,307,719	14.8%
Total assets	**32,236,396**	28,033,377	15.0%
Current liabilities	**12,047,157**	7,521,116	60.2%
Non-current liabilities	**10,222,513**	11,115,759	-8.0%
Total liabilities	**22,269,670**	18,636,875	19.5%
Minority interest	**720,774**	745,653	-3.3%
Equity attributable to equity shareholders of the Company	**9,245,952**	8,650,849	6.9%
Total liabilities and equity	**32,236,396**	28,033,377	15.0%
Net gearing ratio	**60.4%**	56.9%	3.5 P.Pt.

As at 31 December 2013, the Group's total assets were RMB32,236 million, total liabilities were RMB22,270 million and its net assets were RMB9,966 million. The net gearing ratio (net liabilities/(net liabilities + equity of the Company)) was 60.4%, representing an increase of 3.5 percentage points as compared with the end of the previous year. The Group's total current assets were RMB7,244 million, its total current liabilities were RMB12,047 million, and its net current liabilities were RMB4,803 million. The Group's cash flow from operating activities for 2014, 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 2013	31 December 2012
Short-term borrowings (including long-term borrowings with maturity within one year)	**6,875,818**	2,988,039
Long-term borrowings	**9,614,005**	10,478,312
Total	**16,489,823**	13,466,351

The Company's borrowings increased as a result of the financing activities to fund the expansion of its business. As at 31 December 2013, the Company's total borrowings were RMB16,490 million, an increase of RMB3,024 million as compared with the end of 2012. Of which, long-term borrowings with maturity more than 1 year amounted to RMB9,614 million and accounted for 58.3% of the Group's total borrowings.

4. Capital expenditures

During the Reporting Period, the capital expenditures of the Group were approximately RMB4,155 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 RMB2,100 million in 2014.

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 2013:

(Unit: RMB'000)

	31 December 2013	31 December 2012
Authorised and contracted for		
– plant and equipment	**1,574,619**	2,059,905
– the acquisitions of subsidiaries	**190,220**	51,000
Authorised but not contracted for		
– plant and equipment	**1,278,457**	1,699,074
Total	**3,043,296**	3,809,979

As at 31 December 2013, the capital commitments authorised and contracted for by the Group amounted to RMB1,765 million, representing an decrease of RMB346 million or 16.4% as compared with the end of 2012. Capital commitments authorised but not contracted for amounted to RMB1,278 million.

5. Net cash flow analysis

(Unit: RMB'000)

	2013	20121
Net cash generated from operating activities	**1,924,751**	1,930,088
Net cash used in investing activities	**(4,395,283)**	(4,339,932)
Net cash generated from financing activities	**2,665,505**	485,264
Net changes in cash and cash equivalents	**194,973**	(1,924,580)
Balance of cash and cash equivalents at 1 January	**1,083,220**	3,008,332
Effect of foreign exchange rate changes	**(824)**	(532)
Balance of cash and cash equivalents at 31 December	**1,277,369**	1,083,220

During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB1,925 million, representing an decrease of RMB5 million over the corresponding period of the previous year. In the meantime, as the Group continued to undertake a number of construction projects, the negative net cash flow used in investing activities amounted to RMB4,395 million, representing an increase of RMB55 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 RMB2,181 million to RMB2,666 million over the corresponding period of the previous year.

FINANCIAL REPORTING AND CORPORATE ACCOUNTING POLICY

The Board, supported by the Head of Finance 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.

(VII) Management Discussion and Analysis

OUTLOOK FOR 2014

Operating Environment Outlook

The message from the Central Economic Work Conference revealed that, in 2014, the Chinese government will adhere to the fundamental tone of seeking advancement amid stability, forge ahead with sweeping reform and innovation in every area of economic and social development and keep the proactive fiscal policy and prudent monetary policy unchanged. Focuses will be placed on vitalizing the market forces, accelerating transformation and structural adjustment, building up the basic public service system, improving people's livelihood, and effectively boosting the economic development quality and efficiency so as to maintain the sustained and healthy development of economy. China's general economic development trend and policy has provided a market orientation for restructuring and upgrading in the cement industry.

Looking ahead to the operating environment for the cement industry in 2014, we believe that there are positive elements in supply and demand for China cement industry. Meanwhile, we should also pay attention to unfavourable factors such as overcapacity in the industry which is not expected to be improved in a short period of time.

On the demand side, the process of new urbanization and investment in infrastructure will be the main cement demand driver in the future. The Central Urbanization Work Conference held in December 2013 proposed that, the focus of new urbanization shall be identified as the orderly assimilation of rural migration into the city, deepening the renovation of urban shanty areas, strengthening the construction of major infrastructure projects in Central and West China and guiding industrial transfer; gradually developing of a number of city clusters in Central, West and Northeast China where favourable conditions are available by relying on the market forces and national planning and guidance, in order to serve as an important economic growth pole for the development of these areas. We believe that the gradual promotion of urbanization as well as a number of infrastructure construction projects that are closely related to the whole nation and that can drive economic growth in railways, highways, waterways, aviation, oil and gas pipelines and urban transportation system which were initiated since the second half of 2012 will provide strong demand for cement in 2014.

On the supply side, the "Guidelines on Addressing Severe Overcapacity" released by the Chinese government in October 2013 proposed to strictly prohibit the construction of cement projects that will further expand capacity and decisively eliminate obsolete production capacity, and aimed to further remove 100 million tonnes of cement production capacity (including clinker and grinding capacity) by the end of 2015. The Guidelines also proposed to accelerate the revision of cement and concrete products standards and relevant specifications, abolish PC32.5 grade cement as soon as possible, gradually reduce the proportions of PC32.5 grade cement and develop high-grade cement and special cement. In addition, the Chinese government promulgated a revised version of "Emission Standard of Air Pollutants for Cement Industry" in December 2013, pursuant to which, more stringent emission standards will be implemented on the cement industry, while the government will put more efforts on controlling environmental pollution in 2014. We believe that introduction and implementation of a series of measures to reduce overcapacity and the rise in environmental compliance costs will inevitably speed up the elimination of obsolete production capacity and promote the reorganization and consolidation of small and medium enterprises by large enterprises in the cement industry, and thereby gradually tackling the problem of overcapacity in the cement industry.

After a comprehensive analysis of the domestic economic situation and the supply and demand dynamics for the cement industry, we believe that, regional market layout will become more prominent, the comprehensive advantages attained by large enterprises will become more obvious, and corporate profitability will increasingly depend on market domination and internal control management of the enterprise itself.

Business Outlook of the Company

In 2014, the Group will continue to adhere to its work guideline of "standardization, centralization, promotion and development" and make more efforts in the following key tasks:

1. **Further consolidate in core markets to stabilize price and increase sales volume.** For the markets in Shandong and Northeast China, by fully capitalizing on its comprehensive competitive edge in market presence, scale, brand and cost, the Company will adopt a lean marketing model of "comprehensive collaboration, market segmentation and flexible policy" to achieve its objectives of increasing sales volume, stabilizing price and enhancing profitability. Meanwhile, for new markets in Shanxi and Kashi, Xinjiang, the Company will balance long-term and short-term benefits, adopt customized marketing strategies, expand new customer base and enhance brand influence, in order to lay a solid foundation for the sustainable profit growth in future.

(VII) Management Discussion and Analysis

2. **Reinforce basic management, consider the overall situation and make breakthroughs in key areas.** 2014 is themed as the "Year of Management Deepening", through further formulation and modification of procedures and systems, the Company will highlight the functions of decision-making, command, supervision and service of its head quarter, and will devote to strengthen its cost control, benchmark management, on-site supervision and internal appraisal by comprehensive budgeting, so as to improve operational quality and enhance production efficiency. In particular, the Company will adhere to the principle of "prioritize works in order of emergency and make breakthroughs in key areas" in the course of making overall works planning, delegate strong and effective working groups to accomplish management enhancement in the operating companies of Northeast Region in the first place, and subsequently promote to the operating companies in Shanxi and Xinjiang, so that reinforcing the basic management of the Company continually, improving operational efficiency and preventing operational risks.

3. **Optimize industrial layout through scientific development, transformation and upgrade.** Fully capitalizing on the national policies for the development of cement industry and the characteristics of regionalization for cement products, the Company will further optimize its strategic layout in existing markets. In the new market of Shanxi, the Company will focus on the establishment of auxiliary cement grinding stations. In Shandong, where it has solid market presence, the Company will accelerate the development industrial product chain, including aggregate and commercial concrete, to strengthen its comprehensive competitiveness. Meanwhile, adhering to the principle of "enhance quality, increase efficiency, save energy and protect environment", the Company will accelerate the technological upgrade for part of its existing production lines and further optimize various techniques, technologies and performance indicators, to meet the new emission standard of air pollutants for cement industry.

4. **Implement human resources strategies, optimize structure and enhance skills.** Competitions between enterprises are actually competitions of talents. The Company has listed talent pool building as one of the most important tasks in its strategic plan, and will make full efforts to establish a full set of systematic mechanism with the focus on the trainings of professional skills and ethics, and attach great importance on the training and nurturing of knowledgeable and enthusiastic young employees, in order to build a talent pool that is able to satisfy the future development requirements of the Company. Of which, the Company will combine production with study and research, extend the exchange and communication with well-known domestic and international tertiary educational institutions and research institutions, make breakthroughs in technologies and reserve a pool of talents, in support of building up its competitive edge for future market competitions.

In conclusion, Shanshui Group will deal with complicated and changing external operating environment by taking effective measures, to strive for fruitful returns to our investors for their continued trust and support.

1. PRINCIPAL BUSINESS

As the largest cement producer in Shandong and Liaoning Provinces and a leading cement producer in Shanxi Provinces and eastern part of Inner Mongolia, the Company focuses 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. Our "Shanshui Dongyue" brand has been honoured the "Famous Trademark of Shandong Province" since September 2008.

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	Lvliang Yilong Cement Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities)	Commenced operation	183,604
2	Jincheng Shanshui Heju Cement Company Limited 4,500t/d clinker production line project (equipped with residual heat generation facilities) with an annual production capacity of 2 million tonnes cement grinding production line	Commenced operation	121,328
3	Shache Shanshui Cement Company Limited grinding production line project with annual production capacity of 1 million tonnes	Commenced operation	19,953
4	Shule Shanshui Cement Company Limited grinding production line project Phase 2 with annual production capacity of 2 million tonnes	Commenced operation	13,628

(VIII) Report of the Directors

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period (RMB'000)
5	Wuxiang Shanshui Cement Company Limited 3,000t/d clinker production line project (equipped with residual heat generation facilities) with an annual production capacity of 1 million tonnes cement grinding production line	Commenced operation[1]	88,691
6	Huixian City Shanshui Cement Company Limited 4,500t/d clinker production line project (equipped with residual heat generation facilities)	Trial run	155,616
7	Linfen Shanshui Cement Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities) with an annual production capacity of 2 million tonnes cement grinding production line	Under construction	296,269
8	Baishan Shanshui Cement Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities) with an annual production capacity of 1 million tonnes cement grinding production line	Under construction	259,855
9	Zhalaite Qi Shanshui Cement Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities)	Under construction	188,822
10	Kazuo Congyuanhao Cement Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities)	Under construction	182,082
11	Shuozhou Shanshui New Era Cement Company Limited 4,500/d clinker production line (equipped with residual heat generation facilities) with an annual production capacity of 2 million tonnes cement grinding production line	Under construction	130,976

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period (RMB'000)
12	Yulin Shanshui Environmental Building Material Company Limited cement grinding production line with annual production capacity of 1 million tonnes	Under construction	119,207
13	Linqu Shanshui 4,000t/d clinker production line project Phase 2 (equipped with residual heat generation facilities) project	Under construction	107,661
14	Alu kerqin Qi Shanshui Cement Company Limited 3,200t/d clinker production line project Phase 2 (equipped with residual heat generation facilities)	Under construction	75,410
15	Aohan Qi Shanshui Cement Company Limited cement grinding production line project with annual production capacity of 1 million tonnes	Under construction	69,163
16	Dongming Shanshui Cement Company Limited cement grinding production line project with annual production capacity of 1 million tonnes	Under construction	56,714
17	Jingbian Xian Shanshui Cement Company Limited cement grinding production line project with annual production capacity of 1 million tonnes	Under construction	48,803
18	Feicheng City Mashan Cement Company Limited cement grinding production line project with annual production capacity of 1 million tonnes	Under construction	47,377
19	Yingjisha Shanshui Cement Company Limited cement grinding production line project with annual production capacity of 1 million tonnes	Under construction	43,337

Notes: (1) During the Reporting Period, the clinker line of this project has commenced operation.

(2) Capital increase/decrease 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/reduced by the Company into these subsidiaries during the Reporting Period. Details are as follows:

Serial No.	Name of company	Capital injection/ reduction amount	Registered capital after capital increase/decrease	Remark
1	Kezhou Shanshui Materials Trading Company Limited		RMB20,000,000	Newly established
2	Caoxian Chuangxin Concrete Company Limited		RMB10,000,000	Newly established
3	Shandong Shanshui Cement Group International Trading Company Limited		RMB10,000,000	Newly established
4	Feicheng Shanshui Concrete Company Limited		RMB10,000,000	Newly established
5	Qixia City Xinghao Cement Company Limited		RMB200,000,000	Acquired
6	Feicheng City Mashan Cement Company Limited		RMB30,000,000	Acquired
7	Jingbian Xian Shanshui Cement Company Limited		RMB30,000,000	Acquired
8	Weifang City Leixin Concrete Company Limited		RMB10,000,000	Acquired
9	Anqiu Shanshui	RMB74,500,000	RMB226,500,000	Capital injection
10	Liaoning Shanshui	RMB1,000,000,000	RMB2,000,000,000	Capital injection
11	Suizhong Shanshui Bohai Cement Company Limited	RMB6,000,000	RMB14,000,000	Capital reduction

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

To achieve better corporate governance structure, the subsidiaries of the Group Bachu Shanshui Cement Company Limited completed de-registration during the Reporting Period.

3. MAJOR SUBSIDIARIES WITH CONTROLLING INTERESTS

As at 31 December 2013, the Company had controlling interests in 113 subsidiaries. For details, please refer to Note 17 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	877,229	237,466	197,012
Zibo Shanshui Cement Company Limited	746,880	158,990	126,180
Shandong Cement Factory	733,217	138,823	117,258
Anqiu Shanshui	737,056	140,690	109,727
Weifang Shanshui Cement Company Limited	521,074	96,180	91,597

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 18 March 2013, the Board of Directors considered and passed the 2012 annual results of the Company and the resolution regarding distribution of dividend for 2012.

2. On 23 August 2013, the Board of Directors considered and passed the 2013 interim results of the Company and the resolution regarding distribution of interim dividend for 2013.

5. PROFIT DISTRIBUTION PROPOSAL FOR 2013

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 2013 were RMB1,075 million and RMB1,017 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 2013 as follows: HKD259,067,418 or HKD0.092 per share 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 2013 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 2013, 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 2013, the changes in the land leases, real estate to properties, plant and equipment are set out in Note12 to the Financial Statements prepared in accordance with IFRS.

9. TOTAL ASSETS

For the year ended 31 December 2013, the total assets of the Group as confirmed in accordance with IFRS were RMB32,236 million, representing an increase of RMB4,203 million compared to the previous year.

10. RESERVES

Changes in reserves of the Group for the year ended 31 December 2013 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 2013 are set out in Notes 23 and 24 of the Financial Statements prepared in accordance with IFRS. Deposits of the Company for the year ended 31 December 2013 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 RMB163.80 million, the details of which are set out in Note 5 to the Financial Statements prepared in accordance with IFRS.

(IX) Significant Events

1. MATERIAL LITIGATION AND ARBITRATION MATTERS

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

2. MATERIAL ASSET ACQUISITIONS, DISPOSALS AND RESTRUCTURING MATTERS

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

3. CONTINUING CONNECTED TRANSACTIONS

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.

(X) Independent Auditor's Report

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

We have audited the consolidated financial statements of China Shanshui Cement Group Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 60 to 172, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2013 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

21 March 2014

(XI) Financial Statements
Consolidated Statement of Profit or Loss

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Turnover	3	**16,535,204**	16,160,981
Cost of sales		**(12,705,967)**	(12,049,665)
Gross profit		**3,829,237**	4,111,316
Other revenue	4	**263,413**	270,532
Other net income	4	**34,553**	18,423
Selling and marketing expenses		**(477,618)**	(390,582)
Administrative expenses		**(1,092,379)**	(910,365)
Profit from operations		**2,557,206**	3,099,324
Finance costs	5(a)	**(967,688)**	(925,434)
Share of profits less losses of an associate		**24,376**	31,099
Profit before taxation	5	**1,613,894**	2,204,989
Income tax	6(a)	**(539,182)**	(601,226)
Profit for the year		**1,074,712**	1,603,763
Attributable to:			
Equity shareholders of the Company		**1,016,707**	1,518,529
Non-controlling interests		**58,005**	85,234
Profit for the year		**1,074,712**	1,603,763
Earnings per share	11		
Basic (RMB)		**0.36**	0.54
Diluted (RMB)		**0.36**	0.54

The notes on pages 67 to 172 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 Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Profit for the year		**1,074,712**	1,603,763
Other comprehensive income for the year (after tax and reclassification adjustments)	10		
Item that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit obligations	29(c)	**(1,300)**	–
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**112,449**	23,193
Available-for-sale securities: net movement in the fair value reserve		**(1,059)**	835
Other comprehensive income for the year		**110,090**	24,028
Total comprehensive income for the year		**1,184,802**	1,627,791
Attributable to:			
Equity shareholders of the Company		**1,126,797**	1,542,557
Non-controlling interests		**58,005**	85,234
Total comprehensive income for the year		**1,184,802**	1,627,791

The notes on pages 67 to 172 form part of these financial statements.

(XI) Financial Statements

Consolidated Statement of Financial Position

At 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Fixed assets	12		
– Property, plant and equipment		**18,945,634**	16,011,443
– Interests in leasehold land held for own use under operating leases		**2,458,855**	2,359,490
		21,404,489	18,370,933
Intangible assets	13	**464,230**	472,680
Goodwill	14	**2,323,762**	1,832,746
Other financial assets	15	**500,183**	670,825
Investment in an associate	16	**80,472**	96,971
Other long-term assets	18	**–**	114,029
Deferred tax assets	31(b)	**219,175**	167,474
		24,992,311	21,725,658
Current assets			
Inventories	19	**1,966,096**	1,794,287
Trade and bills receivable	20	**2,019,954**	1,688,090
Other receivables and prepayments	21	**1,900,031**	1,701,068
Pledged bank deposits	22	**80,635**	41,054
Cash and cash equivalents	22	**1,277,369**	1,083,220
		7,244,085	6,307,719
Current liabilities			
Short-term bank loans	23	**2,909,685**	1,886,400
Current portion of other borrowings	24	**1,570,768**	101,639
Current portion of long-term bonds	25	**2,395,365**	1,000,000
Trade and bills payable	26	**3,179,446**	2,591,924
Other payables and accrued expenses	27	**1,847,898**	1,703,342
Current portion of obligation under finance lease	28	**12,844**	17,498
Current taxation	31(a)	**131,151**	220,313
		12,047,157	7,521,116
Net current liabilities		**(4,803,072)**	(1,213,397)
Total assets less current liabilities		**20,189,239**	20,512,261

The notes on pages 67 to 172 form part of these financial statements.

(XI) Financial Statements
Consolidated Statement of Financial Position

At 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Non-current liabilities			
Long-term bank loans	23	**2,963,980**	2,912,800
Other borrowings less current portion	24	**58,080**	137,112
Long-term bonds less current portion	25	**6,591,945**	7,428,400
Obligation under finance lease	28	**18,826**	29,440
Defined benefit obligations	29(c)	**159,210**	160,046
Deferred income	30	**317,151**	324,142
Long-term payables		**38,580**	64,213
Deferred tax liabilities	31(b)	**74,741**	59,606
		10,222,513	11,115,759
NET ASSETS		**9,966,726**	9,396,502
CAPITAL AND RESERVES			
Share capital	33(c)	**193,198**	193,198
Reserves		**9,052,754**	8,457,651
Total equity attributable to equity shareholders of the Company		**9,245,952**	8,650,849
Non-controlling interests		**720,774**	745,653
TOTAL EQUITY		**9,966,726**	9,396,502

Approved and authorised for issue by the board of directors on 21 March 2014.

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

The notes on pages 67 to 172 form part of these financial statements.

(XI) Financial Statements
Statement of Financial Position

At 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Investments in subsidiaries	17	**413,248**	413,248
Other long-term assets	18	**–**	108,629
Amounts due from subsidiaries	38	**7,183,597**	7,028,087
		7,596,845	7,549,964
Current assets			
Other receivables		**15**	–
Cash and cash equivalents	22(a)	**10,099**	399,840
		10,114	399,840
Current liabilities			
Short-term bank loans	23	**30,485**	–
Current portion of long-term bonds	25	**1,495,755**	–
Amount due to a subsidiary	38	**31,946**	31,438
Amounts due to related parties		**8,170**	–
Other payables and accrued expenses	27	**130,106**	140,645
		1,696,462	172,083
Net current (liabilities)/assets		**(1,686,348)**	227,757
Total assets less current liabilities		**5,910,497**	7,777,721
Non-current liabilities			
Long-term bank loans	23	**268,257**	–
Long-term bonds less current portion	25	**4,803,105**	6,528,400
		5,071,362	6,528,400
NET ASSETS		**839,135**	1,249,321
CAPITAL AND RESERVES			
Share capital	33(a)	**193,198**	193,198
Reserves		**645,937**	1,056,123
TOTAL EQUITY		**839,135**	1,249,321

Approved and authorised for issue by the board of directors on 21 March 2014.

ZHANG Bin
Director

ZHANG Caikui
Director

The notes on pages 67 to 172 form part of these financial statements.

(XI) Financial Statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013
(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 2012	193,198	3,451,085	761,511	243,448	(14,832)	3,169	3,071,458	7,709,037	457,636	8,166,673
Changes in equity for 2012:										
Profit for the year	–	–	–	–	–	–	1,518,529	1,518,529	85,234	1,603,763
Other comprehensive income	–	–	–	–	23,193	835	–	24,028	–	24,028
Total comprehensive income	–	–	–	–	23,193	835	1,518,529	1,542,557	85,234	1,627,791
Dividends approved in respect of the previous year	–	–	–	–	–	–	(556,423)	(556,423)	–	(556,423)
Acquisition of non-controlling interests	–	–	–	(44,322)	–	–	–	(44,322)	(4,969)	(49,291)
Increase in non-controlling interests attributable to acquisition of subsidiaries and capital contribution to subsidiaries	–	–	–	–	–	–	–	–	224,639	224,639
Distribution to non-controlling interests	–	–	–	–	–	–	–	–	(16,887)	(16,887)
Transfer between reserves	–	–	200,884	–	–	–	(200,884)	–	–	–
Balance at 31 December 2012 and 1 January 2013	193,198	3,451,085	962,395	199,126	8,361	4,004	3,832,680	8,650,849	745,653	9,396,502
Changes in equity for 2013:										
Profit for the year	–	–	–	–	–	–	1,016,707	1,016,707	58,005	1,074,712
Other comprehensive income	–	–	–	–	112,449	(1,059)	(1,300)	110,090	–	110,090
Total comprehensive income	–	–	–	–	112,449	(1,059)	1,015,407	1,126,797	58,005	1,184,802
Dividends approved in respect of the previous year	–	–	–	–	–	–	(522,680)	(522,680)	–	(522,680)
Acquisition of non-controlling interests	–	–	–	(9,014)	–	–	–	(9,014)	(66,999)	(76,013)
Increase in non-controlling interests attributable to acquisition of subsidiaries and capital contribution to subsidiaries	–	–	–	–	–	–	–	–	38,826	38,826
Distribution to non-controlling interests	–	–	–	–	–	–	–	–	(54,711)	(54,711)
Transfer between reserves	–	–	108,157	–	–	–	(108,157)	–	–	–
Balance at 31 December 2013	193,198	3,451,085	1,070,552	190,112	120,810	2,945	4,217,250	9,245,952	720,774	9,966,726

The notes on pages 67 to 172 form part of these financial statements.

(XI) Financial Statements
Consolidated Statement of Cash Flows

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Operating activities			
Cash generated from operations	22(b)	**3,410,669**	3,633,383
Interest paid		**(821,360)**	(856,791)
Income tax paid		**(664,558)**	(846,504)
Net cash generated from operating activities		**1,924,751**	1,930,088
Investing activities			
Payment for purchase of fixed assets		**(3,495,953)**	(3,051,532)
Payment for purchase of intangible assets		**(84,840)**	(180,771)
Acquisition of subsidiaries, net of cash acquired		**(574,356)**	(1,147,632)
Payment for purchase of available-for-sale securities		**–**	(27,647)
New loans to an associate		**(3,164)**	(1,238)
Loans repaid by an associate		**–**	28,000
Acquisition of non-controlling interests		**(28,410)**	(4,291)
Proceeds from sale of fixed assets		**35,028**	5,672
Payment for the performance deposit on potential acquisition		**(285,700)**	–
Interest received		**18,026**	39,507
Dividend received		**24,086**	–
Net cash used in investing activities		**(4,395,283)**	(4,339,932)
Financing activities			
Capital element of finance lease rentals paid		**(15,268)**	(18,561)
Proceeds from new loans and borrowings		**5,479,075**	3,356,500
Proceeds from issue of long-term bonds		**1,783,800**	2,454,260
Proceeds from capital injection in subsidiaries by non-controlling interests		**702**	36,054
Repayment of loans and borrowings		**(4,009,532)**	(4,765,753)
Interest element of finance lease rentals paid		**(3,238)**	(3,926)
Dividends paid to equity shareholders of the Company	33(b)	**(522,680)**	(556,423)
Dividends paid to non-controlling interests		**(47,354)**	(16,887)
Net cash generated from financing activities		**2,665,505**	485,264
Net increase/(decrease) in cash and cash equivalents		**194,973**	(1,924,580)
Cash and cash equivalents at 1 January	22(a)	**1,083,220**	3,008,332
Effect of foreign exchange rate changes		**(824)**	(532)
Cash and cash equivalents at 31 December	22(a)	**1,277,369**	1,083,220

The notes on pages 67 to 172 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2013 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") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with 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));

The financial statements have been prepared on the basis that the Group and the Company will continue to operate throughout the next twelve months as a going concern. The Group's and the Company's current liabilities exceeded its current assets by RMB4,803,072,000 and RMB1,686,348,000, respectively, as at 31 December 2013. Based on future projections of the Group's profits and cash inflows from operations and the ability of the Group to obtain continued bank financing to finance its continuing operation, the Company's directors have prepared the financial statements on a going concern basis.

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

(c) Changes in accounting policies

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

- Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- IFRS 10, *Consolidated financial statements*
- IFRS 12, *Disclosure of interests in other entities*
- IFRS 13, *Fair value measurement*
- Revised IAS 19, *Employee benefits*
- *Annual improvements to IFRSs 2009-2011 Cycle*
- Amendments to IFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of other new or amended IFRSs are discussed below:

Amendments to IAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

IFRS 10, Consolidated financial statements

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

IFRS 12, Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 16 and 17.

IFRS 13, fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 35. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Revised IAS 19, Employee benefits

Revised IAS 19 introduces a number of amendments to the accounting for defined benefit plans. Among them, revised IAS 19 eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit schemes could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. Revised IAS 19 also changed the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

Revised IAS 19, Employee benefits *(continued)*

As a result of the adoption of revised IAS 19, the Group has changed its accounting policy with respect to defined benefit plans, for which the corridor method was previously applied. However, as the impact of the retrospective application of the change in accounting policy is only RMB18,680,000, the Directors of the Company consider this impact is immaterial and are of the view that it is not meaningful to perform the retrospective application for the revised IAS 19. Accordingly, the Company uses the prospective application method and records the impact of RMB18,680,000 in the other comprehensive income for the year ended 31 December 2013.

Annual improvements to IFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, IAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented.

Amendments to IFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of IFRS 7 during the periods presented.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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, transactions and cash flows 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 the non-controlling interests' 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 statement of profit or loss and the consolidated statement of profit or loss and other 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(p) or (q) 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(m)), 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 (m)). 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 statement of profit or loss, 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 profit or loss and other 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.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, 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)).

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

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 it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses 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(v)(iv) and (v).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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(m)).

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. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(m)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 1(v)(iv) and (v), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 1(m)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

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

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

(i) Property, plant and equipment

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

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(x)).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) 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.

(j) Construction in progress

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

(k) 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(m)). 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

The estimated useful lives are as follows:

Limestone mining rights	1-40 years
Customer relationships	5 years
Trademarks	5-10 years
Software and others	3-10 years

Both the period and method of amortisation are reviewed annually.

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

(l) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present values of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(m). 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)*

(l) 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.

(m) 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 associates accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(m)(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(m)(ii).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) 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)*

(m) 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;

– goodwill;

– other long-term assets; and

– investments in subsidiaries and an associate in the Company's statement of financial position.

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)*

(m) 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 of disposal 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 of disposal (if measurable), 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)*

(m) 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 (m)(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.

(n) Inventories

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) 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(m)), 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.

(p) 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.

(q) 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.

(r) 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.

(s) Employee benefits

(i) Short-term benefits

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Employee benefits *(continued)*

(ii) Defined contribution retirement plans

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

(iii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense on the net defined benefit liability are recognised in profit or loss and allocated by function as part of "cost of sales", "distribution costs" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements, comprising actuarial gains and losses, arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Income tax

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

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

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

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

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Income tax *(continued)*

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

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Provisions and contingent liabilities

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(u)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(u)(ii).

(ii) Other provisions and contingent liabilities

Provisions are recognised for other 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.

(v) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Revenue recognition *(continued)*

(ii) Services rendered

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

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income 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 as deferred income that is 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.

(w) 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 measured.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

(x) 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. Capitalisation 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.

(y) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Related parties *(continued)*

(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).

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.

(z) 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) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

Determining whether an arrangement contains a lease

During the year ended 31 December 2008, Bohai Cement (Huludao) Co., Ltd. ("Bohai Cement"), a subsidiary of the Group, entered into an procurement agreement for electricity with a supplier whereby the supplier built a set of equipments, which the supplier will use to provide electricity powerfully used by the clinker production line of Bohai Cement for a period of 6.2 years. Bohai Cement pays a fixed unit price for the electricity power it used over the term of the arrangement. The ownership of the equipments will be transferred to Bohai Cement with nil consideration after the term of the agreement.

Although the arrangement is not in the legal form of a lease, the Group concluded that the arrangement contains a lease of the equipment, because fulfilment of the agreement is economically dependent on the use of the specific equipment, and Bohai Cement has the ability to control physical assets to the underlying equipments while obtaining all of the output of the equipment.

The lease was classified as a finance lease as the ownership of the equipments will be transferred to Bohai Cement with nil consideration and the equipments are just tailored-made for the clinker production line of Bohai Cement.

(b) Sources of estimation uncertainty

Note 35 contains information about the assumptions and their risk factors relating to financial instruments. Other 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.

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

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

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.

(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.

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

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

(i) Impairments (continued)

– *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.

– *Goodwill*

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 1(m). The recoverable amounts of cash-generating units have been determined based on the higher of the cash-generating units' fair value less costs to sell and its value in use. These calculations require the use of estimates which are disclosed in note 14.

(ii) 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.

(iii) 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.

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

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

(iii) Taxation (continued)

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.

(iv) Going concern basis

Management makes an assessment of the Group's ability to continue as a going concern when preparing the financial statements. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the statement of financial position date. The degree of consideration depends on the facts in each case.

The Group is dependent upon future projections of the Group's profits and cash inflows from operations and the ability of the Group to obtain continued bank financing to finance its continuing operations to meet the Group's future working capital and financing requirements. Management believes the Group is able to continue as a going concern after taking into account future projections of the Group's profits and cash inflows from operations and the ability of the Group to obtain continued bank financing to finance its continuing operation. Accordingly, management has prepared the financial statements on a going concern basis. An adverse change in any of the above conditions would require the financial statements to be prepared on an alternative authoritative basis and such basis, together with the fact that the financial statements is not prepared on a going concern basis, would need to be disclosed. If the Group were unable to continue as a going concern, adjustments relating to the recoverability and classification of recorded asset amounts or classification of liabilities may need to be incorporated in the financial statements.

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

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

Turnover represents the sales value of cement, clinker and concrete 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:

	2013	2012
	RMB'000	RMB'000
Sales of cement	**13,348,920**	13,261,557
Sales of clinker	**1,800,283**	1,904,419
Sales of concrete	**849,975**	465,163
Sales of other products and rendering of services	**536,026**	529,842
	16,535,204	16,160,981

(b) Segment reporting

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

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

- Shandong Province – subsidiaries operated and located in the Shandong Province of the PRC.

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

- Shanxi Province – subsidiaries operated and located in the Shanxi Province and Shaanxi Province of the PRC.

- Xinjiang Region – subsidiaries operated and located in the Kashi area of Xinjiang Uygur Autonomous Region of the PRC.

3 TURNOVER AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(i) 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, assets and liabilities attributable to each reportable segment on the following bases:

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

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

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

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

3 TURNOVER AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(i) 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 2013 and 2012 is set out below.

	2013					2012				
	Shandong Province RMB'000	Northeastern China RMB'000	Shanxi Province RMB'000	Xinjiang Region RMB'000	Total RMB'000	Shandong Province RMB'000	Northeastern China RMB'000	Shanxi Province RMB'000	Xinjiang Region RMB'000	Total RMB'000
Revenue from external customers	10,853,362	4,553,538	838,485	289,819	16,535,204	10,692,350	4,677,010	706,670	84,951	16,160,981
Inter-segment revenue	152,561	–	–	–	152,561	96,067	–	–	–	96,067
Reportable segment revenue	11,005,923	4,553,538	838,485	289,819	16,687,765	10,788,417	4,677,010	706,670	84,951	16,257,048
Reportable segment profit/(loss) (adjusted profit/(loss) before taxation)	1,937,743	613,976	(4,667)	3,536	2,550,588	2,352,298	760,878	48,901	(17,300)	3,144,777
Interest income	1,778	19,291	863	252	22,184	2,022	21,002	840	39	23,903
Interest expense	54,366	47,135	–	20,612	122,113	43,010	54,750	–	8,366	106,126
Depreciation and amortisation for the year	657,768	397,463	103,252	34,307	1,192,790	632,927	335,661	62,515	11,619	1,042,722
Impairment of plant and machinery	3	–	9,993	–	9,996	–	–	–	–	–
Reportable segment assets	12,871,098	9,832,065	5,265,391	944,367	28,912,921	11,320,993	9,211,807	4,123,352	1,122,750	25,778,902
Additions to non-current segment assets during the year	1,358,668	1,315,685	1,469,131	104,505	4,247,989	1,433,331	1,945,388	1,163,969	299,363	4,842,051
Reportable segment liabilities	3,547,146	1,925,583	774,134	434,147	6,681,010	3,116,220	2,099,877	554,028	437,695	6,207,820

3 TURNOVER AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

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

	2013 **RMB'000**	2012 RMB'000
Revenue		
Reportable segment revenue	**16,687,765**	16,257,048
Elimination of inter-segment revenue	**(152,561)**	(96,067)
Consolidated turnover	**16,535,204**	16,160,981
Profit		
Reportable segment profit	**2,550,588**	3,144,777
Elimination of inter-segment profits	**(14,722)**	(13,326)
Reportable segment profit derived from group's external customers	**2,535,866**	3,131,451
Share of profits less losses of an associate	**24,376**	31,099
Unallocated finance costs	**(845,575)**	(819,308)
Unallocated head office and corporate expenses	**(100,773)**	(138,253)
Consolidated profit before taxation	**1,613,894**	2,204,989

3 TURNOVER AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

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

	At 31 December 2013 RMB'000	At 31 December 2012 RMB'000
Assets		
Reportable segment assets	**28,912,921**	25,778,902
Elimination of inter-segment profits	**(43,950)**	(29,228)
Elimination of inter-segment receivables	**(69,458)**	(85,765)
	28,799,513	25,663,909
Deferred tax assets	**219,175**	167,474
Investment in an associate	**80,472**	96,971
Unallocated head office and corporate assets	**3,137,236**	2,105,023
Consolidated total assets	**32,236,396**	28,033,377
Liabilities		
Reportable segment liabilities	**6,681,010**	6,207,820
Elimination of inter-segment payables	**(69,458)**	(85,765)
	6,611,552	6,122,055
Deferred tax liabilities	**74,741**	59,606
Unallocated bank loans	**5,775,280**	3,354,000
Unallocated long-term bonds	**8,987,310**	8,428,400
Unallocated head office liabilities	**820,787**	672,814
Consolidated total liabilities	**22,269,670**	18,636,875

4 OTHER REVENUE AND OTHER NET INCOME

	Note	2013 RMB'000	2012 RMB'000
Other revenue			
Interest income on bank deposits		**40,527**	43,864
Government grants		**204,919**	209,804
Amortisation of deferred income		**16,881**	16,864
Dividend income from listed securities		**1,086**	–
		263,413	270,532
Other net income			
Debt restructuring gain		**–**	42,578
Net foreign exchange gain/(loss)		**63,926**	(10,514)
Net loss from sale of fixed assets		**(9,147)**	(3,562)
Impairment losses on fixed assets	12	**(9,996)**	–
Donations		**(8,769)**	(11,309)
Others		**(1,461)**	1,230
		34,553	18,423

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Note	2013 RMB'000	2012 RMB'000
Interest on bank loans, other borrowings and long-term bonds		**1,056,880**	989,356
Less: capitalised interest expenses	(i)	**(163,798)**	(113,544)
Net interest expenses		**893,082**	875,812
Unwinding of discount	(ii)	**7,922**	7,941
Finance charges on obligations under finance lease	28	**3,238**	3,926
Bank charges		**63,446**	37,755
		967,688	925,434

Notes:

(i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 5.60% (2012: 5.95%) for the year ended 31 December 2013.

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

	Note	2013 RMB'000	2012 RMB'000
Defined benefit obligations	29(c)	**6,450**	6,450
Acquisition consideration payable		**1,472**	1,491
		7,922	7,941

5 PROFIT BEFORE TAXATION *(continued)*

(b) Personnel expenses

	Note	2013 RMB'000	2012 RMB'000
Salaries, wages and other benefits		**1,147,972**	975,397
Contributions to defined contribution retirement plans		**116,118**	104,424
Expense recognised in respect of defined benefit obligations	29(c)	**10,860**	8,870
		1,274,950	1,088,691

(c) Other items

	2013 RMB'000	2012 RMB'000
Amortisation		
– land lease premium	**59,218**	51,679
– intangible assets	**67,428**	60,334
– other long-term assets	**–**	35,494
	126,646	147,507
Depreciation	**1,090,450**	986,644
Impairment losses		
– fixed assets (note 12)	**9,996**	–
– trade receivables (note 20(b))	**43,736**	16,365
– inventory (note 19(b))	**4,629**	3,188
	58,361	19,553
Operating lease charges	**25,191**	25,646
Auditors' remuneration		
– audit services	**7,931**	7,980
– other services	**690**	2,060
	8,621	10,040
Cost of inventories (note 19(b))	**12,705,967**	12,049,665

Note: Cost of inventories includes RMB1,648,580,000 (2012: RMB1,468,312,000) relating to personnel expenses, depreciation and amortisation expenses and provision of inventories for the year ended 31 December 2013, 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 STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2013 RMB'000	2012 RMB'000
Current tax		
Provision for PRC income tax	**571,057**	661,303
Under/(over)-provision in respect of prior years	**4,339**	(4,555)
Deferred tax		
Origination and reversal of temporary differences	**(36,214)**	(55,522)
	539,182	601,226

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

	Note	2013 RMB'000	2012 RMB'000
Profit before taxation		**1,613,894**	2,204,989
Notional tax on profit before taxation, calculated at the PRC statutory income tax rate of 25%	(i)	**403,474**	551,247
Tax rate differential in foreign jurisdictions	(ii)	**109,490**	105,131
Effect of tax holiday	(iii)	**(5,225)**	(3,286)
Effect of non-deductible expenses	(iv)	**7,222**	8,129
Effect of non-taxable income	(v)	**(4,239)**	(4,292)
Effect of unused tax losses not recognised		**31,036**	9,299
Effect of tax credit	(vi)	**–**	(12,140)
Tax effect of unrecognised prior year's tax losses utilised during the year		**(821)**	(40,532)
Under/(over)-provision in respect of prior years		**4,339**	(4,555)
Share of profits of an associate		**(6,094)**	(7,775)
Actual income tax expense		**539,182**	601,226
Effective tax rate		**33.4%**	27.3%

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

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

Notes:

(i) The Group's PRC subsidiaries are subject to PRC income tax at the statutory rate of 25% (2012: 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 2013 (2012: nil).

(iii) According to Circular Cai Shui (2011) No. 53, Shule Shanshui Cement Co., Ltd. ("Shule Shanshui"), Yingjisha Shanshui Cement Co., Ltd. ("Yingjisha Shanshui") and Shache Shanshui Cement Co., Ltd. ("Shache Shanshui") were established in the difficult regions in Xinjiang Uygur Autonomous Region and were each entitled to a tax holiday of 2-year full exemption followed by 3-year 50% reduction in the PRC income tax rate commencing from the days when they first generate operating income. Shule Shanshui first generated operating income in 2012 and Yingjisha Shanhui and Shache Shanshui first generated operating income in 2013.

(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 2013 are as follows:

	Note	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 RMB'000	Total RMB'000
Chairman								
Zhang Bin	(i)	100	2,929	–	22	3,051	–	3,051
Executive directors								
Zhang Caikui	(i)	100	4,900	–	–	5,000	–	5,000
Dong Chengtian	(ii)	173	19	–	16	208	–	208
Yu Yuchuan	(ii)	166	16	–	19	201	–	201
Li Cheung Hung	(iii)	149	942	–	12	1,103	–	1,103
Non-executive directors								
Homer Sun	(ii)	–	–	–	–	–	–	–
Jiao Shuge		–	–	–	–	–	–	–
Xiao Yu	(iii)	–	350	–	–	350	–	350
Independent non-executive directors								
Wang Yanmou		–	–	–	–	–	–	–
Sun Jianguo	(ii)	64	–	–	–	64	–	64
Wang Jian		100	–	–	–	100	–	100
Hou Huailiang	(iii)	–	–	–	–	–	–	–
		852	9,156	–	69	10,077	–	10,077

Notes:

(i) Mr. Zhang Bin was appointed as Chairman on 18 March 2013 and Mr. Zhang Caikui has stepped down from his position as the Chairman on the same date.

(ii) Mr. Dong Chengtian, Mr. Yu Yuchuan, Mr. Sun Jianguo and Mr. Homer Sun was resigned from their relative director positions on 24 May 2013, 23 August 2013, 23 August 2013 and 15 October 2013, respectively.

(iii) Mr. Xiao Yu, Mr. Li Cheung Hung and Mr. Hou Huailiang was appointed as non-executive director, executive director and independent non-executive director on 24 May 2013, 23 August 2013 and 23 August 2013, respectively.

7 DIRECTORS' REMUNERATION *(continued)*

Details of the directors' remuneration for the year ended 31 December 2012 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 RMB'000	Total RMB'000
Chairman							
Zhang Caikui	4,761	263	–	–	5,024	–	5,024
Executive directors							
Zhang Bin	1,414	223	–	20	1,657	–	1,657
Dong Chengtian	2,836	196	–	15	3,047	–	3,047
Yu Yuchuan*	2,643	189	–	14	2,846	–	2,846
Non-executive directors							
Homer Sun	–	–	–	–	–	–	–
Jiao Shuge*	–	–	–	–	–	–	–
Independent non-executive directors							
Wang Yanmou	100	–	–	–	100	–	100
Sun Jianguo*	100	7	–	–	107	–	107
Wang Jian	100	–	–	–	100	–	100
	11,954	878	–	49	12,881	–	12,881

* Re-elected on 18 May 2012.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two are directors whose emoluments are disclosed in note 7 for the year ended 31 December 2013 (2012: Four).

The aggregate of the emoluments in respect of the other three (2012: One) individuals are as follows:

	2013 RMB'000	2012 RMB'000
Salaries, allowances and other benefits	**392**	200
Bonuses	**6,000**	1,441
Contributions to defined contribution retirement plans	**67**	20
	6,459	1,661

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

The emoluments of the three (2012: One) individuals with the highest emoluments are within the following bands:

	2013 Number of individuals	2012 Number of individuals
HKD2,000,001 to HKD2,500,000	**–**	1
HKD2,500,001 to HKD3,000,000	**3**	–
	3	1

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The profit attributable to equity shareholders of the Company includes a profit of RMB125,993,000 in 2013 (2012: a loss of RMB561,593,000) (see note 33(a)) which has been dealt with in the financial statements of the Company.

10 OTHER COMPREHENSIVE INCOME

Except for the following item, other components of other comprehensive income do not have any significant tax effect for the year ended 31 December 2013 and 2012.

	2013			2012		
	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
Available-for-sale securities:						
net movement in fair value reserve	**(1,411)**	**352**	**(1,059)**	1,113	(278)	835

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2013 is based on the profit attributable to ordinary equity shareholders of the Company of RMB1,016,707,000 (2012: RMB1,518,529,000) and the weighted average number of ordinary shares of 2,815,950,200 (2012: 2,815,950,200) shares in issue during the year.

(b) Diluted earnings per share

On 25 May 2011, the Company had granted 7,300,000 ordinary share options to certain directors and employees, which was vested immediately after granted. These options were not included in the calculation of diluted earning per share because they are antidilutive for the years ended 31 December 2013 and 2012. Accordingly, diluted earnings per share are the same as the basic earnings per share.

12 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 2012	5,257,542	9,001,578	337,249	1,682,193	16,278,562	2,083,434	18,361,996
Additions	25,193	93,370	33,552	2,789,034	2,941,149	187,306	3,128,455
Transfers	1,163,756	448,621	1,154	(1,613,531)	–	–	–
Additions through business combinations	658,656	525,421	53,574	73,271	1,310,922	301,236	1,612,158
Disposals	(21,001)	(29,641)	(7,911)	–	(58,553)	–	(58,553)
Reclassification	287,638	(296,220)	8,582	–	–	–	–
At 31 December 2012	7,371,784	9,743,129	426,200	2,930,967	20,472,080	2,571,976	23,044,056
At 1 January 2013	**7,371,784**	**9,743,129**	**426,200**	**2,930,967**	**20,472,080**	**2,571,976**	**23,044,056**
Additions	**54,849**	**112,204**	**24,870**	**3,624,330**	**3,816,253**	**120,147**	**3,936,400**
Transfers	**1,449,327**	**1,352,267**	**46,220**	**(2,847,814)**	**–**	**–**	**–**
Additions through business combinations	**47,845**	**206,713**	**6,511**	**–**	**261,069**	**45,153**	**306,222**
Disposals	**(25,887)**	**(79,269)**	**(11,141)**	**–**	**(116,297)**	**(8,169)**	**(124,466)**
Reclassification	**6,635**	**(4,710)**	**(1,925)**	**–**	**–**	**–**	**–**
At 31 December 2013	**8,904,553**	**11,330,334**	**490,735**	**3,707,483**	**24,433,105**	**2,729,107**	**27,162,212**
Accumulated depreciation amortisation and impairment:							
At 1 January 2012	(642,368)	(2,739,127)	(110,247)	–	(3,491,742)	(160,807)	(3,652,549)
Charge for the year	(172,621)	(771,672)	(42,351)	–	(986,644)	(51,679)	(1,038,323)
Written back on disposals	1,749	12,522	3,478	–	17,749	–	17,749
Reclassification	(35,258)	35,859	(601)	–	–	–	–
At 31 December 2012	(848,498)	(3,462,418)	(149,721)	–	(4,460,637)	(212,486)	(4,673,123)
At 1 January 2013	**(848,498)**	**(3,462,418)**	**(149,721)**	**–**	**(4,460,637)**	**(212,486)**	**(4,673,123)**
Charge for the year	**(204,512)**	**(843,956)**	**(41,982)**	**–**	**(1,090,450)**	**(59,218)**	**(1,149,668)**
Impairment loss for the year	**–**	**(9,993)**	**(3)**	**–**	**(9,996)**	**–**	**(9,996)**
Written back on disposals	**3,648**	**62,938**	**7,026**	**–**	**73,612**	**1,452**	**75,064**
Reclassification	**(358)**	**128**	**230**	**–**	**–**	**–**	**–**
At 31 December 2013	**(1,049,720)**	**(4,253,301)**	**(184,450)**	**–**	**(5,487,471)**	**(270,252)**	**(5,757,723)**
Net book value:							
At 31 December 2013	**7,854,833**	**7,077,033**	**306,285**	**3,707,483**	**18,945,634**	**2,458,855**	**21,404,489**
At 31 December 2012	6,523,286	6,280,711	276,479	2,930,967	16,011,443	2,359,490	18,370,933

12 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 25 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 RMB1,394,100,000 (2012: RMB1,426,465,000) for the year ended 31 December 2013, are pledged to secure bank loans and other borrowings (see notes 23 and 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 RMB375,085,000 have not been obtained (2012: RMB366,654,000).

(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 2013 was RMB2,766,218,000 (2012: RMB2,986,123,000).

(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 2013 was RMB9,996,000 (2012: nil).

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

The Group leases production plant and machinery under finance leases expiring from 1 to 5 years (see note 28). One of the leases is an arrangement that is not in the legal form of a lease, but is accounted for as such based on its terms and conditions (see note 2(a)). None of the leases includes contingent rentals. During the year, additions to fixed assets of the Group financed by new finance leases were RMB nil (2012: RMB84,432,000). At the end of the reporting period, the carrying amount for the fixed assets held under finance lease was RMB45,433,000 (2012: RMB69,506,000).

(h) As at 31 December 2013, application for the registration of interests in leasehold land acquired during the year for own use under operating leases with cost of approximately RMB185,572,000 (2012: RMB283,720,000) was still in progress.

13 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 2012	474,730	48,181	85,330	26,834	635,075
Additions	87,307	–	–	26,632	113,939
Additions through business combinations	20,803	–	7,192	731	28,726
At 31 December 2012	582,840	48,181	92,522	54,197	777,740
At 1 January 2013	**582,840**	**48,181**	**92,522**	**54,197**	**777,740**
Additions	**46,330**	**–**	**–**	**4,692**	**51,022**
Additions through business combinations	**7,956**	**–**	**–**	**–**	**7,956**
Disposals	**–**	**–**	**–**	**(3,600)**	**(3,600)**
At 31 December 2013	**637,126**	**48,181**	**92,522**	**55,289**	**833,118**
Accumulated amortisation and impairment:					
At 1 January 2012	(173,619)	(26,982)	(28,900)	(15,225)	(244,726)
Amortisation for the year	(42,050)	(8,300)	(6,779)	(3,205)	(60,334)
At 31 December 2012	(215,669)	(35,282)	(35,679)	(18,430)	(305,060)
At 1 January 2013	**(215,669)**	**(35,282)**	**(35,679)**	**(18,430)**	**(305,060)**
Amortisation for the year	**(49,524)**	**(4,360)**	**(7,138)**	**(6,406)**	**(67,428)**
Written back on disposals	**–**	**–**	**–**	**3,600**	**3,600**
At 31 December 2013	**(265,193)**	**(39,642)**	**(42,817)**	**(21,236)**	**(368,888)**
Net book value:					
At 31 December 2013	**371,933**	**8,539**	**49,705**	**34,053**	**464,230**
At 31 December 2012	367,171	12,899	56,843	35,767	472,680

13 INTANGIBLE ASSETS *(continued)*

(a) The limestone mining rights which are granted from the respective land bureaux are valid for a period of 1 to 30 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 RMB106,550,000 have not been obtained (2012: RMB128,031,000).

(b) The customer relationships amounting to RMB8,538,000 are non-contractual customer relationships acquired through acquisitions of 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", "遠航" and "渤海" brands acquired through acquisitions of Liaoyang Qianshan Cement Co., Ltd. ("Qianshan Cement") and Liaoning Shanshui Gongyuan Cement Co., Ltd. ("Liaoning Shanshui ") in December 2007, Chifeng Yuanhang in September 2010 and Bohai Cement in April 2012.

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 and trademark of "渤海" would be phased out in one year. Management considers the estimated useful lives of trademarks are ten years and one year, respectively, 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 2013 is RMB22,230,000.

14 GOODWILL

	Note	**2013** **RMB'000**	2012 RMB'000
Cost			
At 1 January		**1,832,746**	1,297,770
Additions	34	**379,943**	534,976
Others		**111,073**	–
At 31 December		**2,323,762**	1,832,746

14 GOODWILL *(continued)*

Impairment tests for cash-generating units containing goodwill

As set out in IAS 36 *Impairment of assets*, cash generating units are the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of the cash flows from other assets. For the purpose of impairment testing of goodwill, goodwill is allocated to a group of cash-generating units (being subsidiaries acquired in each acquisition). Such group of cash-generating units represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and also is within the segment determined in accordance with IFRS 8 *Operating segments*.

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 10.5%. 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.

15 OTHER FINANCIAL ASSETS

	Note	**2013 RMB'000**	2012 RMB'000
Available-for-sale securities, at fair value	(a)	**4,927**	6,338
Unquoted equity investments in non-listed companies	(b)	**54,260**	54,260
Loans to an associate	(c)	**61,180**	66,193
Loans due from a third party	(d)	**379,816**	544,034
		500,183	670,825

15 OTHER FINANCIAL ASSETS *(continued)*

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, representing equity investment in the PRC non-listed companies, are subsequently measured at cost less impairment loss at the end of each reporting period, because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values can not be measured reliably.

(c) The loans to an associate are unsecured, bear interest at one-year PRC bank loan interest rate of 6.65% (2012: 6.15%) and have no fixed repayment terms.

(d) Loans due from a third party of RMB379,816,000 represent advances from Bohai Cement to a third party. The advances which are unsecured bear interest at the average monthly bank loan interest rate of Bohai Cement.

16 INVESTMENT IN AN ASSOCIATE

	2013 **RMB'000**	2012 RMB'000
Share of net assets	**80,472**	96,971

As at 31 December 2013, 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	**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	RMB100,000,000	–	51% *Note*

The associate is accounted for using the equity method in the consolidated financial statements.

Note:

According to the articles of association of Dong'e Shanshui, the resolutions in relation to material financial and operating decisions have to be passed by more than half of directors. As the Company only has rights to appoint two out of five directors of Dong'e Shanshui, the Company does not have the power to determine the relevant activities in relation to the financial and operating policies of Dong'e Shanshui although the Company owns more than half of equity interests in Dong'e Shanshui.

16 INVESTMENT IN AN ASSOCIATE *(continued)*

Summary of financial information on the associate is as follows:

	2013 **RMB'000**	2012 RMB'000
Gross amount of the associate		
Current assets	**66,808**	73,590
Non-current assets	**283,391**	299,633
Current liabilities	**90,220**	110,368
Non-current liabilities	**102,190**	64,955
Equity	**157,789**	197,900
Revenue	**313,715**	376,540
Profit for the year	**51,463**	63,467
Other comprehensive income	**51,463**	63,467
Dividend received from the associate	**43,120**	–
Reconciled to the Group's interests in the associate		
Gross amounts of the net assets of the associate	**157,789**	197,900
Group's effective interest	**51%**	49%
Group's share of the net assets of the associate	**80,472**	96,971
Carrying amount in the consolidated financial statements	**80,472**	96,971

17 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2013	2012
	RMB'000	RMB'000
Unlisted shares, at cost	**413,248**	413,248

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

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by sub-sidiaries	Principal activities
(a) Enterprise established in Hong Kong						
China Shanshui Cement Group (Hong Kong) Company Limited ("Shanshui Cement Hong Kong") 中國山水水泥集團(香港)有限公司	Hong Kong, PRC 25 January 2005	HKD10,000	100.00	100.00	–	Investment holding
China Pioneer Cement (Hong Kong) Company Limited ("Pioneer Cement") 中國先鋒水泥(香港)有限公司	Hong Kong, PRC 25 January 2005	HKD0.01	100.00	–	100.00	Investment holding
(b) Enterprise established outside the PRC						
Continental Cement Corporation 康達水泥有限公司	British Virgin Islands 30 May 2000	USD100	100.00	–	100.00	Investment holding
American Shanshui Development INC. 美國山水發展公司	Delaware, U.S.A 28 June 2012	Paid-in capital USD1,000,000	100.00	–	100.00	Selling agent of cement product and building materials
(c) Wholly foreign owned enterprises established in the PRC						
Shandong Shanshui Cement Group Co., Ltd. ("Shandong Shanshui") 山東山水水泥集團有限公司	Shandong, PRC 10 August 2001	Registered capital of RMB3,633,000,000 and paid-in capital RMB3,623,028,752	100.00	–	100.00	Investment holding
Continental (Shandong) Cement Corporation 康達(山東)水泥有限公司	Shandong, PRC 6 April 2002	USD11,980,000	100.00	–	100.00	Production and sales of clinker

(Expressed in Renminbi unless otherwise indicated)

17 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 sub-sidiaries	Principal activities
(c) Wholly foreign owned enterprises established in the PRC *(continued)*						
Continental (Shandong) Cement Product Manufacturing Corporation 康達(山東)水泥製成品有限公司	Shandong, PRC 6 April 2002	USD20,484,500	100.00	–	100.00	Production and sales of cement
Continental (Shandong) Cement Mining Corporation 康達(山東)水泥礦產品有限公司	Shandong, PRC 6 April 2002	USD7,101,000	100.00	–	100.00	Mining, storage and sales of limestone
(d) Sino-foreign equity joint venture enterprises established in the PRC						
Pingyin Shanshui Cement Co., Ltd. ("Pingyin Shanshui") 平陰山水水泥有限公司	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") 安丘山水水泥有限公司	Shandong, PRC 4 August 2003	RMB226,500,000	99.06	–	99.76	Production and sales of cement and clinker
Weihai Shanshui Cement Co., Ltd. ("Weihai Shanshui") 威海山水水泥有限公司	Shandong, PRC 25 March 2008	USD24,000,000	100.00	–	100.00	Production and sales of cement and concrete
Dandong Shanshui Gongyuan Cement Co., Ltd. 丹東山水工源水泥有限公司	Liaoning, PRC 31 March 2008	USD12,000,000	100.00	–	100.00	Production and sales of cement
Qingdao Shanshui Chuangxin Cement Co., Ltd. ("Qingdao Shanshui Chuangxin") 青島山水創新水泥有限公司	Shandong, PRC 25 April 2008	USD28,000,000	100.00	–	100.00	Production and sales of cement
Shenyang Shanshui Gongyuan Cement Co., Ltd. 瀋陽山水工源水泥有限公司	Liaoning, PRC 9 July 2008	USD12,000,000	100.00	–	100.00	Production and sales of cement
Linqu Shanshui Cement Co., Ltd. ("Linqu Shanshui") 臨朐山水水泥有限公司	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

(Expressed in Renminbi unless otherwise indicated)

17 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 sub-sidiaries	Principal activities
(d) Sino-foreign equity joint venture enterprises established in the PRC *(continued)*						
Zaozhuang Chuangxin Shanshui Cement Co., Ltd. ("Zaozhuang Chuangxin Shanshui") 棗莊創新山水水泥有限公司	Shandong, PRC 5 September 2008	USD30,000,000	100.00	–	100.00	Production and sales of cement and clinker
Linqu Shanshui Building Material Aggregate Co., Ltd. 臨朐山水建材骨料有限公司	Shandong, PRC 27 December 2012	USD5,060,000	100.00	–	100.00	Production and sales of concrete aggregate
(e) Domestic companies established in the PRC						
Owned by Shandong Shanshui						
Qianshan Cement 遼陽千山水泥有限責任公司	Liaoning, PRC 5 June 1989	RMB98,840,700	73.00	–	73.00	Production and sales of cement and clinker
Shandong Cement Factory Co., Ltd. 山東水泥廠有限公司	Shandong, PRC 3 April 1990	RMB182,000,000	99.00	–	99.00	Production and sales of cement and concrete; production of limestone
Guangrao Shanshui Cement Co., Ltd. 廣饒山水水泥有限公司	Shandong, PRC 8 May 1998	RMB18,760,000	70.00	–	70.00	Production and sales of cement
Liaoning Shanshui 遼寧山水工源水泥有限公司	Liaoning, PRC 13 July 1998	RMB2,000,000,000	100.00	–	100.00	Production and sales of cement and related products
Feicheng City Mashan Cement Co., Ltd. ("Feicheng Mashan") 肥城市馬山水泥有限責任公司	Shandong, PRC 6 June 1999	RMB30,000,000	90.00	–	90.00	Production and sales of cement
Chifeng Yuanhang 赤峰山水遠航水泥有限公司	Inner Mongolia, PRC 5 August 2000	RMB66,150,000	100.00	–	100.00	Production and sales of cement and related products
Jinan Shi-ji Chuang-xin Cement Co., Ltd. 濟南世紀創新水泥有限公司	Shandong, PRC 17 January 2002	RMB41,460,000	95.18	–	95.18	Production and sales of cement and related products

(Expressed in Renminbi unless otherwise indicated)

17 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 sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Shandong Shanshui *(continued)*						
Shandong Shanshui Heavy Industries Co., Ltd. 山東山水重工有限公司	Shandong, PRC 12 March 2002	RMB100,000,000	99.98	–	99.98	Installation of equipment and spare parts of cement machines
Tianjin City Tianhui Cement Co., Ltd. 天津市天輝水泥有限公司	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. 昌樂山水水泥有限公司	Shandong, PRC 30 July 2002	RMB24,700,000	99.00	–	99.00	Production and sales of cement, clinker and concrete
Yantai Shanshui Cement Co., Ltd. 煙台山水水泥有限公司	Shandong, PRC 22 November 2002	RMB155,500,000	100.00	–	100.00	Production and sales of cement
Jinan Shanshui Wuliugang Co., Ltd. 濟南山水物流港有限公司	Shandong, PRC 28 March 2003	RMB10,000,000	99.00	–	99.00	Logistic service and sales of coal
Binzhou Shanshui Cement Co., Ltd. 濱州山水水泥有限公司	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. 山東山水水泥工業設計開發有限公司	Shandong, PRC 1 August 2003	RMB6,000,000	90.00	–	90.00	Development, manufacture, sales and technical support of cement related equipments
Liaocheng Shanshui Cement Co., Ltd. 聊城山水水泥有限公司	Shandong, PRC 1 August 2003	RMB10,000,000	99.00	–	99.00	Production and sales of cement and concrete
Gucheng Shanshui Cement Co., Ltd. 故城山水水泥有限公司	Hebei, PRC 4 August 2003	RMB5,000,000	99.00	–	99.00	Production and sales of cement
Dongying Shanshui Cement Co., Ltd. 東營山水水泥有限公司	Shandong, PRC 4 August 2003	RMB5,000,000	99.00	–	99.00	Production and sales of cement

(Expressed in Renminbi unless otherwise indicated)

17 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 sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Shandong Shanshui *(continued)*						
Zibo Shanshui Cement Co., Ltd. 淄博山水水泥有限公司	Shandong, PRC 5 August 2003	RMB60,000,000	99.00	–	99.00	Production and sales of cement, clinker and limestone
Liaocheng Meijing Zhongyuan Cement Co., Ltd. 聊城美景中原水泥有限公司	Shandong, PRC 5 August 2003	RMB20,000,000	100.00	–	100.00	Production and sales of cement and clinker
Weifang Shanshui Cement Co., Ltd. ("Weifang Shanshui") 濰坊山水水泥有限公司	Shandong, PRC 29 December 2003	RMB50,000,000	100.00	–	100.00	Production and sales of cement, limestone and concrete
Qingdao Shanshui Hengtai Cement Co., Ltd. 青島山水恒泰水泥有限公司	Shandong, PRC 10 June 2004	RMB50,000,000	100.00	–	100.00	Production and sales of cement and related products
Zibo Shuangfeng Shanshui Cement Co., Ltd. 淄博雙鳳山水水泥有限公司	Shandong, PRC 1 July 2004	RMB10,000,000	99.00	–	99.00	Production and sales of cement
Zaozhuang Shanshui Cement Co., Ltd. 棗莊山水水泥有限公司	Shandong, PRC 28 July 2004	RMB70,000,000	100.00	–	100.00	Production and sales of cement and clinker
Qixia City Xinghao Cement Co., Ltd. ("Qixia Xinghao") 棲霞市興昊水泥有限公司	Shandong, PRC 10 January 2005	RMB200,000,000	100.00	–	100.00	Production and sales of cement and clinker
Jining Shanshui Cement Co., Ltd. 濟寧山水水泥有限公司	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. 濰坊山水包裝製品有限公司	Shandong, PRC 30 August 2005	RMB500,000	99.90	–	100.00	Production and sales of cement packaging materials
Rushan Shanshui Cement Co., Ltd. 乳山山水水泥有限公司	Shandong, PRC 17 November 2005	RMB5,000,000	67.00	–	67.00	Production and sales of cement and related products

(Expressed in Renminbi unless otherwise indicated)

17 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 sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Shandong Shanshui *(continued)*						
Juye Shanshui Cement Co., Ltd. 巨野山水水泥有限公司	Shandong, PRC 17 May 2006	RMB10,000,000	99.96	–	100.00	Production and sales of cement
Yishui Shanshui Cement Co., Ltd. 沂水山水水泥有限公司	Shandong, PRC 28 September 2007	RMB128,700,000	99.38	–	99.38	Production and sales of clinker and limestone
Kenli Shanshui Cement Co., Ltd. 墾利山水水泥有限公司	Shandong, PRC 21 December 2007	RMB12,000,000	90.00	–	90.00	Production and sales of cement
Qingdao Huading Building Material Co., Ltd. 青島華鼎建材有限公司	Shandong, PRC 24 January 2008	RMB20,000,000	100.00	–	100.00	Production and sales of concrete
Weifang Ningshi Building Material Co., Ltd. 濰坊凝石建材有限公司	Shandong, PRC 16 May 2008	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Yishui Chuangxin Shanshui Cement Co., Ltd. 沂水創新山水水泥有限公司	Shandong, PRC 2 June 2009	RMB10,000,000	100.00	–	100.00	Production and sales of cement
Qingdao Shanshui Jianxin Cement Co., Ltd. 青島山水建新水泥有限公司	Shangdong, PRC 18 June 2009	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Weifang Binhai Shanshui Cement Co., Ltd. 濰坊濱海山水水泥有限公司	Shandong, PRC 4 August 2009	RMB42,000,000	100.00	–	100.00	Production and sales of cement
Tianjin Shanshui Cement Co., Ltd. 天津山水水泥有限公司	Tianjin, PRC 26 August 2009	RMB100,000,000	100.00	–	100.00	Production and sales of cement
Shanxian Shanshui Cement Co., Ltd. 單縣山水水泥有限公司	Shandong, PRC 27 August 2009	RMB60,000,000	100.00	–	100.00	Production and sales of cement
Caoxian Shanshui Cement Co., Ltd. 曹縣山水水泥有限公司	Shandong, PRC 28 August 2009	RMB22,000,000	100.00	–	100.00	Production and sales of cement

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17 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 sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Shandong Shanshui *(continued)*						
Bozhou Shanshui Cement Co., Ltd. 亳州山水水泥有限公司	Anhui, PRC 3 September 2009	RMB40,000,000	100.00	–	100.00	Establishment of cement production line
Bengbu Shanshui Cement Co., Ltd. 蚌埠山水水泥有限公司	Anhui, PRC 4 September 2009	RMB30,000,000	100.00	–	100.00	Establishment of cement production line
Weishan Shanshui Cement Co., Ltd. 微山山水水泥有限公司	Shandong, PRC 28 September 2009	RMB100,000,000	100.00	–	100.00	Production and sales of cement and clinker
Shanxi Shanshui Cement Co., Ltd. ("Shanxi Shanshui") 山西山水水泥有限公司	Shanxi, PRC 25 December 2009	RMB1,559,000,000	100.00	–	100.00	Sales of cement and cement related products
Laoling Shanshui Cement Co., Ltd. 樂陵山水水泥有限公司	Shandong, PRC 9 February 2010	RMB30,000,000	100.00	–	100.00	Production and sales of cement and related products
Qingdao Huading New Building Material Co., Ltd. 青島華鼎建築新材料有限公司	Shandong, PRC 10 February 2010	RMB16,103,200	100.00	–	100.00	Production and sales of concrete
Dezhou Zhucheng Concrete Co., Ltd. 德州築城商品混凝土有限公司	Shandong, PRC 2 March 2010	RMB10,000,000	100.00	–	100.00	Production and sales of concrete
Weifang Wanda Building materials Co., Ltd. 濰坊萬達建材有限公司	Shandong, PRC 17 March 2010	RMB10,000,000	100.00	–	100.00	Production and sales of concrete
Kashi Shanshui Cement Co., Ltd. ("Kashi Shanshui") 喀什山水水泥有限公司	Xinjiang, PRC 17 August 2010	RMB500,000,000	100.00	–	100.00	Production and sales of cement
Dezhou Tianqi Concrete Co., Ltd. 德州天祺商品混凝土有限公司	Shandong, PRC 31 August 2010	RMB10,000,000	60.00	–	60.00	Production and sales of concrete
Shenxian Shanshui Cement Co., Ltd. 莘縣山水水泥有限公司	Shandong, PRC 22 October 2010	RMB10,000,000	100.00	–	100.00	Production and sales of cement and cement related products

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17 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 sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Shandong Shanshui *(continued)*						
Shandong Shanshui Building Materials Co., Ltd. 山東山水建築材料有限公司	Shandong, PRC 2 March 2011	RMB300,000,000	100.00	–	100.00	Production and sales of building materials and related products
Huixian City Shanshui Cement Co., Ltd. 輝縣市山水水泥有限公司	Henan, PRC 30 June 2011	RMB100,000,000	100.00	–	100.00	Establishment of clinker production line
Linqing Shanshui Cement Co., Ltd. 臨清山水水泥有限公司	Shandong, PRC 4 July 2011	RMB2,000,000	100.00	–	100.00	Production and sales of cement and cement related products
Weifang City Leixin Concrete Co., Ltd. ("Weifang Leixin") 濰坊市磊鑫混凝土有限公司	Shandong, PRC 16 August 2011	RMB10,000,000	100.00	–	100.00	Production and sales of concrete
Zhoukou Shanshui Pipeline Co., Ltd. 周口山水管道有限公司	Henan, PRC 22 August 2011	RMB30,000,000	100.00	–	100.00	Production and sales of cement and cement related products
Dongming Shanshui Cement Co., Ltd. 東明山水水泥有限公司	Shandong, PRC 20 March 2012	RMB5,000,000	100.00	–	100.00	Production and sales of cement
Jiaxiang Shanshui Aggregate Co., Ltd. 嘉祥山水骨料有限公司	Shandong, PRC 10 October 2012	RMB10,000,000	100.00	–	100.00	Production and sales of concrete aggregate
Shandong Shanshui Cement Group International Trading Co., Ltd. 山東山水水泥集團國際貿易有限責任公司	Shandong, PRC 5 March 2013	RMB10,000,000	100.00	–	100.00	Import and export of cement, clinker and related products
Caoxian Chuangxin Concrete Co., Ltd. 曹縣創新商砼有限公司	Shandong, PRC 27 March 2013	RMB10,000,000	100.00	–	100.00	Production and sales of concrete
FeiCheng Shanshui Concrete Co., Ltd. 肥城山水商砼有限公司	Shandong, PRC 5 September 2013	RMB10,000,000	100.00	–	100.00	Production and sales of concrete

(Expressed in Renminbi unless otherwise indicated)

17 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 sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Liaoning Shanshui						
Huludao Bohai Railway Co., Ltd. 葫蘆島渤海鐵路股份有限公司	Liaoning, PRC 17 July 1993	RMB52,000,000	50.917	–	72.739	Development and maintenance of special railway-lines
Tongliao Shanshui Gongyuan Cement Co., Ltd. 通遼山水工源水泥有限公司	Inner Mongolia, PRC 2 April 2004	RMB25,000,000	100.00	–	100.00	Production and sales of cement
Chaoyang Shanshui Dongxin Cement Co., Ltd. 朝陽山水東鑫水泥有限公司	Liaoning, PRC 22 March 2005	RMB180,000,000	80.00	–	80.00	Production and sales of cement
Bohai Cement 渤海水泥(葫蘆島)有限公司	Liaoning, PRC 29 August 2005	RMB74,000,000	70.00	–	70.00	Production and sales of cement, clinker and related products
Zhalaite Qi Shanshui Cement Co., Ltd. 扎賚特旗山水水泥有限公司	Inner Mongolia, PRC 17 January 2006	RMB65,000,000	90.00	–	90.00	Production and sales of cement
Yingkou Shanshui Cement Co., Ltd. 營口山水水泥有限公司	Liaoning, PRC 5 December 2006	RMB30,000,000	100.00	–	100.00	Production and sales of cement
Dalian Shanshui Cement Co., Ltd. 大連山水水泥有限公司	Liaoning, PRC 17 August 2007	RMB180,000,000	100.00	–	100.00	Production and sales of cement, clinker and related products
Benxi Shanshui Gongyuan Transportation Co., Ltd. 本溪山水工源汽車運輸有限公司	Liaoning, PRC 26 February 2008	RMB360,000	100.00	–	100.00	Transportation services
Benxi Shanshui Mining Co., Ltd. 本溪山水礦業有限公司	Liaoning, PRC 18 February 2009	RMB500,000	100.00	–	100.00	Mining and sales of limestone

(Expressed in Renminbi unless otherwise indicated)

17 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 sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Liaoning Shanshui *(continued)*						
Kazuo Congyuanhao Cement Co., Ltd. 喀左叢元號水泥有限責任公司	Liaoning, PRC 2 April 2009	RMB110,000,000	80.00	–	100.00	Production and sales of cement and clinker
Panjin Shanshui Cement Co., Ltd. 盤錦山水水泥有限公司	Liaoning, PRC 1 September 2009	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Wulanhaote Shanshui Cement Co., Ltd. 烏蘭浩特山水水泥有限公司	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. 阿魯科爾沁旗山水水泥有限公司	Inner Mongolia, PRC 23 December 2009	RMB76,470,000	85.00	–	85.00	Production and sales of cement and clinker
Balinyou Qi Shanshui Cement Co., Ltd. 巴林右旗山水水泥有限公司	Inner Mongolia, PRC 19 March 2010	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Huolin Guole Shanshui Cement Co., Ltd. 霍林郭勒山水水泥有限公司	Inner Mongolia, PRC 19 April 2010	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Bohai Cement (Jinzhou) Co., Ltd. 渤海水泥(錦州)有限公司	Liaoning, PRC 5 July 2010	RMB20,000,000	45.50	–	65.00	Production and sales of cement, concrete and related products
Keyouzhong Qi Shanshui Cement Co., Ltd. 科右中旗山水水泥有限公司	Inner Mongolia, PRC 7 April 2011	RMB30,000,000	100.00	–	100.00	Production and sales of cement
Benxi Shanshui Shiye Co., Ltd. 本溪山水實業有限公司	Liaoning, PRC 2 June 2011	RMB6,000,000	100.00	–	100.00	Installation and maintenance of equipment and spare parts of cement machines
Baishan Shanshui Cement Co., Ltd. ("Baishan Shanshui") 白山山水水泥有限責任公司	Jilin, PRC 11 November 2011	RMB100,000,000	70.00	–	70.00	Production and sales of cement and related products

(Expressed in Renminbi unless otherwise indicated)

17 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 sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Liaoning Shanshui *(continued)*						
Aohan Qi Shanshui Cement Co., Ltd. 敖漢旗山水水泥有限公司	Inner Mongolia, PRC 4 January 2012	RMB500,000	80.00	–	80.00	Production and sales of cement and related products
Suizhong Shanshui Bohai Cement Co., Ltd. 綏中山水渤海水泥有限公司	Liaoning, PRC 29 March 2012	RMB14,000,000	100.00	–	100.00	Establishment of cement production line
Owned by Shanxi Shanshui						
Taiyuan Shanshui Cement Co., Ltd. ("Taiyuan Shanshui") 太原山水水泥有限公司	Shanxi, PRC 27 October 1999	RMB61,224,500	60.00	–	60.00	Production and sales of cement
Jincheng Shanshui Heju Cement Co., Ltd. 晉城山水合聚水泥有限公司	Shanxi, PRC 25 July 2006	RMB240,000,000	90.00	–	90.00	Production and sales of cement and clinker
Lvliang Yilong Cement Co., Ltd. 呂梁億龍水泥有限公司	Shanxi, PRC 16 November 2007	RMB170,000,000	90.00	–	90.00	Production and sales of cement and clinker
Yulin Shanshui Cement Co., Ltd. 榆林山水水泥有限公司	Shaanxi, PRC 7 August 2008	RMB60,000,000	62.00	–	62.00	Production and sales of cement and related products
Hequ Zhongtianlong Cement Co., Ltd. 河曲縣中天隆水泥有限公司	Shanxi, PRC 31 August 2009	RMB80,000,000	68.00	–	68.00	Production and sales of cement and clinker
Wuxiang Shanshui Cement Co., Ltd. 武鄉山水水泥有限公司	Shanxi, PRC 4 November 2009	RMB75,490,000	55.00	–	55.00	Production and sales of cement and clinker
Jincheng Shanshui Cement Co., Ltd. 晉城山水水泥有限公司	Shanxi, PRC 22 January 2010	RMB150,000,000	85.00	–	85.00	Production and sales of cement and clinker
Yulin Shanshui Environmental Building Materials Co., Ltd. 榆林山水環保建材有限公司	Shaanxi, PRC 18 February 2011	RMB80,400,000	85.00	–	85.00	Production and sales of cement and related products

(Expressed in Renminbi unless otherwise indicated)

17 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 sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Shanxi Shanshui *(continued)*						
Linfen Shanshui Cement Co., Ltd. 臨汾山水水泥有限公司	Shanxi, PRC 13 May 2011	RMB200,000,000	90.00	–	90.00	Establishment of cement production line
Shuozhou Shanshui New Era Cement Co., Ltd. 朔州山水新時代水泥有限公司	Shanxi, PRC 10 June 2011	RMB160,000,000	75.00	–	75.00	Establishment of cement and related products production line
Jingbian Xian Shanshui Cement Co., Ltd. ("Jingbian Shanshui") 靖邊縣山水水泥有限公司	Shanxi, PRC 15 November 2011	RMB30,000,000	80.00	–	80.00	Production and sales of cement
Owned by Kashi Shanshui						
Shule Shanshui 疏勒山水水泥有限公司	Xinjiang, PRC 24 August 2010	RMB20,000,000	100.00	–	100.00	Production and sales of cement and concrete
Yingjisha Shanshui 英吉沙山水水泥有限公司	Xinjiang, PRC 24 August 2010	RMB232,000,000	100.00	–	100.00	Production and sales of cement, concrete and clinker
Shache Shanshui 莎車山水水泥有限公司	Xinjiang, PRC 14 October 2010	RMB20,000,000	100.00	–	100.00	Production and sales of cement and concrete
Xinjiang Balikun Shanshui Mining Co., Ltd. 新疆巴裡坤山水礦業有限公司	Xinjiang, PRC 18 April 2012	RMB10,000,000	100.00	–	100.00	Oil shale, gypsum and other minerals investment
Kezhou Shanshui Materials Trading Co., Ltd. 克州山水物資有限公司	Xinjiang, PRC 17 April 2013	RMB20,000,000	100.00	–	100.00	Logistic service and sales of cement and materials

The directors of the Company are of the opinion that none of its subsidiaries has non-controlling interests material to the Group.

18 OTHER LONG-TERM ASSETS

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost:				
At 1 January	**166,238**	106,298	**149,138**	89,198
Additions	**16,200**	59,940	**–**	59,940
Reclassified to the long-term bonds	**(182,438)**	–	**(149,138)**	–
At 31 December	**–**	166,238	**–**	149,138
Accumulated amortisation and impairment:				
At 1 January	**(52,209)**	(16,715)	**(40,509)**	(10,714)
Charge to finance cost	**(40,019)**	(35,494)	**(29,969)**	(29,795)
Reclassified to the long-term bonds	**92,228**	–	**70,478**	–
At 31 December	**–**	(52,209)	**–**	(40,509)
Net book value:	**–**	114,029	**–**	108,629

19 INVENTORIES

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

	2013	2012
	RMB'000	RMB'000
Raw materials	**646,878**	598,265
Semi-finished goods	**449,736**	515,907
Finished goods	**352,271**	301,538
Spare parts	**517,211**	378,577
	1,966,096	1,794,287

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

	2013	2012
	RMB'000	RMB'000
Carrying amount of inventories sold	**12,703,705**	12,047,101
Write-down of inventories	**4,629**	3,188
Reversal of write-down of inventories	**(2,367)**	(624)
	12,705,967	12,049,665

20 TRADE AND BILLS RECEIVABLE

	Note	2013 RMB'000	2012 RMB'000
Bills receivable		**1,047,473**	1,153,590
Trade debtors		**1,051,543**	594,232
Less: allowance for doubtful debts	20(b)	**(79,062)**	(59,732)
		2,019,954	1,688,090

(a) Ageing analysis

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

	2013 RMB'000	2012 RMB'000
Within 3 months	**1,636,259**	1,432,777
3 to 6 months	**161,876**	101,118
6 to 12 months	**102,231**	57,526
Over 12 months	**119,588**	96,669
	2,019,954	1,688,090

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

(b) Impairment of trade and bills receivable

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

20 TRADE AND BILLS RECEIVABLE *(continued)*

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

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

	2013	2012
	RMB'000	RMB'000
At 1 January	**59,732**	87,020
Impairment loss recognised	**43,736**	16,365
Uncollectible amounts written off	**(1,880)**	(14,211)
Reversal of doubtful debt	**(22,526)**	(29,442)
At 31 December	**79,062**	59,732

At 31 December 2013, the Group's trade and bills receivable of RMB129,594,000 (2012: RMB66,723,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. The Group does not hold any collateral over these balances.

(c) Trade and bills receivable that are not impaired

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

	2013	2012
	RMB'000	RMB'000
Neither past due nor impaired	**1,755,930**	1,518,775
Overdue within one year	**213,492**	162,324
	1,969,422	1,681,099

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.

21 OTHER RECEIVABLES AND PREPAYMENTS

	Note	**2013 RMB'000**	2012 RMB'000
Prepayments for raw materials		**66,692**	70,496
Prepayments for long-lived assets		**601,334**	873,278
VAT recoverable		**561,244**	391,163
Amount due from related parties	37(c)	**22,149**	2,964
Amount due from third parties		**612,178**	339,752
Others		**36,434**	23,415
		1,900,031	1,701,068

22 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

		The Group		The Company	
	Note	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Cash at bank and in hand		**1,277,369**	1,083,220	**10,099**	399,840
Pledged bank deposits	(i)	**80,635**	41,054	**–**	–
		1,358,004	1,124,274	**10,099**	399,840
Less: Pledged bank deposits		**(80,635)**	(41,054)	**–**	–
Cash and cash equivalents		**1,277,369**	1,083,220	**10,099**	399,840

Note:

(i) Cash deposits of RMB80,635,000 as at 31 December 2013 (2012: RMB41,054,000) were mainly pledged to banks for the performance guarantee in relation to certain sales or purchases contracts and overseas bank loans. The pledged bank deposits will be released upon the expiry of the relevant guarantee in 2014.

22 CASH AND CASH EQUIVALENTS *(continued)*

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

	Note	2013 RMB'000	2012 RMB'000
Profit before taxation		**1,613,894**	2,204,989
Adjustments for:			
Depreciation	5(c)	**1,090,450**	986,644
Amortisation of land lease premium for property held for own use	5(c)	**59,218**	51,679
Amortisation of intangible assets	5(c)	**67,428**	60,334
Amortisation of other long-term assets		**–**	35,494
Impairment losses on fixed assets	4	**9,996**	–
Finance costs	5(a)	**967,688**	925,434
Share of profits less losses of an associate		**(24,376)**	(31,099)
Interest income	4	**(40,527)**	(43,864)
Dividend income	4	**(1,086)**	–
Loss on sales of fixed assets	4	**9,147**	3,562
Foreign exchange (gain)/loss		**(44,193)**	17,259
		3,707,639	4,210,432
Changes in working capital:			
(Increase)/decrease in inventories		**(167,024)**	324,661
(Increase)/decrease in trade and bills receivable		**(331,864)**	50,925
(Increase)/decrease in pledged bank deposits		**(39,581)**	29,184
Decrease in other receivables and prepayments		**52,040**	451,400
Increase/(decrease) in trade and bills payable		**297,422**	(390,808)
Decrease in other payables and accrued expenses		**(92,386)**	(1,021,896)
Decrease in defined benefit obligations		**(8,586)**	(11,644)
Decrease in deferred income		**(6,991)**	(8,871)
Cash generated from operations		**3,410,669**	3,633,383

23 BANK LOANS

At 31 December 2013, the bank loans were secured as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Bank loans – Secured	**3,196,864**	2,518,600
Bank loans – Unsecured	**2,676,801**	2,280,600
	5,873,665	4,799,200

	The Company	
	2013	2012
	RMB'000	RMB'000
Bank loans – Secured	**298,742**	–

Bank loans were either pledged by certain items of property, plant and equipment and interests in leasehold land held for own use under operating leases as disclosed in note 12, or guaranteed by companies within the Group, except for bank loans of RMB307,333,000 is guaranteed by the pledged bank deposits of RMB48,360,000.

None of the Group's banking facilities are subject to the fulfilment of covenants. Further details of the Group's management of liquidity risk are set out in note 35(b).

Further details of the interest rate range beared by the bank loans are set out in note 35(c).

23 BANK LOANS *(continued)*

At 31 December 2013, the bank loans were repayable as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Within one year on demand	**2,909,685**	1,886,400
After one year but within two years	**1,467,859**	2,224,200
After two years but within five years	**1,196,121**	388,600
After five years	**300,000**	300,000
	2,963,980	2,912,800
	5,873,665	4,799,200

	The Company	
	2013	2012
	RMB'000	RMB'000
Within one year on demand	**30,485**	–
After one year but within two years	**119,225**	–
After two years but within three years	**149,032**	–
	268,257	–
	298,742	–

24 OTHER BORROWINGS

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

	Note	**2013 RMB'000**	2012 RMB'000
Loan from government – Unsecured	(i)	**8,182**	9,091
Loan from International Finance Corporation ("IFC") – Secured	(ii)	**125,061**	229,660
Short-term financing bills	(iii)	**1,495,605**	–
		1,628,848	238,751

Notes:

(i) The government loan was received by Liaoning Shanshui 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 equally from 2012 to 2021.

(ii) Anqiu Shanshui and Pingyin Shanshui entered into loan agreements with IFC, a financial institution, 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 Shanshui Chuangxin, Linqu Shanshui and Zaozhuang Chuangxin Shanshui entered into loan agreements with IFC, totalling USD50,000,000 in 2010. The loans bear interest at LIBOR plus 4.25% per annum and are repayable bi-annually from 2010 to 2015 and are secured by certain items of property, plant and equipment of the subsidiaries.

(iii) Shandong Shanshui issued two tranches of the one-year short-term financing bills of RMB0.5 billion and RMB1 billion to corporate investors in the PRC inter-bank debenture market on 6 June 2013 and 18 November 2013, respectively. These short-term financing bills bear fixed interest rates of 4.67% and 6.5% per annum, respectively, and the interests will be settled at the maturity date.

24 OTHER BORROWINGS *(continued)*

At 31 December 2013, other borrowings were repayable as follows:

	2013 **RMB'000**	2012 RMB'000
Within one year on demand	**1,570,768**	101,639
After one year but within two years	**51,716**	77,460
After two years but within five years	**2,727**	55,106
After five years	**3,637**	4,546
	58,080	137,112
	1,628,848	238,751

25 LONG-TERM BONDS

		The Group		The Company	
	Note	**2013** **RMB'000**	2012 RMB'000	**2013** **RMB'000**	2012 RMB'000
Medium-term notes		**2,688,450**	1,900,000	**–**	–
Less: Current portion of medium-term notes		**(899,610)**	(1,000,000)	**–**	–
Senior notes		**6,298,860**	6,528,400	**6,298,860**	6,528,400
Less: Current portion of senior notes		**(1,495,755)**	–	**(1,495,755)**	–
Long-term bonds, less current portion	(i)	**6,591,945**	7,428,400	**4,803,105**	6,528,400

25 LONG-TERM BONDS *(continued)*

Note:

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

Issuer	Principal (RMB'000/ USD'000)	Issue date	Maturity date	Interest rates	Interest payment term
(a) Medium-term notes issued in the PRC inter-bank debenture market					
Shandong Shanshui	RMB900,000	25/03/2011	28/03/2014	5.78%	annually
Shandong Shanshui	RMB1,800,000	18/01/2013	21/01/2016	5.44%	annually
(b) Senior notes issued in the Singapore Exchange Ltd.					
The Company	USD400,000	25/05/2011	25/05/2016	8.50%	semi-annually
The Company	RMB1,500,000	15/07/2011	22/07/2014	6.50%	semi-annually
The Company	USD400,000	20/04/2012	27/04/2017	10.50%	semi-annually

26 TRADE AND BILLS PAYABLE

	2013 RMB'000	2012 RMB'000
Trade payables	**3,177,229**	2,590,142
Bills payable	**2,217**	1,782
	3,179,446	2,591,924

As at 31 December 2013 and 2012, 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.

27 OTHER PAYABLES AND ACCRUED EXPENSES

		The Group	
		2013	2012
	Note	**RMB'000**	RMB'000
Customer deposits and receipts in advance		**372,679**	431,515
Accrued payroll and welfare		**146,766**	172,785
Taxes payable other than income tax		**153,291**	152,429
Staff compensation and termination provisions	29(b)	**166,547**	170,910
Amount due to related parties	37(c)	**46,794**	179
Payable to third parties of acquired subsidiaries		**246,100**	105,754
Acquisition consideration payable		**171,765**	205,119
Current portion of long-term payables		**49,344**	55,937
Accrued expenses and other payables		**494,612**	408,714
		1,847,898	1,703,342

		The Company	
		2013	2012
	Note	**RMB'000**	RMB'000
Accrued withholding tax for final dividend of year 2008	33(b)	**16,728**	17,245
Accrued interest expenses		**112,985**	123,142
Other accrued expenses and payables		**393**	258
		130,106	140,645

28 OBLIGATION UNDER FINANCE LEASE

At 31 December 2013, the Group had obligation under finance lease payable as follows:

	2013		2012	
	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	**12,844**	**13,755**	17,498	18,528
After 1 year but within 2 years	**10,298**	**11,937**	11,935	13,755
After 2 years but within 5 years	**8,528**	**10,452**	17,505	22,389
	18,826	**23,389**	29,440	36,144
Total	**31,670**	**36,144**	46,938	54,672
Less: total future interest expenses		**4,474**		7,734
Present value of lease obligation		**31,670**		46,938

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	**2013** **RMB'000**	2012 RMB'000
Staff compensation and termination provision	27	**166,547**	170,910

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

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

	2013 **RMB'000**	2012 RMB'000
Present value of the defined benefit obligations	**159,210**	160,046

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 Liaoning Shanshui. 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., 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)*

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

	2013 **RMB'000**	2012 RMB'000
At 1 January	**160,046**	165,240
Remeasurements	**1,300**	1,040
Payments	**(12,996)**	(14,064)
Current service cost	**4,410**	1,380
Interest expense	**6,450**	6,450
At 31 December	**159,210**	160,046

(ii) Expenses recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2013 **RMB'000**	2012 RMB'000
Interest expense	**6,450**	6,450
Actuarial losses recognised in profit or loss	**–**	1,040
Current service cost	**4,410**	1,380
Total amounts recognised in profit or loss	**10,860**	8,870
Actuarial losses recognised in other comprehensive income	**1,300**	–
Total defined benefit costs	**12,160**	8,870

29 EMPLOYEE BENEFITS *(continued)*

(c) Defined benefit obligations *(continued)*

(iii) The current service cost and the net interest on net defined benefit liability are recognised in the following line items in the consolidated statement of profit or loss:

	2013	2012
	RMB'000	RMB'000
Finance expenses	**6,450**	6,450
Administrative expenses	**4,410**	2,420
	10,860	8,870

(iv) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:

	2013	2012
Discount rate	**4.5%**	3.75%
Annual growth rate of cost of living	**3.0%-8%**	3.0%-8%
Social average salary increase rate	**10.00%**	10.00%
Average expected remaining working life of eligible employees	**9 years**	9 years

The below analysis shows how the defined benefit obligation as at 31 December 2013 would have (increased)/decreased as a result of 0.5% change in the significant actuarial assumptions:

	Increase in 0.5%	**Decrease in 0.5%**
Discount rate	RMB'000	RMB'000
Effect on defined benefit obligation	(7,380)	8,080

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

30 DEFERRED INCOME

	2013 RMB'000	2012 RMB'000
At 1 January	**324,142**	327,110
Additions	**9,890**	13,896
Recognised in consolidated statement of profit or loss	**(16,881)**	(16,864)
At 31 December	**317,151**	324,142

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 statement of profit or loss 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

	2013 RMB'000	2012 RMB'000
Provision for PRC income tax for the year	**571,057**	661,303
Under/(over)-provision in respect of prior years	**4,339**	(4,555)
Provisional income tax paid	**(444,245)**	(436,435)
	131,151	220,313

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 2013 are as follows:

	At 1 January 2013 RMB'000	Recognised in profit or loss RMB'000	Recognised in other comprehensive income RMB'000	At 31 December 2013 RMB'000
Deferred tax assets				
Intra-group unrealised profits	47,128	4,532	–	51,660
Fair value adjustment on fixed assets	5,612	(17)	–	5,595
Depreciation of property, plant and equipment	9,402	(4,324)	–	5,078
Tax loss (*)	44,939	853	–	45,792
Impairment losses for property, plant and equipment	26,560	2,428	–	28,988
Write down of inventory	2,333	–	–	2,333
Deferred income	38,570	781	–	39,351
Accrued bonus	14,811	–	–	14,811
Long-term payables	10,169	(454)	–	9,715
Accrued expenses	17,163	3,366	–	20,529
Impairment of trade receivable	–	17,550	–	17,550
	216,687	24,715	–	241,402
Deferred tax liabilities				
Change of fair value of available-for-sale securities	(1,332)	–	352	(980)
Fair value adjustments on:				
Fixed assets	(91,804)	5,565	–	(86,239)
Intangible assets	(15,683)	5,934	–	(9,749)
	(108,819)	11,499	352	(96,968)
Total	107,868	36,214	352	144,434

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 2012 are as follows:

	At 1 January 2012 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 2012 RMB'000
Deferred tax assets					
Intra-group unrealised profits	31,634	–	15,494	–	47,128
Fair value adjustment on fixed assets	5,629	–	(17)	–	5,612
Depreciation of property, plant and equipment	7,908	–	1,494	–	9,402
Tax loss (*)	25,975	1,437	17,527	–	44,939
Impairment losses for property, plant and equipment	27,722	–	(1,162)	–	26,560
Write down of inventory	2,333	–	–	–	2,333
Deferred income	31,942	–	6,628	–	38,570
Accrued bonus	10,261	–	4,550	–	14,811
Accrued auditor's remuneration	676	–	(676)	–	–
Long-term payables	10,581	–	(412)	–	10,169
Accrued expenses	15,408	–	1,755	–	17,163
	170,069	1,437	45,181	–	216,687
Deferred tax liabilities					
Change of fair value of available-for-sale securities	(1,054)	–	–	(278)	(1,332)
Fair value adjustments on:					
Fixed assets	(89,001)	(6,435)	3,632	–	(91,804)
Intangible assets	(19,665)	(2,727)	6,709	–	(15,683)
	(109,720)	(9,162)	10,341	(278)	(108,819)
Total	60,349	(7,725)	55,522	(278)	107,868

* 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 utilise their unused tax losses before they expire.

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

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

Reconciliation to the consolidated statement of financial position

	2013 RMB'000	2012 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**219,175**	167,474
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(74,741)**	(59,606)
	144,434	107,868

(c) Deferred tax assets not recognised

As at 31 December 2013, the Group did not recognise deferred tax assets in respect of unused tax losses of certain PRC subsidiaries totalling RMB221,695,000 (2012: RMB100,836,000), as it is not probable that future taxable profits which the losses can be utilised will be available. As at 31 December 2013, tax losses of RMB54,831,000, RMB7,971,000, RMB34,899,000 and RMB123,994,000 will expiry by the end of 2015, 2016, 2017 and 2018, 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 2013, temporary differences relating to the undistributed profits of the Company's PRC subsidiaries amounted to RMB7,343,409,000 (2012: RMB6,096,058,000). Deferred tax liabilities of RMB734,340,900 (2012: RMB609,605,800) 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.

(a) The terms and conditions of the grants are as follows:

	Numbers of Instruments	Vesting conditions	Contractual life of options
Options granted on 25 May 2011			
– to directors	5,000,000	Immediately from the date of grant	10 years
– to employees	2,300,000	Immediately from the date of grant	10 years
Total share options granted	7,300,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2013		2012	
	Weighted average exercise price HKD	**Number of options '000**	Weighted average exercise price HKD	Number of options '000
Outstanding at the beginning of the year	**7.90**	**7,300**	7.90	7,300
Granted during the year	**–**	**–**	–	–
Outstanding at the end of year	**7.90**	**7,300**	7.90	7,300
Exercisable at the end of the year	**7.90**	**7,300**	7.90	7,300

The option outstanding at 31 December 2013 had an exercise price of HKD7.90 (2012: HKD7.90) and a weighted average remaining contractual life of 7.5 years (2012: 8.5 years).

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)/ profit RMB'000	Total RMB'000
Balance at 1 January 2012	193,198	3,451,085	435,164	(378,383)	(1,335,917)	2,365,147
Changes in equity for 2012:						
Dividend approved in respect of the previous year	–	–	–	–	(556,423)	(556,423)
Total comprehensive income for the year	–	–	–	2,190	(561,593)	(559,403)
Balance at 31 December 2012 and 1 January 2013	**193,198**	**3,451,085**	**435,164**	**(376,193)**	**(2,453,933)**	**1,249,321**
Changes in equity for 2013:						
Dividend approved in respect of the previous year	**–**	**–**	**–**	**–**	**(522,680)**	**(522,680)**
Total comprehensive income for the year	**–**	**–**	**–**	**(13,499)**	**125,993**	**112,494**
Balance at 31 December 2013	**193,198**	**3,451,085**	**435,164**	**(389,692)**	**(2,850,620)**	**839,135**

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

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

	2013 **RMB'000**	2012 RMB'000
Final dividend proposed after the end of the reporting period	**204,347**	531,428

Pursuant to the shareholders' approval at the Annual General Meeting on 24 May 2013, a final dividend of HKD0.233 per share totalling HKD656,116,397 in respect of the year ended 31 December 2012 was approved on 24 May 2013.

Pursuant to a resolution passed at the Directors' meeting on 21 March 2014, a final dividend in respect of the year ended 31 December 2013 of HKD0.092 per share totalling HKD259,067,418 was proposed for shareholders' approval at the Annual General Meeting. Final dividend of HKD259,067,418 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:

	2013 **RMB'000**	2012 RMB'000
Final dividend in respect of the previous financial year, declared and paid during the year	**522,680**	556,423

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 (equivalent to RMB16,728,000) as at 31 December 2013, 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

	2013 Number of shares	2013 RMB equivalent RMB'000	2012 Number of shares	2012 RMB equivalent RMB'000
Authorised:				
Ordinary shares of the Company of USD0.01 each	**10,000,000,000**	**701,472**	10,000,000,000	701,472
Ordinary shares of the Company, issued and fully paid:				
At 1 January and At 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 2013 the Company had RMB210,773,000 available for distribution to equity shareholders of the Company (2012: RMB620,959,000).

After the end of the reporting period the directors proposed a final dividend of HKD0.092 per ordinary share (2012: HKD0.233 per share), amounting to HKD259,067,418 (2012: HKD656,116,397) (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 long-term 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	
		2013	2012
	Note	**RMB'000**	RMB'000
Current liabilities:			
Short-term bank loans	23	**2,909,685**	1,886,400
Current portion of other borrowings	24	**1,570,768**	101,639
Current portion of long-term bonds	25	**2,395,365**	1,000,000
		6,875,818	2,988,039
Non-current liabilities:			
Long-term bank loans	23	**2,963,980**	2,912,800
Other borrowings less current portion	24	**58,080**	137,112
Long-term bonds less current portion	25	**6,591,945**	7,428,400
		9,614,005	10,478,312
Total debt		**16,489,823**	13,466,351
Less: Cash and cash equivalents	22(a)	**(1,277,369)**	(1,083,220)
Net debt		**15,212,454**	12,383,131
Total equity		**9,966,726**	9,396,502
Total capital		**25,179,180**	21,779,633
Gearing ratio		**60.4%**	56.9%

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 entity engaged in cement business in Shandong Province and Shaanxi Province during the year ended 31 December 2013. 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 acquisition to 31 December 2013, these acquirees contributed revenue of RMB58,577,000 and net loss of RMB13,069,000. If these acquisitions had occurred on 1 January 2013, management estimates that consolidated revenue would have been RMB16,606,197,000 and consolidated profit for the year would have been RMB1,018,089,000.

Name of company	Voting right	Date of acquisition	Principal activities
Jingbian Shanshui 靖邊縣山水水泥有限公司	80%	22 January 2013	Production and sales of cement
Feicheng Mashan 肥城市馬山水泥有限責任公司	90%	20 March 2013	Production and sales of cement
Qixia Xinghao 棲霞市興昊水泥有限公司	100%	2 August 2013	Production and sales of cement and clinker
Weifang Leixin 濰坊市磊鑫混凝土有限公司	100%	1 September 2013	Production and sales of concrete

34 ACQUISITIONS *(continued)*

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

	Pre-acquisition carrying amount RMB'000	**Fair value adjustment** RMB'000	**Recognised values on acquisition** RMB'000
Fixed assets	306,222	–	306,222
Intangible assets	7,956	–	7,956
Cash and cash equivalents	25,341	–	25,341
Trade and other receivables	34,916	–	34,916
Inventories	4,788	–	4,788
Trade and other payables	(186,103)	–	(186,103)
Net identifiable assets	193,120	–	193,120
Non-controlling interests arising on business combination			(7,538)
Goodwill arising on acquisition			379,943
Total purchase consideration			565,525
Satisfied by:			
Consideration payable			108,185
Cash paid			457,340
Net cash outflow in respect of the acquisitions			565,525
Cash flow in respect of the acquisition:			
Cash paid by the Group			565,525
Less: Cash acquired			(25,341)
Net cash outflow in respect of the acquisitions			540,184

According to the valuation reports, the fair value of net identifiable assets of these acquisitions is RMB196,711,000, which is resulted in RMB3,591,000 fair value adjustment comparing the pre-acquisition carrying amount listed above. The Directors of the Company consider the fair value adjustment is immaterial and are of the view that it is not meaningful to take up the fair value adjustment in these consolidated financial statements.

34 ACQUISITIONS *(continued)*

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

(i) Acquisition of Qixia Xinhao

On 2 August 2013, the Group signed agreements to acquire 100% equity interests in Qixia Xinghao for a total cash consideration approximately of RMB504,155,000.

The acquisition of Qixia Xinghao 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	249,505	–	249,505
Intangible assets	7,956	–	7,956
Cash and cash equivalents	1,310	–	1,310
Trade and other receivables	4,417	–	4,417
Inventories	4,723	–	4,723
Trade and other payables	(128,376)	–	(128,376)
Net identifiable assets	139,535	–	139,535
Non-controlling interests arising on business combination			–
Goodwill arising on acquisition			364,620
Total purchase consideration			504,155
Satisfied by:			
Consideration payable			102,815
Cash paid			401,340
Net cash outflow in respect of the acquisitions			504,155
Cash flow in respect of the acquisition:			
Cash paid by the Group			504,155
Less: Cash acquired			(1,310)
Net cash outflow in respect of the acquisitions			502,845

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, nil (2012: nil) and nil (2012: 2%) 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

	2013					
	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
Bank loans (note 23)	3,195,906	1,610,814	1,299,554	327,402	6,433,676	5,873,665
Other borrowings (note 24)	1,668,348	53,677	3,177	3,816	1,729,018	1,628,848
Long-term bonds (note 25)	3,110,804	561,284	7,494,874	–	11,166,962	8,987,310
Trade and bills payable (note 26)	3,179,446	–	–	–	3,179,446	3,179,446
Other payables and accrued expense (note 27)	1,475,219	–	–	–	1,475,219	1,475,219
Current tax liabilities (note 31(a))	131,151	–	–	–	131,151	131,151
Obligation under finance leases (note 28)	13,755	11,937	10,452	–	36,144	31,670
Long-term payables	–	12,064	16,191	28,432	56,687	38,580
	12,774,629	2,249,776	8,824,248	359,650	24,208,303	21,345,889

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

(b) Liquidity risk *(continued)*

The Group

	2012					
	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
Bank loans (note 23)	2,126,411	2,365,708	479,100	363,450	5,334,669	4,799,200
Other borrowings (note 24)	111,384	82,865	57,742	5,030	257,021	238,751
Long-term bonds (note 25)	1,618,934	2,976,934	6,096,935	–	10,692,803	8,428,400
Trade and bills payable (note 26)	2,591,924	–	–	–	2,591,924	2,591,924
Other payables and accrued expense (note 27)	1,271,827	–	–	–	1,271,827	1,271,827
Current tax liabilities (note 31(a))	220,313	–	–	–	220,313	220,313
Obligation under finance leases (note 28)	18,528	13,755	22,389	–	54,672	46,938
Long-term payables	–	27,314	26,191	30,496	84,001	64,213
	7,959,321	5,466,576	6,682,357	398,976	20,507,230	17,661,566

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

(b) Liquidity risk *(continued)*

The Company

	2013 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	1-2 years RMB'000	2-5 years RMB'000	more than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Other payables and accrued expense (note 27)	**130,106**	**–**	**–**	**–**	**130,106**	**130,106**
Bank loans (note 23)	**41,980**	**129,548**	**150,367**	**–**	**321,895**	**298,742**
Long-term bonds (note 25)	**2,012,089**	**414,589**	**5,499,404**	**–**	**7,926,082**	**6,298,860**
	2,184,175	**544,137**	**5,649,771**	**–**	**8,378,083**	**6,727,708**

The Company

	2012 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	1-2 years RMB'000	2-5 years RMB'000	more than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Other payables and accrued expense (note 27)	140,645	–	–	–	140,645	140,645
Long-term bonds (note 25)	524,914	2,024,914	6,096,935	–	8,646,763	6,528,400
	665,559	2,024,914	6,096,935	–	8,787,408	6,669,045

(c) Interest rate risk

Cash and cash equivalents, pledged bank deposits, bank loans, other borrowings and long-term 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.

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

(c) Interest rate risk *(continued)*

The Group's interest rate risk arises primarily from bank loans, other borrowings and long-term bonds. Borrowings issued at variable rates and at fixed rates and long-term 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 long-term bonds are disclosed in notes 23, 24 and 25 respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

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

The Group

	2013		2012	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank loans	**2.80%~6.46%**	**937,334**	5.54%~7.22%	1,580,000
Other borrowings	**6.5%**	**1,495,605**	–	–
Long-term bonds	**4.20%~10.50%**	**8,987,310**	4.20%~10.50%	8,428,400
		11,420,249		10,008,400
Variable rate borrowings:				
Bank loans	**3.85%~6.77%**	**4,936,331**	5.38%~7.74%	3,219,200
Other borrowings	**3.30%~4.60%**	**133,243**	3.30%~5.15%	238,751
		5,069,574		3,457,951
Total borrowings		**16,489,823**		13,466,351
Net fixed rate borrowings as a percentage of total borrowings		**69%**		74%

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 2013, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB22,508,000 (2012: RMB18,937,000). 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 Company's bank loan (see note 23), loans from IFC (see note 24) and senior notes (see note 25), 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)			
	2013		2012	
	HKD	**USD**	HKD	USD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and cash equivalents	**3,558**	**49,358**	340	420,993
Bank loans	**(307,333)**	**–**	–	–
Loans from IFC	**–**	**(125,061)**	–	(229,660)
Senior notes	**–**	**(4,803,105)**	–	(5,028,400)
Net exposure arising from recognised assets and liabilities	**(303,775)**	**(4,878,808)**	340	(4,837,067)

The Company

	Exposure to foreign currencies (expressed in Renminbi)			
	2013		2012	
	HKD	**USD**	HKD	USD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and cash equivalents	**148**	**1,842**	136	379,549
Senior notes	**–**	**(4,803,105)**	–	(5,028,400)
Net exposure arising from recognised assets and liabilities	**148**	**(4,801,263)**	136	(4,648,851)

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

	2013		2012	
	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%**	**(485,936)**	10%	(478,847)
	(10%)	**485,936**	(10%)	478,847
Hong Kong Dollars	**10%**	**(30,378)**	10%	34
	(10%)	**30,378**	(10%)	(34)

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 2012.

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 15).

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 2013, it is estimated that an increase/decrease of 50% (2012: 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

	2013		2012	
	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%**	**1,848**	50%	2,377
	(50%)	**(1,848)**	(50%)	(2,377)

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 2012.

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

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

As a result of the adoption of the amendments to IFRS 13, *Fair value measurement*, 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 2013, 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.

2013

	The Group			
	Fair value at 31 December 2013 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**
Assets				
Available-for-sale securities:				
– Listed	**4,927**	**4,927**	**–**	**–**

2012

	The Group			
	Fair value at 31 December 2012 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Assets				
Available-for-sale securities:				
– Listed	6,338	6,338	–	–

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

(f) Fair value measurement *(continued)*

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 31 December 2012 except for the following senior notes which bears fixed interest rate of 10.50% per annum (see note 25), for which its carrying amounts and fair values are disclosed below:

	At 31 December 2013		At 31 December 2012	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Senior notes	**2,404,063**	**2,666,028**	2,514,200	2,910,187

36 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2013 not provided for in the financial statements were as follows:

	2013 RMB'000	2012 RMB'000
Authorised and contracted for		
– the acquisitions of fixed assets	**1,574,619**	2,059,905
– the acquisitions of subsidiaries	**190,220**	51,000
Authorised but not contracted for		
– the acquisitions of fixed assets	**1,278,457**	1,699,074
	3,043,296	3,809,979

36 COMMITMENTS *(continued)*

(b) At 31 December 2013, the total future minimum lease payments under non-cancellable operating lease are payable as follows:

	2013 **RMB'000**	2012 RMB'000
Within 1 year	**18,258**	18,030
After 1 year but within 2 years	**17,592**	16,621
After 2 years but within 5 years	**48,349**	48,727
After 5 years	**97,314**	115,680
	181,513	199,058

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

37 MATERIAL RELATED PARTY TRANSACTIONS

(a) During the years ended 31 December 2013 and 2012, transactions with the following parties are considered as related party transaction:

Name of party	Note	**Relationship**
Mr. Zhang Caikui	(a)	Equity holder of the ultimate holding company and director of the Company
Mr. Zhang Bin	(a)	Chairman of the Company
Mr. Dong Chengtian	(b)	Equity holder of the ultimate holding company
Mr. Yu Yuchuan	(b)	Equity holder of the ultimate holding company
Mr. Zhao Liping	(c)	Equity holder of the ultimate holding company
Mr. Zhao Yongkui	(c)	Equity holder of the ultimate holding company
Mr. Mi Jingtian	(c)	Equity holder of the ultimate holding company
Mr. Wang Yongping	(c)	Equity holder of the ultimate holding company
Mr. Li Maohuan	(c)	Equity holder of the ultimate holding company

Notes:

(a) Mr. Zhang Bin was appointed as Chairman on 18 March 2013 and Mr. Zhang Caikui has stepped down from his position as the Chairman on the same date.

(b) Mr. Dong Chengtian and Mr. Yu Yuchuan were resigned from the executive director position on 24 May 2013 and 23 August 2013, respectively.

(c) Mr. Zhao Liping, Mr. Zhao Yongkui, Mr. Mi Jingtian, Mr. Wang Yongping and Mr. Li Maohuan were resigned during the year 2013.

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) During the years ended 31 December 2013 and 2012, 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
Jinan Shanshui Group Co., Ltd.	Fellow subsidiary under common ultimate control
Jinan Shanshui Lixin Investment Development Co., Ltd. ("Lixin Investment")	Fellow subsidiary under common ultimate control
Jinan Shanshui Jianxin Investment Development Co., Ltd.	Fellow subsidiary under common ultimate control
Dongyue Packaging Co., Ltd.	Fellow subsidiary under common ultimate control
Jinan Cement Product Factory	Fellow subsidiary under common ultimate control
Jinan Cement Factory	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	2013 RMB'000	2012 RMB'000
Recurring transactions			
Sales:			
– Dong'e Shanshui	(i)	**30,506**	41,097
Purchase:			
– Dong'e Shanshui	(i)	**23,395**	2,564
Non-recurring transactions			
Repayment of advances			
– China Shanshui Investment		**20**	2
Loans to an associate and relevant interest income:			
– Dong'e Shanshui	(ii)	**3,164**	5,595
Repayment of loans to an associate and related interests by:			
– Dong'e Shanshui	(ii)	**8,177**	28,000
Loans from related parties and relevant interest expenses:			
– Lixin Investment	(iii)	**65,000**	–
Repayment of loans from related parties and related interests:			
– Lixin Investment	(iii)	**26,525**	–
Dividends from an associate:			
– Dong'e Shanshui		**43,120**	–

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 RMB60,600,000 bear interest at one-year PRC bank loan interest rate of 6.00% (2012: 6.15%). During the year ended 31 December 2013, the loan repaid by Dong'e Shanshui was RMB8,177,000.

(iii) These relate to loans and related interests from Lixin Investment. These loans with total principal of RMB65,000,000 bear interest at one-year PRC bank loan interest rate of 6.65%. During the year ended 31 December 2013, the loan repaid to LiXin Investment was RMB26,525,000.

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties of the Group:

	2013 RMB'000	2012 RMB'000
Accounts receivable due from:		
– Dong'e Shanshui	**8,820**	4,287
Advances to suppliers:		
– Dong'e Shanshui	**5**	920
Advances to customers:		
– Dong'e Shanshui	**149**	149
Other receivables due from:		
– China Shanshui Investment	**683**	703
– Property Development	**1,341**	1,341
	2,024	2,044
Other financial asset due from:		
– Dong'e Shanshui	**61,180**	66,193
Dividends receivable due from:		
– Dong'e Shanshui	**20,120**	–
Accounts payable due to:		
– Dong'e Shanshui	**29**	–
Other payable due to:		
– Dong'e Shanshui	**–**	30
– Lixin Investment	**38,475**	–
– Others	**8,170**	–
	46,645	30

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:

	2013	2012
	RMB'000	RMB'000
Salary, allowances and other benefits	**21,427**	18,773
Contributions to defined contribution retirement plans	**203**	142
	21,630	18,915

38 AMOUNT DUE FROM/TO SUBSIDIARIES

At 31 December 2013, these mainly represent cash advances to Pioneer Cement 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) Shandong Shanshui issued a three-year corporate bond of RMB1 billion to corporate investors in the PRC debenture market on 25 February 2014. The three-year corporate bond bears fixed interest rate of 6.10% per annum, and interests was paid annually.

(c) On 2 January 2014, Shanxi Shanshui, a subsidiary of the Group, entered into an equity transfer agreement with a third party for the acquisition of the 70% equity interests in Shanxi Yongzhongsheng Huanbao Jiancai Company Limited ("Shanxi Yongzhongsheng") for an aggregate consideration of RMB25,000,000. Shanxi Yongzhongsheng is located in Linfen City, Shanxi Province and is principally engaged in the production and sales of cement. The transfer was completed on 13 January 2014.

(d) On 2 January 2014, Shanxi Shanshui, a subsidiary of the Group, entered into an equity transfer agreement with a third party for the acquisition of the 70% equity interests in Shanxi Shenmu Meijian Cement Company Limited ("Shanxi Shenmu") for an aggregate consideration of RMB37,500,000. Shanxi Shenmu is located in Shenmu City, Shanxi Province and is principally engaged in the production and sales of cement. The transfer was completed on 17 January 2014.

(Expressed in Renminbi unless otherwise indicated)

40 COMPARATIVE FIGURES

Certain items in the comparative figures have been reclassified to conform with the current year's presentation to facilitate comparison.

41 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The directors consider the ultimate holding company of the Company as at 31 December 2013 to be China Shanshui Investment, which is incorporated in Hong Kong, China. This entity does not produce financial statements available for public use.

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these financial statements, the IASB has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 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 IFRS 10, *Consolidated financial statements*, IFRS 12, *Disclosure of interests in other entities* and IAS 27 *Separate financial statements "Investment entities"*	1 January 2014
Amendments to IAS 32, *offsetting financial assets and financial liabilities*	1 January 2014
Amendments to IAS 36, *Impairment of assets – Recoverable amount disclosure for non-financial assets*	1 January 2014
Amendments to IAS 39, *Financial instruments: Recognition and measurement "Novation of derivatives and continuation of hedge accounting"*	1 January 2014
IFRIC 21, *Levies*	1 January 2014
IFRS 9, *Financial instruments*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

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