SUNNSY

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 691

2009 Annual Report

Contents

Definitions

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

"Company" or "Shanshui Cement"	China Shanshui Cement Group Limited
"Group" or "Shanshui Group"	the Company and its subsidiaries
"Reporting Period"	1 January 2009 to 31 December 2009
"Directors"	Directors of the Company
"Board"	Board of Directors of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Rules of the Stock Exchange"	the Rules Governing the Listing of Securities on the Stock Exchange
"SFO"	Securities and Futures Ordinance (Cap. 571) (as amended, supplemented or otherwise modified from time to time)
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Shares"	the ordinary shares in the share capital of the Company with a nominal value of US$0.01 each
"Shareholder(s)"	holder(s) of the Share(s)
"Articles of Association"	the articles of association of the Company
"clinker"	a semi-finished product in the cement production process
"RMB"	Renminbi
"PRC"	The People's Republic of China
"National Bureau of Statistics of China"	The National Bureau of Statistics of the People's Republic of China
"MIIT"	the Ministry of Industry and Information Technology of the PRC

(I) Company Profile

1. BOARD OF DIRECTORS

Executive Directors

ZHANG Caikui (Chairman)
DONG Chengtian
YU Yuchuan

Note: LI Yanmin was an executive director of the Company during the Reporting Period. Mr. Li resigned as a director of the Company with effect from 5 March 2010.

Non-Executive Directors

Homer SUN
JIAO Shuge (alias JIAO Zhen)

Independent Non-Executive Directors

SUN Jianguo
WANG Yanmou
WANG Jian

Audit Committee

WANG Yanmou (Chairman)
SUN Jianguo
WANG Jian

Remuneration Committee

SUN Jianguo (Chairman)
WANG Yanmou
WANG Jian

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

(I) Company Profile

(3)	Principal Places of Business		
	Principal Place of Business in China	:	Sunnsy Industrial Park, Gushan Town, Changqing District, Jinan, Shandong, China
	Principal Place of Business in Hong Kong	:	Room 2609, 26/F, Tower 2, Lippo Centre, 89 Queensway, Admiralty, Hong Kong
(4)	Contact details of the Company		
	Telephone	:	+86-531-88360218 +852-25257918
	Fax	:	+86-531-88360218 +852-25257998
	E-mail address	:	ir@shanshuigroup.com
(5)	Website	:	www.shanshuigroup.com
(6)	Authorised Representatives	:	ZHANG Caikui, ZHANG Bin
(7)	Alternate Authorised Representative	:	LI Cheung Hung
(8)	Joint Company Secretaries	:	ZHANG Bin, LI Cheung Hung – ACIS, ACS, FCPA, FAIA
(9)	Qualified Accountant	:	LI Cheung Hung – ACIS, ACS, FCPA, FAIA
(10)	Principal Bankers	:	China Merchants Bank China Construction Bank Corporation
(11)	Listing Date	:	4 July 2008
(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)	Compliance Adviser	: Guotai Junan Capital Limited
(18)	Legal Advisers	
	as to PRC laws	: Commerce & Finance Law Offices
	as to Hong Kong laws	: Norton Rose Hong Kong
(19)	Auditor	: KPMG

(II) Corporate Information

Shanshui Group is the largest cement producer in Shandong and Liaoning Provinces of China. Our dominant market position and superior product quality provide us pricing power and help us attract key customers. Leveraging on the government's economic stimulus plan, we have taken advantage of the considerable growth opportunities in the construction and infrastructure sectors within our target markets. As one of the 12 large scale cement enterprises receiving key support from the government, the Group has actively carried out market consolidation through acquisitions in Shandong and Liaoning Provinces, achieving rapid growth and fortifying our strength in the market. 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. Leveraging on years of production know-how, we have gained a competitive cost advantage in terms of both production cost and capacity expansion expertise.

On 4 July 2008, with its outstanding operating results and growth prospects, Shanshui Group was successfully listed on the Hong Kong Stock Exchange. The offering was significantly over-subscribed, and the over-allotment option was fully exercised. Following the listing, the "Shanshui Cement" share price rose continuously, and demonstrated defensive characteristics during the financial crisis. The Shanshui Cement share price stayed above its offer price until early September 2008. Among the 21 companies newly listed on the Hong Kong Stock Exchange in 2008, Shanshui Cement was one of only two companies that achieved this.

In December 2008, Shanshui Cement won the Awards for Achievement 2008 for "Best Mid-Cap Equity Deal" from "Finance Asia", one of the most influential financial magazines in Asia.

In September 2009, Shanshui Cement was included into the Hang Seng Freefloat Composite Index Series, marking the market's recognition of the Group's performance, including its positioning, business and financial strength. The inclusion of the Group in this index series further improves the Group's reputation and position in the international capital markets.

1. KEY DATA

(1) Key financial data

(Unit:RMB'000)

	For the 12 months ended 31 December		
	2009	2008	2007
Revenue	**8,727,626**	7,500,761	4,144,552
Gross profit	**1,780,475**	1,586,448	771,681
Gross profit margin	**20.4%**	21.2%	18.6%
Profit from operations	**1,250,866**	1,061,020	473,215
Profit margin from operations	**14.3%**	14.1%	11.4%
Profit before tax	**941,281**	712,995	263,069
Pre-tax profit margin	**10.8%**	9.5%	6.3%
Profit attributable to equity shareholders of the Company	**701,557**	539,357	211,948
Basic earnings per share (RMB)	**0.25**	0.23	0.11
Net cash generated from operating activities	**1,025,697**	1,037,261	323,898

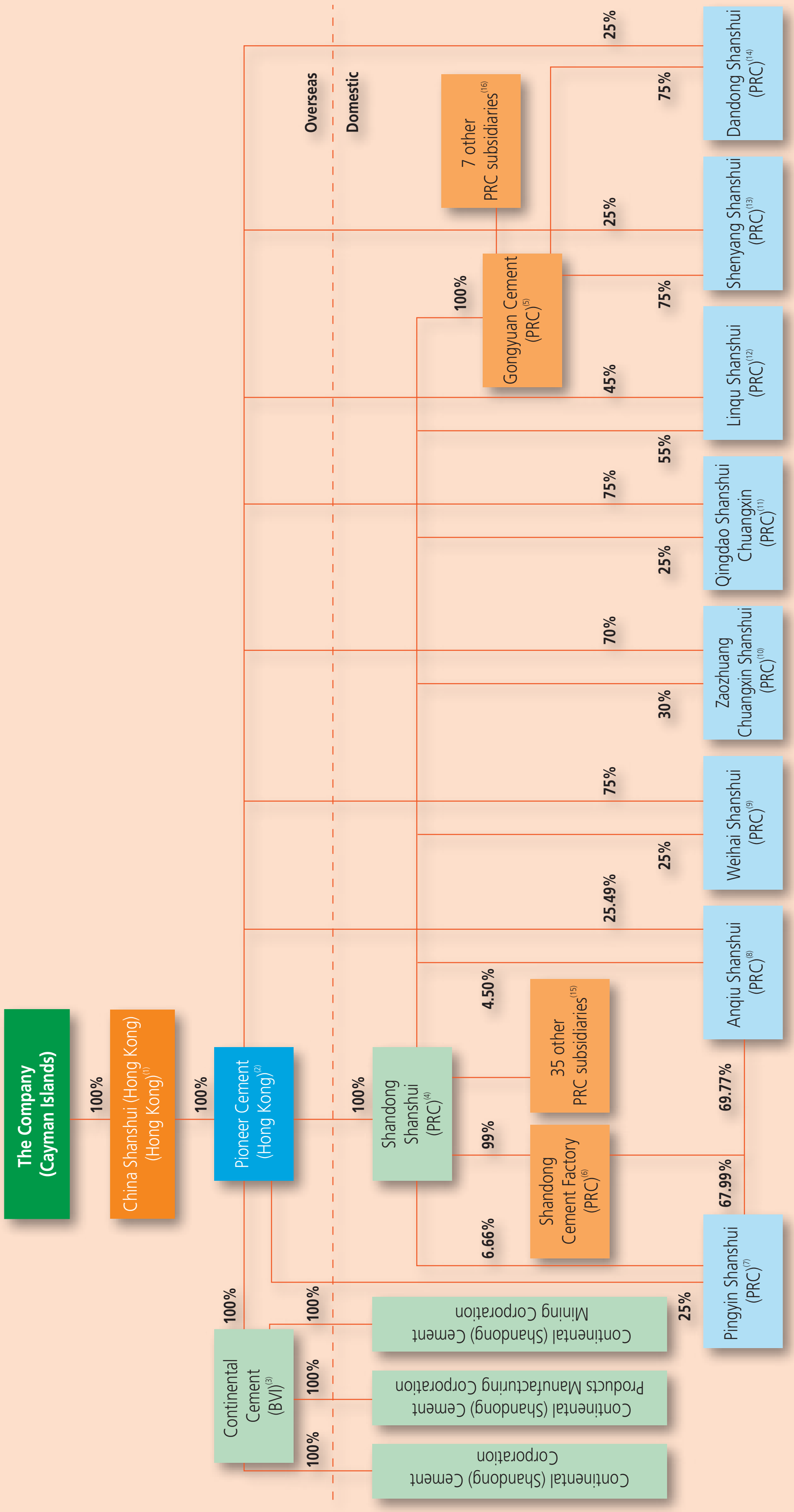
	As at 31 December		
	2009	2008	2007
Total assets	**14,609,163**	12,772,617	10,281,869
Total liability	**9,380,035**	8,167,068	7,708,891
Net gearing ratio	**48.5%**	43.6%	59.1%

(2) Key business data

	2009	2008	2007
Sales volume of cement ('000 tonnes)	**29,388**	25,112	17,235
Sales volume of clinker ('000 tonnes)	**8,422**	5,466	4,510
Unit selling price of cement (RMB/tonne)	**224.9**	235.2	183.2
Unit selling price of clinker (RMB/tonne)	**187.5**	213.9	166.3

(II) Corporate Information

2. DIAGRAM OF SHAREHOLDING STRUCTURE OF THE GROUP



Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(II) Corporate Information

(15) The details of the 35 subsidiaries directly or indirectly owned by Shandong Shanshui are as follows (except for "Gongyuan Cement" and its wholly-owned subsidiaries):

Name of subsidiary	Shareholders
Liaocheng Shanshui Cement Company Limited (聊城山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Dongying Shanshui Cement Company Limited (東營山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Changle Shanshui Cement Company Limited (昌樂山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Binzhou Shanshui Cement Company Limited (濱州山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Gucheng Shanshui Cement Company Limited (故城山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Jinan Shanshui Cement Mechanics Company Limited (濟南山水水泥機械有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Jinan Shanshui Wuliugang Company Limited (濟南山水物流港有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Zibo Shuangfeng Shanshui Cement Company Limited (淄博雙鳳山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Shandong Shanshui Cement Industrial Design Development Company Limited(1) (山東山水水泥工業設計開發有限公司)	Shandong Shanshui holding 90% of the equity interest; Jinan Shanshui holding 10% of the equity interest
Zibo Shanshui Cement Company Limited (淄博山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Juye Shanshui Cement Company Limited (巨野山水水泥有限公司)	Shandong Shanshui holding 96% of the equity interest; Pingyin Shanshui holding 4% of the equity interest
Jinan Shiji Chuangxin Cement Company Limited (濟南世紀創新水泥有限公司)	Shandong Shanshui holding 95.18% of the equity interest
Weifang Shanshui Cement Company Limited (濰坊山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest

Name of subsidiary	Shareholders
Weifang Shanshui Packaging Products Company Limited (濰坊山水包裝製成品有限公司)	Weifang Shanshui holding 90% of the equity interest; Changle Shanshui holding 10% of the equity interest
Yantai Shanshui Cement Company Limited (煙台山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Zaozhuang Shanshui Cement Company Limited (棗莊山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Yishui Shanshui Cement Company Limited (沂水山水水泥有限公司)	Shandong Shanshui holding 99.38% of the equity interest; Jinan Shanshui holding 0.62% of the equity interest
Liaoyang Qianshan Cement Company Limited ("Qianshan Cement") (遼陽千山水泥有限公司)	Shandong Shanshui holding 73% of the equity interest; Jiang Ming (姜明) holding 25.9% of the equity interest and Wang Yinlong (王蔭龍) holding 1.1% of the equity interest
Dalian Shanshui Cement Company Limited (大連山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Yishui Chuangxin Shanshui Cement Company Limited (沂水創新山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Qingdao Shanshui Jianxin Cement Company Limited (青島山水建新水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Weishan Shanshui Cement Company Limited (微山山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Caoxian Shanshui Cement Company Limited (曹縣山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Shanxian Shanshui Cement Company Limited (單縣山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Weifang Binhai Shanshui Cement Company Limited (濰坊濱海山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Panjin Shanshui Cement Company Limited (盤錦山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest

(II) Corporate Information

Name of subsidiary	Shareholders
Tianjin Shanshui Cement Company Limited (天津山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Cangzhou Shanshui Cement Company Limited (滄州山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Bozhou Shanshui Cement Company Limited (亳州山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Bengbu Shanshui Cement Company Limited (蚌埠山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Jining Shanshui Cement Company Limited ("Jining Shanshui") (濟寧山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Qingdao Shanshui Hengtai Cement Company Limited ("Qingdao Hengtai") (青島山水恒泰水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Yingkou Shanshui Cement Company Limited ("Yingkou Shanshui") (營口山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Shanxi Shanshui Cement Company Limited (山西山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Alukeerqinqi Shanshui Cement Company Limited (阿魯科爾沁旗山水水泥有限公司)	Shandong Shanshui holding 85% of the equity interest; Lu Junjie (盧俊傑) holding 15% of the equity interest

Note: (1) Shandong Shanshui Cement Industrial Design Development Company Limited was formerly known as Jinan Shanshui Cement Technology Development Company Limited (濟南山水水泥技術開發有限公司). The company completed name change and capital increase in 2008.

(16) The details of Gongyuan Cement and its wholly-owned subsidiaries are as follows:

Name of subsidiary	Shareholders
Tongliao Shanshui Gongyuan Cement Company Limited (通遼山水工源水泥有限公司)	Gongyuan Cement holding 100% of the equity interest
Benxi Gongyuan Clinker Sales Company Limited[2] (本溪工源熟料銷售有限公司)	Gongyuan Cement holding 100% of the equity interest

Name of subsidiary	Shareholders
Benxi Shanshui Gongyuan Transportation Company Limited ("Benxi Transportation") (本溪山水工源汽車運輸有限公司)	Gongyuan Cement holding 100% of the equity interest
Benxi Shanshui Mechanics and Electronic Engineering Company Limited (本溪山水機電工程有限公司)	Gongyuan Cement holding 100% of the equity interest
Benxi Shanshui Gongyuan Packaging Products Company Limited (本溪山水工源包裝製成品有限公司)	Gongyuan Cement holding 100% of the equity interest
Benxi Shanshui Mining Co., Ltd. (本溪山水礦業有限公司)	Gongyuan Cement holding 100% of the equity interest
Benxi Yixin Tyre Repair Company Limited (本溪市易新輪胎翻新有限公司)	Benxi Transportation holding 100% of the equity interest

Note: (2) Benxi Gongyuan Clinker Sales Company Limited underwent de-registration in June 2009.

3. DISTRIBUTION OF PRODUCTION FACILITIES AND CAPACITY

The Group's production facilities are principally located in Shandong Province and Liaoning 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. The Group relies on a more extended transportation radius for clinker rather than for limestone or cement. 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 2009, The Company had a total production capacity of 48.34 million tonnes of cement and 25.19 million tonnes of clinker, representing an increase of 12.50 million tonnes of cement and 5.15 million tonnes of clinker over the year ended 31 December 2008. Separately, the total capacity of cement and clinker in Shandong Province reached 37.74 million tonnes and 19.49 million tones respectively, while the total capacity of cement and clinker in Liaoning Province reached 10.60 million tonnes and 5.70 million tones respectively.

(III) Financial Data Summary

The financial data for the year ended 31 December 2009

CONSOLIDATED INCOME STATEMENT

(Unit: RMB'000, unless stated otherwise)

	2009	2008	2007
Revenue	**8,727,626**	7,500,761	4,144,552
Profit from operations	**1,250,866**	1,061,020	473,215
Net profit	**714,044**	549,211	214,579
Attributable to:			
Equity shareholders of the Company	**701,557**	539,357	211,948
Minority interests	**12,487**	9,854	2,631
Basic earnings per share (RMB)	**0.25**	0.23	0.11
Diluted earnings per share (RMB)	**0.25**	0.23	0.10

CONSOLIDATED BALANCE SHEET

(Unit: RMB'000)

	2009	2008	2007
Non-current assets	**11,302,282**	9,666,557	7,712,680
Current assets	**3,306,881**	3,106,060	2,569,189
Total assets	**14,609,163**	12,772,617	10,281,869
Total liabilities	**9,380,035**	8,167,068	7,708,891
Equity attributable to equity shareholders of the Company	**5,160,193**	4,560,571	2,531,493
Minority interests	**68,935**	44,978	41,485
Non-current liabilities	**4,410,101**	2,981,491	2,662,824
Current liabilities	**4,969,934**	5,185,577	5,046,067
Total equity and liabilities	**14,609,163**	12,772,617	10,281,869

CONSOLIDATED CASH FLOW STATEMENT

(Unit: RMB'000)

	2009	2008	2007
Net cash generated from operating activities	**1,025,697**	1,037,261	323,898
Net cash used in investing activities	**(2,136,401)**	(2,404,513)	(2,093,526)
Net cash generated from financing activities	**748,631**	1,912,808	2,168,204
Net (decrease)/increase in cash and cash equivalents	**(362,073)**	545,556	398,576

(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 2009, 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 2008, 2,700,986,000 Shares were issued by the Company.

As at 30 April 2009, CDH Cement Limited, MS Cement Limited and MS Cement II Limited exercised the conversion rights attached to the Convertible Notes in full. As a result, 23,611,800 Shares, 58,276,800 Shares and 20,429,400 Shares were issued to the CDH Cement Limited, MS Cement Limited and MS Cement II Limited respectively. Please refer to paragraph (IV)5 headed "Convertible Notes" below for more information.

As of 31 December 2009, the Company had a total issued capital of 2,803,304,000 Shares.

2. SUMMARY OF SHARE TRADING PRICES IN 2009

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	2.15	1.73
February	2.64	2.09
March	3.03	2.10
April	4.49	2.71
May	5.20	3.98
June	5.50	4.61
July	5.49	4.53
August	5.46	4.40
September	5.95	4.30
October	6.31	5.38
November	5.90	4.98
December	6.08	5.02

(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 2009, 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[2]
China Shanshui Investment Company Limited	871,736,400(L)[3]	Beneficial owner	31.10%
Morgan Stanley Private Equity Asia, LP	222,315,971(L)	Interest in controlled corporations	7.93%
Morgan Stanley Private Equity Asia, L.L.C.	246,670,280(L)[4]	Interest in controlled corporations	8.80%
Morgan Stanley Private Equity Asia, Inc	246,670,280(L)[4]	Interest in controlled corporations	8.80%
MS Cement IV Limited[5]	152,585,282(L)	Beneficial owner	5.44%
Morgan Stanley Private Equity Asia III, LP[5]	152,585,282(L)	Interest in controlled corporations	5.44%
Morgan Stanley Private Equity Asia III, L.L.C.[5]	152,585,282(L)	Interest in controlled corporations	5.44%
Morgan Stanley Private Equity Asia III, Inc[5]	152,585,282(L)	Interest in controlled corporations	5.44%
Morgan Stanley Private Equity Holdings (Cayman) Limited[5]	152,585,282(L)	Interest in controlled corporations	5.44%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Limited[5]	152,585,282(L)	Interest in controlled corporations	5.44%

Name of shareholder	Number of Ordinary Shares interested[1]	Nature of interests	Percentage of Shares in issue[2]
CCBI Cement Private Equity Limited[6]	217,828,084(L)	Beneficial owner	7.77%
CCB International Asset Management Limited[6]	217,828,084(L)	Interest in controlled corporations	7.77%
CCB International Assets Management (Cayman) Limited[6]	217,828,084(L)	Interest in controlled corporations	7.77%
CCB International (Holdings) Limited[6]	217,828,084(L)	Interest in controlled corporations	7.77%
CCB Financial Holdings Limited[6]	217,828,084(L)	Interest in controlled corporations	7.77%
CCB International Group Holdings Limited[6]	217,828,084(L)	Interest in controlled corporations	7.77%
China Construction Bank Corporation[6]	217,828,084(L)	Interest in controlled corporations	7.77%
Central Huijin Investment Limited[6]	217,828,084(L)	Interest in controlled corporations	7.77%
The Capital Group Companies, Inc[7]	201,119,000(L)	Beneficial owner/ Interest in controlled corporations	7.17%
JP Morgan Chase & Co.	164,896,094(L)[8] 17,000(L)(S)[9]	Beneficial owner/ Interest in controlled corporations	5.88% 0.001%

(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 and the letter "S" denotes a short position in such Shares.

(2) Without taking into account the dilution effect of the not yet converted Convertible Notes. That is, without taking into account 12,646,200 shares which International Finance Corporation is entitled to but has not yet converted pursuant to the Convertible Notes issued by the Company on 21 September 2007 to International Finance Corporation, which are convertible into Shares subject to the terms and conditions therein contained (the "Convertible Notes").

(3) On 28 September 2009, China Shanshui Investment Company Limited ("Shanshui Investment") and Wing Lung Bank Limited ("Wing Lung Bank") entered into a one-year-term loan agreement, pursuant to which, Shanshui Investment pledged 240,000,000 Shares of the Company to Wing Lung Bank. An additional 60,000,000 Shares were pledged to Wing Lung Bank on 1 February 2010. In compliance with all terms of the loan agreement, Shanshui Investment is still entitled to all rights attaching to such Shares.

On 28 September 2009, Shanshui Investment and UOB Kay Hian Finance Limited ("UOB Kay Hian") entered into a one-year-term loan agreement, pursuant to which, Shanshui Investment pledged 117,000,000 Shares of the Company to UOB Kay Hian and such Shares were held under the name of UOB Kay Hian through Hong Kong Stock Exchange's electronic trading platform. An additional 23,000,000 Shares were pledged to UOB Kay Hian on 9 February 2010. In compliance with all terms of the loan agreement, Shanshui Investment is still entitled to all rights attaching to such Shares.

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

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

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

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

(7) As stated in the form of disclosure of shareholder's interests submitted by The Capital Group Companies, Inc. on 23 December 2009 (the date of the relevant event set out in the form was 21 December 2009), these Shares were held via certain subsidiaries of The Capital Group Companies, Inc..

(8) As stated in the form of disclosure of shareholder's interests submitted by JP Morgan Chase & Co. on 29 December 2009 (the date of the relevant event set out in the form was 23 December 2009), these Shares were held via certain subsidiaries of JP Morgan Chase & Co. of which 160,305,094 Shares were shares available for lending.

(9) As stated in the form of disclosure of shareholder's interests submitted by JP Morgan Chase & Co. on 29 December 2009 (the date of the relevant event set out in the form was 23 December 2009), these Shares were held via certain subsidiaries of JP Morgan Chase & Co..

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

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

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

As at 31 December 2009, 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	Class of shares	Number of shares held Corporate interests	Total	Percentage of total share capital in issue as at 31 December 2009
Zhang Caikui	Ordinary share	871,736,400(L)[(1)]	871,736,400	31.10%
		23,828,084(S)[(2)]		0.85%

Notes:

(1) The 871,736,400 Shares were held by Shanshui Investment. Shanshui Investment is held as to approximately 65.55% by Mr. Zhang Caikui as a discretionary trustee and one of the beneficiaries of the Zhang Trust.

As mentioned in the section "Shareholdings of Substantial Shareholders" above, included in these 871,736,400 Shares are 300,000,000 Shares, 140,000,000 Shares and 194,000,000 Shares pledged to Wing Lung Bank, UOB Kay Hian and CCBI Cement respectively.

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

Save as disclosed above, as at the end of the Reporting Period, none of the Directors or the Chief Executives of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations, which would be required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Division 7 and 8 of Part XV of the SFO, or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code contained in the Listing Rules.

(3) Public float

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

4. PURCHASE, SALE AND REDEMPTION OF LISTED SHARES

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

5. CONVERTIBLE NOTES

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

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

6. PRE-EMPTIVE RIGHTS

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

7. TRANSACTIONS IN RELATION TO ITS OWN SECURITIES

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

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

1. BASIC INFORMATION ON DIRECTORS AND SENIOR MANAGEMENT

Name	Position	Gender	Age	Term of Office (Subject to renewal)
ZHANG Caikui (張才奎)	Chairman, Executive Director and General Manager	M	59	1 July 2008-30 June 2011
LI Yanmin (李延民)*	Executive Director, Deputy General Manager	M	61	1 July 2008-30 June 2011
DONG Chengtian (董承田)	Executive Director, Deputy General Manager	M	52	1 July 2008-30 June 2011
YU Yuchuan (于玉川)	Executive Director, Deputy General Manager and Chief Engineer	M	51	1 July 2008-30 June 2011
Homer SUN (孫弘)	Non-Executive Director	M	38	1 July 2008-30 June 2011
JIAO Shuge (焦樹閣)	Non-Executive Director	M	44	1 July 2008-30 June 2011
SUN Jianguo (孫建國)	Independent Non-Executive Director	M	55	1 July 2008-30 June 2011
WANG Yanmou (王燕謀)	Independent Non-Executive Director	M	77	1 July 2008-30 June 2011
WANG Jian (王堅)	Independent Non-Executive Director	M	54	1 July 2008-30 June 2011
ZHANG Bin (張斌)	Joint Company Secretary, Deputy General Manager	M	31	1 July 2008-30 June 2011
LI Cheung Hung (李長虹)	Joint Company Secretary, Qualified Accountant	M	59	1 July 2008-30 June 2011

* LI Yanmin has resigned as a director of the Company and all other positions in the Group with effect from 5 March 2010.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. ZHANG Caikui (張才奎), aged 59, is our Chairman, Executive Director, General Manager and founder of our Group, primarily responsible for the overall strategic planning and management of our Group. Mr. Zhang has over 36 years of experience in the cement industry and was appointed the head of Shandong Cement Plant (the predecessor of Shandong Cement Factory Co., Ltd.) in 1986. He has been the Executive Director and General Manager of Shandong Shanshui since August 2001. Over the years, Mr. Zhang has held a number of honourary titles, including Head of the Jinan Municipal Bureau (Association) of Building Materials (the "Jinan Building Materials Bureau") from November 1995 to August 2004; Vice President of the China Cement Association since October 2002 and Routine Director of the China Entrepreneur Association since September 2003. He was the Jinan deputy of the Tenth and Eleventh National People's Congress. 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, a member of our senior management and, one of our Joint Company Secretaries.

Mr. LI Yanmin (李延民), aged 61, is our Executive Director and Deputy General Manager, primarily responsible for assisting Mr. Zhang Caikui in the overall strategic planning of our Group. He has over 26 years of experience in the cement industry, and joined Shandong Cement Plant in 1980, becoming deputy head in 1987. He has been Deputy General Manager of Shandong Shanshui since August 2001. Over the years, Mr. Li has held a number of honourary titles, including Deputy Head of the Jinan Building Materials Bureau from November 1997 to August 2004, and was named as a National Outstanding Entrepreneur in the Construction Materials Industry. Mr. Li graduated from Binzhou Teachers Training College in 1980.

Mr. DONG Chengtian (董承田), aged 52, is our Executive Director and Deputy General Manager, primarily responsible for our Group's strategic planning and management in Liaoning Province. Mr. Dong has over 21 years of experience in the cement industry and joined Shandong Cement Plant in 1982. Mr. Dong was appointed Chief Engineer and Deputy Plant Manager of Shandong Cement Factory in 1996 and also served as head of research and development department of Shandong Cement Factory in 1997. He has been Deputy General Manager of Shandong Shanshui since 2001 and is primarily responsible for production management of our Group. In September 2007, Mr. Dong was assigned responsibility for our Group's strategic planning and management in Liaoning Province. Mr. Dong has also held the honourary title of Deputy Head of the Jinan Building Materials Bureau from March 2000 to August 2004. Mr. Dong graduated from Shanghai Tongji University in January 1982 with a Bachelor's degree in Cement Technologies.

Mr. YU Yuchuan (于玉川), aged 51, is our Executive Director, Deputy General Manager and Chief Engineer, primarily responsible for production management. He has over 21 years of experience in cement technology and engineering. Mr. Yu joined Shandong Cement Plant in 1983, and was appointed Chief Engineer in 1995. He has been Deputy General Manager and Chief Engineer of Shandong Shanshui since August 2001. Mr. Yu is currently Vice President of the New Type Dry-Process Cement Association (a division under the Chinese Cement Association) and a visiting professor at the University of Jinan.

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

Non-Executive Directors

Mr. Homer SUN (孫弘), aged 38, is our Non-Executive Director. He joined our Group on 16 October 2006. He is currently a Managing Director of the Private Equity Division of Morgan Stanley Asia Limited. Mr. Sun has been with Morgan Stanley since April 2000, and worked on mergers and acquisitions in Greater China in the Investment Banking Division prior to joining the Private Equity Division of Morgan Stanley. From September 1996 to March 2000, Mr. Sun was a corporate attorney with Simpson Thacher & Bartlett in New York and Hong Kong. Mr. Sun received a B.S.E. in Chemical Engineering, magna cum laude, from the University of Michigan in 1993 and a J.D., cum laude, from the University of Michigan Law School in 1996.

Mr. JIAO Shuge (alias JIAO Zhen) (焦樹閣), aged 44, is our Non-Executive Director. He joined our Group on 30 November 2005. He is currently a Managing Director of CDH China Fund L.P., and is a Non-Executive Director of China Yurun Food Group Company Limited, a company listed on the Hong Kong Stock Exchange (stock code 1068) and China Mengniu Dairy Company Limited, a company listed on the Hong Kong Stock Exchange (stock code 2319). From December 1995 to August 2002, Mr. Jiao was Deputy General Manager of the direct investment department of China International Capital Corporation Limited. From September 1989 to January 1995, he was a researcher with the Beijing Information and Control Research Institute. In addition to directorships in listed companies, Mr. Jiao has also been a director of various private companies. Mr. Jiao received a Bachelor's degree in Mathematics from Shandong University in 1986 and a Master's degree in Engineering from the Ministry of Space Industry Institute in 1989.

Independent Non-Executive Directors

Mr. SUN Jianguo (孫建國), aged 55, is our Independent Non-Executive Director. He is currently the Chairman of Shandong Construction and Real Estate Company Limited. In 1996, Mr. Sun was Deputy Head of Jinan Municipal Construction Committee and General Manager of Jinan Urban Construction, Investment and Development Corporation. He was also appointed General Manager of Shandong Shengli Company Limited in 1998.

Mr. WANG Yanmou (王燕謀), aged 77, is our Independent Non-Executive Director. Mr. Wang is currently an independent Non-Executive Director of Wuhu Conch Profiles and Science Company Limited, a company listed on the Shenzhen Stock Exchange (stock code 619) and Zhejiang Glass Company Limited, a company listed on the Hong Kong Stock Exchange (stock code 739). He is also on the Supervisory Board of Anhui Conch Cement Company Limited, a company listed on both the Hong Kong Stock Exchange (stock code 914) and the Shanghai Stock Exchange (stock code 600585) and a consultant of China International Construction Consulting Company and China Investment Association. Mr. Wang has been the Director of Zhejiang Glass Company Limited since October 2001. From November 1981 to April 1982, Mr. Wang was Head of Chinese Building Materials Science Research Institute and Head of National Building Materials Industry Bureau from February 1982 to May 1994. He was also Honourary President of the China Building Material Industry Association (now known as China Building Material Council) from April 2001 to October 2007. From May 1997 to May 2003, Mr. Wang served on the board of directors of Anhui Conch Cement Company Limited as an Independent Non-executive Director.

Mr. WANG Jian (王堅), aged 54, is our Independent Non-Executive Director. 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 (stock code 407), or Shandong Shengli, a company listed on the Shenzhen Stock Exchange. From 2000 to 2003, he was the Deputy General Manager of Shandong Shengli. Mr. Wang left Shandong Shengli and joined a private company, Qilu Real Estate Company Limited, in May 2003.

Senior Management

Mr. ZHAO Yongkui (趙永魁), aged 45, is our Deputy General Manager and Chief Financial Officer, primarily responsible for overseeing the accounting and finance aspects of our Group's operations and is in charge of our Group's finance department. Mr Zhao has over 28 years of experience in accounting and gained his experience from working in the cement industry and managing the finance of cement companies. Mr. Zhao joined Shandong Cement Plant as an accountant in July 1984. He was the Deputy General Accountant and Assistant to the Head of the Shandong Cement Plant in December 1990. In December 2001, he was appointed the Assistant to the General Manager and the Head of the finance department of our Group. In November 2005, Mr. Zhao was appointed Deputy General Manager of our Group. Mr. Zhao qualified as a Senior Accountant in 2003. Mr. Zhao graduated from the Shanghai Institute of Building Materials in July 1984.

Mr. LI Maohuan (李茂桓), aged 61, is our Deputy General Manager, primarily responsible for the purchase of fuel for our Group's production. Mr. Li has over 41 years of experience in the building materials industry and gained his experience from working at and managing companies in this industry. Mr. Li started working at Jinan Cement Products Factory ("Jinan Cement") in July 1968 and was appointed as the Head of Jinan Cement Products Factory in September 1976. Mr. Li has been the Deputy General Manager of Shandong Shanshui since August 2001. Besides, he was the Deputy Head of Jinan Building Materials Bureau from August 1988 to August 2004. Mr. Li graduated from the Party's School of Shandong Province with a Master's degree in Management in December 1996.

Mr. ZHAO Liping (趙利平), aged 49, is our Deputy General Manager, primarily responsible for the sale of cement and clinker in our Group. He has 29 years of experience in the cement industry and gained his experience from working in the industry and managing cement companies. He joined Shandong Cement Plant in July 1980 as an engineer. He was appointed as the Deputy Head and the assistant to the Head of Shandong Cement Plant in June 1990. In December 2001, he was appointed as the Assistant to the General Manager and the General Manager of the sales unit of Shandong Shanshui. In July 2004, Mr. Zhao was appointed as the Deputy General Manager of Shandong Shanshui. He graduated from Shandong Jianshe Industry School in July 1980 with a Bachelor's degree.

Mr. GAO Zhenwu (高振武), aged 59, is our Deputy General Manager, primarily responsible for human resources management of our Group. Mr. Gao has 39 years of experience in the building materials industry and gained his experience from managing several companies in the industry. Mr. Gao joined our Group in November 1997 and was appointed as the Deputy General Manager of Shandong Shanshui in August 2001. Outside of our Group, from 1988 to 2004, he was the Director of the Jinan Building Materials Bureau. Mr. Gao graduated from the Party's School of Shandong Province in December 1997.

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

Mr. MI Jingtian (宓敬田), aged 48, is our Deputy General Manager, primarily responsible for assisting Mr. DONG Chengtian in managing the cement business in Liaoning Province. Mr. Mi has 29 years of experience in the building materials industry and gained his experience from managing several companies in the industry. Mr. Mi joined Shandong Shanshui in December 2001 as the assistant to the General Manager. In February 2004, he was appointed the Assistant to the General Manager, Deputy Secretary of Party branch of the sales department and the Deputy Manager. In August 2007, he was appointed Deputy General Manager of Shandong Shanshui and Deputy General Manager of the sales unit of Shandong Shanshui. Mr. Mi graduated from the Party's School of Jinan in June 1994 with a vocational degree.

Mr. ZHANG Bin (張斌), aged 31, is our Deputy General Manager and the son of Mr. Zhang Caikui, our Chairman, Executive Director, General Manager and founder, primarily responsible for our Group's preparation for the Listing and disclosure of information of listed companies and investor relations, in charge of the Department of Securities Affairs. Mr. Zhang joined our Group in March 2006 and previously worked at Sinoma International Engineering Company Limited from December 2004 to March 2006. Mr. Zhang graduated from Shandong University of Science and Technology in July 2003. He was awarded a master degree by the Business Administration Faculty of Nankai University in September 2008.

Mr. CHEN Zhongsheng (陳仲聖), aged 39, is our Deputy General Manager, primarily responsible for the technological and engineering aspects of our Group's operations. Mr. Chen has 15 years of experience in the cement industry and gained his experience from working in and managing several cement companies. Mr. Chen joined Shandong Cement Plant in August 1994 and has been responsible for the technological and engineering aspects of our Group's operations as the Deputy Chief Engineer and the Deputy Head of the technology centre of our Group. He was appointed the Deputy General Manager of Shandong Shanshui in November 2007. Mr. Chen has, since 2000, published a number of academic papers in national journals such as Cement Engineering Journal. He was also appointed the Vice President of the Professional Cement and Concrete Division of the Shandong Silicate Association in March 2007. Mr. Chen graduated from the Shandong Building Materials Technical School with a Bachelor's degree in Silicate Engineering in July 1994.

Joint Company Secretaries and Qualified Accountant

Mr. LI Cheung Hung (李長虹), aged 59, is one of our Joint Company Secretaries and Qualified Accountant. Mr. Li is ordinarily resident in Hong Kong and joined our Group in January 2006. Mr. Li is employed by us on a full-time basis and is a member of our senior management in accordance with Rule 3.24 of the Listing Rules. Mr. Li has over 20 years of experience in accounting and finance. Prior to joining our Group, Mr. Li held various positions with companies and listed companies in Hong Kong, such as subsidiaries of Royal Dutch Shell Group in the PRC and Hong Kong, Neo-Neon Holdings Limited and Top Form International Limited. Mr. Li holds a Master's degree in Business Administration jointly offered by the business schools of the University of Manchester and the University of Wales. Mr. Li is a fellow member of both The Hong Kong Institute of Certified Public Accountants and the Association of International Accountants. He is also an associate of both the Institute of Chartered Secretaries & Administrators and The Hong Kong Institute of Chartered Secretaries.

Mr. ZHANG Bin (張斌), aged 31, is one of our Joint Company Secretaries. His biographical details are set out above under the paragraph headed "Senior Management".

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

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

Pursuant to Clause 16.18 of the articles of association, Mr. ZHANG Caikui, Mr. JIAO Shuge and Mr. WANG Jian retired as directors by rotation at the 2008 annual general meeting held on 5 June 2009, and all of them have been re-elected as directors of the Company thereat.

As at 29 December 2009, the Board of Directors received the resignation letter from LI Yanmin by reason of his retirement. As stated in the director's service contract signed by him with the Company on 14 June 2008, the Company shall be given at least three month's notice in writing before the resignation could be effected, therefore, his resignation did not come into force. Subsequently, the Board of Directors discussed and agreed to shorten the abovementioned three month's notice and Mr. LI Yanmin had resigned as a director, deputy general manager and other positions in the Group with effect from 5 March 2010, details of his resignation are set out in the announcement of the Company dated 5 March 2010.

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

Each of ZHANG Caikui, LI Yanmin, DONG Chengtian and YU Yuchuan, all being Executive Directors, has entered into a service contract with the Company on 14 June 2008 for a term of three years commencing on 1 July 2008, subject to termination before expiry by either party giving not less than three months' notice in writing to the other, provided that such termination shall not occur during the first 12 months of the contract. Under these service contracts, each of ZHANG Caikui, LI Yanmin, DONG Chengtian and YU Yuchuan will receive an annual salary (including any director's fees) of RMB5 million, RMB3.6 million, RMB3 million and RMB2.8 million, respectively (such annual salary is subject to annual review by our Board and the Remuneration Committee) and in the case of ZHANG Caikui, the amount of his management bonus is calculated with reference to the set performance target of our Group (in terms of audited consolidated net profits of our Group after taxation and minority interests but before extraordinary items ("Net Profits") as our Board may approve and shall be 10% of the portion of the Net Profits of our Group which is over and above the set performance target of our Group in any given year. Such Executive Director shall abstain from voting, and not be counted in the quorum, in respect of any resolution of our board approving the determination of the salary, bonus and other benefits payable to him or her.

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

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

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

Save as disclosed above, none of our Directors has or is proposed to have a 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

During the Reporting Period, please refer to Note 7 to the financial statements prepared in accordance with IFRS in this annual report for details of the remuneration of Directors and senior management of the Group.

5. HIGHEST PAID INDIVIDUALS

During the Reporting Period, please refer to Note 8 to the financial statements prepared in accordance with IFRS in this annual report for details of the remuneration of the five highest paid individuals of the Group.

6. EMPLOYEES

As at 31 December 2009, the Group employed 13,190 employees (9,011 were in Shandong Province, 4,179 were in Liaoning Province), of which 8,504 were production staff members, 1,072 were sales staff members, 628 were technical staff members, 454 were finance staff members, 1,430 were administrative and management staff members, and 1,102 were other staff. 8,622 of the employees had secondary and higher education, of which 2,814 received tertiary education or above. The aggregate remuneration of the employees of the Group for the year amounted to RMB408.34 million. For expenses related to employees who have resigned or retired, please refer to Note 27 to the financial statements prepared in accordance with IFRS in this annual report.

7. PENSION INSURANCE

Details of the pension insurance are set out in Note 5 to the financial statements prepared in accordance with IFRS. Pension booked in the income statement of the Group for the year ended 31 December 2009 amounted to RMB44.77 million.

8. STAFF HOUSING

Pursuant to the relevant regulations of the PRC government, contributions based on a certain percentage of the employees' salaries shall be made by the Group to the housing welfare fund. Save for this, the Group has no other responsibilities nor any plan for provision of staff housing. For the year ended 31 December 2009, the total housing welfare fund paid by the Group amounted to approximately RMB12.54 million.

(VI) Report on Corporate Governance

1. CODE ON CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, except for the candidate for the Chairman and General Manager (VI.4 of this report), the Board of the Company was not aware of any information which would indicate that the Company did not comply with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules of the Stock Exchange.

2. MODEL CODE

The Company has adopted a set of code of practice with standards not lower 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 the Directors, the Company is confirmed that all Directors have complied with the required standard regarding securities transactions as set out in the Model Code during the Reporting Period.

3. THE BOARD

Composition of the Board is as follows:

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

There is no financial, business or other material relationship between members of the Board.

During the Reporting Period, 4 meetings of the Board were held on-site, including one meeting held by means of communication, and the attendance rates of the Directors are as follows:

Name	Attendance (%)
ZHANG Caikui	100%
LI Yanmin*	100%
DONG Chengtian	100%
YU Yuchuan	100%
Homer SUN	100%
JIAO Shuge	100%
SUN Jianguo	100%
WANG Yanmou	100%
WANG Jian	100%

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

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

* LI Yanmin has resigned as a director of the Company and all other positions in the Group with effective from 5 March 2010.

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

4. CHAIRMAN AND GENERAL MANAGER

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

The principal duties of the Chairman of the Board 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.

The position of General Manager of the Company is also filled by Mr. ZHANG Caikui.

The roles of Chairman and General Manager are not separate because the Board of the Company is of the opinion that it is beneficial to the management structure of the Company and in the best interests of the shareholders to have these two roles performed by the same individual. As Mr. ZHANG Caikui has over 36 years of experience in the cement industry and is primarily responsible for the overall strategic planning and management of our Group, the Board made the above arrangement based on the working experience and leadership of Mr. ZHANG Caikui.

5. TENURE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

6. REMUNERATION COMMITTEE OF THE BOARD

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

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

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

On 29 January 2009, the Remuneration Committee of the Company proposed the "Proposal regarding Awarding Medals and Bonus for 2008 to the Board of Directors".

The Remuneration Committee of the Company held a meeting on 16 April 2009. All committee members attended the meeting. The committee considered and approved the resolution for the remuneration of the senior management to be approved by the Board.

During the Reporting Period, the Remuneration Committee of the Company performed its responsibility in accordance with the rules 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 in the work of the Board. The Audit Committee is a standing organisation under the Board and is accountable to the Board.

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

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

At the meeting held on 16 April 2009, the Audit Committee considered and approved the following resolutions: (i) the financial report for 2008 made by the financial controller of the Company; (ii) the annual financial statements of the Company as at 31 December 2008 prepared in accordance with IFRS, and the audit report for 2008 submitted by KPMG; (iii) the management letter submitted by KPMG; (iv) the connected transactions of the Company occurring in 2008; (v) the fixed capital expenditure for 2009 of the Company; (vi) loan facilities granted to the Company by banks in 2009; (vii) the recommendation to the Board to re-appoint KPMG as the auditor of the Company in 2009.

At the meeting held on 1 September 2009, 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 2009 in accordance with IFRS; and (ii) the interim results announcement and interim report proposed to publish on the website of The Stock Exchange of Hong Kong Limited.

On 26 February 2010, the company secretary of the Company notified the Audit Committee on a timely manner in respect of the schedule of audit work for 2009.

The Audit Committee made an objective assessment on the work conducted by KPMG: During the process of conducting the audit of Shanshui Cement for 2009, 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, it is proposed to the Board that KPMG be re-appointed as the auditor of the Company in 2010.

The above proposal is to be considered and approved at the annual general meeting for 2009 by the Board.

8. 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 two Hong Kong subsidiaries of the Company for the year ended 31 December 2009. The annual audit remuneration payable to KPMG by the Company and its subsidiaries for the year ended 31 December 2009 amounted to RMB6 million and HKD136,000 respectively. In addition, the Company was required to reimburse KPMG for lodging and travelling expenses incurred for on-site auditing.

During the Reporting Period, the auditors received a fee of approximately RMB1,450,000 for reviewing the relevant financial statements of Jining Shanshui, Qingdao Hengtai and Yingkou Shanshui to be acquired by the Group.

During the Reporting Period, apart from providing audit services to the Company, KPMG did not provide other significant non-audit services to the Company.

9. SHAREHOLDER AND GENERAL MEETING

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

The Company's annual general meeting ("AGM") for 2008 was held on 5 June 2009 and five ordinary resolutions (including the adoption of the audited consolidated financial statements for 2008 and the reports of the directors and auditors) and a special resolution to approve certain amendments to the Articles were approved, details of which were disclosed in the AGM poll results announcement dated 5 June 2009.

The Company held an extraordinary general meeting ("EGM") on 2 September 2009 and a poll on a special resolution presented by the Board to approve the amendment of the Articles was taken, details of which were disclosed in the EGM poll results announcement dated 2 September 2009.

10. ESTABLISHMENT AND SOUNDNESS OF INTERNAL CONTROL SYSTEM

Since the listing of the Group, 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 amended the original nine key process systems and issued the "Circular on the Promulgation and Thorough Implementation of the Nine Key Management Process Systems for Realising Management Systematisation and Standardisation". It also organised trainings on systems involving the management and professional supervisors of the Group's headquarters and its subsidiaries in accordance with the layering and classification principles. During the period, the audit and compliance department of the Group proceeded with supervision and examination on the establishment, soundness and 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 audits on the operating activities of the Group. Details are as follows:

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

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

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

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

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

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

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

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

(VII) Management Discussion and Analysis

OPERATING ENVIRONMENT

In 2009, China's economy slowed down to some extent under the dual impact of the international financial crisis and the cyclical economic downturn. However, thanks to the full implementation of China's RMB4 trillion stimulus package, the slowdown of China's economic growth was effectively reversed with an annual economic growth rate reaching 8.7% for the year.

During the year, a number of infrastructure projects were gradually initiated by the Chinese government, resulting in a substantial growth in fixed asset investment which significantly boosted cement demand. China's total fixed asset investment in 2009 reached RMB22.48 trillion, representing an increase of 30.1% over 2008, and the year-on-year growth was 4.6 percentage points faster than that in 2008. Fixed asset investment in cities and towns amounted to RMB19.41 trillion, representing an increase of 30.5%, and the year-on-year growth was 4.4 percentage points faster than that in 2008. Fixed asset investment in villages amounted to RMB3.07 trillion, representing an increase of 27.5%, and the year-on-year growth was 6.0 percentage points faster than that in 2008 (Source: National Bureau of Statistics).

The real estate industry, which is closely correlated to the cement industry, started to rebound in early 2009 and therefore boosted demand for cement. From January to December 2009, total investments by property developers amounted to RMB3.62 trillion, representing an increase of 16.1% as compared to 2008. The growth rates in Shandong Province and Liaoning Province, the Group's two major markets, were 19.1% and 28.1% respectively, both of which were much higher than the national average. (Source: National Bureau of Statistics)

OPERATING CONDITIONS OF THE CEMENT INDUSTRY

As an investment-driven industry, the cement sector has significantly benefited from the improving state of the Chinese economy and the substantial increase in fixed asset investment in 2009. From January to December 2009, total cement production in China was 1.63 billion tonnes, representing a year-on-year growth of 17.9%. The growth rate increased by 12.4 percentage points as compared to 2008. In the first eleven months of the year, the cement industry across the country recorded a profit of RMB36.6 billion, representing a year-on-year increase of 39%. (Source: MIIT, China Digital Cement Website)

Thanks to the government's domestic demand stimulus policies, the demand for cement increased rapidly, and profitability improved accordingly, therefore continuing to attract substantial investment in the cement industry. In 2009, China's total investments in the cement industry amounted to RMB152.1 billion, representing a significant year-on-year growth of 57.7%. (Source: MIIT)

The rapid growth of investment in the cement industry however also led to excessive cement production capacity in some regions. Since September 2009, China has implemented a series of policies to direct the cement industry towards healthy development, including the elimination of multiple construction and illegal cement production projects, the reinforcement of the threshold for market entry, and the faster elimination of obsolete production capacity. Additionally, the government has sought to facilitate merger, acquisition and restructuring activities by cement conglomerates. Those policies have resulted in further market concentration of the cement industry. By the end of 2009, there were 18 enterprises each with a cement production capacity of over 10,000,000 tonnes, together amounting to an aggregate cement production capacity exceeding 400,000,000 tonnes, which accounted for approximately 50% of new dry process cement production capacity in China. (Source: MIIT)

ANALYSIS OF COMPANY OPERATING CONDITIONS

Operations Review

In 2009, by capitalising on the business opportunities that arose from the PRC government's policy of "securing growth and boosting domestic demand", the Group was able to proactively expand its market share and strengthen its internal control processes. The Group achieved remarkable operating results, despite the difficult macro-economic environment, and the extreme weather conditions (snowstorms and unusually low temperatures) in the Group's two major markets (Shandong and Liaoning Provinces) during the fourth quarter. These adverse weather conditions resulted in a large number of construction and infrastructure projects in those regions being suspended, and thus caused a fall in sales volume of cement and clinker. Meanwhile, the Group successfully launched its new projects as planned in accordance with its strategy of "expanding the principal cement business". The Group initiated major strategic market research projects, and proactively conducted acquisitions, thereby further expanding its presence in Shandong and Liaoning Provinces, and increasing its market share.

During the Reporting Period, the Group's total sales volume amounted to 29,388,000 tonnes, representing a 17.0% year-on-year increase; sales volume of clinker amounted to 8,422,000 tonnes, representing a 54.1% year-on-year increase. The Group recorded a sales revenue of RMB8.728 billion, representing a 16.4% year-on-year increase; and net profit for the year was RMB714 million, representing a 30.0% year-on-year increase.

During the Reporting Period, the Group continued to increase its investment in its principal cement business. Through construction of new production facilities and acquisitions, the Group increased its cement production capability by 12,500,000 tonnes and its clinker production capability by 5,150,000 tonnes. By the end of the Reporting Period, all clinker production lines with suitable conditions were equipped with residual heat power generators, with total installed capacity reaching 136MW. In addition, the following production lines are currently under construction: three clinker production lines (including residual heat power generators) for Linqu Shanshui, Zaozhuang Chuangxin Shanshui and Weishan Shanshui Cement Company Limited (the "Weishan Shanshui"); and a total of 14 cement grinding lines for Weishan Shanshui, Yishui Chuangxin Shanshui Cement Company Limited (the "Yishui Chuangxin Shanshui"), Shanxian Shanshui Cement Company Limited (the "Shanxian Shanshui"), Caoxian Shanshui Cement Company Limited (the "Caoxian Shanshui"), Qingdao Shanshui Jianxin Cement Company Limited (the "Qingdao Shanshui Jianxin"), Weifang Binhai Shanshui Cement Company Limited (the "Weifang Binhai Shanshui"), Weifang Shanshui Cement Company Limited ("Weifang Shanshui"), Tongliao Gongyuan Cement Company Limited (the "Tongliao Gongyuan Cement"), Panjin Shanshui Cement Company Limited (the "Panjin Shanshui"), Yingkou Shanshui, Tianjin Shanshui Cement Company Limited (the "Tianjin Shanshui"), Bozhou Shanshui Cement Company Limited (the "Bozhou Shanshui") and Bengbu Shanshui Cement Company Limited (the "Bengbu Shanshui"). With new production facilities being gradually put into operation, the Group's leading position in the cement market in Shandong Province and Liaoning Province, as well as the surrounding regions, will be further strengthened.

(VII) Management Discussion and Analysis

During the Reporting Period, the Group continued to improve its sales network, to enhance its after-sale services, to consolidate its urban and rural markets, and to expand its market share. Meanwhile, the Group conducted in-depth operational research, implemented key performance indicators management, and initiated various technology reform in each of its subsidiaries so as to reduce costs and improve operational efficiency. The Group also further improved its internal control system, enhanced the control over its financial budget, project investment and materials procurement, so as to reduce the exposure to operating risk.

BUSINESS REVIEW

(I) Business analysis

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

(unit: RMB million)

Product	**2009** Sales Revenue	**2009** Sales Proportion	2008 Sales Revenue	2008 Sales Proportion	Sales revenue change
Cement	**6,608.2**	**75.7%**	5,906.8	78.7%	11.9%
Clinker	**1,578.9**	**18.1%**	1,169.2	15.6%	35.0%
Others	**540.5**	**6.2%**	424.7	5.7%	27.3%
Total	**8,727.6**	**100.0%**	7,500.7	100.0%	16.4%

During the Reporting Period, the growth in the Group's sales revenue was principally attributable to an increase in sales volume. With regards to revenue breakdown by products, revenue from cement amounted to RMB6.608 billion, representing a year-on-year growth of 11.9%, and revenue from clinker amounted to RMB1.579 billion, representing a year-on-year growth of 35.0%.

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

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

Product	**2009 Sales volume**	2008 Sales volume	Sales volume change	**2009 Unit selling price**	2008 Unit selling price	Selling price change
	('000 tonnes)	('000 tonnes)		**(RMB/tonne)**	(RMB/tonne)	
Cement	**29,388**	25,112	17.0%	**224.9**	235.2	-4.4%
Clinker	**8,422**	5,466	54.1%	**187.5**	213.9	-12.3%

During the Reporting Period, the sales volume of the Company's cement amounted to 29,388,000 tonnes, representing a year-on-year growth of 17.0%, while that of clinker amounted to 8,422,000 tonnes, representing a year-on-year growth of 54.1%. Despite certain negative impact on cement demand caused by the extreme weather conditions (snowstorms and unusually low temperatures) during the fourth quarter of 2009, the Group continued to achieve growth in overall sales volume thanks to the extensive market presence of the Company, as well as the sustained growth in domestic infrastructure and construction projects, the recovery of property industry, and the phasing out of obsolete capacity in 2009.

Unit selling prices of cement and clinker declined by 4.4% and 12.3% to RMB224.9 per tonne and RMB187.5 per tonne respectively, mainly due to the decrease in production costs as compared to 2008. Among these production costs, the average purchase price (excluding tax) of coal in 2009 declined by 16.2% to RMB569.8 per tonne, resulting in a substantial decrease in the proportion of coal expenses to total cost of sales.

(2) Comparison of unit selling price of cement between Shandong and Northeastern China

Region	**Average unit selling price in 2009**	Average unit selling price in 2008	Change in selling price
	(RMB/tonne)	(RMB/tonne)	
Shandong province	**221.5**	233.0	-4.9%
Northeastern China	**245.8**	249.5	-1.5%

During the Reporting Period, the average unit selling price of cement in Shandong area was RMB221.5 per tonne, representing a year-on-year decrease of 4.9%, while in Northeastern China, it was RMB245.8 per tonne, representing a year-on-year decrease of 1.5%. The average unit selling price of cement in Northeastern China, however, was notably higher than those of enterprises in Shandong area. With the continuous increase in the Company's market share in Northeastern China, our cement production activities in Northeastern China are expected to contribute more to the growth in profits of the Group in the future.

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

	2009		2008		Change in
	Sales volume	**Sales proportion**	Sales volume	Sales proportion	sales volume
	('000 tonnes)		('000 tonnes)		
High grade cement	**14,845**	**50.5%**	9,964	39.7%	49.0%
Low grade cement	**14,543**	**49.5%**	15,148	60.3%	-4.0%

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

Driven by the demand for high quality cement as a result of the government's substantial investment in infrastructure projects, and the extensive market presence of the Group, the sales volume of high grade cement increased by 49.0% compared to 2008.

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

(Unit: RMB'000)

	2009		2008		Sales
Region	**Sales revenue**	**Sales proportion**	Sales revenue	Sales proportion	revenue Change
Shandong province	**7,511,209**	**86.1%**	6,599,468	88.0%	13.8%
Northeastern China	**1,216,417**	**13.9%**	901,293	12.0%	35.0%
Total	**8,727,626**	**100.0%**	7,500,761	100.0%	16.4%

During the Reporting Period, our cement production enterprises in Shandong Province and Northeastern China performed well, with all key economic indicators showing significant improvement. Our enterprises in Shandong Province recorded sales revenue of RMB7.511 billion in 2009, accounting for 86.1% of the Group's total sales revenue, representing a year-on-year increase of 13.8%. Our enterprises in Northeastern China recorded a sales revenue of RMB1.216 billion in 2009, accounting for 13.9% of the Group's total sales revenue, representing a year-on-year increase of 35.0%.

(II) Profit Analysis

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

(Unit: RMB'000)

	2009	2008	Y-O-Y change
Revenue	**8,727,626**	7,500,761	16.4%
Gross profit	**1,780,475**	1,586,448	12.2%
Profit from operations	**1,250,866**	1,061,020	17.9%
Profit before taxation	**941,281**	712,995	32.0%
Profit for the year	**714,044**	549,211	30.0%
Profit attributable to equity holders of the Company	**701,557**	539,357	30.1%

During the Reporting Period, the Group recorded sales revenue of RMB8.728 billion, representing a year-on-year increase of 16.4%; profit from operations was RMB1.251 billion, representing a year-on-year increase of 17.9%; profit for the year was RMB714 million, representing a year-on-year increase of 30.0%; profit attributable to equity holders of the Company was RMB702 million, representing a year-on-year increase of 30.1%. The increase in profit was mainly attributable to an overall increase in sales volume and our effective cost control during the year.

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

(Unit: RMB'000)

	2009		2008		Change of
Cost of sales	**Amount**	**Proportion to revenue**	Amount	Proportion to revenue	proportion to revenue
Raw materials	**2,085,164**	**23.9%**	1,759,801	23.5%	0.4%
Coal	**2,190,160**	**25.1%**	2,165,375	28.9%	-3.8%
Power	**1,124,755**	**12.9%**	1,042,215	13.9%	-1.0%
Depreciation and amortisation	**562,313**	**6.4%**	460,335	6.1%	0.3%
Others	**984,759**	**11.3%**	486,587	6.5%	4.8%
Total cost of sales	**6,947,151**	**79.6%**	5,914,313	78.9%	0.7%

(VII) Management Discussion and Analysis

During the Reporting Period, the proportion of the Group's total cost of sales to revenue was 79.6%, representing an increase over 2008 level, which was mainly attributable to higher maintenance costs incurred in the early overhaul in 4th quarter (originally scheduled at the beginning of 2010) of certain of the Company's production lines where production was suspended due to lower demand for cement as a result of the extreme weather conditions (snowstorms and unusually low temperatures) in the Group's two major markets (Shangdong and Liaoning Provinces) during the fourth quarter.

In 2009, the decrease in average unit purchase price of coal to RMB569.8/tonne from RMB680.1/tonne in 2008 and the significant reduction in coal consumption per unit of output as a result of the inauguration of the new dry process clinker production lines in Liaoning Province, helped the proportion of coal expenses to sales revenue record a significant decrease to 25.1%, down by 3.8 percentage points from 2008 level.

On cost savings, the residual heat power generation stations under construction or on trial by late 2008 gradually moved to full operation. In 2009, output of residual heat power generation was 715 million KWH, and the power cost savings were approximately RMB0.37/KWH, reducing the clinker cost by approximately RMB268.02 million.

FINANCIAL REVIEW

1. Expenses during the year

(Unit: RMB'000)

	2009		2008		Proportion to sales revenue changes
	Amount	**Proportion to sales revenue**	Amount	Proportion to sales revenue	
Sales and marketing expenses	**196,535**	**2.25%**	175,213	2.34%	-0.09%
Administrative expenses	**469,138**	**5.38%**	553,251	7.38%	-2.00%
Finance costs	**309,585**	**3.54%**	348,025	4.64%	-1.10%
Total	**975,258**	**11.17%**	1,076,489	14.36%	-3.19%

During the Reporting Period, all expenses of the Group were controlled effectively. The proportion of sales and marketing expenses to sales revenue declined compared to 2008, as a result of the beneficial effect of the increase in sales volumes. The proportion of administrative expenses to sales revenue declined compared to the previous year, mainly due to the beneficial effect of systematically consolidating the businesses acquired and the efficient cost control conducted by the Group. The proportion of the Group's finance costs to sales revenue declined, primarily due to lower interest rates on its debt.

2. Changes in balance sheet items

(Unit: RMB'000)

	31 December 2009	31 December 2008	Change
Non-current assets	**11,302,282**	9,666,557	16.9%
Current assets	**3,306,881**	3,106,060	6.5%
Total assets	**14,609,163**	12,772,617	14.4%
Current liabilities	**4,969,934**	5,185,577	-4.2%
Non-current liabilities	**4,410,101**	2,981,491	47.9%
Total liabilities	**9,380,035**	8,167,068	14.9%
Minority interest	**68,935**	44,978	53.3%
Equity attributable to equity shareholders of the Company	**5,160,193**	4,560,571	13.1%
Total liabilities and equity	**14,609,163**	12,772,617	14.4%
Current ratio	**66.5%**	59.9%	6.6 P.Pt.
Quick ratio	**49.6%**	42.7%	6.9 P.Pt.

As at 31 December 2009, the Group's total assets were RMB14,609 million, total liabilities were RMB9,380 million and its net assets were RMB5,229 million. The net gearing ratio (net debts/(net debts + equity attributable to equity shareholders of the Company)) was 48.5%, an increase of 4.9 percentage points compared to the end of the previous year. The Group's total current assets were RMB3,307 million, its total current liabilities were RMB4,970 million, and its net current liabilities were RMB1,663 million. The Group's current and quick ratios increased by 6.6 and 6.9 percentage points to 66.5% and 49.6% in 2009 respectively, reflecting an improvement in the liquidity of the Group. The Group's profits from future operations, its cash flow forecast for 2010, and the banking facilities granted to the Group, are sufficient to satisfy capital requirements for the on-going needs of the sustained operations.

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

(Unit: RMB'000)

Term of borrowings	**31 December 2009**	31 December 2008
Short-term borrowings (including long-term borrowings with maturity within one year)	**2,205,527**	2,766,374
Long-term borrowings	**3,538,832**	1,911,482
Total	**5,744,359**	4,677,856

The Company's borrowings increased as a result of the funding required for the expansion of its business. As at 31 December 2009, the Company's total borrowings were RMB5.744 billion, an increase of RMB1.067 billion as compared with 2008. However, due to our efforts in optimising the Company's debt structure, short-term borrowings decreased by RMB561 million to RMB2.206 billion, while long-term borrowings increased by RMB1.628 billion to RMB3.539 billion.

There was a substantial year-on-year increase in the proportion of long-term borrowings to total borrowings. Long-term borrowings accounted for 61.6% of the Company's total borrowings, an increase of 20.7 percentage points as compared with the beginning of the year. The proportion of short-term borrowings to total borrowings decreased to 38.4%, a decrease of 20.7 percentage points as compared with the beginning of the year.

4. Capital commitments outstanding at 31 December 2009 for having entered into production facility construction contracts and equipment purchase agreements but not provided for in the financial statements were as follows:

(Unit: RMB'000)

	31 December 2009	31 December 2008
Authorised and contracted	**382,472**	371,303
Authorised but not contracted	**9,018,902**	279,861
Total	**9,401,374**	651,164

As at 31 December 2009, the capital commitment authorised and contracted by the Group amounted to RMB382 million, an increase of RMB11 million or 3.0% as compared with the beginning of the year. Furthermore, the capital commitment authorised but not contracted amounted to RMB9.019 billion, an increase of RMB8.739 billion or 3,122.6% as compared with the beginning of the year.

5. Net cash flow analysis

(Unit: RMB'000)

	2009	2008
Net cash generated from operating activities	**1,025,697**	1,037,261
Net cash used in investing activities	**(2,136,401)**	(2,404,513)
Net cash generated from financing activities	**748,631**	1,912,808
Net changes in cash and cash equivalents	**(362,073)**	545,556
Balance of cash and cash equivalents at beginning of the year	**1,248,414**	721,265
Effect on cash from exchange rate changes	**(211)**	(18,407)
Balance of cash and cash equivalents at end of the year	**886,130**	1,248,414

During the Reporting Period, net cash generated from operating activities of the Group was RMB1,026 million, representing a year-on-year decrease of RMB11 million, which was mainly attributable to the change in working capital during the year. Among which, there was an increase in trade and bills receivable in 2009, as compared with a decrease in the year ended 31 December 2008. At the same time, the Group had a relatively large number of construction projects in 2009 which required substantial capital investments, net cash used in investing activities reaching RMB2,136 million. Net cash generated from financing activities amounted to RMB749 million.

	2009	2008
Average days of sales outstanding	**22.1**	19.0
Overdue trade receivable ratio	**10.5%**	24.5%
Average days of purchase outstanding	**67.1**	63.1

The Group's average days of sales outstanding increased from 19.0 days in 2008 to 22.1 days in 2009, which was mainly attributable to the increase in income and accounts receivable from infrastructure projects (such as communal projects and large-scale infrastructure projects). The Group usually requires its ordinary customers to make payment in full before delivery of products. For specific customers such as the contractors, sub-contractors and property developers of infrastructure projects, the Group may adopt a rolling settlement policy in which the Group may provide those customers with certain credit periods pursuant to a review conducted by the management according to their credit record. The Group's overdue trade receivable ratio decreased significantly from 24.5% in 2008 to 10.5% in 2009, reflecting the Group's effective credit control and trade receivables management.

The Group's average days of purchase outstanding increased from 63.1 days in 2008 to 67.1 days in 2009, which was mainly attributable to the improvement in working capital of the Group.

(VII) Management Discussion and Analysis

FINANCIAL REPORTING AND CORPORATE ACCOUNTING POLICY

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

OUTLOOK FOR 2010

Operating Environment Outlook

In 2010, given increasingly favourable economic conditions, and China's economic recovery leading that of the rest of the world, the Chinese Government is expected to continue to implement benign fiscal policies and a moderately loose monetary policies. Furthermore, the government is expected to maintain continuity and stability in its macroeconomic policies, and it is expected that such policies will become increasingly targeted, while keeping flexibility in response to new circumstances and development. Moreover, government policies are expected to speed up the transformation of China's economic development, and boost economic growth through innovation and internal demand.

Key government policies include:

1. The Chinese government will continue to implement the 'Package Plan' in response to the international financial crisis so as to strengthen the momentum of economic recovery. The Group believes that large infrastructure construction projects and the property industry will continue to act as a driving force to boost cement demand.

2. China is accelerating its urbanisation process and new rural construction. As set out in the No. 1 Document of "Opinions on Strengthening the Efforts of Coordinative Urban-Rural Development and Further Consolidating the Basis of Agricultural and Rural Development" issued by the Central Government, we will, by capitalising on the current rapid growth in rural residential house construction and the abundant supply of building materials, support farmers in their home building as a move to expand domestic demand, take effective measures to boost the sales of building materials in rural areas, and encourage certain wealthier regions to provide farmers with various forms of supports to build homes for their own use in a lawful manner. The Group is of the opinion that the new policy of "boosting sales of building materials in rural areas" implemented by the State will provide ample room for large cement conglomerates with extensive market presence and good reputation for product quality to increase their sales.

3. With regards to overcapacity in the cement industry, the Chinese government has intensified its effort to eliminate duplicate construction and illegal cement production projects. It also requires various provinces and municipals to eliminate obsolete cement capacity within three years, and is also encouraging the industry consolidation by leading cement enterprises. The Group considers that macroeconomic adjustment and control policies implemented by China will help large-scale cement conglomerates to leverage on their own advantages to expedite corporate reorganisation and market integration.

4. To encourage energy conservation and emissions reduction, the Chinese Government has incorporated the work of "promoting comprehensive utilisation of mineral resources, the recycling of industrial wastes, and power generation with residual heat and pressure and the recycling of domestic garbage" into the Report on the Work of the Government for 2010. The Group is of the opinion that these policies will effectively promote the construction of residual heat power generation facilities at new dry-process clinker production lines and the utilisation of industrial residue and wastes by cement grinding factories, thus lowering the operating costs of cement enterprises.

Based on the above, 2010 and the next few years will be a highly important period for the Group in its business development and expansion strategy.

Company's Business Outlook

In 2010, the Group will unswervingly implement its development policy of "putting equal emphasis on development and management" based on its own wide-range strategic research. The Group will not only continue to improve its market presence in Shandong and Liaoning Provinces, but also proactively increase its market share in the surrounding provinces such as Shanxi and Inner Mongolia. At the same time, the Group will continue to promote the total budget management with a view to further improve the Group's internal control system and to enhance the Group's integrated competitive edges. In 2010, the Group will particularly focus on the following priorities:

1. Quicker project construction, better business structure and stronger regional control

The Group will speed up the construction of 3 clinker production lines (including residual heat power generation facilities), 14 cement grinding lines, and 4 clinker production lines kicked off in 2010 and it will aim to deliver efficient production from these production lines as soon as practicable. Furthermore, the Group will proactively carry out the research and preparation work for its new projects, and implement new construction and acquisition plans as and when opportunities arise, with a view to reach the significant milestones of 50 million tonnes of clinker capacity, and 80 million tonnes of cement capacity as early as possible.

2. Improving regional management processes, strengthening the development of marketing networks and expanding market penetration

The Group will continue to implement and improve regional management processes, and it will strengthen the development of marketing network and service system. In particular, the Group will continue to expand and increase rural exclusive outlets under the goal of "10,000 tonnes a county, 1,000 tonnes a town and 100 tonnes a village" (equivalent to a general monthly sale of 10,000 tonnes, 1,000 tonnes and 100 tonnes respectively) by grasping market opportunities brought about by the Government's initiatives to promote urbanisation and construction of new rural areas, thereby increasingly consolidating the market presence and regional dominance of our "Shanshui Dongyue " brand, and thereby gaining larger market share.

(VII) Management Discussion and Analysis

3. Launching Total Budget Management initiatives to enhance operational management efficiency

In accordance with the regulatory requirements for listed companies, the Group has implemented Total Budget Management processes since the start of 2010, focusing on the monitoring and control of procurement, sales and investment activities, while emphasising on technological innovation and tapping managerial potential. These measures aim to increase management efficiency and continue to increase our operating capability and profitability.

4. Strengthening the Total Budget Management system and its implementation to form a disciplined, orderly and efficient operating mechanism

By taking advantage of the implementation of Total Budget Management, the Group will strive to establish a set of scientific and systematic rules and regulations to govern the use of financial, administrative and personnel resources under the control framework, so as to achieve scientific decision-making, well-defined duties, smooth operation and highly efficient work.

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

(VIII) Report of the Directors

1. PRINCIPAL BUSINESS

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

2. MAJOR INVESTMENTS DURING THE REPORTING PERIOD

(1) Significant projects invested during the Reporting Period

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period
			(RMB'000)
1	Yishui Shanshui Cement Company Limited 4,600 t/d clinker production line project (including 9MW residual heat power generation project)	Commenced operation	50,674
2	Liaoyang Qianshan Cement Company Limited 4,000 t/d clinker production line project (including 9MW residual heat generation project) and 1 million tonne cement grinding production line project	Commenced operation[1]	36,271
3	Dalian Shanshui Cement Company Limited 4,000 t/d clinker production line project (including 9MW residual heat power generation project) and 2 million tonne cement grinding production line project	Commenced operation	142,382
4	Liaoning Shanshui Gongyuan Cement Company Limited 5,000 t/d clinker production line project (including 9MW residual heat power generation project)	Commenced operation	147,429
5	Linqu Shanshui Cement Company Limited 4,000 t/d clinker production line project (including 9MW residual heat generation project) and 1 million tonne cement grinding production line project	Commenced operation[2]	326,355

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period
			(RMB'000)
6	Zaozhuang Chuangxin Shanshui Cement Company Limited 4,000 t/d clinker production line project (including 9MW residual heat generation project) and 1 million tonne cement grinding production line project	Commenced operation[3]	265,189
7	Weihai Shanshui Cement Company Limited cement grinding production line project with annual production of 2 million tonnes (phase two)	Commenced operation[4]	44,801
8	Qingdao Shanshui Chuangxin Cement Company Limited cement grinding production line project with annual production of 1 million tonnes	Commenced operation	33,885
9	Shenyang Shanshui Gongyuan Cement Company Limited with annual production of 2 million tonnes	Commenced operation	75,237
10	Dandong Shanshui Gongyuan Cement Company Limited with annual production of 1 million tonnes	Commenced operation	114,675
11	Qingdao Hengtai Cement Company Limited cement grinding production line project with annual production of 0.4 million tonnes	Commenced operation	31,246
12	Weishan Shanshui Cement Company Limited 4,500 t/d clinker production line project (including 9MW residual heat generation project) and 1 million tonne cement grinding production line project	Under construction	38,844
13	Yishui Chuangxin Shanshui Cement Company Limited grinding production line project with annual production of 1 million tonnes	Under construction	41,792
14	Shanxian Shanshui Cement Company Limited grinding production line project with annual production of 1 million tonnes	Under construction	13,830

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period
			(RMB'000)
15	Caoxian Shanshui Cement Company Limited grinding production line project with annual production of 1 million tonnes	Under construction	11,774
16	Qingdao Shanshui Jianxin Cement Company Limited grinding production line project with annual production of 1 million tonnes	Under construction	26,811
17	Weifang Binhai Shanshui Cement Company Limited grinding production line project with annual production of 2 million tonnes (phase one)	Under construction	33,721
18	Weifang Shanshui Cement Company Limited grinding production line project with annual production of 1 million tonnes	Under construction	9,569
19	Tongliao Gongyuan Cement Company Limited grinding production line project with annual production of 0.4 million tonnes	Under construction	7,953
20	Panjin Shanshui Cement Company Limited grinding production line project with annual production of 2 million tonnes (phase one)	Under construction	28,071
21	Yingkou Shanshui Cement Company Limited grinding production line project with annual production of 0.6 million tonnes	Under construction	9,358
22	Tianjin Shanshui Cement Company Limited grinding production line project with annual production of 2 million tonnes	Under construction	68,661
23	Bozhou Shanshui Cement Company Limited grinding production line project with annual production of 2 million tonnes (phase one)	Under construction	8,355

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period
			(RMB'000)
24	Bengbu Shanshui Cement Company Limited grinding production line project with annual production of 1 million tonnes	Under construction	4,924

Notes:

(1) During the Reporting Period, the residual heat generation and the 1 million tonne cement grinding production line had been put into operation, and the clinker production line had been put into operation in 2008;

(2) During the Reporting Period, only the 1 million tonne cement grinding production line had been put into operation;

(3) During the Reporting Period, only the 1 million tonne cement grinding production line had been put into operation;

(4) During the Reporting Period, the Weihai Phase Two 1 million ton cement grinding production line had been put into operation, and Phase One had been put into operation in 2008.

(2) Capital increase in subsidiaries during the Reporting Period

In order to further improve the corporate governance structure, a corporate restructuring plan was implemented. During the Reporting Period, the Company made investments to establish a number of subsidiaries. And to satisfy the operation and development needs of some subsidiaries of the Company, additional capital was injected by the Company into some of these subsidiaries during the Reporting Period. Details of new subsidiaries established and subsidiaries with capital increases are as follows:

Serial No.	Name of company	Capital increase amount	Registered capital after capital increase	Remarks
1	Yishui Chuangxin Shanshui Cement Company Limited		RMB10,000,000	Newly established
2	Qingdao Shanshui Jianxin Cement Company Limited		RMB20,000,000	Newly established
3	Weishan Shanshui Cement Company Limited		RMB100,000,000	Newly established

Serial No.	Name of company	Capital increase amount	Registered capital after capital increase	Remarks
4	Caoxian Shanshui Cement Company Limited		RMB22,000,000	Newly established
5	Shanxian Shanshui Cement Company Limited		RMB25,000,000	Newly established
6	Weifang Binhai Shanshui Cement Company Limited		RMB42,000,000	Newly established
7	Panjin Shanshui Cement Company Limited		RMB20,000,000	Newly established
8	Tianjin Shanshui Cement Company Limited		RMB20,000,000	Newly established
9	Cangzhou Shanshui Cement Company Limited		RMB10,000,000	Newly established
10	Bozhou Shanshui Cement Company Limited		RMB40,000,000	Newly established
11	Bengbu Shanshui Cement Company Limited		RMB30,000,000	Newly established
12	Shanxi Shanshui Cement Company Limited		RMB200,000,000	Newly established
13	Alukeerqinqi Shanshui Cement Company Limited		RMB76,470,000	Newly established
14	Benxi Shanshui Mining Company Limited (本溪山水礦業有限公司)		RMB500,000	Newly established
15	Benxi Yixin Tyre Repair Company Limited (本溪市易新輪胎翻新有限公司)		RMB300,000	Newly established
16	Yishui Shanshui Cement Company Limited	RMB108,700,000	RMB128,700,000	Capital increase

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

Benxi Gongyuan Clinker Sales Co., Ltd., the subsidiary of the Company, underwent de-registration in June 2009.

3. MAJOR SUBSIDIARIES WITH CONTROLLING INTERESTS

As at 31 December 2009, the Company had controlling interests in 59 subsidiaries ("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	Profit from operations	Net profit
	(RMB'000)	(RMB'000)	(RMB'000)
Pingyin Shanshui Cement Company Limited	841,236	172,754	159,371
Shandong Cement Factory Company Limited	800,618	142,308	113,065
Zibo Shanshui Cement Company Limited	744,115	144,626	107,036
Anqiu Shanshui Cement Company Limited	659,810	81,826	71,765
Gucheng Shanshui Cement Company Limited	453,405	68,039	54,766

The operating results of the above companies increased significantly compared to the last year. Such increase was attributable to the beneficial effects resulting from the increased efforts to eliminate obsolete cement production capacities in the locations where these companies operated, strong market demand and significant increases in sales volume.

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 17 April 2009, the Board of Directors considered and passed the 2008 annual results of the Company and the resolution regarding distribution of dividend for 2008.

2. On 27 April 2009, the Board of Directors considered and approved full or partial conversion by MS Cement Limited, MS Cement II Limited, CDH Cement Limited and International Finance Corporation of the convertible notes issued by the Company on 21 September 2007.

3. On 3 August 2009, the Board of Directors considered and passed the resolution regarding the proposed amendment to the Articles of Association of the Company, details of which were set out in the circular of the Company dated 4 August 2009, and subject to the approval at the general meeting of the Company.

4. On 2 September 2009, the Board of Directors considered and passed the interim results of the Company and the resolution regarding distribution of interim dividend for 2009.

5. On 15 October 2009, the Board of Directors resolved and approved the proposal to provide guarantees for loans obtained by Weihai Shanshui, Qingdao Shanshui Chuangxin, Zaozhuang Chuangxin Shanshui and Linqu Shanshui from IFC.

5. PROFIT DISTRIBUTION PROPOSAL FOR 2009

According to the financial data prepared in accordance with IFRS, the Group's after tax profit and profit attributable to equity holders of the Company for 2009 were RMB714 million and RMB702 million respectively. Considering the intensive competition in 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 2009 as follows: HK$273,147,169 will be used for the distribution of dividends, and the balance will be used for development and general operation of the Company, so as to further enlarge the scale of production capacity of the Company and to enhance the competitiveness of the Company.

The above proposal is required to be considered and approved by shareholders at the 2009 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 2009, 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 2009, the changes in the land leases, real estate to properties, plant and equipment are set out in Note 13 to the Financial Statements prepared in accordance with IFRS.

9. TOTAL ASSETS

For the year ended 31 December 2009, the total assets of the Group as confirmed in accordance with IFRS are RMB14.61 billion, representing an increase of RMB1.84 billion compared to the previous year.

10. RESERVES

Changes in reserves of the Group for the year ended 31 December 2009 are set out in Note 31 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 2009 are set out in Note 23 of the Financial Statements prepared in accordance with IFRS. Deposits of the Company for the year ended 31 December 2009 are placed with commercial banks with good creditworthiness. The Group has no entrusted deposits nor any fixed deposits that cannot be withdrawn upon maturity. During the year, capitalised interest for projects under construction amounted to RMB35.97 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 was no material asset acquisitions, disposals and restructuring matters.

3. CONTINUING CONNECTED TRANSACTIONS

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

Tianjin Tianhui is a subsidiary of Jinan Shanshui in which Mr. Zhang Caikui, a director and one of the controlling shareholders of the Company, indirectly holds more than 30% controlling interests. Accordingly, Tianjin Tianhui is a connected person of the Company and the transactions under the Framework Agreement constituted continuing connected transactions for the Company under the Listing Rules.

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

For the year ended 31 December 2009, the transaction value under the Framework Agreement between the Group and Tianjin Tianhui was RMB39,284,895.

The above continuing connected transactions have been reviewed by the directors of the Company (including the independent non-executive directors). The independent non-executive directors have noted that the transaction value under the Framework Agreement for the financial year ended 31 December 2009 as stated above has not exceeded the cap of RMB71,000,000 as disclosed in the announcement of the Company dated 30 March 2009. The independent non-executive directors have confirmed that save as disclosed above, these continuing connected transactions have been entered into:

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

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

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

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

(a) have received the approval of the board of directors of the Company;

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

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

(d) as disclosed above, have not exceeded the caps of the connected transactions for 2009.

4. MATERIAL CONTRACTS

(1) Signing of material contracts

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

(2) Guarantees

Details of external guarantees provided by the Company during the Reporting Period are set out in Note 35 to the Financial Statements prepared in accordance with IFRS.

(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 34 to the Financial Statements prepared in accordance with IFRS.

(X) Independent Auditor's Report

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

We have audited the consolidated financial statements of China Shanshui Cement Group Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") set out on pages 63 to 176, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these 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 as to whether the financial statements are free from material misstatement.

(X) Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 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 2009 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

9 April 2010

(XI) Financial Statements

Consolidated Income Statement

For the year ended 31 December 2009

(Expressed in Renminbi)

	Note	2009	2008
		RMB'000	RMB'000
Revenue	3 & 12	**8,727,626**	7,500,761
Cost of sales		**(6,947,151)**	(5,914,313)
Gross profit		**1,780,475**	1,586,448
Other revenue	4	**138,346**	188,204
Other net (expenses)/income	4	**(2,282)**	14,832
Selling and marketing expenses		**(196,535)**	(175,213)
Administrative expenses		**(469,138)**	(553,251)
Profit from operations		**1,250,866**	1,061,020
Finance costs		**(309,585)**	(348,025)
Profit before taxation	5	**941,281**	712,995
Income tax	6	**(227,237)**	(163,784)
Profit for the year		**714,044**	549,211
Attributable to:			
Equity shareholders of the Company		**701,557**	539,357
Minority interests		**12,487**	9,854
Profit for the year		**714,044**	549,211
Earnings per share	11		
Basic (RMB)		**0.25**	0.23
Diluted (RMB)		**0.25**	0.23

The notes on pages 70 to 176 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 31(b).

(XI) Financial Statements

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

(Expressed in Renminbi)

	Note	**2009**	2008
		RMB'000	RMB'000
Profit for the year		**714,044**	549,211
Other comprehensive income for the year			
(after tax and reclassification adjustments)	*10*		
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**223**	(14,930)
Available-for-sale securities: net movement			
in the fair value reserve		**4,033**	(8,613)
		4,256	(23,543)
Total comprehensive income for the year		**718,300**	525,668
Attributable to:			
Equity shareholders of the Company		**705,813**	515,851
Minority interests		**12,487**	9,817
Total comprehensive income for the year		**718,300**	525,668

The notes on pages 70 to 176 form part of these financial statements.

(XI) Financial Statements

Consolidated Balance Sheet

At 31 December 2009

(Expressed in Renminbi)

	Note	2009	2008
		RMB'000	RMB'000
Non-current assets			
Fixed assets	13		
– Property, plant and equipment		**8,695,576**	7,368,250
– Interests in leasehold land held for own use under operating leases		**1,451,568**	1,269,533
		10,147,144	8,637,783
Intangible assets	14	**333,165**	285,462
Goodwill	15	**595,498**	500,746
Other financial assets	16	**12,166**	6,789
Other long-term assets	18	**119,759**	133,166
Deferred tax assets	30(b)	**94,550**	102,611
		11,302,282	9,666,557
Current assets			
Inventories	19	**840,345**	890,619
Trade and bills receivable	20	**703,877**	351,781
Other receivables and prepayments	21	**834,615**	582,811
Pledged bank deposits	22	**41,914**	32,435
Cash and cash equivalents	22	**886,130**	1,248,414
		3,306,881	3,106,060
Current liabilities			
Short-term and current portion of interest-bearing borrowings	23(a)	**2,147,000**	2,713,800
Current portion of loans from equity shareholders	23(b)	**58,527**	52,574
Trade and bills payable	24	**1,345,619**	1,207,991
Other payables and accrued expenses	25	**1,309,017**	1,057,941
Obligation under finance lease	26	**1,733**	1,133
Current taxation	30(a)	**108,038**	152,138
		4,969,934	5,185,577
Net current liabilities		**(1,663,053)**	(2,079,517)
Total assets less current liabilities		**9,639,229**	7,587,040

The notes on pages 70 to 176 form part of these financial statements.

Consolidated Balance Sheet (continued)

At 31 December 2009

(Expressed in Renminbi)

	Note	2009	2008
		RMB'000	RMB'000
Non-current liabilities			
Interest-bearing borrowings, less current portion	23	**3,361,000**	1,674,900
Loans from equity shareholders, less current portion	23	**177,832**	236,582
Convertible notes	23(c)	**10,859**	89,577
Obligation under finance lease	26	**6,337**	7,050
Defined benefit obligations	27(c)	**184,564**	194,630
Deferred income	28	**311,195**	296,323
Long-term payables	29	**274,738**	358,783
Deferred tax liabilities	30(b)	**83,576**	123,646
		4,410,101	2,981,491
NET ASSETS		**5,229,128**	4,605,549
CAPITAL AND RESERVES			
Share capital	31	**192,355**	185,372
Reserves	31	**4,967,838**	4,375,199
Total equity attributable to equity shareholders of the Company		**5,160,193**	4,560,571
Minority interests		**68,935**	44,978
TOTAL EQUITY		**5,229,128**	4,605,549

Approved and authorised for issue by the board of directors on 9 April 2010.

ZHANG Caikui
Director

Yu Yuchuan
Director

The notes on pages 70 to 176 form part of these financial statements.

(XI) Financial Statements

Balance Sheet

At 31 December 2009

(Expressed in Renminbi)

	Note	2009	2008
		RMB'000	RMB'000
Non-current assets			
Investments in subsidiaries	17	**413,248**	413,248
Current assets			
Amount due from subsidiaries	37	**3,033,137**	2,984,517
Cash and cash equivalents	22(a)	**64,895**	292,979
		3,098,032	3,277,496
Current liabilities			
Amount due to subsidiaries	37	**22,365**	22,660
Other payables and accrued expenses	25	**19,035**	525
		41,400	23,185
Net current assets		**3,056,632**	3,254,311
Total assets less current liabilities		**3,469,880**	3,667,559
Non-current liabilities			
Convertible notes	23(c)	**10,859**	89,577
NET ASSETS		**3,459,021**	3,577,982
CAPITAL AND RESERVES			
Share capital	31	**192,355**	185,372
Reserves	31	**3,266,666**	3,392,610
Total equity		**3,459,021**	3,577,982

Approved and authorised for issue by the board of directors on 9 April 2010.

ZHANG Caikui
Director

Yu Yuchuan
Director

The notes on pages 70 to 176 form part of these financial statements.

(XI) Financial Statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

(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	Minority 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 2008	244	1,765,499	145,132	404,244	(9,894)	11,972	214,296	2,531,493	41,485	2,572,978
Changes in equity for 2008:										
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(677)	(677)
Liquidation of a dormant subsidiary	–	–	–	–	–	–	–	–	(6,197)	(6,197)
Dividends approved in respect of the previous year	–	–	–	–	–	–	(205,755)	(205,755)	–	(205,755)
Issue of shares	185,128	1,533,854	–	–	–	–	–	1,718,982	–	1,718,982
Increase in minority interests attributable to subsidiaries	–	–	–	–	–	–	–	–	550	550
Transfer between reserves	–	–	87,656	–	–	–	(87,656)	–	–	–
Total comprehensive income for the year	–	–	–	–	(14,930)	(8,576)	539,357	515,851	9,817	525,668
Balance at 31 December 2008 and 1 January 2009	**185,372**	**3,299,353**	**232,788**	**404,244**	**(24,824)**	**3,396**	**460,242**	**4,560,571**	**44,978**	**4,605,549**
Changes in equity for 2009:										
Conversion of convertible notes	**6,983**	**133,669**	**–**	**(57,787)**	**–**	**–**	**–**	**82,865**	**–**	**82,865**
Use of reserves	**–**	**–**	**(404)**	**–**	**–**	**–**	**–**	**(404)**	**–**	**(404)**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**–**	**–**	**(188,652)**	**(188,652)**	**–**	**(188,652)**
Increase in minority interests attributable to subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,470**	**11,470**
Transfer between reserves	**–**	**–**	**109,446**	**–**	**–**	**–**	**(109,446)**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**223**	**4,033**	**701,557**	**705,813**	**12,487**	**718,300**
Balance at 31 December 2009	**192,355**	**3,433,022**	**341,830**	**346,457**	**(24,601)**	**7,429**	**863,701**	**5,160,193**	**68,935**	**5,229,128**

The notes on pages 70 to 176 form part of these financial statements.

(XI) Financial Statements

Consolidated Cash Flow Statement

For the year ended 31 December 2009

(Expressed in Renminbi)

	Note	2009	2008
		RMB'000	RMB'000
Operating activities			
Cash generated from operations	22(b)	1,586,642	1,485,408
Interest paid		(301,897)	(335,666)
Income tax paid		(259,048)	(112,481)
Net cash generated from operating activities		1,025,697	1,037,261
Investing activities			
Payment for purchase of fixed assets		(1,828,173)	(1,992,849)
Payment for purchase of intangible assets		(85,172)	(7,249)
Payment for other long-term assets		–	(44,396)
Acquisition of subsidiaries, net of cash acquired		(241,905)	(394,551)
Proceeds from sale of property, plant and equipment		14,438	21,448
Interest received		4,411	12,909
Dividend received from investment in security		–	175
Net cash used in investing activities		(2,136,401)	(2,404,513)
Financing activities			
Capital element of finance lease rentals paid		(600)	–
Proceeds from new loans and borrowings		3,675,000	3,446,000
Net proceeds from issue of shares		–	1,718,982
Proceeds from capital injection in subsidiaries by minority interests		–	550
Payment to minority holders in relation to the disposal of a subsidiary		–	(6,197)
Repayment of loans and borrowings		(2,755,375)	(3,040,772)
Interest element of finance lease rentals paid		(487)	–
Dividends paid to equity shareholders of the Company	31(b)	(169,907)	(205,755)
Net cash generated from financing activities		748,631	1,912,808
Net (decrease)/increase in cash and cash equivalents		(362,073)	545,556
Cash and cash equivalents at 1 January	22(a)	1,248,414	721,265
Effect of foreign exchange rate changes		(211)	(18,407)
Cash and cash equivalents at 31 December	22(a)	886,130	1,248,414

The notes on pages 70 to 176 form part of these financial statements.

(XI) Financial Statements

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries (collectively referred to as the "Group").

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

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

(b) Basis of preparation of the financial statements

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

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

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

The financial statements have been prepared on the basis that the Group will continue to operate throughout the next twelve months as a going concern. The Group's current liabilities exceeded its current assets by RMB1,663,053,000 as at 31 December 2009. Based on future projections of the Group's profits and cash inflows from operations and the ability of the Group to obtain continued bank financing to finance its continuing operation, the Company's directors have prepared the financial statements on a going concern basis.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

(c) Subsidiaries and minority interests

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

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

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, 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. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity shareholders of the Company.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries and minority interests *(continued)*

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1 (p), (q) or (r) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1 (m)).

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

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 (l)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

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.

(e) 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, are as follows:

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at 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 each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1 (w)(iv) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1 (w)(v). When these investments are derecognised or impaired (see note 1 (m)), the cumulative gain or loss is reclassified from equity to profit and loss.

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

(f) Derivative financial instruments

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) 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.

(h) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet 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(y)).

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.

(i) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Long-term consulting service contract

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

(k) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the balance sheet 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.

The estimated useful lives are as follows:

Limestone mining rights	7-13 years
Customer relationships	5 years
Supplier relationship	15 months
Trademarks	10 years
Software and others	3-10 years

Both the period and method of amortisation are reviewed annually.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Leased assets *(continued)*

(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(h). 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.

(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 equity securities and other receivables

Investments in equity securities (other than investment in subsidiaries (see note 1(m)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date 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;

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment of assets *(continued)*

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

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

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss recognised in prior years.
- For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment of assets *(continued)*

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

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

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

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

(ii) Impairment of other assets

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– 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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Convertible notes

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

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

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

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

(q) Interest-bearing borrowings

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

(r) Trade and other payables

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Cash and cash equivalents

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

(t) Employee benefits

(i) Short-term benefits

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

(ii) Defined contribution retirement plans

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

(iii) Defined benefit retirement plan obligations

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Employee benefits *(continued)*

(iii) Defined benefit retirement plan obligations (continued)

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

(u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to 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 balance sheet date, 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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Income tax *(continued)*

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

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

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

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

  - the same taxable entity; or

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Financial guarantees, provisions and contingent liabilities

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

(i) Financial guarantees issued

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

(ii) Financial guarantees received

Where the Group receives a financial guarantee, the fair value of the guarantee is initially recognised as deferred expenses within trade and other receivables. Where consideration is paid or payable for the acquisition of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of liability. Where no such consideration is paid or payable, an immediate income is recognised in profit or loss on initial recognition of any deferred expenses.

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

(iii) Provisions and contingent liabilities

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Financial guarantees, provisions and contingent liabilities *(continued)*

(iii) Provisions and contingent liabilities (continued)

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

(w) Revenue recognition

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

(i) Sales of goods

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

(ii) Services rendered

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

(iii) Government grants

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

(iv) Dividends

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Revenue recognition *(continued)*

(v) Interest income

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

(x) Translation of foreign currencies

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

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

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. 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.

(y) Borrowing costs

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Related parties

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

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

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

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

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

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

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

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

(aa) Segment reporting

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

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

2 CHANGES IN ACCOUNTING POLICIES

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

- IFRS 8, *Operating segments*
- IAS 1 (revised 2007), *Presentation of financial statements*
- Improvements to IFRSs (2008)
- Amendments to IAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to IFRS 7, *Financial instruments: disclosures – improving disclosures about financial instruments*
- IAS 23 (revised 2007), *Borrowing costs*

The amendments to IAS 23 and IAS 27 and Improvements to IFRSs (2008) have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 12). Corresponding amounts have been provided on a basis consistent with the revised segment information.

- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

- As a result of the adoption of the amendments to IFRS 7, the financial statements include expanded disclosures in note 33(f) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to IFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

3 REVENUE

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

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

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

	2009	2008
	RMB'000	RMB'000
Sales of cement and clinker	**8,187,087**	7,076,042
Sales of other products and rendering of services	**540,539**	424,719
	8,727,626	7,500,761

4 OTHER REVENUE AND NET (EXPENSES)/INCOME

	Note	**2009**	2008
		RMB'000	RMB'000
Other revenue			
Interest income on bank deposits		**4,411**	12,909
Dividend income from listed security		**–**	175
Government grants	*(i)*	**100,074**	170,351
Sales of power generation right	*(ii)*	**21,000**	–
Amortisation of deferred income		**12,861**	4,270
Amortisation of financial guarantee issued		**33,450**	32,721
Amortisation of financial guarantee received		**(33,450)**	(32,222)
		138,346	188,204
Other net (expenses)/income			
Debt restructuring gain	*(iii)*	**5,586**	81,976
Net foreign exchange (loss)/gain		**(374)**	22,488
Net losses from sale of property, plant and equipment		**(7,130)**	(22,962)
Impairment losses on property, plant and equipment		**–**	(49,242)
Impairment of inventories		**–**	(4,458)
Compensation to customer		**–**	(10,267)
Donations		**(1,466)**	(5,210)
Penalty expenses		**(476)**	(3,403)
Others		**1,578**	5,910
		(2,282)	14,832

Notes:

(i) Government grants totalling RMB80,285,000 (2008: RMB144,878,000) represent the refunds of value-added tax received from the tax bureaux for usage of industrial waste materials during the year ended 31 December 2009. The remaining amounts mainly represent various unconditional government subsidies received from finance bureaux to encourage companies invested in the respective areas.

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(ii) Pursuant to the agreement entered between Liaoning Shanshui Gongyuan Cement Co., Ltd. ("Gongyuan Cement") and CPI Northeast Power Company Limited ("CPI Northeast Power") dated 29 December 2009, CPI Northeast Power acquired power generation right from Gongyuan Cement with a consideration of RMB21,000,000. The transaction has been reported to and approved by Benxi City Development and Reform Commission on 31 December 2009. The power generation right became redundant after Gongyuan Cement disposed of the outdated heat-power co-generating units in 2008.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

4 OTHER REVENUE AND NET (EXPENSES)/INCOME *(continued)*

Notes: (continued)

(iii) Liaoyang Qianshan Cement Co., Ltd. ("Qianshan Cement") has past due bank loans of RMB69,000,000 with Liaoyang City Commercial Bank with accumulated overdue interest of RMB16,490,000 at the acquisition date of 28 December 2007. The amount of overdue interest accumulated to RMB24,607,000 as at 30 November 2009. The Group has been negotiating with Liaoyang City Commercial Bank in the settlement of the balances since acquisition date. In December 2009, agreement has been reached with the Bank to settle the principal in two instalments; first instalment of RMB19,000,000 on 20 December 2009 and second instalment of RMB50,000,000 before 31 December 2010. The bank has further agreed to waive overdue interest of RMB5,586,000 after Qianshan Cement settled the interest of RMB19,021,000 in December 2009.

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Note	**2009**	2008
		RMB'000	RMB'000
Interest on interest-bearing borrowings		**304,092**	329,409
Less: capitalised interest expense	*(i)*	**(35,967)**	(58,544)
Net interest expense		**268,125**	270,865
Unwinding of discount	*(ii)*	**42,681**	63,458
Finance charges on obligations under finance lease	*26*	**487**	–
Bank charges		**1,241**	7,239
Interest rate swaps		**–**	2,129
(Gain)/losses on termination of interest rate swap contracts		**(2,949)**	4,334
		309,585	348,025

5 PROFIT BEFORE TAXATION *(continued)*

(a) Finance costs *(continued)*

Notes:

(i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 5.73% (2008: 6.83%) for the year ended 31 December 2009.

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

	Note	**2009**	2008
		RMB'000	RMB'000
Convertible notes	*23(c)*	**4,273**	9,945
Defined benefit obligations	*27(c)*	**6,710**	8,060
Acquisition consideration payable	*29*	**31,698**	45,453
		42,681	63,458

(b) Personnel expenses

	2009	2008
	RMB'000	RMB'000
Salaries, wages and other benefits	**408,341**	412,503
Contributions to defined contribution retirement plans	**44,765**	40,634
	453,106	453,137

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION *(continued)*

(c) Other items

	2009	2008
	RMB'000	RMB'000
Amortisation		
– land lease premium	29,222	24,492
– intangible assets	53,846	54,222
– other long-term assets	13,407	4,918
	96,475	83,632
Depreciation	551,434	454,920
Impairment losses		
– trade receivables *(note 20(b))*	15,296	20,127
– plant and machinery *(note 13)*	–	49,242
– inventory *(note 19(b))*	11,709	4,519
	27,005	73,888
Operating lease charges	16,395	23,246
Auditors' remuneration		
– audit services	6,835	6,620
– other services	76	–
	6,911	6,620
Cost of inventories *(note 19(b))*	6,947,151	5,914,313

Note: Cost of inventories includes RMB807,811,000 (2008: RMB635,227,000) relating to personnel expenses, depreciation and amortisation expenses and provision of inventories for the year ended 31 December 2009, which are also included in the respective amounts disclosed separately above or in note 5(b) for each type of expenses.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2009	2008
	RMB'000	RMB'000
Current tax		
Provision for the PRC income tax	**215,506**	242,217
Deferred tax		
Origination and reversal of temporary differences	**11,731**	(78,433)
	227,237	163,784

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

(ii) No provision for Hong Kong Profits Tax has been made as the subsidiaries incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax during the year ended 31 December 2009 (2008: Nil).

(iii) Pursuant to the currently applicable income tax rules, the PRC regulations and local income tax concessions granted, the companies comprising the Group in the PRC are liable to the PRC enterprise income tax at a rate of 25% during the year ended 31 December 2009 (2008: 25%), except for the following:

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

The year 2009 is the fourth profit-making year of Kangda Products, Kangda Mining, Shandong Shanshui, Pingyin Shanshui and Anqiu Shanshui, therefore, the applicable enterprise income tax rate for the year ended 31 December 2009 is 12.5% (2008: 12.5%). The year 2009 is the second profit-making year of Kangda Cement, therefore, the applicable enterprise income tax rate for the year ended 31 December 2009 is 0% (2008: 0%).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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

(a) Taxation in the consolidated income statement represents: *(continued)*

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

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

	Note	**2009**	2008
		RMB'000	RMB'000
Profit before taxation		**941,281**	712,995
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	*(i)*	**235,320**	178,249
Effect of tax rates in foreign jurisdictions		**6,120**	(12,086)
Tax holiday	*6(a) (iii)*	**(35,617)**	(3,439)
Tax effect of non-deductible expenses	*(ii)*	**24,612**	25,588
Tax effect of non-taxable income	*(iii)*	**(6,748)**	(24,528)
Tax effect of unused tax losses not recognised		**6,608**	–
Tax credit	*(iv)*	**(3,058)**	–
Actual income tax expense		**227,237**	163,784
Effective tax rate		**24.1%**	23.0%

Notes:

(i) The provision for current income tax is based on the PRC statutory rate of 25% (2008: 25%) of the taxable profit of the companies comprising the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries of the Company, which are tax-exempted.

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

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

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

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

Notes: (continued)

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

7 DIRECTORS' REMUNERATION

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

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

* Reappointed on 5 June 2009.

** Resigned on 5 Mar 2010.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

7 DIRECTORS' REMUNERATION *(continued)*

Details of the directors' remuneration for the year ended 31 December 2008 are as follows:

	Directors' fees	Salaries, allowances and other benefits	Bonuses	Contributions to defined contribution retirement plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chairman					
Zhang Caikui	3,812	343	10,355	12	14,522
Executive directors					
Li Yanmin	2,842	295	–	9	3,146
Dong Chengtian	2,072	285	–	9	2,366
Yu Yuchuan	1,875	242	–	9	2,126
Non-executive directors					
Jiao Shuge*	–	–	–	–	–
Homer Sun*	–	–	–	–	–
Independent non-executive directors					
Sun Jianguo*	50	–	–	–	50
Wang Yanmou*	50	–	–	–	50
Wang Jian *	50	–	–	–	50
	10,751	1,165	10,355	39	22,310

* Appointed on 1 July 2008.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four were also directors whose remuneration is disclosed in note 7 for the year ended 31 December 2009 (2008: Four).

The aggregate of the remuneration in respect of the remaining individual (2008: One) is as follows:

	2009	2008
	RMB'000	RMB'000
Salaries, allowances and other benefits	**153**	249
Bonuses	**1,382**	1,780
Contributions to defined contribution retirement plans	**17**	15
	1,552	2,044

The remuneration of the remaining individual with the highest remuneration (2008: One) is within the following band:

	2009	2008
	Number of individuals	Number of individuals
RMB1,000,000 to RMB1,500,000	**–**	–
RMB1,500,001 to RMB2,500,000	**1**	1
	1	1

9 PROFIT/LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The loss attributable to equity shareholders of the Company includes a loss of RMB10,742,000 in 2009 (2008: RMB7,520,000) (See note 31(a))) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2009	2008
	RMB'000	RMB'000
Amount of loss attributable to equity shareholders dealt within the Company's financial statements	**(10,742)**	(7,520)
Company's loss for the year	**(10,742)**	(7,520)

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

10 OTHER COMPREHENSIVE INCOME

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

	2009			2008		
	Before-tax amount	Tax expense	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Exchange differences on translation of:						
– financial statement of overseas subsidiaries	223	–	223	(14,930)	–	(14,930)
Available-for-sale securities: net movement in fair value reserve	5,377	(1,344)	4,033	(11,484)	2,871	(8,613)
Other comprehensive income	5,600	(1,344)	4,256	(26,414)	2,871	(23,543)

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

	2009	2008
	RMB'000	RMB'000
Available-for-sale securities:		
Changes in fair value recognised during the year	5,377	(11,484)
Net deferred tax (debited)/credited to other comprehensive income	(1,344)	2,871
Net movement in the fair value reserve during the period recognised in other comprehensive income	4,033	(8,613)

11 EARNINGS PER SHARE

(a) Basic earnings per share

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

The calculation of basic earnings per share for the year ended 31 December 2008 is based on the profit attributable to ordinary equity shareholders of the Company of RMB539,357,000 and the weighted average number of 2,318,060,274 ordinary shares, after taking into account the 1,952,520,000 ordinary shares of the Company in issue as if the shares were outstanding throughout the year ended 31 December 2008, and the issuance of ordinary shares in connection with the global offering and placing and the exercise of the over-allotment option during the year ended 31 December 2008.

(i) Weighted average number of ordinary shares

	2009	2008
Issued and issuable ordinary shares at 1 January	**2,700,986,000**	1,952,520,000
Share issued in the global offering and placing	**–**	322,745,315
Effect of the exercise of the over-allotment option	**–**	42,794,959
Effect of the conversion of the convertible notes	**68,212,000**	–
Weighted average number of ordinary shares at 31 December	**2,769,198,000**	2,318,060,274

11 EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2009 is based on the profit attributable to ordinary equity shareholders of the Company of RMB705,830,000 (2008: RMB549,302,000) and the weighted average number of 2,781,844,200 ordinary shares (2008: 2,433,024,474 shares), calculated as follows:

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

	2009	2008
	RMB'000	RMB'000
Profit attributable to equity shareholders of the Company (basic)	**701,557**	539,357
Unwinding of discount on convertible notes	**4,273**	9,945
Profit attributable to equity shareholders of the Company (diluted)	**705,830**	549,302

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

	2009	2008
Weighted average number of ordinary shares (basic)	**2,769,198,000**	2,318,060,274
Effect of conversion of shares for convertible notes	**12,646,200**	114,964,200
Weighted average number of ordinary shares (diluted)	**2,781,844,200**	2,433,024,474

12 SEGMENT REPORTING

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

The Group manages its businesses by geographical areas. On first-time adoption of IFRS 8, *Operating segments* and 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 two reportable segments. Each reportable segment has aggregated those operating segments which located in the geography 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.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments. In this regard, 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 and intangible assets, deferred tax assets, current assets with the exception of investments in financial assets and other corporate assets which are unallocated to an individual reportable segment. Segment liabilities include trade creditors, accruals and bills payable attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments with the exception of certain bank borrowings and other corporate liabilities which are unallocated to an individual reportable segment.

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 directors' remuneration, auditors' remuneration, finance costs in relation to the unallocated bank borrowings and other head office or corporate administration expenses.

12 SEGMENT REPORTING *(continued)*

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

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.

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 2009 and 2008 is set out below.

	Year ended 31 December 2009			Year ended 31 December 2008		
	Shandong Province	**Northeastern China**	**Total**	Shandong Province	Northeastern China	Total
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Revenue from external customers	**7,511,209**	**1,216,417**	**8,727,626**	6,599,468	901,293	7,500,761
Inter-segment revenue	**56,642**	**484**	**57,126**	46,498	2,388	48,886
Reportable segment revenue	**7,567,851**	**1,216,901**	**8,784,752**	6,645,966	903,681	7,549,647
Reportable segment profit (adjusted profit before taxation)	**1,190,514**	**69,932**	**1,260,446**	1,086,686	40,059	1,126,745
Interest income from bank deposits	**3,407**	**1,004**	**4,411**	12,432	477	12,909
Interest expense	**69,333**	**24,774**	**94,107**	96,124	41,189	137,313
Depreciation and amortisation for the year	**481,065**	**153,437**	**634,502**	421,161	112,473	533,634
Impairment of – plant and machinery	**–**	**–**	**–**	12,031	37,211	49,242

12 SEGMENT REPORTING *(continued)*

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

	Year ended 31 December 2009			Year ended 31 December 2008		
	Shandong Province	Northeastern China	Total	Shandong Province	Northeastern China	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets	**9,372,976**	**4,216,389**	**13,589,365**	7,816,134	3,291,329	11,107,463
Reportable segment liabilities	**3,173,883**	**1,500,171**	**4,674,054**	2,484,226	1,389,648	3,873,874

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

	2009	2008
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	**8,784,752**	7,549,647
Elimination of inter-segment revenue	**(57,126)**	(48,886)
Consolidated turnover	**8,727,626**	7,500,761
Profit		
Reportable segment profit	**1,260,446**	1,126,745
Elimination of inter-segment profits	**(23,821)**	(9,884)
Reportable segment profit derived from group's external customers	**1,236,625**	1,116,861
Unallocated finance costs	**(215,478)**	(210,712)
Unallocated head office and corporate expenses	**(79,866)**	(193,154)
Consolidated profit before taxation	**941,281**	712,995

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(Expressed in Renminbi unless otherwise indicated)

12 SEGMENT REPORTING *(continued)*

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

	At 31 December 2009	At 31 December 2008
	RMB'000	RMB'000
Assets		
Reportable segment assets	**13,589,365**	11,107,463
Elimination of inter-segment profits	**(33,705)**	(9,884)
Elimination of inter-segment receivables	**(27,690)**	–
	13,527,970	11,097,579
Unallocated head office and corporate assets	**1,081,193**	1,675,038
Consolidated total assets	**14,609,163**	12,772,617
Liabilities		
Reportable segment liabilities	**4,674,054**	3,873,874
Elimination of inter-segment payables	**(27,689)**	–
	4,646,365	3,873,874
Unallocated bank borrowings	**3,928,000**	3,119,800
Unallocated head office and corporate liabilities	**805,670**	1,173,394
Consolidated total liabilities	**9,380,035**	8,167,068

13 FIXED ASSETS

	Plants and buildings	Equipment	Motor vehicles and others	Construction in progress	Sub-total	Interests in leasehold land held for own use under operating leases	Total fixed assets
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At 1 January 2008	2,426,856	3,562,561	510,209	335,573	6,835,199	1,105,487	7,940,686
Additions	14,726	96,342	25,383	1,995,484	2,131,935	215,619	2,347,554
Transfers	31,456	699,219	21,357	(752,032)	–	–	–
Disposals	(22,982)	(29,064)	(18,428)	–	(70,474)	–	(70,474)
Reclassification	(154,448)	524,833	(370,385)	–	–	–	–
At 31 December 2008	2,295,608	4,853,891	168,136	1,579,025	8,896,660	1,321,106	10,217,766
At 1 January 2009	**2,295,608**	**4,853,891**	**168,136**	**1,579,025**	**8,896,660**	**1,321,106**	**10,217,766**
Additions	**12,757**	**69,023**	**36,941**	**1,553,388**	**1,672,109**	**145,862**	**1,817,971**
Transfers	**78,035**	**2,213,388**	**2,110**	**(2,293,533)**	**–**	**–**	**–**
Additions through business combinations	**73,837**	**153,340**	**1,042**	**–**	**228,219**	**67,421**	**295,640**
Disposals	**(10,435)**	**(25,311)**	**(8,160)**	**–**	**(43,906)**	**(2,248)**	**(46,154)**
Reclassification	**216,301**	**(238,089)**	**21,788**	**–**	**–**	**–**	**–**
At 31 December 2009	**2,666,103**	**7,026,242**	**221,857**	**838,880**	**10,753,082**	**1,532,141**	**12,285,223**
Accumulated depreciation and amortisation:							
At 1 January 2008	(223,154)	(635,079)	(192,079)	–	(1,050,312)	(27,081)	(1,077,393)
Charge for the year	(61,829)	(370,025)	(23,066)	–	(454,920)	(24,492)	(479,412)
Impairment loss	(23,537)	(18,493)	(7,212)	–	(49,242)	–	(49,242)
Written back on disposals	3,694	15,848	6,522	–	26,064	–	26,064
Reclassification	71,195	(235,325)	164,130	–	–	–	–
At 31 December 2008	(233,631)	(1,243,074)	(51,705)	–	(1,528,410)	(51,573)	(1,579,983)
At 1 January 2009	**(233,631)**	**(1,243,074)**	**(51,705)**	**–**	**(1,528,410)**	**(51,573)**	**(1,579,983)**
Charge for the year	**(66,179)**	**(463,407)**	**(21,848)**	**–**	**(551,434)**	**(29,222)**	**(580,656)**
Written back on disposals	**6,459**	**11,860**	**4,019**	**–**	**22,338**	**222**	**22,560**
Reclassification	**(58,242)**	**78,326**	**(20,084)**	**–**	**–**	**–**	**–**
At 31 December 2009	**(351,593)**	**(1,616,295)**	**(89,618)**	**–**	**(2,057,506)**	**(80,573)**	**(2,138,079)**
Net book value:							
At 31 December 2009	**2,314,510**	**5,409,947**	**132,239**	**838,880**	**8,695,576**	**1,451,568**	**10,147,144**
At 31 December 2008	2,061,977	3,610,817	116,431	1,579,025	7,368,250	1,269,533	8,637,783

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(Expressed in Renminbi unless otherwise indicated)

13 FIXED ASSETS *(continued)*

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

(b) Certain properties, equipment and interests in leasehold land held for own use under operating leases with an aggregate carrying amount of RMB1,338,873,000 (2008: RMB1,497,647,000) for the year ended 31 December 2009, are pledged to secure bank loans (see note 23) 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 RMB29,228,000 have not been obtained (2008: RMB21,674,000).

(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 and residual heat generation. The carrying amount for these clinker production lines as at 31 December 2009 was RMB1,816,445,000 (2008: RMB883,784,000).

(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 2009 was Nil (2008: RMB49,242,000).

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

The Group leases a concrete mixer truck under finance lease expiring for ten years (See note 26). The lease did not include contingent rentals. The carrying amount for the equipment held under finance lease was RMB1,759,000 (2008: RMB1,965,000).

(h) As at 31 December 2009, application for the registration of interest in leasehold land acquired during the year for own use under operating leases with cost of approximately RMB90,718,000 (2008: Nil) was still in progress.

14 INTANGIBLE ASSETS

	Limestone mining rights	Customer relation-ships	Supplier relation-ship	Trademarks	Software and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2008	209,133	25,291	5,897	63,100	12,146	315,567
Additions	41,814	–	–	–	2,297	44,111
At 31 December 2008	250,947	25,291	5,897	63,100	14,443	359,678
At 1 January 2009	**250,947**	**25,291**	**5,897**	**63,100**	**14,443**	**359,678**
Additions	**93,954**	**–**	**–**	**–**	**5,745**	**99,699**
Additions through business combinations	**1,850**	**–**	**–**	**–**	**–**	**1,850**
At 31 December 2009	**346,751**	**25,291**	**5,897**	**63,100**	**20,188**	**461,227**
Accumulated amortisation						
At 1 January 2008	(13,751)	(1,328)	(805)	–	(4,110)	(19,994)
Amortisation for the year	(36,325)	(4,786)	(4,718)	(6,310)	(2,083)	(54,222)
At 31 December 2008	(50,076)	(6,114)	(5,523)	(6,310)	(6,193)	(74,216)
At 1 January 2009	**(50,076)**	**(6,114)**	**(5,523)**	**(6,310)**	**(6,193)**	**(74,216)**
Amortisation for the year	**(38,428)**	**(5,058)**	**(374)**	**(6,310)**	**(3,676)**	**(53,846)**
At 31 December 2009	**(88,504)**	**(11,172)**	**(5,897)**	**(12,620)**	**(9,869)**	**(128,062)**
Net book value:						
At 31 December 2009	**258,247**	**14,119**	**–**	**50,480**	**10,319**	**333,165**
At 31 December 2008	200,871	19,177	374	56,790	8,250	285,462

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(Expressed in Renminbi unless otherwise indicated)

14 INTANGIBLE ASSETS *(continued)*

(a) The amortisation charges of intangible assets during the year are included in the cost of sales and administrative expenses in the consolidated income statement.

(b) The limestone mining rights which are granted from the respective land bureaux are valid for a period of 7 to 13 years. The limestone mines are located in Shandong and Liaoning provinces.

(c) The customer relationships amounting to RMB25,291,000 are non-contractual customer relationships acquired through acquisitions of Yantai Shanshui Cement Co., Ltd. ("Yantai Shanshui") and Zaozhuang Shanshui Cement Co., Ltd. ("Zaozhuang Shanshui") in September 2007. They are amortised over five years based on the Group's estimate on how long the Group could retain the customers.

(d) The supplier relationship amounting to RMB5,897,000, which has been fully amortised as at 31 December 2009, represents the value of the 15-month electricity supply contract acquired through the acquisition of Yantai Shanshui.

(e) Trademarks represent valuation of "千山", "工源" and "長白山" brands acquired through acquisitions of Qianshan Cement and Gongyuan Cement in December 2007. According to the resolution of the Board of Directors of the Group, trademarks acquired through business combinations would be phased out ten years later; management considers the estimated useful lives of trademarks are ten years though their legal rights are renewable.

15 GOODWILL

	2009	2008
	RMB'000	RMB'000
Cost		
At 1 January	**500,746**	500,746
Additions	**94,752**	–
At 31 December	**595,498**	500,746

15 GOODWILL *(continued)*

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

	2009	2008
	RMB'000	RMB'000
Continental Cement Corporation, Kangda Cement, Kangda Products and Kangda Mining (the "Kangda Cement Group")	**2,078**	2,078
Yantai Shanshui	**240,075**	240,075
Zaozhuang Shanshui	**65,169**	65,169
Qianshan Cement	**99,568**	99,568
Gongyuan Cement and its subsidiaries (the "Gongyuan Cement Group")	**93,856**	93,856
Qingdao Shanshui Hengtai Cement Co., Ltd. ("Qingdao Hengtai")	**7,259**	–
Jining Shanshui Cement Co., Ltd. ("Jining Shanshui")	**78,261**	–
Yingkou Shanshui Cement Co., Ltd. ("Yingkou Shanshui")	**9,232**	–
	595,498	500,746

The recoverable amounts of the cash-generating unit are determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 14.22%. One major assumption is annual growth rates in revenue which vary among different subsidiaries. The growth rates are based on the subsidiaries' growth forecasts and the average long-term growth rate for the relevant industry. Another key assumption for the value-in-use calculations is the stable budgeted gross margin, which is determined based on the subsidiaries' past performance and its expectation for market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of each subsidiary to exceed its recoverable amount. The discount rates used are pre-tax and reflect specific risks relating to the Group.

16 OTHER FINANCIAL ASSETS

	Note	2009	2008
		RMB'000	RMB'000
Available-for-sale securities, at fair value	*(a)*	**10,906**	5,529
Unquoted equity investments in non-listed companies	*(b)*	**1,260**	1,260
		12,166	6,789

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(Expressed in Renminbi unless otherwise indicated)

16 OTHER FINANCIAL ASSETS *(continued)*

Notes:

(a) Available-for-sale securities are valued with reference to the trading price at the balance sheet date.

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

17 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2009	2008
	RMB'000	RMB'000
Unlisted shares, at cost	**413,248**	413,248

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

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Attributable equity interest Indirect %	Principal activities
(a) Enterprise established in Hong Kong					
China Shanshui Cement Group (Hong Kong) Company Limited ("Shanshui Cement Hong Kong")	Hong Kong, PRC 25 January 2005	HKD10,000	100.00	–	Investment holding
China Pioneer Cement (Hong Kong) Company Limited ("Pioneer Cement")	Hong Kong, PRC 25 January 2005	HKD0.01	–	100.00	Investment holding
(b) Enterprise established outside the PRC					
Continental Cement Corporation ("Continental Cement")	British Virgin Islands 30 May 2000	USD100	–	100.00	Investment holding

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Indirect %	Principal activities
(c) Wholly foreign owned enterprises established in the PRC					
Shandong Shanshui	Shandong, PRC 10 August 2001	RMB2,342,000,000	–	100.00	Investment holding
Kangda Cement	Shandong, PRC 6 April 2002	USD11,980,000	–	100.00	Production and sales of clinker
Kangda Products	Shandong, PRC 6 April 2002	USD20,484,500	–	100.00	Production and sales of cement
Kangda Mining	Shandong, PRC 6 April 2002	USD7,101,000	–	100.00	Mining, storage and sales of limestone
(d) Sino-foreign equity joint venture enterprises established in the PRC					
Pingyin Shanshui	Shandong, PRC 1 August 2003	RMB178,000,000	–	98.97	Production and sales of cement and clinker
Anqiu Shanshui	Shandong, PRC 4 August 2003	RMB152,000,000	–	99.06	Production and sales of cement and clinker
Weihai Shanshui Cement Co., Ltd.	Shandong, PRC 25 March 2008	Registered capital of USD24,000,000 and paid-in capital USD21,000,000	–	100.00	Manufacturing and selling of cement
Dandong Shanshui Gongyuan Cement Co., Ltd.	Liaoning, PRC 31 March 2008	USD12,000,000	–	100.00	Production and sales of cement
Qingdao Shanshui Chuang-xin Cement Co., Ltd.	Shandong, PRC 25 April 2008	USD20,000,000	–	100.00	Production and sales of cement
Shenyang Shanshui Gongyuan Cement Co., Ltd.	Liaoning, PRC 9 July 2008	USD12,000,000	–	100.00	Production and sales of cement

(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	Attributable equity interest Direct %	Attributable equity interest Indirect %	Principal activities
(d) Sino-foreign equity joint venture enterprises established in the PRC *(continued)*					
Linqu Shanshui Cement Co., Ltd.	Shandong, PRC 18 July 2008	Registered capital of USD25,000,000 and paid-in capital USD24,990,700	–	100.00	Production and sales of cement and clinker
Zaozhuang Chuang-xin Shanshui Cement Co., Ltd.	Shandong, PRC 5 September 2008	USD30,000,000	–	100.00	Production and sales of cement
(e) Domestic companies established in the PRC					
Shandong Cement Factory Co., Ltd. ("Shandong Cement Factory")	Shandong, PRC 3 April 1990	RMB182,000,000	–	99.00	Production and sales of cement; production of limestone
Jinan Shi-ji Chuang-xin Cement Co., Ltd.	Shandong, PRC 17 January 2002	RMB41,460,000	–	95.18	Production and sales of cement and related products
Weifang Shanshui Packaging Products Co., Ltd.	Shandong, PRC 22 January 2002	RMB500,000	–	99.90	Production and sales of cement packaging materials
Jinan Shanshui Cement Mechanics Co., Ltd.	Shandong, PRC 12 March 2002	RMB1,500,000	–	99.00	Installation of equipment and spare parts of cement machines
Changle Shanshui Cement Co., Ltd. ("Changle Shanshui")	Shandong, PRC 30 July 2002	RMB24,700,000	–	99.00	Production and sales of cement; Production of limestone
Jinan Shanshui Wuliugang Co., Ltd. ("Wuliugang")	Shandong, PRC 28 March 2003	RMB5,000,000	–	99.00	Logistic service and sales of coal
Binzhou Shanshui Cement Co., Ltd.	Shandong, PRC 30 July 2003	RMB5,000,000	–	99.00	Production and sales of cement

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Attributable equity interest Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Shandong Shanshui Cement Industrial Design Development Co., Ltd.	Shandong, PRC 1 August 2003	RMB6,000,000	–	90.00	Development, manufacture, sales and technical support of cement related equipments, and consultation service
Liaocheng Shanshui Cement Co., Ltd.	Shandong, PRC 1 August 2003	RMB5,000,000	–	99.00	Production and sales of cement
Gucheng Shanshui Cement Co., Ltd.	Hebei, PRC 4 August 2003	RMB5,000,000	–	99.00	Production and sales of cement
Dongying Shanshui Cement Co., Ltd.	Shandong, PRC 4 August 2003	RMB5,000,000	–	99.00	Production and sales of cement
Zibo Shanshui Cement Co., Ltd.	Shandong, PRC 5 August 2003	RMB60,000,000	–	99.00	Production and sales of cement, clinker and limestone
Weifang Shanshui Cement Co., Ltd. ("Weifang Shanshui")	Shandong, PRC 29 December 2003	RMB50,000,000	–	100.00	Production and sales of cement and limestone
Zibo Shuangfeng Shanshui Cement Co., Ltd.	Shandong, PRC 1 July 2004	RMB10,000,000	–	99.00	Production and sales of cement
Juye Shanshui Cement Co., Ltd.	Shandong, PRC 17 May 2006	RMB10,000,000	–	99.96	Production and sales of cement
Dalian Shanshui Cement Co., Ltd. ("Dalian Shanshui")	Liaoning, PRC 17 August 2007	RMB5,000,000	–	100.00	Production and sales of cement clinker and related products
Yishui Shanshui Cement Co., Ltd. ("Yishui Shanshui")	Shandong, PRC 28 September 2007	RMB128,700,000	–	99.00	Production and sales of clinker and 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	Attributable equity interest Direct %	Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Yantai Shanshui	Shandong, PRC 22 November 2002	RMB155,500,000	–	100.00	Production and sales of cement
Zaozhuang Shanshui	Shandong, PRC 28 July 2004	RMB70,000,000	–	100.00	Production and sales of cement
Qianshan Cement	Liaoning, PRC 5 June 1989	RMB98,840,700	–	73.00	Production and sales of cement and concrete
Gongyuan Cement	Liaoning, PRC 13 July 1998	RMB280,000,000	–	100.00	Production and sales of cement
Tongliao Shanshui Gongyuan Cement Co., Ltd.	Inner Mongolia, PRC 2 April 2004	RMB5,000,000	–	100.00	Production and sales of cement
Benxi Gongyuan Clinker Sales Co., Ltd.	Liaoning, PRC 2 March 2006	RMB500,000	–	100.00	Production and sales of cement
Benxi Shanshui Gongyuan Transportation Co., Ltd.	Liaoning, PRC 26 February 2008	RMB360,000	–	100.00	Transportation services
Benxi Shanshui Mechanics and Electric Engineering Co., Ltd.	Liaoning, PRC 10 March 2008	RMB500,000	–	100.00	Installation and maintenance of equipment and spare parts of cement machines
Benxi Shanshui Gongyuan Packaging Products Co., Ltd.	Liaoning, PRC 11 November 2008	RMB500,000	–	100.00	Production and sales of cement packaging materials
Jining Shanshui	Shandong, PRC 21 January 2005	RMB100,000,000	–	100.00	Production and sales of cement, clinker, limestone and related products
Benxi Shanshui Mining Co., Ltd.	Liaoning, PRC 18 February 2009	RMB500, 000	–	100.00	Mining and sales of limestone

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Attributable equity interest Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Qingdao Hengtai	Shandong, PRC 10 June 2004	RMB3,000,000	–	100.00	Production and sales of cement and related products
Benxi Yixin Tyre Repair Company ("Yixin Tyre")	Liaoning, PRC 3 April 2009	RMB300,000	–	100.00	Tyre repair and sales
Yishui Chuangxin Shanshui Cement Co., Ltd ("Yishui Chuangxin")	Shandong, PRC 2 June 2009	RMB10,000,000	–	100.00	Production and sales of cement
Qingdao Shanshui Jianxin Cement Co., Ltd ("Qingdao Jianxin")	Shangdong, PRC 18 June 2009	RMB20,000,000	–	100.00	Establishment of cement production line
Cangzhou Shanshui Cement Co., Ltd ("Cangzhou Shanshui")	Shandong, PRC 22 June 2009	RMB10,000,000	–	100.00	Establishment of cement production line
Bozhou Shanshui Cement Co., Ltd ("Bozhou Shanshui")	Anhui, PRC 3 September 2009	RMB40,000,000	–	100.00	Establishment of cement production line
Caoxian Shanshui Cement Co., Ltd ("Caoxian Shanshui")	Shandong, PRC 28 August 2009	RMB22,000,000	–	100.00	Establishment of cement production line
Shanxian Shanshui Cement Co., Ltd ("Shanxian Shanshui")	Shandong, PRC 27 August 2009	RMB25,000,000	–	100.00	Establishment of cement and clinker production line
Tianjin Shanshui Cement Co., Ltd ("Tianjin Shanshui")	Tianjin, PRC 26 August 2009	RMB20,000,000	–	100.00	Establishment of cement production line
Weifang Binhai Shanshui Cement Co., Ltd ("Weifang Binhai")	Shandong, PRC 4 August 2009	RMB42,000,000	–	100.00	Establishment of cement production line
Yingkou Shanshui Cement Co., Ltd ("Yingkou Shanshui")	Liaoning, PRC 5 December 2006	RMB30,000,000	–	100.00	Production and sales of cement
Panjin Shanshui Cement Co., Ltd ("Panjin Shanshui")	Liaoning, PRC 1 December 2009	RMB20,000,000	–	100.00	Establishment of cement production line

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Attributable equity interest Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Weishan Shanshui Cement Co., Ltd ("Weishan Shanshui")	Shandong, PRC 28 September 2009	RMB100,000,000	–	100.00	Establishment of cement and clinker production line
Bengbu Shanshui Cement Co., Ltd ("Bengbu Shanshui")	Anhui, PRC 4 September 2009	RMB30,000,000	–	100.00	Establishment of cement production line
Shanxi Shanshui Cement Co., Ltd	Shanxi, PRC 25 December 2009	RMB200,000,000	–	100.00	Establishment of cement and clinker production line
Alu Kerqin Qi Shanshui Cement Co., Ltd ("Alu Kerqin Cement")	Inner Mongolia, PRC 23 December 2009	RMB76,470,000	–	85.00	Establishment of cement and clinker production line

18 OTHER LONG-TERM ASSETS

	2009 RMB'000	2008 RMB'000
Cost		
At 1 January	**138,084**	–
Transfer from other receivables and prepayments	**–**	93,688
Additions	**–**	44,396
At 31 December	**138,084**	138,084
Accumulated amortisation and impairment		
At 1 January	**(4,918)**	–
Amortisation for the year	**(13,407)**	(4,918)
At 31 December	**(18,325)**	(4,918)
Net book value:	**119,759**	133,166

In December 2007, Pioneer Cement entered into a service agreement (the "Service Agreement") with China Northeastern Building Materials Consulting Limited ("Northeastern Consulting") for HKD150,000,000. Under the Service Agreement, Northeastern Consulting will provide the Group with various services from 1 January 2008 to 31 December 2019. The amounts are amortised over the service period as stated in the Service Agreement.

19 INVENTORIES

(a) Inventories in the balance sheet comprise:

	2009	2008
	RMB'000	RMB'000
Raw materials	**295,805**	371,645
Semi-finished goods	**144,230**	79,669
Finished goods	**225,682**	308,427
Spare parts	**174,628**	130,878
	840,345	890,619

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

	2009	2008
	RMB'000	RMB'000
Carrying amount of inventories sold	**6,935,639**	5,910,775
Write-down of inventories	**11,709**	4,519
Reversal of write-down of inventories	**(197)**	(981)
	6,947,151	5,914,313

20 TRADE AND BILLS RECEIVABLE

	Note	**2009**	2008
		RMB'000	RMB'000
Bills receivable		**302,440**	94,638
Trade debtors		**435,291**	279,677
Less: allowance for doubtful debts	*20(b)*	**(33,854)**	(22,534)
		703,877	351,781

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20 TRADE AND BILLS RECEIVABLE *(continued)*

(a) Ageing analysis

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

	2009	2008
	RMB'000	RMB'000
Current	630,247	265,750
Less than 3 month past due	27,552	39,855
3 to 6 months past due	20,287	23,265
6 to 12 months past due	7,008	13,590
More than 12 months past due	18,783	9,321
Amount past due	73,630	86,031
	703,877	351,781

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 33(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)).

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

	2009	2008
	RMB'000	RMB'000
At 1 January	22,534	7,069
Impairment loss recognised	15,296	20,127
Uncollectible amounts written off	(3,976)	(4,662)
At 31 December	33,854	22,534

20 TRADE AND BILLS RECEIVABLE *(continued)*

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

At 31 December 2009, the Group's trade and bills receivable of RMB132,804,000 (2008: RMB172,925,000) 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:

	2009	2008
	RMB'000	RMB'000
Neither pass due nor impaired	**586,052**	196,664
Less than 3 month past due	**10,334**	1,880
3 to 6 months past due	**6,616**	2,727
Over 6 months past due	**1,925**	119
Past due but not impaired	**18,875**	4,726
	604,927	201,390

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.

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21 OTHER RECEIVABLES AND PREPAYMENTS

	Note	**2009**	2008
		RMB'000	RMB'000
Prepayments for raw materials		**106,220**	126,509
Prepayments for long-lived assets	*(i)*	**358,840**	224,771
VAT recoverable		**140,383**	53,792
Financial guarantee received		**–**	33,450
Amount due from related parties	*36(c)*	**8,140**	5,897
Amount due from third parties	*(ii)*	**174,912**	131,814
Amount due from CPI Northeast Power	*4(ii)*	**21,000**	–
Others		**25,120**	6,578
		834,615	582,811

Notes:

(i) As at 31 December 2009, prepayment for long-lived assets totalling RMB358,840,000 (2008: RMB224,771,000) includes prepayments for construction of plant and equipment of RMB256,041,000 (2008: RMB183,520,000), prepayments for acquisition of land use rights of RMB67,326,000 (2008: RMB31,251,000), and prepayments for acquisition of mining rights of RMB35,473,000 (2008: RMB10,000,000).

(ii) The balance as at 31 December 2009 mainly represents amounts due from third parties of Shandong Shanshui, Kangda Cement, Kangda Mining, Kangda Products, Qingdao Hengtai, Jining Shanshui and Qianshan Cement.

22 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

		The Group		The Company	
	Note	**2009**	2008	**2009**	2008
		RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand		**886,130**	1,248,414	**64,895**	292,979
Pledged bank deposits	*(i)*	**41,914**	32,435	**–**	–
		928,044	1,280,849	**64,895**	292,979
Less: Pledged bank deposits		**(41,914)**	(32,435)	**–**	–
Cash and cash equivalents		**886,130**	1,248,414	**64,895**	292,979

Note:

(i) Bank deposits of RMB41,914,000 as at 31 December 2009 (2008: RMB32,435,000) were pledged to banks as security for certain of the Group's banking facilities in relation to bills payable (see note 24). The pledged bank deposits will be released upon the expiry of the relevant banking facilities.

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(Expressed in Renminbi unless otherwise indicated)

22 CASH AND CASH EQUIVALENTS *(continued)*

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

	Note	2009	2008
		RMB'000	RMB'000
Profit before taxation		**941,281**	712,995
Adjustments for:			
Depreciation	13	**551,434**	454,920
Impairment losses on property, plant and equipment	13	**–**	49,242
Amortisation of land lease premium for property held for own use	13	**29,222**	24,492
Amortisation of intangible assets	14	**53,846**	54,222
Amortisation of other long-term assets	18	**13,407**	4,918
Finance costs	5(a)	**309,585**	348,025
Gain on acquisition of minority interests		**–**	(677)
Dividend income from investments		**–**	(175)
Interest income	4	**(4,411)**	(12,909)
Losses on sale of property, plant and equipment	5(c)	**7,130**	22,962
Foreign exchange loss/(gain)		**251**	(25,339)
		1,901,745	1,632,676
Changes in working capital:			
Decrease/(increase) in inventories		**58,387**	(357,622)
(Increase)/decrease in trade and bills receivable		**(352,096)**	77,473
Increase in pledged bank deposits		**(9,479)**	(24,698)
(Increase)/decrease in other receivables and prepayments		**(113,197)**	101,414
Increase in trade and bills payable		**48,590**	163,179
Increase/(decrease) in other payables and accrued expenses		**54,596**	(105,415)
(Decrease)/increase in defined benefit obligations		**(16,776)**	2,671
Increase/(decrease) in deferred income		**14,872**	(4,270)
Cash generated from operations		**1,586,642**	1,485,408

23 LOANS AND BORROWINGS

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

	Note	**2009**	2008
		RMB'000	RMB'000
Long-term interest-bearing borrowings:			
Bank loans – Secured	*(i)*	**3,608,000**	2,436,700
Bank loans – Unsecured	*(ii)*	**1,180,000**	300,000
Loan from government – Unsecured	*(iii)*	**10,000**	10,000
		4,798,000	2,746,700
Less: Current portion of long-term bank loans	*(i)*	**(1,437,000)**	(1,071,800)
Interest-bearing borrowings, less current portion		**3,361,000**	1,674,900
Representing:			
Bank loans – Secured		**2,271,000**	1,364,900
Bank loans – Unsecured		**1,080,000**	300,000
Loan from government – Unsecured		**10,000**	10,000
Interest-bearing borrowings, less current portion		**3,361,000**	1,674,900

Notes to the Financial Statements

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23 LOANS AND BORROWINGS *(continued)*

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

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

	Note	**2009**	2008
		RMB'000	RMB'000
After one year but within two years		**1,313,000**	1,098,900
After two years but within five years		**2,003,000**	568,727
After five years		**45,000**	7,273
Total		**3,361,000**	1,674,900
Short-term interest-bearing borrowings:			
Bank loans – Secured	*(iv)*	**380,000**	1,342,000
Bank loans – Unsecured	*(ii)*	**330,000**	300,000
		710,000	1,642,000
Add: Current portion of long-term bank loans	*(i)*	**1,437,000**	1,071,800
Short-term and current portion of interest-bearing borrowings:		**2,147,000**	2,713,800
Representing:			
Bank loans – Secured		**1,717,000**	2,413,800
Bank loans – Unsecured		**430,000**	300,000
Short-term and current portion of interest-bearing borrowings:		**2,147,000**	2,713,800

Notes:

(i) As at 31 December 2009, none of the loans were secured by Jinan Shanshui Group Co., Ltd. ("Jinan Shanshui") (2008: RMB44,500,000). Loans of RMB383,000,000 (2008: RMB652,000,000) as at 31 December 2009, were guaranteed by third party. Other balances were either pledged by certain items of property, plant and equipment and interests in leasehold land held for own use under operating leases as disclosed in note 13, or guaranteed by companies within the Group.

(ii) Non-current bank loans with amount of RMB1,180,000,000 (2008: RMB300,000,000) and current bank loans with amount of RMB330,000,000 (2008: RMB300,000,000) are unsecured loans.

23 LOANS AND BORROWINGS *(continued)*

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

Notes: (continued)

(iii) The government loan was received by Gongyuan Cement for constructing an environmental friendly production line. The loan is unsecured, bears interest at one-year PRC deposit interest rate plus 0.3% and is repayable in 2021.

(iv) As at 31 December 2009, none of the current bank loans were guaranteed by third parties (2008: RMB180,000,000), the remaining current secured bank loans as at 31 December 2009 were pledged by certain items of property, plant and equipment and interests in leasehold land held for own use under operating leases as disclosed in note 13, or guaranteed by companies within the Group.

(v) Current secured bank loans carried annual interest rates ranging from 5.31% to 7.84% (2008: 5.58% to 8.75%) for the year ended 31 December 2009. Current unsecured bank loans carried annual interest rates at 5.31% to 7.47% (2008: 7.47%) for the year ended 31 December 2009.

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

The balance sheet ratio of certain subsidiaries and the aggregate external guarantee provided by a subsidiary exceeded certain limits set out in the covenants of long-term loan agreements with the China Construction Bank, Jinan Huaiyin Branch, Shanghai Pudong Development Bank, Jinan Branch, Weihai City Commercial Bank, Jinan Branch and Qilu Bank, Jinan Wangguanzhuang Branch. The relevant outstanding loan balances as at 31 December 2009 stood at RMB285,000,000 (2008: RMB255,000,000). These loans have been classified under current portion of long-term bank loans.

Qianshan Cement was acquired by the Group on 28 December 2007. At 31 December 2009, Qianshan Cement had past due long-term bank loans totalling RMB140,000,000 (2008: RMB209,000,000). The Group is working with these lenders to restructure the outstanding loans and interest payments.

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23 LOANS AND BORROWINGS *(continued)*

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

	Note	**2009**	2008
		RMB'000	RMB'000
Long-term loans from equity holders			
– Secured	*(i)*	**236,359**	289,156
Less: Current portion of loans from equity holders		**(58,527)**	(52,574)
Loans from equity holders, less current portion		**177,832**	236,582

Note:

(i) Anqiu Shanshui and Pingyin Shanshui entered into loan agreements with one of the Company's equity shareholders, International Finance Corporation, totalling USD50,000,000 in 2006.

The loans bear interest at London Inter Bank Offered Rate ("LIBOR") plus 2% per annum and are repayable bi-annually from 2008 to 2014. These loans are secured by certain items of property, plant and equipment of the subsidiaries as disclosed in notes 13.

(c) Convertible notes

	Liability portion	Equity portion	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2008	85,458	64,774	150,232
Interest charged	9,945	–	9,945
Foreign exchange gain	(5,826)	–	(5,826)
At 31 December 2008	89,577	64,774	154,351
At 1 January 2009	**89,577**	**64,774**	**154,351**
Interest charged	**4,273**	**–**	**4,273**
Foreign exchange gain	**(126)**	**–**	**(126)**
Conversion of convertible notes	**(82,865)**	**82,865**	**–**
At 31 December 2009	**10,859**	**147,639**	**158,498**

23 LOANS AND BORROWINGS *(continued)*

(c) Convertible notes *(continued)*

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

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

Three notes holders, which are MS Cement Limited, MS Cement II Limited and CDH Cement Limited, were fully convertible notes on 30 April 2009. A total of 102,318,000 ordinary shares of USD0.01 each were allotted and issued to these minority equity shareholders.

24 TRADE AND BILLS PAYABLE

	2009	2008
	RMB'000	RMB'000
Trade payables	**1,335,445**	1,167,991
Bills payable	**10,174**	40,000
	1,345,619	1,207,991

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

	2009	2008
	RMB'000	RMB'000
Within 3 months	**1,028,671**	955,504
Over 3 months but less than 6 months	**60,760**	113,937
Over 6 months but less than 12 months	**128,526**	36,195
Over 12 months	**127,662**	102,355
	1,345,619	1,207,991

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25 OTHER PAYABLES AND ACCRUED EXPENSES

		The Group	
	Note	**2009**	2008
		RMB'000	RMB'000
Financial guarantee issued		**–**	33,450
Customer deposits and receipts in advance		**390,344**	190,529
Accrued payroll and welfare		**137,620**	182,639
Taxes payable other than income tax		**91,391**	57,247
Staff compensation and termination provisions	*27(b)*	**175,589**	206,088
Amount due to related parties	*36(c)*	**309**	5,154
Payable to third parties of acquired subsidiaries	*(i)*	**128,064**	114,000
Interest rate swaps	*(ii)*	**–**	2,949
Current portion of long-term payables	*29*	**182,593**	52,950
Accrued expenses and other payables		**203,107**	212,935
		1,309,017	1,057,941

		The Company	
	Note	**2009**	2008
		RMB'000	RMB'000
Accrued withholding tax for final dividend of year 2008	*31(b)*	**18,744**	–
Other accrued expenses and payables		**291**	525
		19,035	525

Notes:

(i) The balance represents payable to third parties of acquired subsidiaries, which mainly consists of payable to a third party of Qianshan Cement of RMB30,980,000 (2008: RMB48,758,000), and to a third party of Gongyan Cement of Nil (2008: RMB4,106,000), current account with former related parties of Kangda Cement Group of RMB61,136,000 (2008: RMB61,136,000), payable to a third party of Jining Shanshui of RMB31,100,000 (2008: Nil), payable to a third party of Qingdao Hengtai of RMB4,676,000 (2008: Nil), and payable to a third party of Yingkou Shanshui of RMB172,000 (2008: Nil).

(ii) On 27 October 2009, the Group terminated the interest rate swap contract.

26 OBLIGATION UNDER FINANCE LEASE

At 31 December 2009, the Group had obligation under finance lease repayable as follows:

	2009 Present value of the minimum lease payments	2009 Total minimum lease payments	2008 Present value of the minimum lease payments	2008 Total minimum lease payments
	RMB'000	**RMB'000**	RMB'000	RMB'000
Within 1 year	**1,733**	**1,800**	1,133	1,200
After 1 year but within 2 years	**1,069**	**1,200**	1,069	1,200
After 2 years but within 5 years	**2,861**	**3,600**	2,861	3,600
After 5 years	**2,407**	**3,600**	3,120	4,800
	6,337	**8,400**	7,050	9,600
Total	**8,070**	**10,200**	8,183	10,800
Less: total future interest expenses		**2,130**		2,617
Present value of lease obligation		**8,070**		8,183

27 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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 EMPLOYEE BENEFITS *(continued)*

(b) Staff compensation and termination provision

	Note	2009	2008
		RMB'000	RMB'000
For staff of			
– Shandong Shanshui	*(i)*	**131,712**	136,752
– Weifang Shanshui	*(ii)*	**41,038**	43,339
– Qianshan Cement	*(iii)*	**2,839**	25,997
Amount payable	*25*	**175,589**	206,088

Notes:

(i) In accordance with a contractual agreement with Jinan Shanshui dated 10 March 2005, the Group committed to the termination compensation of RMB146,054,000 to 3,581 employees as part of the restructuring plan of Jinan Shanshui. Following the agreement, the Group recognised a provision of RMB146,054,000 for expected compensation costs. Estimated costs and the settlement schedule were based on the terms of the Jinan Shanshui restructuring plan agreed with the Jinan Municipal Government in 2004.

(ii) In connection with the acquisition of Weifang Shanshui on 29 December 2003 and pursuant to Wei Cai Guo Gu 2003 No. 44 issued by the local finance bureau, the Group is responsible for the related compensation and termination obligation of RMB47,229,000.

(iii) Pursuant to the Capital Injection Agreement entered into with Jiang Ming and Wang Yinlong, the Group shall be responsible for the staff compensation and termination costs resulting from the restructuring of Xiaotun Cement Plant, the predecessor of Qianshan Cement.

(c) Defined benefit obligations

	2009	2008
	RMB'000	RMB'000
For staff of		
– Shandong Shanshui	**57,600**	61,644
– Weifang Shanshui	**4,776**	5,359
– Qianshan Cement	**22,675**	28,189
– Gongyuan Cement	**99,513**	99,438
Recognised liability for defined benefit plans	**184,564**	194,630

27 EMPLOYEE BENEFITS *(continued)*

(c) Defined benefit obligations *(continued)*

Net liabilities recognised in the consolidated balance sheet represent:

	2009	2008
	RMB'000	RMB'000
Present value of the obligations	194,814	213,520
Unrecognised actuarial losses	(10,250)	(18,890)
Recognised liability for defined benefit plans	184,564	194,630

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 27(b)) and Gongyuan Cement. The Group's obligations in respect of the defined benefit obligations at the balance sheet date were reviewed by an independent actuary, Towers Perrin (Shenzhen) Consulting Co., Ltd. Shanghai Branch, which is a member of the Society of Actuaries of the United States of America, using the projected unit credit actuarial cost method.

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

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

	2009	2008
	RMB'000	RMB'000
At 1 January	194,630	183,899
Payments	(12,346)	(16,629)
Current service cost	1,360	960
Interest expense	6,710	8,060
Actuarial loss recognised in consolidated income statement	300	50
Additional obligation based on the change of benefits	–	18,290
Gain on settlement	(6,090)	–
At 31 December	184,564	194,630

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 EMPLOYEE BENEFITS *(continued)*

(c) Defined benefit obligations *(continued)*

Expenses recognised in the consolidated income statement are as follows:

	2009	2008
	RMB'000	RMB'000
Interest expense	6,710	8,060
Actuarial loss	300	50
Current service cost	1,360	960
Gain on settlement	(6,090)	–
Additional obligation based on the change of benefits	–	18,290
	2,280	27,360

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

	2009	2008
	RMB'000	RMB'000
Finance expenses	6,710	8,060
Administrative expenses	(4,430)	1,010
Additional obligation based on the change of benefits	–	18,290
	2,280	27,360

Principal actuarial assumptions at each balance sheet date:

	2009	2008
Discount rate	3.75%	3.25%
Annual growth rate of living expenditure	2.5%-8%	4%-8%
Social average salary increase rate	10.00%	10.00%
Average expected remaining working life of eligible employees	13 years	13 years

28 DEFERRED INCOME

	2009	2008
	RMB'000	RMB'000
At 1 January	**296,323**	39,886
Additions	**27,734**	260,707
Recognised in consolidated income statement	**(12,862)**	(4,270)
At 31 December	**311,195**	296,323

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

29 LONG-TERM PAYABLES

	2009	2008
	RMB'000	RMB'000
Acquisition consideration payable *(note)*	**211,011**	345,937
Others	**63,727**	12,846
	274,738	358,783

Note: This balance represents the consideration payable for the acquisition of Kangda Cement Group. The nominal value of consideration is RMB415,585,000 and is payable over a period of four years. The amount has been discounted to present value as at 31 December 2009.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

30 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet

	2009	2008
	RMB'000	RMB'000
Provision for PRC income tax for the year	215,506	242,217
Provisional income tax paid	(107,468)	(90,079)
	108,038	152,138

(b) Deferred tax assets and liabilities recognised

The amounts, determined after appropriate offsetting, are as follows:

	2009	2008
	RMB'000	RMB'000
Deferred tax assets	113,986	114,303
Set off of tax	(19,436)	(11,692)
	94,550	102,611
Deferred tax liabilities	103,012	135,338
Set off of tax	(19,436)	(11,692)
	83,576	123,646

30 INCOME TAX IN THE BALANCE SHEET *(continued)*

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

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

	At 1 January 2009	Acquisition through business combinations	Recognised in profit or loss	Recognised in equity	At 31 December 2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets					
Unrealised profits resulted from intra-group transactions	15,985	–	4,137	–	20,122
Depreciation of property, plant and equipment	3,014	–	1,301	–	4,315
Intangible assets amortisation	1,528	–	(541)	–	987
Tax loss carry-forwards	3,316	8,389	8,474	–	20,179
Impairment losses for property, plant and equipment	13,071	5,301	(1,121)	–	17,251
Write down of inventory	1,115	521	1,960	–	3,596
Impairment losses for trade and other receivables	2,000	–	685	–	2,685
Deferred income	64,636	–	(35,186)	–	29,450
Accrued bonus	9,106	–	(5,436)	–	3,670
Accrued auditor's remuneration	–	–	250	–	250
Change of fair value of interest swap derivatives	532	–	(532)	–	–
Acquisition consideration payable	–	11,930	(449)	–	11,481
	114,303	26,141	(26,458)	–	113,986
Deferred tax liabilities					
Accrued staff welfare	765	–	(765)	–	–
Change of fair value of available-for-sale securities	1,131	–	–	1,344	2,475
Revaluation surplus of property, plant and equipment	29,952	(17,413)	(3,979)	–	8,560
Revaluation surplus of intangible assets	103,490	(1,530)	(9,983)	–	91,977
	135,338	(18,943)	(14,727)	1,344	103,012

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

30 INCOME TAX IN THE BALANCE SHEET *(continued)*

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

Movements in deferred tax assets and liabilities (prior to offsetting of balances) for the year ended 31 December 2008 are as follows:

	At 1 January 2008	Recognised in profit or loss	Recognised in equity	At 31 December 2008
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets				
Unrealised profits resulted from intra-group transactions	8,092	7,893	–	15,985
Depreciation of property, plant and equipment	8,352	(5,338)	–	3,014
Tax loss carry-forwards	32,018	(28,702)	–	3,316
Impairment losses for property, plant and equipment	202	12,869	–	13,071
Intangible assets amortisation	2,544	(1,016)	–	1,528
Impairment losses for intangible assets	673	(673)	–	–
Write down of inventory	–	1,115	–	1,115
Impairment losses for trade and other receivables	–	2,000	–	2,000
Deferred income	–	64,636	–	64,636
Accrued bonus	2,854	6,252	–	9,106
Change of fair value of interest swap derivatives	–	532	–	532
	54,735	59,568	–	114,303
Deferred tax liabilities				
Accrued staff welfare	1,803	(1,038)	–	765
Change of fair value of Available-for-sale securities	4,015	–	(2,884)	1,131
Revaluation surplus of property, plant and equipment	37,614	(7,662)	–	29,952
Revaluation surplus of intangible assets	113,654	(10,164)	–	103,490
	157,086	(18,864)	(2,884)	135,338

30 INCOME TAX IN THE BALANCE SHEET *(continued)*

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

As at 31 December 2009, the Group did not recognise deferred tax assets in respect of cumulative tax losses of PRC subsidiaries totalling RMB63,265,226 (2008: RMB8,429,000). It is not probable that future taxable profits generated by these PRC subsidiaries against which the losses can be utilised will be available within five years.

Since the Group could control the quantum and timing of distribution of profits of the Group's subsidiaries in the PRC. Therefore, deferred taxation is only provided to the extent that such profits are estimated to be distributed in the foreseeable future.

Under the new tax law, the Company's subsidiaries in the PRC are levied a 10% withholding tax on dividends declared to their foreign investment holding companies arising from profits earned subsequent to 1 January 2008. As at 31 December 2009, temporary differences relating to the undistributed profits of these subsidiaries amounted to RMB655,903,000 (2008: RMB520,624,000). Deferred tax liabilities of RMB65,590,300 (2008: RMB52,062,400) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

31 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	Share premium	Other reserves	Exchange reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2008	244	1,765,499	477,947	(48,573)	(2,856)	2,192,261
Changes in equity for 2008:						
Issue of share	185,128	1,533,854	–	–	–	1,718,982
Dividend approved in respect of the previous year	–	–	–	–	(205,755)	(205,755)
Total comprehensive income for the year	–	–	–	(119,986)	(7,520)	(127,506)
Balance at 31 December 2008 and 1 January 2009	185,372	3,299,353	477,947	(168,559)	(216,131)	3,577,982
Changes in equity for 2009:						
Conversion of convertible notes	**6,983**	**133,669**	**(57,787)**	**–**	**–**	**82,865**
Dividend approved in respect of the previous year	**–**	**–**	**–**	**–**	**(188,652)**	**(188,652)**
Total comprehensive income for the year	**–**	**–**	**–**	**(2,432)**	**(10,742)**	**(13,174)**
Balance at 31 December 2009	**192,355**	**3,433,022**	**420,160**	**(170,991)**	**(415,525)**	**3,459,021**

31 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

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

	2009	2008
	RMB'000	RMB'000
Final dividend proposed after the balance sheet date	240,296	188,652

Pursuant to the shareholders' approval at the Annual General Meeting on 5 June 2009, a final dividend of HKD0.076 per share totaling HKD214,012,215.20 (inclusive of applicable tax, equivalent to RMB188,651,768) in respect of the year ended 31 December 2008 was approved on 5 June 2009.

Pursuant to a resolution passed at the Directors' meeting on 9 April 2010, a final dividend in respect of the year ended 31 December 2009 of HKD0.097 per share totaling HKD273,147,169.40 was proposed for shareholders' approval at the Annual General Meeting. Final dividend of HKD273,147,169.40 proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

	2009	2008
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, declared and paid during the year	169,907	205,755

Pursuant to the "Enterprise Income Tax Law of the People's Republic of China" (the "Enterprise 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"), both implemented in 2008, the Company is likely to be required to withhold and pay enterprise income tax for its non-resident enterprise shareholders to whom the Company pays the dividends for the year ended 31 December 2008.

Pursuant to the Enterprise Income Tax Law and the Implementation Rules, the Company withheld 10% enterprise income tax of RMB18,744,439 when it distributed the dividends for the year ended 31 December 2008 to its non-resident enterprise shareholders. Accordingly, the final dividends for the year ended 31 December 2008 of RMB169,907,329, after deducting the withholding tax effects, had been fully paid out to the shareholders of the Company on 26 June 2009.

31 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends *(continued)*

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

Till now, the Company is in the process to negotiate with the relevant PRC tax authorities. If the relevant PRC tax authorities finally determined that the Enterprise 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 of RMB18,744,439 to be refunded to the relevant non-resident enterprise shareholders whose tax had been withheld pursuant to the arrangement above.

(c) Share capital

	2009		2008	
	Number of shares	**RMB equivalent**	Number of shares	RMB equivalent
		RMB'000		RMB'000
Authorised:				
Ordinary shares of the Company of USD0.01 each	**10,000,000,000**	**701,472**	10,000,000,000	701,472
Ordinary shares of the Company, issued and fully paid:				
At 1 January	**2,700,986,000**	**185,372**	3,254,200	244
Issuance of shares:				
– Conversion of the convertible notes *(see note 23(c))*	**102,318,000**	**6,983**	–	–
– Capitalisation issue	**–**	**–**	1,949,265,800	133,797
– By Global offering and Placing	**–**	**–**	650,840,000	44,672
– Exercise of the Over-allotment Option	**–**	**–**	97,626,000	6,659
At 31 December	**2,803,304,000**	**192,355**	2,700,986,000	185,372

31 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital *(continued)*

Notes:

(i) Authorised share capital

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

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

(ii) Capitalisation issue

Pursuant to the written resolutions of the shareholders of the Company passed on 14 June 2008, the Company allotted and issued a total of 1,949,265,800 ordinary shares of USD0.01 each credited as fully paid at par to the holders of the Company at the close of business on 14 June 2008 in proportion to their respective then existing shareholdings.

On 4 July 2008, 650,840,000 ordinary shares of USD0.01 each were issued and offerred in connection with its global offering and the commencement of the listing of its shares on the Main Board of the Stock Exchange of Hong Kong Limited. The proceeds of HKD202,782,000 (equivalent to RMB178,469,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of HKD1,619,720,000 (equivalent to RMB1,425,515,000) before the share listing expenses of HKD132,007,000 (equivalent to RMB116,230,000), were credited to the share premium account.

On 25 July 2008, the Global Coordinator fully exercised the over-allotment option on behalf of the International Underwriters. The Company allotted and issued an aggregate of 97,626,000 additional shares, representing 15% of the shares initially issued under the global offering. The proceeds of HKD7,614,000 (equivalent to RMB6,659,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of HKD265,739,000 (equivalent to RMB232,358,000) before the share listing expenses of HKD8,908,000 (equivalent to RMB7,789,000), were credited to the share premium account.

31 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 minority 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 equity portion of the convertible notes issued by the Company in 2007 as disclosed in note 23(c).

(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 balance sheet date.

31 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 2009, the Company had RMB2,846,506,000 available for distribution to equity shareholders of the Company (2008: RMB2,914,663,000).

After the balance sheet date the directors proposed a final dividend of HKD0.097 per ordinary share (2008: HKD0.076 per share), amounting to HKD273,147,169.40 (2008: HKD214,012,215.20) (note 31(b)). This dividend has not been recognised as a liability at the balance sheet date.

(f) Capital management

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

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

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

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31 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(f) Capital management *(continued)*

The net gearing ratio is as follows:

		The Group	
	Note	**2009**	2008
		RMB'000	RMB'000
Current liabilities:			
Short-term and current portion of interest-bearing borrowings	*23(a)*	**2,147,000**	2,713,800
Current portion of loans from equity shareholders	*23(b)*	**58,527**	52,574
		2,205,527	2,766,374
Non-Current liabilities:			
Interest-bearing borrowings, less current portion	*23(a)*	**3,361,000**	1,674,900
Loans from equity shareholders, less current portion	*23(b)*	**177,832**	236,582
Convertible notes	*23(c)*	**10,859**	89,577
		3,549,691	2,001,059
Total debt		**5,755,218**	4,767,433
Less: Cash and cash equivalents	*22(a)*	**(886,130)**	(1,248,414)
Net debt		**4,869,088**	3,519,019
Equity attributable to equity shareholders of the Company		**5,160,193**	4,560,571
Total capital		**10,029,281**	8,079,590
Net gearing ratio		**48.5%**	43.6%

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

32 ACQUISITIONS

The Group acquired the equity interests of the following entities engaged in cement business in Shandong Province and Liaoning Province from independent third parties during the year ended 31 December 2009. The valuation for fixed assets and intangible assets of the acquirees are performed by Jones Lang LaSalle Sallmanns Limited, which is a qualified independent valuer registered in Hong Kong.

During the year ended 31 December 2009, the Group acquired the following cement related businesses:

Name of company	*Note*	Voting right	Date of acquisition	Principal activities	Fair value of the acquirees at date of acquisition
					RMB'000
Qingdao Hengtai	*(a)*	100%	27 March 2009	Production and sales of cement	20,988
Jining Shanshui	*(b)*	100%	20 May 2009	Production and sales of cement and clinker	104,681
Yingkou Shanshui	*(c)*	100%	24 July 2009	Production and sales of cement	14,382

(a) Acquisition of Qingdao Hengtai

On 27 March 2009, the Group signed an agreement to acquire the entire equity interests in Qingdao Hengtai for a cash consideration of RMB50,271,618 payable over 20 years.

In the nine months to 31 December 2009 Qingdao Hengtai contributed revenue of RMB35,204,000 and a loss of RMB979,000. If the acquisition had occurred on 1 January 2009, management estimates that consolidated revenue would have been RMB8,728,874,000 and consolidated profit for the year would have been RMB713,378,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2009.

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32 ACQUISITIONS *(continued)*

(a) Acquisition of Qingdao Hengtai *(continued)*

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

	Pre-acquisition carrying amount	Fair value adjustment	Recognised values on acquisition
	RMB'000	RMB'000	RMB'000
Fixed assets	566	11,012	11,578
Deferred tax assets	318	11,930	12,248
Cash and cash equivalent	73	–	73
Inventories	1,090	–	1,090
Trade and other receivables	4,751	–	4,751
Trade and other payables	(5,999)	–	(5,999)
Deferred tax liabilities	–	(2,753)	(2,753)
Net identifiable assets and liabilities	799	20,189	20,988
Goodwill arising on acquisition			7,259
Total purchase consideration (including direct acquisition cost of RMB750,000)			28,247
Satisfied by:			
Consideration payable *(note)*			28,247
Less: Cash acquired			(73)
Net cash outflow in respect of the acquisitions			28,174

Note: The consideration payable consists of discounted acquisition consideration payable totalling RMB27,497,507, and professional fees of RMB750,000 which is directly attributable to this acquisition. The present value of deferred consideration is discounted using prevailing market interest rate for a long-term loan repayable per month over a twenty-year period. The nominal value of this deferred consideration is RMB50,271,618 as at the date of acquisition and is denominated in RMB.

32 ACQUISITIONS *(continued)*

(b) Acquisition of Jining Shanshui

On 20 May 2009, the Group signed an agreement to acquire the entire equity interests in Jining Shanshui for a total cash consideration of RMB180,572,000 (RMB7,894,000 for the purchase of equity interest and RMB172,678,000 for payment of predecessor equity shareholders' loan to Jining Shanshui).

In the seven month to 31 December 2009 Jining Shanshui contributed revenue of RMB85,705,000 and a loss of RMB26,124,000. If the acquisition had occurred on 1 January 2009, management estimates that there would be no change in consolidated revenue and consolidated profit for the year would have been RMB707,293,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2009.

32 ACQUISITIONS *(continued)*

(b) Acquisition of Jining Shanshui *(continued)*

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

	Pre-acquisition carrying amount	Fair value adjustment	Recognised values on acquisition
	RMB'000	RMB'000	RMB'000
Fixed assets	320,124	(93,635)	226,489
Intangible assets	–	1,850	1,850
Deferred tax assets	13,281	23,929	37,210
Cash and cash equivalent	3	–	3
Inventories	8,167	(2,082)	6,085
Trade and other receivables	1,919	–	1,919
Current portion of interest-bearing borrowing	(101,935)	–	(101,935)
Trade and other payables	(66,478)	–	(66,478)
Deferred tax liabilities	–	(462)	(462)
Net identifiable assets and liabilities	175,081	(70,400)	104,681
Goodwill arising on acquisition			78,261
Total purchase consideration (including direct acquisition cost of RMB2,370,000)			182,942
Satisfied by:			
Cash paid			152,365
Consideration payable *(note)*			30,577
Less: Cash acquired			(3)
Net cash outflow in respect of the acquisitions			182,939

Note: The consideration payable consists of RMB29,577,000 in respect of loans and borrowings and RMB1,000,000 professional fee payable which is directly attributable to this acquisition.

32 ACQUISITIONS *(continued)*

(c) Acquisition of Yingkou Shanshui

On 24 July 2009, the Group signed an agreement to acquire the entire equity interests in Yingkou Shanshui for a total cash consideration of RMB22,764,082.

In the five months to 31 December 2009 Yingkou Shanshui contributed revenue of RMB26,225,000 and a loss of RMB2,069,000. If the acquisition had occurred on 1 January 2009, management estimates that consolidated revenue would have been RMB8,741,505,000 and consolidated profit for the year would have been RMB704,210,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2009.

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

	Pre-acquisition carrying amount	Fair value adjustment	Recognised values on acquisition
	RMB'000	RMB'000	RMB'000
Fixed assets	52,576	4,997	57,573
Deferred tax assets	91	32	123
Cash and cash equivalent	337	–	337
Inventories	938	–	938
Trade and other receivables	11,673	–	11,673
Current portion of interest-bearing borrowing	(45,000)	–	(45,000)
Trade and other payables	(9,980)	–	(9,980)
Deferred tax liabilities	–	(1,282)	(1,282)
Net identifiable assets and liabilities	10,635	3,747	14,382
Goodwill arising on acquisition			9,232
Total purchase consideration (including direct acquisition cost of RMB850,000)			23,614
Satisfied by:			
Consideration payable *(note)*			23,614
Less: Cash acquired			(337)
Net cash outflow in respect of the acquisitions			23,277

32 ACQUISITIONS *(continued)*

(c) Acquisition of Yingkou Shanshui (continued)

Note: The consideration payable consists of acquisition consideration payable totalling RMB22,764,082, and professional fees of RMB850,000 which is directly attributable to this acquisition.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

(a) Credit risk

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

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

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

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

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

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

(a) Credit risk *(continued)*

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 balance sheet date, 20% (2008: 11%) and 21% (2008: 15%) 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 balance sheet after deducting any impairment allowance. Except for the financial guarantees given by the Group as set out in note 35, the Group does not provide any other guarantees which would expose the Group to credit risk.

(b) Liquidity risk

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

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

(b) Liquidity risk *(continued)*

The following table details the remaining contractual maturities at the balance sheet date 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 balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2009					
	Contractual undiscounted cash outflow					Balance sheet carrying amount
	Within 1 year or on demand	1-2 years	2-5 years	more than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term bank loans and current portion of long-term bank loans *(note 23(a))*	2,393,848	–	–	–	2,393,848	2,147,000
Long-term bank loans *(note 23(a))*	–	1,457,792	2,118,944	36,953	3,613,689	3,351,000
Loans from government *(note 23(a))*	255	1,164	3,353	7,013	11,785	10,000
Loans from equity shareholders *(note 23(b))*	56,842	57,040	142,603	–	256,485	236,359
Convertible notes *(note 23(c))*	–	–	15,022	–	15,022	10,859
Trade and bills payable *(note 24)*	1,345,619	–	–	–	1,345,619	1,345,619
Other payables and accrued expense *(note 25)*	1,309,017	–	–	–	1,309,017	1,309,017
Current tax liabilities (note 30(a))	108,038	–	–	–	108,038	108,038
Obligation under finance leases *(note 26)*	1,800	1,200	3,600	3,600	10,200	8,070
Long-term payables *(note 29)*	–	207,257	68,171	16,375	291,803	274,738
	5,215,419	1,724,453	2,351,693	63,941	9,355,506	8,800,700

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

(b) Liquidity risk *(continued)*

The Group (continued)

	2008					
	Contractual undiscounted cash outflow					Balance sheet carrying amount
	Within 1 year or on demand	1-2 years	2-5 years	more than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term bank loans and current portion of long-term bank loans *(note 23(a))*	2,943,287	–	–	–	2,943,287	2,713,800
Long-term bank loans *(note 23(a))*	–	1,182,559	582,786	–	1,765,345	1,664,900
Loans from government *(note 23(a))*	255	255	3,423	8,107	12,040	10,000
Loans from third parties *(note 23(a))*	–	–	–	–	–	–
Loans from equity shareholders *(note 23(b))*	62,448	60,952	171,040	26,775	321,215	289,156
Convertible notes *(note 23(c))*	–	–	136,692	–	136,692	89,577
Trade and bills payable *(note 24)*	1,105,636	84,364	17,991	–	1,207,991	1,207,991
Other payables and accrued expense *(note 25)*	1,054,993	–	–	–	1,054,993	1,054,993
Interest rate swaps *(note 25)*	2,949	–	–	–	2,949	2,949
Current tax liabilities *(note 30(a))*	152,138	–	–	–	152,138	152,138
Obligation under finance leases *(note 26)*	1,200	1,200	3,600	4,800	10,800	8,183
Long-term payables *(note 29)*	3,000	194,192	232,573	200	429,965	358,783
	5,325,906	1,523,522	1,148,105	39,882	8,037,415	7,552,470

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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

(b) Liquidity risk *(continued)*

The Company

	2009					
	Contractual undiscounted cash outflow					Balance sheet carrying amount
	Within 1 year or on demand	1-2 years	2-5 years	more than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Convertible notes *(note 23(c))*	–	–	15,022	–	15,022	10,859

The Company

	2008					
	Contractual undiscounted cash outflow					Balance sheet carrying amount
	Within 1 year or on demand	1-2 years	2-5 years	more than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Convertible notes *(note 23(c))*	–	–	136,692	–	136,692	89,577

(c) Interest rate risk

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

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and 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 are disclosed in note 23. The Group's interest rate profile as monitored by management is set out in (i) below.

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

(c) Interest rate risk *(continued)*

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's interest-bearing borrowings at the balance sheet date.

The Group

	2009 Effective interest rate		2008 Effective interest rate	
	%	**RMB'000**	%	RMB'000
Fixed rate borrowings:				
Short-term Bank loans	**5.31%~7.47%**	**660,000**	5.58%~8.75%	823,000
Long-term Bank loans	**5.50%~6.75%**	**200,000**	6.30%~6.75%	112,000
		860,000		935,000
Variable rate borrowings:				
Short-term Bank loans	**5.31%~7.84%**	**50,000**	5.58%~7.47%	819,000
Long-term Bank loans	**4.86%~8.32%**	**4,588,000**	5.40%~9.36%	2,624,700
Loans from equity shareholders	**5.13%~6.83%**	**236,360**	5.13%~6.83%	289,156
Loans from government	**2.55%~4.44%**	**10,000**	2.55%~4.44%	10,000
		4,884,360		3,742,856
Total borrowings		**5,744,360**		4,677,856
Net fixed rate borrowings as a percentage of total borrowings		**15%**		20%

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.

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

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

At 31 December 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB57,707,300 (2008: RMB48,254,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

(d) Currency risk

(i) Forecast transactions

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

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

(ii) Recognised assets and liabilities

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

Except for the loans due to equity shareholders (see note 23(b)) and convertible notes (see note 23(c)), all the Group's borrowings are denominated in Renminbi. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

33 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 balance sheet date 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)			
	2009		2008	
	HKD	USD	HKD	USD
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	28,480	38,168	1,465	361,742
Loans from equity shareholders	–	(236,359)	–	(289,156)
Convertible notes	–	(10,859)	–	(89,577)
Other payables and accrued expenses	–	–	–	(4,576)
Net exposure arising from recognised assets and liabilities	28,480	(209,050)	1,465	(21,567)

The Company

	Exposure to foreign currencies (expressed in Renminbi)			
	2009		2008	
	HKD	USD	HKD	USD
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	28,411	36,473	1,460	278,382
Convertible notes	–	(10,859)	–	(89,577)
Net exposure arising from recognised assets and liabilities	28,411	25,614	1,460	188,805

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(Expressed in Renminbi unless otherwise indicated)

33 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 balance sheet date had changed at that date, assuming all other risk variables remained constant.

The Group

	2009		2008	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
	%	**RMB'000**	%	RMB'000
United States Dollars	**10%**	**(17,960)**	10%	(502)
	(10%)	**17,960**	(10%)	502
Hong Kong Dollars	**10%**	**2,848**	10%	146
	(10%)	**(2,848)**	(10%)	(146)

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 balance sheet date 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 balance sheet date, 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 2008.

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

(e) Equity price risk

The Group is exposed to equity price changes primarily arising from the listed investment classified as available-for-sale equity securities (see note 16).

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

At 31 December 2009, it is estimated that an increase/(decrease) of 50% (2008: 10%) 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

	2009		2008	
	Increase/ (decrease) in the relevant risk variable rates	**Effect on other components of equity**	Increase/ (decrease) in the relevant risk variable rates	Effect on other components of equity
	%	**RMB'000**	%	RMB'000
Change in the stock price	**50%**	**4,090**	10%	415
of the listed investment	**(50%)**	**(4,090)**	(10%)	(415)

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 balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the balance sheet date. 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 2008.

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

(f) Fair values

(i) Financial instruments carried at fair value

As a result of the adoption of the amendments to IFRS 7, the fair value measurement of the Group's financial instruments categorises into a three-level fair value hierarchy according to the extent to which they are based on observable market data. As at 31 December 2009, the Group only has available-for-sale securities which was measured at fair value at the balance sheet date under Level 1 of the fair value hierarchy defined in IFRS 7, *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.

2009

	The group			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Available-for-sale securities:				
– Listed	10,906	–	–	10,906

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

The carrying amounts of the Group's and the Company's significant financial assets and liabilities, which are carried at cost or amortised cost, are not materially different from their fair values as at 31 December 2009 and 2008.

(g) Estimation of fair values

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

(i) Available-for-sale securities

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

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

(g) Estimation of fair values *(continued)*

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

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

(iii) Non-derivative financial liabilities

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

(iv) Financial guarantees

The fair value of financial guarantees issued/received is determined by reference to fees charged/collected in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged/received by lenders/borrowers when the guarantee is made available with the estimated rates that lenders/borrowers would have charged/received, had the guarantees not been available, where reliable estimates of such information can be made.

(v) Interest-bearing loans and borrowings and finance lease liabilities

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

(vi) Interest rates used for determining fair value

The Group uses the market rate of interest-bearing borrowings as of 31 December 2009. The interest rates used are disclosed in note 23.

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34 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2009 not provided for in the financial statements were as follows:

	2009	2008
	RMB'000	RMB'000
Authorised and contracted for		
– plants and equipments	**382,472**	371,303
Authorised but not contracted for		
– plants and equipments	**9,018,902**	279,861
	9,401,374	651,164

(b) At 31 December 2009, the total future minimum lease payments under non-cancellable operating lease are payable as follows:

	2009	2008
	RMB'000	RMB'000
Within 1 year	**15,924**	15,756
After 1 year but within 2 years	**15,864**	15,849
After 2 years but within 5 years	**45,805**	46,582
After 5 years	**133,031**	154,601
	210,624	232,788

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.

35 CONTINGENT LIABILITIES

(a) Financial guarantees issued

The Group entered into reciprocal guarantee contracts with Shandong Gold Group Co., Ltd. ("Shandong Gold") to secure certain banking facilities for each other. The directors of the Company considered that the related credit risk for transactions with Shandong Gold is low as they both received a normal credit rating from banks.

As at 31 December 2009, the directors do not consider it is probable that a claim will be made against the Group under any of the guarantees. The maximum exposure relating to financial guarantees issued by the Group as at 31 December 2009 was RMB1,500,000,000 (2008: RMB1,500,000,000). The guarantee contracts have expired on 8 January 2010.

(b) Environmental contingencies

As at the date of this report, the Group has not incurred any significant expenditure for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, the directors of the Company believe that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Due to the potential significant impact of cement production activities on the environment, however, the PRC government has begun to implement increasingly strict environmental protection standards for cement facilities and production activities.

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36 MATERIAL RELATED PARTY TRANSACTIONS

(a) During the year ended 31 December 2009, transactions with the following parties are considered as related party transaction.

Name of party	Relationship
Mr. Zhang Caikui	Equity holder of the ultimate holding company and chairman of the Company
Mr. Li Yanmin	Equity holder of the ultimate holding company and director of the Company
Mr. Yu Yuchuan	Equity holder of the ultimate holding company and director of the Company
Mr. Dong Chengtian	Equity holder of the ultimate holding company and director of the Company
Mr. Zhao Liping	Equity holder of the ultimate holding company and key management member of the Company
Mr. Zhao Yongkui	Equity holder of the ultimate holding company and key management member of the Company
Mr. Mi Jingtian	Equity holder of the ultimate holding company and key management member of the Company
Mr. Li Maohuan	Equity holder of the ultimate holding company and key management member of the Company
Mr. Wang Yongping	Equity holder of the ultimate holding company and key management member of the Company

(All above collectively the "Management Shareholders")

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) During the year ended 31 December 2009, transactions with the following parties are considered as related party transaction. *(continued)*

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

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(Expressed in Renminbi unless otherwise indicated)

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties of the Group

	Note	2009	2008
		RMB'000	RMB'000
Recurring transactions			
Sales:	*(i)*		
– Tianjin Tianhui		**39,285**	55,436
– Stanford		**734**	–
		40,019	55,436
Rental income:			
– Jinzhu Powder		**135**	135
– Stanford		**559**	559
		694	694
Brand royalty income:	*(ii)*		
– Tianjin Tianhui		**379**	418
Management Fees			
– Tianjin Tianhui	*(v)*	**384**	218
– Jinzhu Powder		**610**	–
		994	218
Loan Service Fees			
– IFC	*(iii)*	**–**	4,576
Non-recurring transactions			
– Stanford		**–**	3,000
		–	3,000
Advances to:			
– China Shanshui Investment		**26**	36,813
– Property Development		**1,341**	–
		1,367	36,813

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

	Note	**2009**	2008
		RMB'000	RMB'000
Repayment of loans and related interests from:			
– China Shanshui Investment	*(iv)*	**–**	36,079
Repayment of loans and related interests to:			
– IFC	*23(b)*	**61,843**	88,363
		61,843	88,363

Notes:

(i) This represents sales of clinkers which were carried out in accordance with the terms of the underlying agreements. The directors of the Company are of the opinion that the sales were conducted on normal commercial terms and in the ordinary course of business of the Group.

(ii) The Group entered into a trademark licence agreement with Tianjin Tianhui in 2009. The agreement allows Tianjin Tianhui to use the Shanshui Dongyue brand for a trademark fee of RMB1 yuan per ton of cement produced by Tianjin Tianhui. The latter produced 378,568 ton of cement during the year ended 31 December 2009.

(iii) This represents the loan service fees to IFC in respect of new loan facility.

(iv) This related to loan to China Shanshui Investment which carried interest at 2.70% per annum. China Shanshui Investment had fully settled the principal and related interest in June 2008.

(v) Pursuant to the management agreement between Tianjin Tianhui and Shandong Shanshui, Shandong Shanshui is entitled to an annual management fee of RMB100,000 plus 5% share of the annual gross profits of Tianjin Tianhui. This represents the total management fees of Shandong Shanshui for the year ended 31 December 2009.

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(Expressed in Renminbi unless otherwise indicated)

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties of the Group:

	2009	2008
	RMB'000	RMB'000
Other receivables due from:		
– Tianjin Tianhui	**4,480**	3,717
– Stanford	**1,018**	1,277
– Jinzhu Powder	**541**	169
– China Shanshui Investment	**760**	734
– Property Development	**1,341**	–
	8,140	5,897
Customer deposits and receipts in advance from:		
– Tianjin Tianhui	**51**	46

	2009	2008
	RMB'000	RMB'000
Other payable due to:		
– IFC	**258**	5,108
Loans due to:		
– IFC	**236,360**	289,156
Liability portion of convertible notes due to:		
– MS Cement	**–**	45,408
– MS Cement II	**–**	15,918
– CDH Cement	**–**	18,398
– IFC	**10,859**	9,853
	10,859	89,577
Outstanding bank loans secured by:		
– Jinan Shanshui	**–**	44,500

36 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:

	2009	2008
	RMB'000	RMB'000
Salary, allowances and other benefits	**30,279**	31,414
Contributions to defined contribution retirement plans	**146**	118
	30,425	31,532

37 AMOUNT DUE FROM/TO SUBSIDIARIES

At 31 December 2009, these represent cash advances to Shanshui Cement Hong Kong and cash advances from Shandong Shanshui. These amounts are unsecured, interest-free and repayable on demand.

38 NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 31.

(b) On 7 January 2010, Alu Kerqin Cement entered into an assets transfer agreement with Alu Kerqin Bayan Baote Cement Company Limited ("AKBB Cement") for the acquisition of the entire assets in AKBB Cement for an aggregate consideration of RMB73.13 million. AKBB Cement is located in Chifeng City, Inner-Mongolia Province and is principally engaged in the production and sales of cement.

(c) Pursuant to a resolution passed at the Directors' meeting on 9 April 2010, Shandong Shanshui entered into an equity transfer agreement with Jinan Shanshui and Shanshui Lixin for the acquisition of the entire equity interests in Tianjin Tianhui for an aggregate consideration of RMB47,139,000. Jinan Shanshui, Shanshui Lixin and Tianjin Tianhui are the related parties of the Company, which are controlled by the Management Shareholders. Tianjin Tianhui is engaged in the production and sales of cement and cement related products in Tianjin City.

39 COMPARATIVE FIGURES

As a result of the application of IAS 1 (revised 2007), Presentation of financial statements, and IFRS 8, Operating segments, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

40 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The directors consider the ultimate holding company of the Company as at 31 December 2009 to be China Shanshui Investment, which is incorporated in Hong Kong, China. This entity does not produce financial statements available for public use.

41 ACCOUNTING JUDGMENTS AND ESTIMATES

Key sources of estimation uncertainty are as follows:

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an ongoing basis, the Group evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set out in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Impairments

(i) Property, plant and equipment

In considering the impairment losses that may be required for the Group's property, plant and equipment and construction in progress, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate the net selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to items such as the level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling prices and amount of operating costs.

41 ACCOUNTING JUDGMENTS AND ESTIMATES *(continued)*

(a) Impairments *(continued)*

(ii) Trade and other receivables

Impairment losses for trade and other receivables are assessed and provided based on the Group's regular review of aging analysis and evaluation of collectibles.

In considering the impairment losses that may be required for current receivables, future cash flows need to be determined. One of the key assumptions that has to be adopted is about the ability of the debtors to settle the receivables. Even though the Group has used all available information to make this estimation, inherent uncertainty exists and actual un-collectable amounts may be higher than the amount estimated.

(iii) Inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. The Group will reassess the estimations at each balance sheet date.

(iv) Goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 1(l). 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 16.

(v) Impairment of customer relationship and trademarks

The Group assesses at each balance sheet date whether there is any indication that customer relationships and trademarks may be impaired. The estimation is based on recoverable amount which is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to those intangible assets for which the estimates of future cash flows have not been adjusted.

41 ACCOUNTING JUDGMENTS AND ESTIMATES *(continued)*

(b) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Both the period and method of amortisation are reviewed annually. The depreciation and amortisation expense for future periods are adjusted if there are significant changes from previous estimates.

(c) Actuarial determined benefit obligations

The Group assesses the actuarial assumptions and methodology periodically to ensure their reasonableness at each balance sheet date.

The Group would assess the assumptions of recognition, such as the discount rate and the benefit increase rate to assess the reasonableness of the methodology adopted. Should any of these factors change significantly and render the existing method inappropriate, the Group will consider a more appropriate methodology.

(d) Taxation

The Group assesses the tax effect of all transactions and make provision for tax obligations. The Group reviews the tax treatment of these transactions, considering all amendments of tax laws and regulations.

The Group consumed industrial waste in the production of cement and clinker. Such consumption may qualify for certain government subsidies and corresponding income tax exemptions pursuant to the applicable PRC tax laws and regulations. The tax refund or exemption is not recognised until the refund is received or the formal approval of exemption from the tax authorities is obtained.

Deferred tax assets of the Group were recognised from unused tax loss allowance and deductible temporary differences. As the deferred tax assets cannot be recognised until the allowance is probable for deduction against future taxable profits, the Group estimates the expected realisation of future taxable profits. The Group reviews the judgment continuously and recognises additional deferred tax assets if taxable profits are probable to be recognised.

41 ACCOUNTING JUDGMENTS AND ESTIMATES *(continued)*

(e) Going concern basis

Management makes an assessment of the Group's ability to continue as a going concern when preparing the financial statements. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet 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.

Notes to the Financial Statements

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42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDING 31 DECEMBER 2009

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Revised IAS 27, *Consolidated and separate financial statements*	1 July 2009
Amendments to IAS 39, *Financial instruments: recognition and measurement – eligible hedged items*	1 July 2009
IFRIC 17, *Distributions of non-cash assets to owners*	1 July 2009
Revised IFRS 3, *Business combination*	Applied to business combination for which the acquisition date is on or after the beginning of the first annual Reporting Period beginning on or after 1 July 2009
Improvements to IFRS 2009	1 July 2009 or 1 January 2010

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations in the period of initial application and has so far concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

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