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

2014 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 2014 to 31 December 2014
"Directors"	Directors of the Company
"Board"	Board of Directors of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"SFO"	Securities and Futures Ordinance (Cap. 571) (as amended, supplemented or otherwise modified from time to time)
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Shares"	the ordinary shares in the share capital of the Company with a nominal value of US$0.01 each
"Shareholder(s)"	holder(s) of the Share(s)
"Articles of Association"	the articles of association of the Company
"Clinker"	a semi-finished product in the cement production process
"RMB"	Renminbi
"PRC"	The People's Republic of China
"Shandong Region"	Shandong Province and the areas covered by the Company's business, including Hebei Province, Henan Province, Tianjin etc.
"Northeast Region"	Liaoning Province and the areas covered by the Company's business, including Eastern part of Inner Mongolia, Jilin Province etc.
"Shanxi Region"	Shanxi Province and the areas covered by the Company's business, including Shaanxi Province etc.
"Xinjiang Region"	The areas covered by the Company's business in Kashi, Xinjiang
"National Bureau of Statistics of China"	The National Bureau of Statistics of the People's Republic of China

(I) Company Profile

1. BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

XIAO Yu

Independent Non-Executive Directors

WANG Jian
HOU Huailiang
WU Xiaoyun

Note: Ms. WU Xiaoyun has been appointed as Independent Non-Executive Director of the Company with effect from 16 May 2014.

Audit Committee

WANG Jian *(Chairman)*
HOU Huailiang
WU Xiaoyun

Remuneration Committee

WANG Jian *(Chairman)*
HOU Huailiang
WU Xiaoyun

Executive Committee

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

Nomination Committee

ZHANG Bin *(Chairman)*
HOU Huailiang
WU Xiaoyun

(I) Company Profile

2. COMPANY PROFILE

(1)	Company Name		
	Company Name in Chinese	:	中國山水水泥集團有限公司
	Official English Name of the Company	:	China Shanshui Cement Group Limited
(2)	Registered Office	:	Offices of Maples Corporate Services Limited PO Box 309, Ugland House, Grand Cayman, KY 1-1104, Cayman Islands
(3)	Principal Places of Business		
	Principal Place of Business in China	:	Sunnsy Industrial Park, Gushan Town, Changqing District, Jinan, Shandong, China
	Principal Place of Business in Hong Kong	:	Room 2609, 26/F, Tower 2, Lippo Centre, 89 Queensway, Admiralty, Hong Kong
(4)	Contact details of the Company		
	Telephone	:	+86-531-88360218 +852-25257918
	Fax	:	+86-531-88360218 +852-25257998
	E-mail address	:	ir@shanshuigroup.com
(5)	Website	:	www.shanshuigroup.com
(6)	Authorised Representatives	:	ZHANG Bin, ZHANG Caikui
(7)	Alternate Authorised Representative	:	LI Cheung Hung
(8)	Joint Company Secretary	:	ZHANG Bin, LI Cheung Hung – FCPA,FCIS
(9)	Qualified Accountant	:	LI Cheung Hung – FCPA,FCIS
(10)	Principal Bankers	:	China Merchants Bank China Construction Bank Corporation Bank of China
(11)	Listing Date	:	4 July 2008
(12)	Website for publication of this report	:	www.shanshuigroup.com
(13)	Exchange on which the Company's shares are listed	:	The Hong Kong Stock Exchange
(14)	Stock code	:	00691
(15)	Stock Short Name	:	Shanshui Cement
(16)	Hong Kong Share Registrar and Transfer Office	:	Computershare Hong Kong Investor Services Limited
	Address	:	Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
(17)	Legal Advisers		
	as to PRC laws	:	Commerce & Finance Law Offices
	as to Hong Kong laws	:	Norton Rose Fulbright Hong Kong Cleary Gottlieb Steen & Hamilton LLP
(18)	Auditor	:	KPMG

(II) Corporate Information

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

Shanshui Cement was included into the Hang Seng Composite Index Series, Hang Seng Composite MidCap Index Series and Properties & Construction Industry Index Series; Shanshui Cement was ranked as "Top 100 Hong Kong Listed Company" and "Top 10 Net Profit Growth" in 2012 as well as "Top 10 Consolidated Strength" of mid-cap in 2013 in "Top 100 Hong Kong Stock" jointly organised by Hong Kong financial media Finet Group Limited and Chinese server provider QQ.COM; Shanshui Cement was awarded "Best Company for Leadership" in China construction and building materials sector by International Alternative Investment Review (IAIR) for three consecutive years since February 2013, a prize for excellences in global finance and global economy. In December 2014, Shanshui Cement was named "Best Investment Valued Award for Listed Companies 2014" jointly organised by various financial service institutions. These marked the capital markets' recognition of the Group's performance, including its positioning, business and financial strength. The inclusion of the Group in these index series and the awards granted further improved the Group's reputation and position in the international capital markets.

(II) Corporate Information

1. KEY DATA

(1) Key financial data

(Unit: RMB'000)

	For the 12 months ended 31 December		
	2014	2013	2012
Revenue	**15,596,440**	16,535,204	16,160,981
Gross profit	**3,346,865**	3,829,237	4,111,316
Gross profit margin	**21.5%**	23.2%	25.4%
Profit from operations	**1,812,813**	2,557,206	3,099,324
Profit margin from operations	**11.6%**	15.5%	19.2%
EBITDA	**3,172,359**	3,798,678	4,264,574
EBITDA margin	**20.3%**	23.0%	26.4%
Net profit	**308,578**	1,074,712	1,603,763
Profit attributable to equity shareholders of the Company	**347,650**	1,016,707	1,518,529
Basic earnings per share (RMB)	**0.12**	0.36	0.54
Dividend per share (HK$) *	**–**	0.092	0.233
Net cash generated from operating activities	**1,375,826**	1,924,751	1,930,088

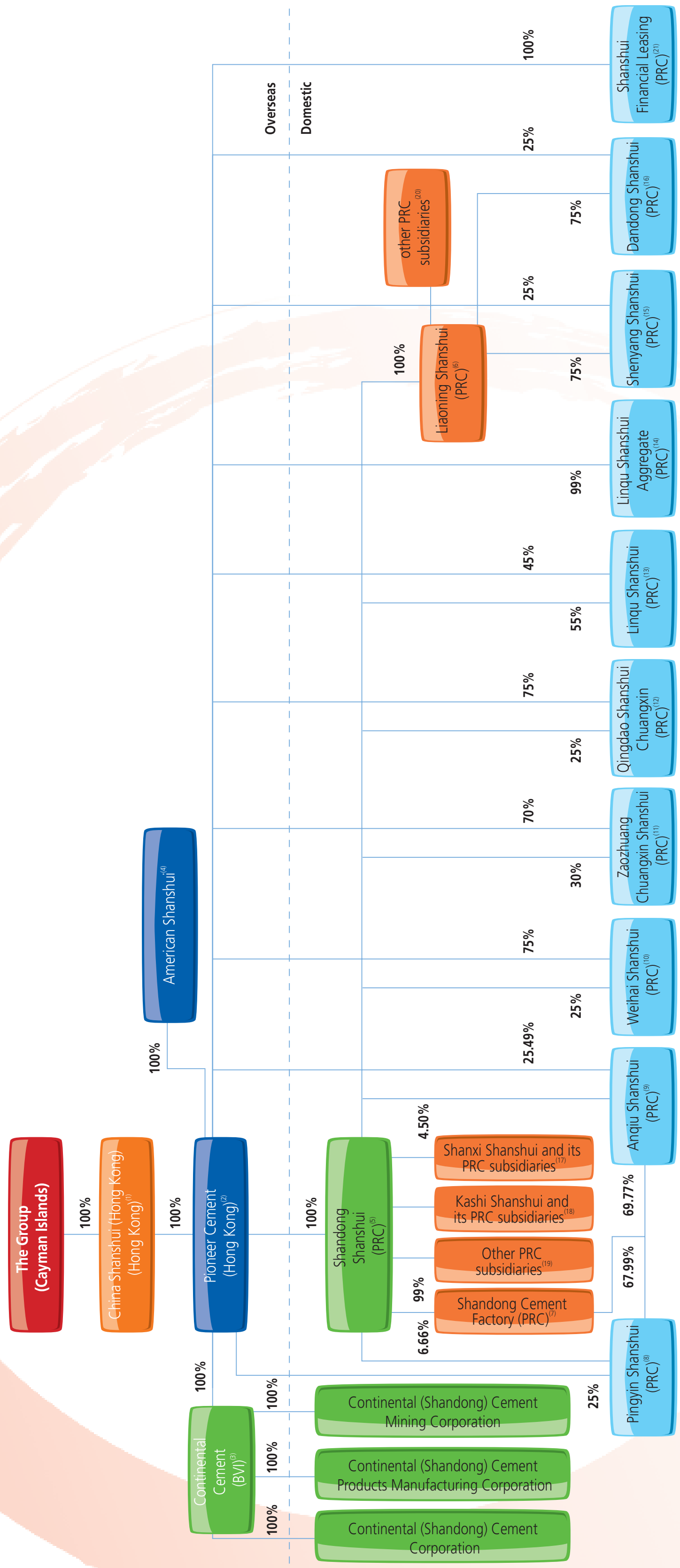
* The Board of Directors does not recommend dividend payment for the year ended 31 December 2014.

	As at 31 December		
	2014	2013	2012
Total assets	**33,695,497**	32,236,396	28,033,377
Total liability	**22,329,171**	22,269,670	18,636,875
Net gearing ratio	**56.9%**	60.4%	56.9%

(2) Key business data

	2014	2013	2012
Sales volume of cement ('000 tonnes)	**53,146**	53,422	47,834
Sales volume of clinker ('000 tonnes)	**9,818**	9,218	9,024
Sales volume of concrete ('000 m^3)	**3,471**	2,864	1,661
Unit selling price of cement (RMB/tonne)	**235.4**	249.9	277.2
Unit selling price of clinker (RMB/tonne)	**191.6**	195.3	211.0
Unit selling price of concrete (RMB/m^3)	**298.6**	296.7	280.0

2. DIAGRAM OF SHAREHOLDING STRUCTURE OF THE GROUP



(II) Corporate Information

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

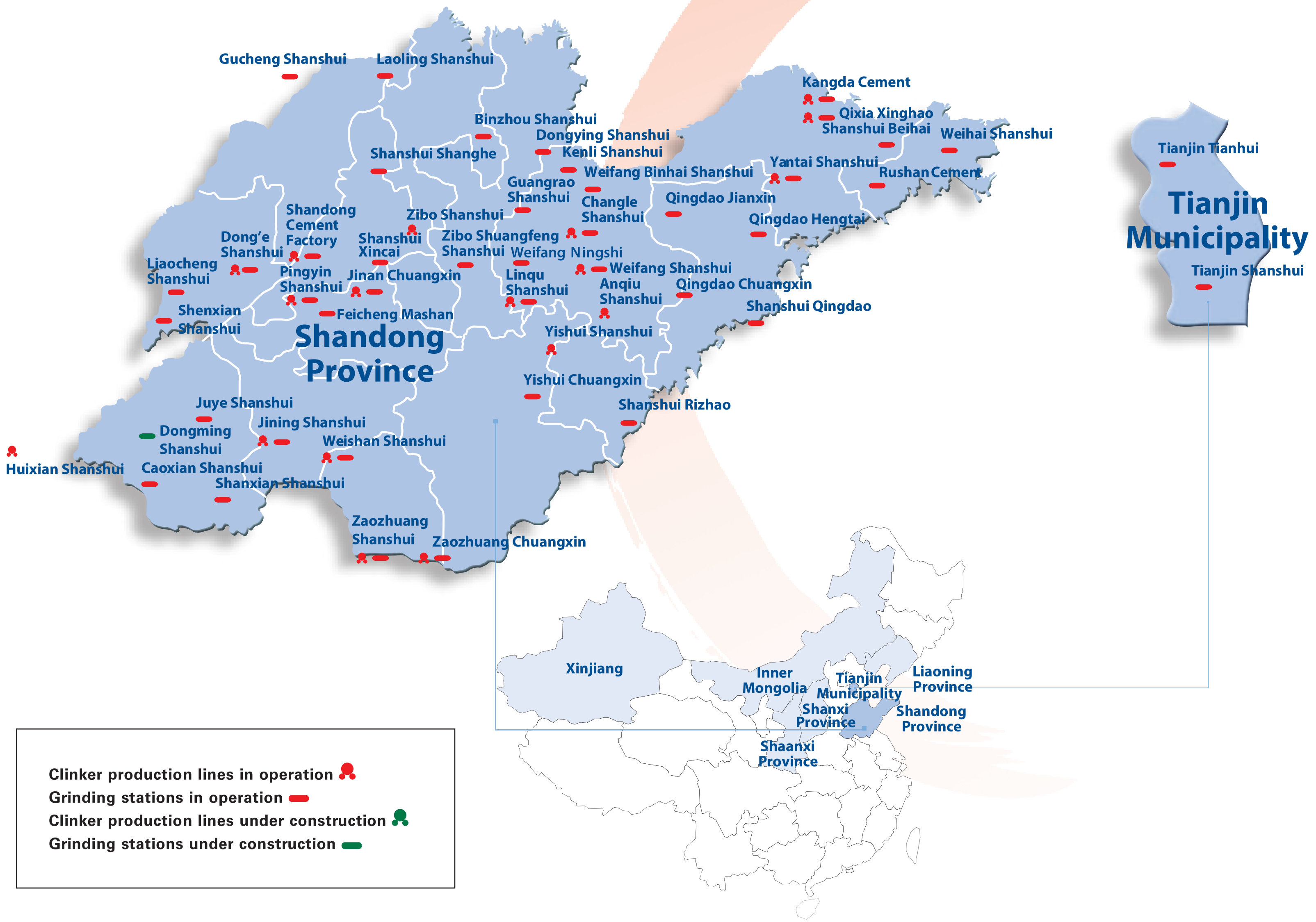
(21) Shandong Shanshui Financial Leasing Company Limited ("Shanshui Financial Leasing"). Its principal business is financial leasing.

3. DISTRIBUTION OF PRODUCTION FACILITIES AND CAPACITY

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

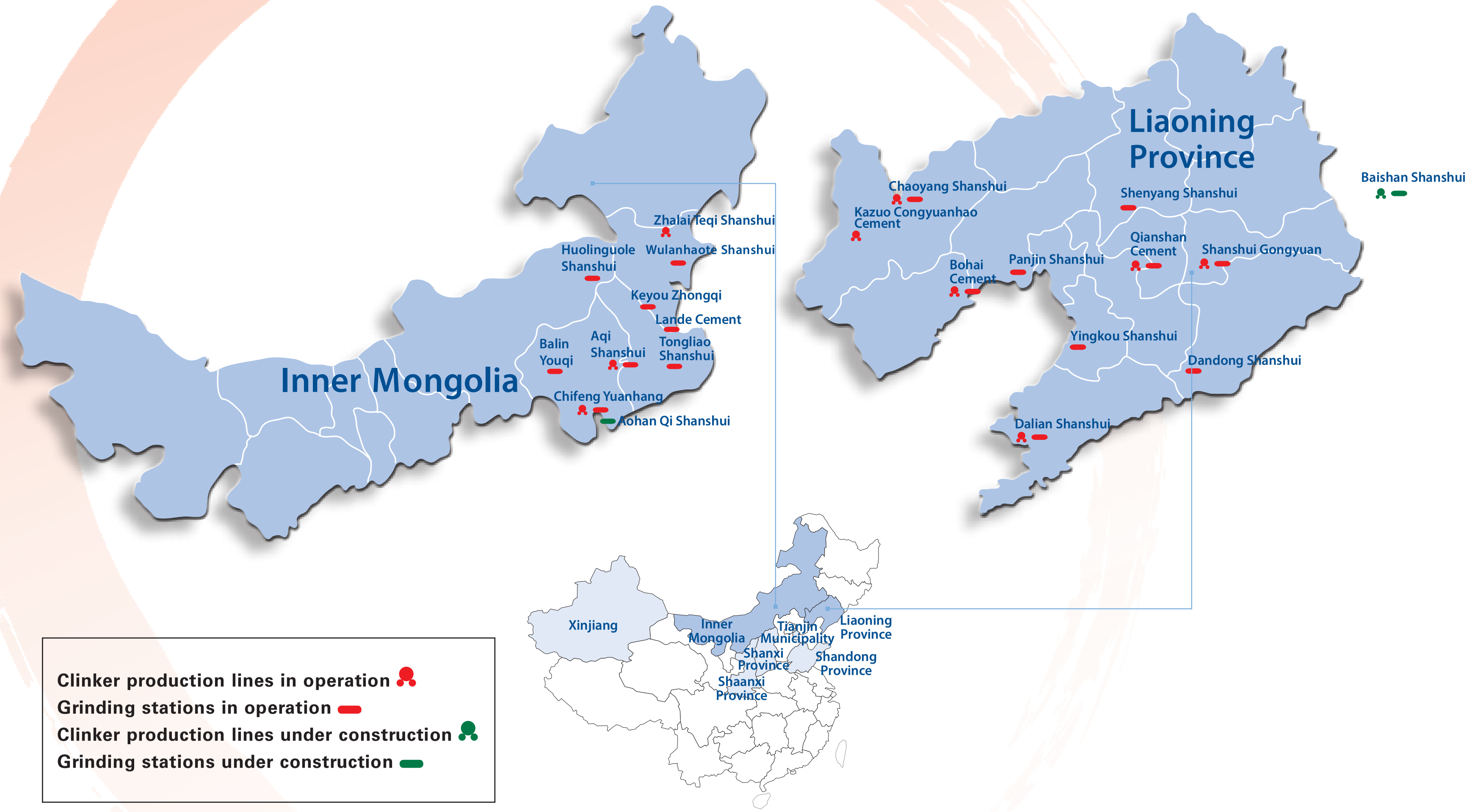
As of 31 December 2014, The Company had a total cement production capacity (included greenfield projects at final stage) of 102.60 million tonnes and clinker production capacity (included production lines in test run) of 48.93 million tonnes. Separately, the total capacity of cement and clinker in Shandong Region reached 59.00 million tonnes and 26.21 million tonnes respectively, while the total capacity of cement and clinker in Northeast Region reached 27.70 million tonnes and 14.56 million tonnes respectively. The cement and clinker capacity in Shanxi Region reached 11.90 million tonnes and 6.56 million tonnes respectively. The cement and clinker capacity in Xinjiang Region reached 4.00 million tonnes and 1.60 million tons respectively.

The diagram below shows the locations of our major production facilities (including projects under construction) in Shandong Region as of 31 December 2014:

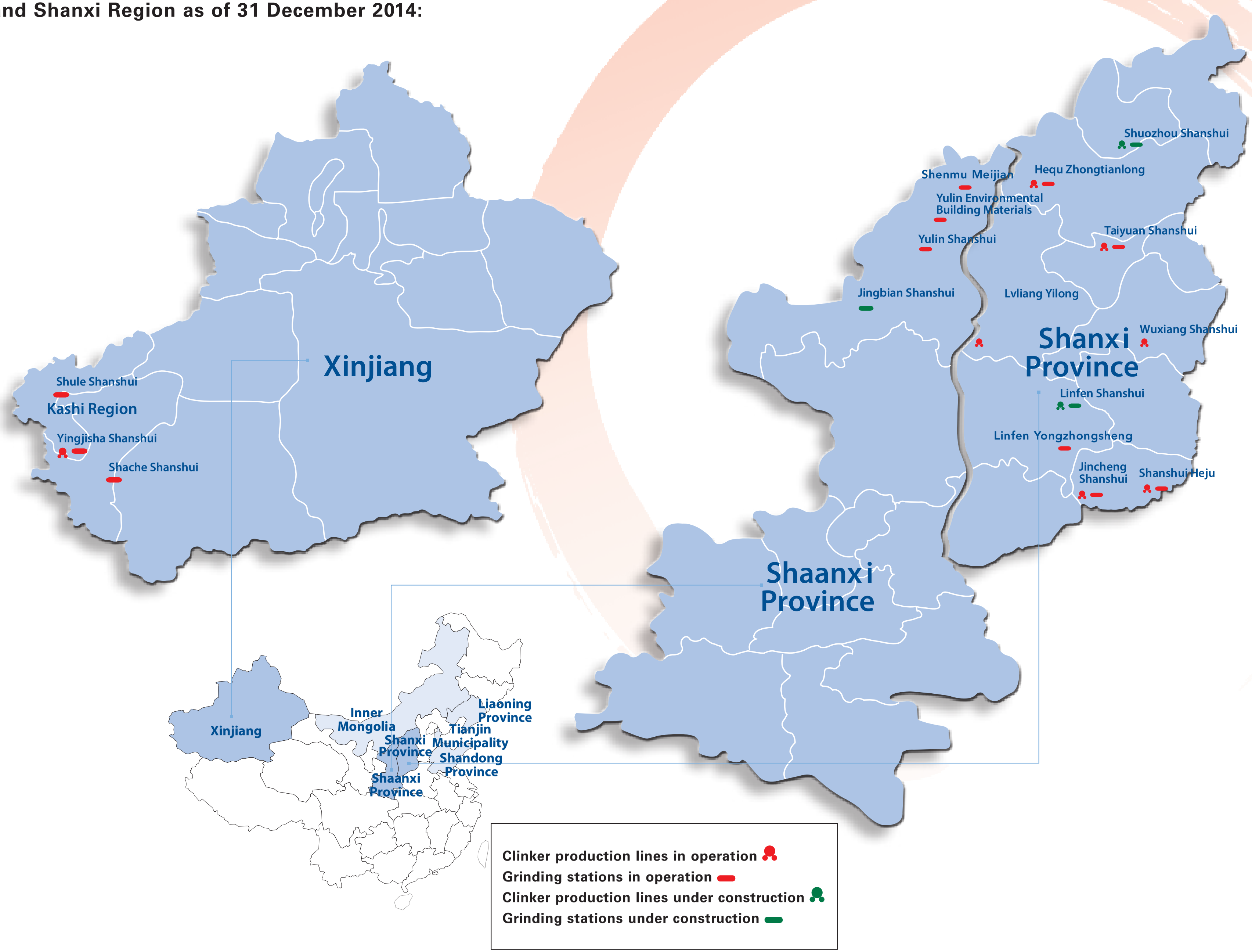


Clinker production lines in operation
Grinding stations in operation
Clinker production lines under construction
Grinding stations under construction

The diagram below shows the locations of our major production facilities (including projects under construction) in Northeast Region as of 31 December 2014:



The diagram below shows the locations of our major production facilities (including projects under construction) in Xinjiang and Shanxi Region as of 31 December 2014:



(III) Financial Data Summary

The financial data for the year ended 31 December 2014

CONSOLIDATED INCOME STATEMENT

(Unit: RMB'000, unless stated otherwise)

	2014	2013	2012
Revenue	**15,596,440**	16,535,204	16,160,981
Profit from operations	**1,812,813**	2,557,206	3,099,324
Net profit	**308,578**	1,074,712	1,603,763
Attributable to:			
Equity shareholders of the Company	**347,650**	1,016,707	1,518,529
Minority interests	**(39,072)**	58,005	85,234
Basic earnings per share (RMB)	**0.12**	0.36	0.54
Diluted earnings per share (RMB)	**0.12**	0.36	0.54

CONSOLIDATED BALANCE SHEET

(Unit: RMB'000)

	2014	2013	2012
Non-current assets	**26,645,735**	24,992,311	21,725,658
Current assets	**7,049,762**	7,244,085	6,307,719
Total assets	**33,695,497**	32,236,396	28,033,377
Total liabilities	**22,329,171**	22,269,670	18,636,875
Equity attributable to equity shareholders of the Company	**10,597,967**	9,245,952	8,650,849
Non-controlling interests	**768,359**	720,774	745,653
Non-current liabilities	**12,484,072**	10,222,513	11,115,759
Current liabilities	**9,845,099**	12,047,157	7,521,116
Total equity and liabilities	**33,695,497**	32,236,396	28,033,377

CONSOLIDATED CASH FLOW STATEMENT

(Unit: RMB'000)

	2014	2013	2012
Net cash generated from operating activities	**1,375,826**	1,924,751	1,930,088
Net cash used in investing activities	**(2,184,284)**	(4,395,283)	(4,339,932)
Net cash generated from financing activities	**682,207**	2,665,505	485,264
Net increase/(decrease) in cash and cash equivalents	**(126,251)**	194,973	(1,924,580)

(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 2014, 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 2014, the Company had a total issued capital of 3,379,140,240 Shares.

On 3 November 2014, the Company issued 563,190,040 Shares to China National Building Materials Company Limited ("CNBM") at the Subscription Price of HK$2.77 per Subscription Share.

2. SUMMARY OF SHARE TRADING PRICES IN 2014

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	3.33	2.51
February	2.90	2.45
March	3.29	2.70
April	3.55	2.99
May	3.15	2.76
June	2.96	2.73
July	2.92	2.61
August	3.00	2.75
September	3.12	2.69
October	3.10	2.68
November	3.06	2.73
December	3.75	2.83

(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 2014, the interests or short positions of persons, other than Directors and Chief Executives of the Company, in the Shares and underlying shares of the Company, which would be required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO, were as follows:

Name of shareholder	Number of Ordinary Shares interested[(1)]	Nature of interests	Percentage of Shares in issue
China Shanshui Investment Company Limited[(2)]	847,908,316(L)	Beneficial owner	25.09%
Asia Cement Corporation[(3)]	426,383,000 (L)	Interests of corporations controlled by substantial shareholder	12.62%
	279,870,500(L)	Beneficial owner	8.28%
China National Building Material Company Limited[(4)]	563,190,040(L)	Interests of corporations controlled by substantial shareholder	16.67%
Hillhouse Capital Management, Ltd.[(5)]	337,449,000(L)	Investment manager	9.99%
Gaoling Fund, L.P.[(6)]	327,165,000(L)	Beneficial owner	9.68%

(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.

(2) As stated in the form of disclosure of shareholder's interests submitted by China Shanshui Investment Company Limited on 21 November 2014 (the date of the relevant event set out in the form was 3 November 2014), these Shares were held via China Shanshui Investment Company Limited.

(3) As stated in the form of disclosure of shareholder's interests submitted by Asia Cement Corporation on 2 December 2014 (the date of the relevant event set out in the form was 1 December 2014), these Shares were held via Asia Cement Corporation and its affiliates.

(4) As stated in the form of disclosure of shareholder's interests submitted by China National Building Material Company Limited on 5 November 2014 (the date of the relevant event set out in the form was 3 November 2014), there Shares were held via China National Building Material Company Limited.

(5) As stated in the form of disclosure of shareholder's interests submitted by Hillhouse Capital Management, Ltd on 30 October 2014 (the date of the relevant event set out in the form was 27 October 2014), these Shares were held via Hillhouse Capital Management, Ltd and its affiliates.

(6) As stated in the form of disclosure of shareholder's interests submitted by Gaoling Fund, L.P. on 30 October 2014 (the date of the relevant event set out in the form was 27 October 2014), these Shares were held via Gaoling Fund, L.P.

Save as disclosed above, and so far as the Directors are aware, as of 31 December 2014, no person, other than Directors or the Chief Executive of the Company, had an interest or short position in the Shares or underlying shares of the Company which would need to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register maintained pursuant to Section 336 of the SFO.

(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 2014, the interests of Directors and Chief Executives of the Company in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) ("Associated Corporations"), which would be required to be notified to the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange"), pursuant to Divisions 7 and 8 and section 352 of Part XV of the SFO to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing of Rules of the Stock Exchange, were as follows:

Name of Director	The Company/ Name of Associated Corporations	Nature of Interests	Number of Shares Interested(1)	Percentage of shares in issue as of 31 December 2014
Zhang Caikui	The Company	Interest in a controlled corporation	847,908,316 (L)(2)	25.09%
Zhang Bin	The Company	Beneficial owner	5,000,000 (L)(3)	0.15%
Li Cheung Hung	The Company	Beneficial owner	200,000 (L)(4)	0.006%
Xiao Yu	The Company	Beneficial owner	100,000 (L)(5)	0.003%

Notes:

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

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

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

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

(5) The 100,000 Shares are the Shares to be issued upon full exercise of the options granted to Xiao Yu on 25 May 2011. For details, please refer to Section 5 "Share Option Scheme" of this Chapter.

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

(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, save for the issuance of 563,190,040 Shares by the Board under the authority of General Mandate approved at the Annual General Meeting held on 16 May 2014, neither the Company nor its subsidiaries purchased, sold or redeemed any listed shares of the Company.

5. SHARE OPTION SCHEME

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

Type of Grantee	Date of grant	Granted	Vesting period	Exercise price	Exercised during the Reporting Period	Lapsed during the Reporting Period	Cancelled during the Reporting Period	Expired during the Reporting Period	Not yet exercised during the Reporting Period
Zhang Bin, *Executive Director*	25 May 2011	Options for subscription of 5,000,000 Shares	Nil	HK$7.90	Nil	Nil	Nil	Nil	Options for subscription of 5,000,000 Shares
Li Cheung Hung, *Executive Director*	25 May 2011	Options for subscription of 200,000 Shares	Nil	HK$7.90	Nil	Nil	Nil	Nil	Options for subscription of 200,000 Shares
Xiao Yu, *Non-Executive Director*	25 May 2011	Options for subscription of 100,000 Shares	Nil	HK$7.90	Nil	Nil	Nil	Nil	Options for subscription of 100,000 Shares
Employees	25 May 2011	Options for subscription of 2,000,000 Shares	Nil	HK$7.90	Nil	Nil	Nil	Nil	Options for subscription of 2,000,000 Shares
	Total number of options granted and accepted	Options for subscription of 7,300,000 Shares			Nil	Nil	Nil	Nil	Options for subscription of 7,300,000 Shares

Note: The options for subscription of 207,300,000 Shares were granted by the Company on 27 January 2015 to certain directors and employees of the Company, subject to the legal proceedings set out in the section headed "Material Litigation and Arbitration Matters" in the "Significant Events" as contained in this annual report.

Summary of the principal terms of the Share Option Scheme

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

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

The Shares that will be issued upon full exercise of the options currently granted under the Share Option Scheme are 7,300,000 Shares, representing approximately 0.22% of our share capital in issue (3,379,140,240 Shares) as of 31 December 2014.

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

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

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

6. PRE-EMPTIVE RIGHTS

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

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

1. BASIC INFORMATION ON DIRECTORS AND SENIOR MANAGEMENT

Name	Position	Gender	Age	Term of Office (Subject to renewal)
ZHANG Bin (張斌)	Chairman, Executive Director and General Manager	M	36	10 September 2013 –9 September 2016
ZHANG Caikui (張才奎)	Executive Director	M	64	1 July 2014–30 June 2017
LI Cheung Hung (李長虹)	Executive Director	M	64	23 August 2013 –22 August 2016
XIAO Yu (肖瑜)	Non-Executive Director	M	89	24 May 2013–23 May 2016
WANG Jian (王堅)	Independent Non-Executive Director	M	59	1 July 2014–30 June 2017
HOU Huailiang (侯懷亮)	Independent Non-Executive Director	M	72	23 August 2013 –22 August 2016
WU Xiaoyun(吳曉雲)*	Independent Non-Executive Director	F	60	16 May 2014 –15 May 2017
ZHANG Bin (張斌)	Joint Company Secretary	M	36	1 July 2014 –9 September 2016
LI Cheung Hung (李長虹)	Joint Company Secretary, Qualified Accountant	M	64	23 August 2013 –22 August 2016

* Ms. WU Xiaoyun has been appointed as Independent Non-executive Director with effect from 16 May 2014.

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

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. ZHANG Bin (張斌), aged 36, is the chairman of the Board, an executive director and the general manager of the Group. He is in charge of the management of the Group's daily production and operation as well as the Group's operation in capital markets. Mr. Zhang joined the Group in March 2006. He worked at Sinoma International Engineering Company Limited from December 2004 to March 2006. After joining the Group, Mr. Zhang has been responsible for the preparatory work of the listing of the Company, establishing the Group's sourcing and supply centre, overseeing the Group's Department of Securities Affairs, Legal Affairs, the sourcing and supply centre and Internal Audit, and concurrently held the position as the General Manager of Pingyin Branch Corporation. Mr. Zhang graduated from Shandong University of Science and Technology in July 2003. He graduated from the Business Administration Faculty of Nankai University in September 2008 with a Master's degree.

Mr. ZHANG Caikui (張才奎), aged 64, is an executive director and the founder of the Company. Mr. Zhang has 46 years of experience in the cement industry, and was appointed as the head of Shandong Cement Plant (the predecessor of Shandong Cement Factory Co., Ltd.) in 1990. He has been the executive director and general manager of Shandong Shanshui since August 2001. Over the years, Mr. Zhang has won a number of honorary titles, including Head of the Jinan Municipal Bureau (Association) of Building Materials ("Jinan Building Materials Bureau") from November 1995 to August 2004, Deputy Head of the China Cement Association since October 2002 and Vice President of China Building Materials Federation since June 2007. He was a deputy to the Tenth, Eleventh and Twelfth National People's Congress and a member of the Jinan Municipal Party Committee. He graduated from the Nankai University with a Master's degree in Business Administration in December 2005. Mr. Zhang Caikui is the father of Mr. Zhang Bin, who is the chairman of the board, an executive director and the general manager of the Group.

Mr. LI Cheung Hung (李長虹), aged 64, is an executive director, the joint company secretary and a qualified accountant of the Company. He has been committed to the information disclosure of the listed company, the management of investor relationship and the Group's operation in capital markets. Mr. Li has over 30 years of experience in corporate governance, accounting and finance. Prior to joining the Group, Mr. Li held various positions with a number of companies and listed companies in Hong Kong, which include the subsidiaries of Royal Dutch Shell Group in the PRC and Hong Kong, Neo-Neon Holdings Limited (stock code: 01868) and Top Form International Limited (stock code: 00333). Mr. Li holds a Master's degree in Business Administration jointly granted by the Business School of the University of Manchester and the University of Wales. Mr. Li is a fellow member of both Institute of Chartered Secretaries & Administrators and The Hong Kong Institute of Chartered Secretaries. He is also a fellow member of both the Hong Kong Institute of Certified Public Accountants, the Association of International Accountants in England and a member of Society of Registered Financial Planners in Hong Kong.

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

Non-Executive Directors

Mr. XIAO Yu (肖瑜), aged 89, is the senior financial adviser to the Company and its subsidiaries (the "Group"). Mr. Xiao has over 60 years of financial experience. He had served as a division chief and a chief accountant at the Department of Finance of Shandong Province from 1948 to 1995. During the period from 1996 to 2002, he has served as a financial adviser to Shandong Shengli Company Limited (a company listed on the Shenzhen Stock Exchange, stock code: 000407). From 1998 to 2003, he served as an independent director of Shandong Xinhua Pharmaceutical Company Limited (a company listed on the Shenzhen Stock Exchange, stock code: 000756). Mr. Xiao joined the Group in April 2004. Mr. Xiao is an expert in the financial field and enjoys special government allowances assessed by the State Council. He has won various recognitions and awards from the Shandong Provincial Government. Mr. Xiao graduated from Shandong Provincial Commercial College in 1949 majoring in cost accounting.

Independent Non-Executive Directors

Mr. WANG Jian (王堅), aged 59, is an independent non-executive director of the Company. Mr. Wang is a senior accountant and a certified public accountant in the PRC. From 1996 to 2000, he has served as the Chief Accountant of Shandong Shengli Company Limited (a company listed on the Shenzhen Stock Exchange, stock code: 000407). From 2000 to 2003, he was the deputy general manager of Shandong Shengli Company Limited. In May 2003, Mr. Wang resigned from Shandong Shengli Company Limited and joined Qilu Real Estate Company Limited, a private company, and was appointed as the general manager. Mr. Wang was appointed as a director of Shandong Shengli Company Limited in May 2012.

Mr. HOU Huailiang (侯懷亮), aged 72, is an independent non-executive director of the Company. Mr. Hou has over 40 years of experience in corporate management, is currently an independent director of Sinotruk Group Jinan Truck Co., LTD (a company listed on the Shenzhen Stock Exchange, stock code: 000951). Prior to joining the Group, Mr. Hou had served as a deputy factory head and factory head of Jinan Zhangqiu Electrical and Mechanical Plant from 1968 to 1983. Mr. Hou also had served as a standing committee member and deputy-secretary of County Committee of Zhangqiu, Jinan from 1984 to 1986. He also held the positions of vice-director and deputy-secretary of party committee of Committee for Economic Affairs in Jinan from 1987 to 2001. He has been the chairman of Jinan Enterprises Confederation since 2001. Mr. Hou graduated from Shandong Industrial College (山東工學院) (currently known as Shandong University (山東大學)) with a bachelor's degree majoring in mechanical engineering and manufacturing in 1968.

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

Ms. WU Xiaoyun (吳曉雲), aged 60, an independent non-executive director of the Company, is a professor of the University of Nankai. Ms. Wu had served as the associate professor of the Department of Trade and Economics of the Tianjin University of Finance and Economics from 1993 to 1994. Ms. Wu has also served various roles in the University of Nankai, which include the professor of the Business School since 1998, the instructor for master's degree students from 1998 to 2003, and the deputy head of the Department of Marketing from 1998 to 2007. Ms. Wu is currently an instructor for the Ph.D. candidates of the University of Nankai, the head of the Institute for International Business of the University of Nankai, as well as the director of the Global Marketing Research Center of the Business School of the University of Nankai. Ms. Wu was appointed as an independent director of Dongguan Kingsun Optoelectronic Co., Ltd. (stock code: 002638), a company listed on the Shenzhen Stock Exchange from 2007 to 2013. Ms. Wu has numerous publications on global corporate marketing, her specializations, and various academic papers published in well-known management periodicals and journals in China. Her publications and works received numerous recognitions and awards from the Ministry of Education of the People's Republic of China, Tianjin Municipal People's Government and the University of Nankai. Ms. Wu has also been a member of executive council of the Marketing Research Association for Colleges and Universities in China and a council member of China Marketing Association since 1987.

Senior Management

Mr. SUI Qinghuai (隋清懷), aged 50, is the deputy general manager of the Group, primarily responsible for the sales and marketing of the Group. Mr. Sui has over 30 years of production and sales management experience in cement industry. Mr. Sui has started his career since 1982 and he was appointed the positions as the division head and the deputy general manager of Weifang Cement Plant. In December 2001, he was appointed as the deputy general manager of Sales Department in the subsidiary Weifang Shanshui Cement Company Limited. In December 2009, he was appointed as the general manager of Sales Department in Shanxi Shanshui. In December 2010, Mr. Sui was appointed as the assistant to the general manager of the Group. In March 2013, He was appointed as the deputy general manager of the Group.

Mr. TIAN Guang (田光), aged 39, is the deputy general manager of the Group, primarily responsible for the strategic development of the Group. Mr. Tian has 19 years of experience in cement industry as well as working and management experiences of several cement companies. Mr. Tian joined Shandong Cement Plant in October 1998 and he was appointed as the general manger of the subsidiary Jinan Shiji Chuangxin Cement Company Limited in October 2002. In March 2004, he was appointed as the general manager of the subsidiary Zibo Shanshui Cement Company Limited. In January 2011, Mr. Tian was appointed as the deputy general manager of the Group. Mr. Tian graduated from the Shandong Building Construction College with a Bachelor's degree in Building Construction in July 1996.

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

Mr. YU Zhihai (于志海), aged 58, is the deputy general manager of the Group and the general manager of Shandong Shanshui Machinery Company Limited ("Shanshui Machinery"), primarily responsible for the equipment management of the Group and the operation of Shanshui Machinery. Mr. Yu has started his career since 1974 and he was appointed various positions as the deputy division head, the division head, the assistant to plant manager, the department head, the assistant plant manager and the deputy plant manager of Jinan First Machine Tool Plant. He was appointed the positions as the general manager, the deputy secretary of Party's Committee, the secretary of Party's Committee, the chairman and the general manager of restructured Jinan First Machine Tool Group Company Limited from 1996 to 2010. In July 2011, Mr. Yu joined Shanshui Group and was appointed as the general manager of Shanshui Machinery. In March 2013, Mr. Yu was appointed as the deputy general manager of the Group.

Mr. LI Wenzhong (李文忠), aged 50, is the deputy general manager of the Group, primarily responsible for daily operation and management of Northeast region. Mr. Li has started his career since July 1985 and he was appointed various positions as the division head, the chief engineer, the general manager and the secretary of Party's Committee. He was appointed the assistant to Group's general manager in 2008. Mr. Li was appointed the chairman and the general manager of Group's Kashi Shanshui Cement Company Limited in February 2012, the chairman and the general manager of Liaoning Shanshui Cement Group Company Limited in February 2013, and the deputy general manager of the Group in February 2014. Mr. Li graduated from Shandong Building Construction Colleague with a professional in Mining Processing. Mr. Li was honored the Labor Role Model for Building Materials Industry in Shandong Province, Outstanding Worker Award in Quality Management for Building Materials Industry in Shandong Province and China.

Mr. ZHANG Shenjun (張聖軍), aged 36, is the deputy general manager of the Group, primarily responsible for production management of the Group. Mr. Zhang has started his career since 2004 and he was appointed various positions as the technician, the officer and the production deputy manager in Pinyin Shanshui. He was appointed the general managers of Weishan Shanshui Cement Company Limited, Zaozhuang Chuangxin Shanshui and Zaozhuang Shanshui Cement Company Limited respectively since December 2010, the assistant to Group's general manager in February 2014 and the deputy general manager in October 2014. Mr. Zhang graduated from Henan Polytechnic University with a Bachelor's degree of Materials Science Engineering in July 2004.

Mr. LIU Yumin (劉玉明), aged 42, is the deputy general manager, primarily responsible for procurement and supply management of the Group. Mr. Liu has 17 years of management experience in cement industry. Mr. Liu joined Shandong Cement Plant in 1998, and was appointed various positions as the technician, the division head and the concrete plant manager. He was appointed the general manager of Juye Shanshui Cement Company Limited, the division head of Procurement and Supply Department in February 2012, and the deputy general manager of the Group in October 2014. Mr. Liu graduated from Shandong Building Construction Colleague with a Bachelor's degree in Mining Processing Engineering in July 1998.

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

Joint Company Secretary and Qualified Accountant

Mr. LI Cheung Hung (李長虹), aged 64, is one of the joint company secretary and a qualified accountant of the Company. His biographical details are set out in the paragraph headed "Senior Management" above.

Mr. ZHANG Bin (張斌), aged 36, is one of the joint company secretary of the Group. His biographical details are set out in the paragraph headed "Senior Management" above.

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

Pursuant to Article 16.18 of the Articles of Association, Mr. ZHANG Caikui, Mr. LI Cheung Hung and Mr. HOU Huailiang retired as directors by rotation at the 2013 Annual General Meeting of the Company held on 16 May 2014, and all of them were re-elected as the directors of the Company at the meeting. Mr. JIAO Shuge and Mr. WANG Yanmou resigned as directors while Ms. WU Xiaoyun was appointed as the independent non-executive director of the Company during the Annual General Meeting.

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

Mr. ZHANG Bin, being an executive director of the Company, has entered into a service contract with the Company for a term of three years commencing on 10 September 2013. Under the service contract, Mr. ZHANG Bin will be entitled to receive an annual salary of RMB3 million, and such annual salary is subject to annual review by the Board and the Remuneration Committee. The amount of his management bonus is calculated with reference to the pre-set performance target of the Group (as calculated by the audited consolidated net profits ("Net Profits") of the Group after taxation and non-controlling interests but before extraordinary items) as the Board may approve and shall be equal to 10% of the excess of the Net Profits of the Group over the pre-set performance target of the Group in any given year. Mr. ZHANG Bin's remuneration (including any bonus) is determined with reference to his performance, position and duties in the Company and the subordinate companies.

Mr. ZHANG Caikui, being an executive director, has entered into a service contract with the Company on 21 March 2014 for a term of three years commencing on 1 July 2014, subject to termination before expiry by either party by giving not less than three months' notice in writing to the other, provided that such termination shall not occur during the first 12 months of the contract. Under the service contract, Mr. ZHANG Caikui will be entitled to receive an annual salary (including any director's fees) of RMB5 million, and such annual salary is subject to annual review by the Board and the Remuneration Committee.

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

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

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

Mr. XIAO Yu, being our non-executive director, has entered into a letter of appointment with our Company on 24 May 2013. Such letter of appointment is for an initial term of one year commencing from 24 May 2013, and thereafter shall be renewed for a maximum of three years provided it can be terminated by either party by giving at least one month's notice in writing. Mr. XIAO will not receive any director's fees from our Company.

Mr. WANG Jian, being our independent non-executive director, has entered into a letter of appointment with our Company on 21 March 2014. Such letter of appointment is for an initial term of one year commencing from 1 July 2014, and thereafter shall be renewed for a maximum of three years provided it can be terminated by either party by giving at least one month's notice in writing. Mr. WANG's annual fee is RMB100,000.

Mr. HOU Huailiang, being our independent non-executive director, has entered into a letter of appointment with our Company. Such letter of appointment is for an initial term of one year commencing from 23 August 2013, and thereafter shall be renewed for a maximum of three years provided it can be terminated by either party by giving at least one month's notice in writing. Mr. HOU will not receive any remuneration from our Company.

Ms. WU Xiaoyun, being our independent non-executive director, has entered into a letter of appointment with our Company on 16 May 2014. Such letter of appointment is for an initial term of one year commencing from 16 May 2014, and thereafter shall be renewed for a maximum of three years provided it can be terminated by either party by giving at least one month's notice in writing. Ms. WU's annual fee is RMB100,000.

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

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

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

4. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT FOR THE YEAR

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

5. HIGHEST PAID INDIVIDUALS

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

6. EMPLOYEES

As at 31 December 2014, the Group had 23,821 employees, 13,051 in Shandong Region, 7,551 in Northeast Region, 2,658 in Shanxi Region and 561 in Xinjiang Region, including 15,599 production staff, 1,734 sales staff, 1,803 technical staff, 788 finance staff, 1,645 administrative and management staff, and 2,252 other staff. 15,853 of the employees had secondary and higher education, of which 6,170 received tertiary or above education. The aggregate remuneration of the employees of the Group for the year amounted to RMB1,353.33 million. For expenses related to employees who have resigned or retired, please refer to Note 28 to the financial statements prepared under IFRS in this annual report.

7. PENSION INSURANCE

Details of the pension insurance are set out in Note 5 to the financial statements prepared under IFRS. Pension booked in the income statement of the Group for the year ended 31 December 2014 amounted to RMB147.47 million.

8. STAFF HOUSING

Pursuant to the relevant regulations of the PRC government, the Group shall make contributions to the housing provident fund for employees based on a certain percentage of their salaries. Except for this, the Group has no other obligation nor any plan for providing housing benefits to the staff. For the year ended 31 December 2014, the total contributions made by the Group to the housing provident fund amounted to approximately RMB49.94 million.

(VI) Report on Corporate Governance

1. CODE ON CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Board of the Company was not aware of any information which would indicate that the Company did not comply with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules of the Stock Exchange unless otherwise indicated.

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

2. MODEL CODE

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

3. THE BOARD

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

Composition of the Board is as follows:

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

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

During the Reporting Period, having considered the content of each resolution as well as the location and diary of each director, and after thorough communications with directors in relation to the arrangements of the meetings, 3 meetings of the Board were held on-site and the Board had voted on 1 written resolution. In view of the above considerations, the Board meeting has not convened in accordance with the code provisions where regular meetings should be held at least four times per year.

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

Name	**Attendance rate (%)**
ZHANG Bin	100%
ZHANG Caikui	100%
LI Cheung Hung	100%
XIAO Yu	100%
WANG Jian	100%
HOU Huailiang	100%
WU Xiaoyun*	100%

* Ms. WU Xiaoyun attended the board meeting held on 21 March 2014 as an alternate to retired director.

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

Name	**Voting rate (%)**
ZHANG Bin	100%
ZHANG Caikui	100%
LI Cheung Hung	100%
XIAO Yu	100%
WANG Jian	100%
HOU Huailiang	100%
WU Xiaoyun	100%

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

4. CHAIRMAN AND GENERAL MANAGER

The positions of Chairman and General Manager of the Company are jointly served by Mr. ZHANG Bin.

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

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

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

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

For the tenure of non-executive directors, please refer to the aforementioned section "1. Basic Information on Directors and Senior Management" of "Basic Information on Directors, Senior Management and Employees".

The Company has received the confirmation letters from Mr. WANG Jian and Mr. HOU Huailiang and Ms. WU Xiaoyun, being the independent non-executive directors, pursuant to Rule 3.13 of the Listing Rules of the Stock Exchange in respect of their independence for the year. The Company concurs with their independence.

6. REMUNERATION COMMITTEE OF THE BOARD

Pursuant to the Listing Rules of the Stock Exchange, the Board of the Company has established the Remuneration Committee under the Board. It has adopted the model that making recommendations to the Board on the remuneration packages of individual executive directors and senior management and is principally responsible for formulating the remuneration policy for the executive directors and senior management of the Company, determining the remuneration proposal for the above people and make recommendations to the Board of the Company. The Remuneration Committee is a standing committee under the Board and accountable to the Board.

Members of the Remuneration Committee of the Board of the Company were Mr. WANG Jian, Mr. HOU Huailiang and Ms. WU Xiaoyun, of them Mr. WANG Jian serves as the chairman. Ms WU has been appointed as a member of the Remuneration Committee with effect from 16 May 2014.

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

The Remuneration Committee of the Company held a meeting on 21 March 2014. All committee members attended the meeting. The committee considered and approved the resolution of proposal of senior management remuneration for Board's approval.

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

7. AUDIT COMMITTEE OF THE BOARD

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

The Audit Committee of the Board of the Company comprised Mr. WANG Jian, Mr. HOU Huailiang and Ms. WU Xiaoyun, of them Mr. WANG Jian serves as the chairman. Ms. WU has been appointed as a member of the Audit Committee with effect from 16 May 2014.

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

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

At the meeting held on 22 August 2014, 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 2014 in accordance with IFRS; (ii) the interim results announcement and interim report proposed to publish on the website of the Stock Exchange; and (iii) the management letter submitted by KPMG.

On 9 January 2015, the Joint Company Secretary of the Company notified the Audit Committee on a timely manner in respect of the schedule of audit work for 2014.

The results of the Group for the year ended 31 December 2014 have been reviewed by the Audit Committee at the meeting held on 28 March 2015. At such meeting, the Audit Committee considered and approved the following resolutions: (i) the report on work of finance for 2014 of the Company; (ii) the audited annual financial report of the Company as at 31 December 2014 prepared in accordance with IFRS, and the auditor report for 2014 submitted by KPMG; (iii) the management letter submitted by KPMG; (iv) the connected transactions of the Company for 2014; (v) the proposal to the Board to re-appoint KPMG as the auditor of the Company in 2015.

The Audit Committee made an objective assessment on the work conducted by KPMG: During the process of conducting the audit of the Company for 2014, KPMG was able to adhere strictly to Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants and other regulations in performing its audit and was able to perform its audit functions well. Accordingly, the Board was proposed to re-appoint KPMG as the auditor of the Company in 2015.

The above proposal proposed by the Board is to be considered and approved at the annual general meeting for 2014.

8. EXECUTION COMMITTEE OF THE BOARD

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

Members of the Execution Committee under the Board of the Company are Mr. ZHANG Bin, Mr. ZHANG Caikui, and Mr. LI Cheung Hung, among them Mr. ZHANG Bin serves as the chairman.

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

At the meeting held on 21 March 2014, the Executive Committee considered and approved the following resolutions: (i) the report on work for 2013 of the Company; (ii) the budget of fixed capital expenditure for 2014 of the Company; (iii) the proposal of bank facilities for 2014 of the Company.

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

9. NOMINATION COMMITTEE OF THE BOARD

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

Members of the Nomination Committee under the Board of the Company are Mr. ZHANG Bin, Mr. HOU Huailiang and Ms. WU Xiaoyun, among them Mr. ZHANG Bin serves as the chairman. Ms. WU has been appointed as member of Nomination Committee with effect from 16 May 2014.

On 18 March 2014, the Nomination Committee nominated Ms. WU Xiaoyun as an independent non-executive director of the Company by a written resolution. The nomination was approved by the Board.

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

10. DIRECTOR TRAININGS

On 22 August 2014, the Company delivered the "Guidelines on Practices of Inside Information Disclosure of A+H Companies" to all directors of the Company for training purpose. All directors provided their respective training records to the Company.

11. DUTIES OF COMPANY SECRETARY

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

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

12. AUDITORS AND REMUNERATION

Pursuant to the proposal from the Audit Committee of the Board of the Company, the Company engaged KPMG as the auditor of the Company and its two subsidiaries in Hong Kong for the year ended 31 December 2014. The audit remuneration payable to KPMG by the Company and its subsidiaries for the year ended 31 December 2014 amounted to RMB6.8 million and HKD136,000 respectively. In addition, the Company was required to reimburse KPMG for travelling and accommodation expenses incurred for on-site auditing.

During the Reporting Period, the auditors also received a fee of approximately RMB2.48 million for performing certain financial services such as the proposed issuance of US dollars Senior Notes of the Group.

13. SHAREHOLDER AND GENERAL MEETING

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

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

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

The annual general meeting ("AGM") of the Company for 2013 was held on 16 May 2014. Five ordinary resolutions (including the adoption of the audited consolidated financial statements for 2013, dividend distribution and rotation of directors) and one special resolution were approved and adopted, details of which were disclosed in the AGM poll results announcement dated 16 May 2014.

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

The attendance rates of the Directors are as follows:

Name	**Attendance rate (%)**
ZHANG Bin	100%
ZHANG Caikui	100%
LI Cheung Hung	100%
XIAO Yu	100%
WANG Jian	100%
HOU Huailiang	––
WU Xiaoyun	––

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

In order to bring the Memorandum of Association and the Articles of Association in line with the recent changes to the Listing Rules and the amendments to the Cayman Companies Law, uphold the corporate governance standards under the Listing Rules, certain amendments were made to the existing Memorandum of Association and the Articles of Association, mainly to include the functions, conduct and proceedings of both the audit committee and remuneration committee, during the Reporting Period. The major additions are as follows:

(1) The Audit Committee shall be delegated with the authority and responsibility to monitor the relationship of the Company with its external auditors, review the financial information of the Company and oversee the financial reporting system, the risk management system and internal control procedures of the Company. The Audit Committee shall comprise of not more than three Directors, all of which shall be non-executive Directors. The majority of the Audit Committee members must be independent non-executive Directors, and an independent non-executive Director shall be the Chairman of the Audit Committee.

(2) The Remuneration Committee shall be delegated with the responsibility to make recommendations to the Board on the Company's policy and structure of all Directors' and senior management remuneration, review and approve the management's remuneration proposals, and make recommendations to the Board in respect of the remuneration packages of individual Directors and senior management. The majority of the Remuneration Committee members must be independent non-executive Directors, and an independent non-executive Director shall be the Chairman of the Remuneration Committee.

15. ESTABLISHMENT AND SOUNDNESS OF INTERNAL CONTROL SYSTEM

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

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

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

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

(4) Financial management: The Group carries out a comprehensive budget management system, formulates a set of unified financial management policy and procedures and implements financial manager appointment procedures to ensure financial independence. It also implements a centralised funding management system. All financing activities are required to be approved by the Group's headquarters and financing sources are arranged on unified channels. The Group implements a strict funding approval procedure. The Group's Treasury Department supervises the use of fund through the funding settlement centre to prevent funding risks.

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

(6) Sales management: The Company implements unified policies for regional market development, pricing and product sales, and has been carrying out a "cash before delivery" selling policy to ordinary customers not belonged to major accounts. The Sales and Marketing Department of the Group monitors the status in respect of invoicing, goods delivery and pricing of its subsidiaries through the intelligent sales system, and collects market information and customer feedbacks to the Group and its subsidiaries for the improvement of product quality and sales service, and the continued enhancement of brand name and influence for cement products of the Group.

(7) Project investment management: The Group formulates medium-to-long-term development strategic plans on a unified basis and conducts argumentation on new and target projects and submits the result for approval by the Board of the Group on a unified basis before implementation. As for projects under construction, by adherence to the principle of "low investment, short completion time, attaining standard swiftly", the Engineer Department at the Group's headquarters is responsible for project design; the Strategic Department is responsible for project construction management and production debugging; the Audit Department is responsible for the auditing of project budgets and final accounts so as to effectively evade investment risks.

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

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

(VII) Management Discussion and Analysis

DOMESTIC OPERATING ENVIRONMENT AND OPERATING CONDITIONS OF THE CEMENT INDUSTRY

In 2014, the Chinese government closely grasped the economic development trend, adhered to the basic principle of achieving a steady and yet progressive development and deepened reform in a comprehensive manner, so as to maintain the continuity and stability of macroeconomic policies. The Chinese government also innovated the concept and methods of macroeconomic control, implemented predetermined adjustment and fine-tuning and steadily accomplished various tasks, thereby realizing sustainable and sound economic development. China's GDP totalled RMB63.6463 trillion, representing a year-on-year growth of 7.4%. While fixed assets investment of the whole country was RMB50.2005 trillion, representing a year-on-year growth of 15.7%, total investment by real estate development completed RMB9,503.6 billion, representing a year-on-year growth of 10.5%. (Source: National Bureau of Statistics of China)

In 2014, aggregate cement production volume throughout the country amounted to 2.476 billion tonnes, representing an increase of 1.8% as compared with the previous year. From January to December, the cement industry in China recorded a profit of 78.0 billion, representing a year-on-year increase of 1.4%. In general, due to the slowdown in China's economic growth and deceleration in the growth rate of fixed assets investment, in particular, the decline in the growth rate of investment in real estate development, the market demand for cement showed a sluggish trend. The overall operating conditions of the cement industry demonstrated a characteristic of "high at the beginning and low at the end, high in Southern China and low in Northern China", that is (i) owing to the drop in cement price on month-on-month basis, the sales revenue and profit growth of the cement industry also showed a corresponding downward trend; (2) the regional differentiation of the cement market throughout the country became more apparent, and the profitability of cement enterprises in Southern China was better than those in Northern China. (Source: Digital Cement)

OPERATIONS OVERVIEW

In 2014, the Group speeded up the development of its core cement business while getting well-prepared for the in-depth expansion on the industrial product chain, improving, refining fundamental internal management and enhancing the quality of production, operation and keeping sustainable profitability.

(VII) Management Discussion and Analysis

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

	Added clinker capacity (10,000 tonnes)	Added cement capacity (10,000 tonnes)
New production lines:		
3,200t/d clinker production line project (equipped with residual heat generation facilities) of Alu Kerqin Qi Shanshui Cement Co., Ltd. (Phase 2)	102	–
4,000t/d clinker production line project (equipped with residual heat generation facilities) of Zalaite Qi Shanshui Cement Co., Ltd.*	128	–
4,000t/d clinker production line project (equipped with residual heat generation facilities) of Kazuo Congyuanhao Shanshui Cement Co., Ltd.*	128	–
Cement grinding production line of Yingjisha Shanshui Cement Co., Ltd. with an annual output of 1 million tonnes	–	100
Cement grinding production line of Yulin Shanshui Environmental Co., Ltd. with an annual output of 1 million tonnes	–	100
Cement grinding production line of Feicheng City Mashan Shanshui Cement Co., Ltd. with an annual output of 1 million tonnes	–	100
Cement grinding production line of Dongming Shanshui Cement Co., Ltd. with an annual output of 1 million tonnes**	–	100
Cement grinding production line of Jinbian Shanshui Cement Co., Ltd. with an annual output of 1 million tonnes**	–	100
Cement grinding production line of Aohan Qi Shanshui Cement Co., Ltd. with an annual output of 1 million tonnes**	–	100
Sub-total	**358**	**600**
Acquired production lines:		
Cement grinding production line of Shenmu County Meijian Cement Co., Ltd. with an annual output of 1.8 million tonnes	–	180
Cement grinding production line of Shanxi Yongzhongsheng Environmental Co., Ltd. with an annual output of 0.6 million tonnes	–	60
Sub-total	**–**	**240**
Total new production capacity for the year	**358**	**840**

* The project is undergoing trial operation.

** This is a greenfield project at final stage.

(VII) Management Discussion and Analysis

During the Reporting Period, the Group added new cement production capacity (included greenfield projects at final stage) and new clinker production capacity (included production lines in test run) of 8.40 and 3.58 million tonnes respectively. As at the end of the Reporting Period, all suitable clinker production lines had been equipped with residual heat generation facilities, and the total installed capacity amounted to 247.0 MW. In addition, as at the end of the Reporting Period, the total installed capacity of the Group's commercial concrete production lines amounted to 18.40 million m^3. With more new projects commencing operations, the Group will further strengthen its control over and stand out in the cement markets in Shandong, Liaoning, Shanxi provinces and eastern Inner Mongolia.

During the Reporting Period, the Group sold in total of 62.96 million tonnes of cement and clinker, representing a year-on-year growth of 0.5%. Sales revenue was RMB15,596 million, representing a year-on-year decrease of 5.7%. Net profit for the year was RMB309 million, representing a year-on-year decline of 71.3%.

(I) Business review

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

(Unit: RMB million)

	2014		2013		
Product	**Sales revenue**	**Sales proportion**	Sales revenue	Sales proportion	Change in sales revenue
Cement	**12,511**	**80.2%**	13,349	80.7%	-6.3%
Clinker	**1,881**	**12.1%**	1,800	10.9%	4.5%
Concrete	**1,036**	**6.6%**	850	5.1%	21.9%
Others	**168**	**1.1%**	536	3.3%	-68.7%
Total	**15,596**	**100%**	16,535	100.0%	-5.7%

During the Reporting Period, the Company's sales revenue decreased by 5.7% to RMB15,596 million. With regard to revenue breakdown by products, cement revenue amounted to RMB12,511 million, representing a year-on-year decline of 6.3%, and clinker revenue amounted to RMB1,881 million, representing a year-on-year growth of 4.5%. The revenue from concrete amounted to RMB1,036 million, representing a year-on-year growth of 21.9%.

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

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

Product	**2014 Sales volume ('000 tonnes)**	2013 Sales volume ('000 tonnes)	Sales volume change	**2014 Unit selling price (RMB/tonne)**	2013 Unit selling price (RMB/tonne)	Change in selling price
Cement	**53,146**	53,422	-0.5%	**235.4**	249.9	-5.8%
Clinker	**9,818**	9,218	6.5%	**191.6**	195.3	-1.9%
	('000 m^3)	('000 m^3)		**(RMB/m^3)**	(RMB/m^3)	
Concrete	**3,471**	2,864	21.2%	**298.6**	296.7	0.6%

During the Reporting Period, the sales volume of cement of the Company amounted to 53.15 million tonnes, representing a year-on-year decline of 0.5%, while the sales volume of commercial clinker increased to 9.82 million tonnes, representing a year-on-year growth of 6.5%. The unit selling price of cement decreased by 5.8% to RMB235.4 per tonne, while the unit selling price of clinker decreased by 1.9% to RMB191.6 per tonne. The sales volume of concrete increased to 3.47 million cubic meters, representing a year-on-year growth of 21.2%. The unit selling price of concrete increased by 0.6% to RMB298.6/m^3.

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

Region	**Average unit selling price in 2014 (RMB/tonne)**	Average unit selling price in 2013 (RMB/tonne)	Change in selling price
Shandong Region	**233.3**	243.9	-4.3%
Northeastern Region	**246.6**	270.3	-8.8%
Shanxi Region	**202.1**	218.9	-7.7%
Xinjiang Region	**241.0**	226.8	6.3%

During the Reporting Period, the average unit selling price of cement of our operating companies in Shandong Region was RMB233.3 per tonne, representing a year-on-year decrease of 4.3%, that in Northeast Region was RMB246.6 per tonne, representing a year-on-year decrease of 8.8%, that in Shanxi Region was RMB202.1 per tonne, representing a year-on-year decrease of 7.7%, and that in Xinjiang Region was RMB241.0 per tonne, representing a year-on-year increase of 6.3%.

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

Product	**2014**		2013		Change in sales volume
	Sales volume ('000 tonnes)	**Sales proportion**	Sales volume ('000 tonnes)	Sales proportion	
High grade cement	**35,578**	**66.9%**	35,538	66.5%	0.1%
Low grade cement	**17,568**	**33.1%**	17,884	33.5%	-1.8%

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

During the Reporting Period, sales volume of high grade cement was 35.58 million tonnes, representing a year-on-year increase of 0.1%, and sales volume of low grade cement was 17.57 million tonnes, representing a year-on-year decrease of 1.8%.

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

(Unit: RMB'000)

Region	2014 Sales revenue	2014 Sales proportion	2013 Sales revenue	2013 Sales proportion	Change in sales revenue
Shandong Region	**10,479,307**	**67.2%**	10,853,362	65.6%	-3.4%
Northeastern Region	**4,028,333**	**25.8%**	4,553,538	27.5%	-11.5%
Shanxi Region	**759,243**	**4.9%**	838,485	5.1%	-9.5%
Xinjiang Region	**329,557**	**2.1%**	289,819	1.8%	13.7%
Total	**15,596,440**	**100%**	16,535,204	100.0%	-5.7%

In 2014, our operating companies in Shandong Region recorded sales revenue of RMB10,479 million, accounting for 67.2% of the Group's total sales revenue, representing a year-on-year decline of 3.4%. Our operating companies in Northeast Region reported sales revenue of RMB4,028 million, accounting for 25.8% of the Group's total sales revenue and representing a year-on-year decrease of 11.5%. The commencement of operations for operating companies in Shanxi will make more contributions to the Group's sales revenue.

(II) Profit analysis

1. Key profit and loss items and their respective changes

(Unit: RMB'000)

	2014	2013	Y-O-Y change
Revenue	**15,596,440**	16,535,204	-5.7%
Gross profit	**3,346,865**	3,829,237	-12.6%
EBITDA	**3,172,359**	3,798,678	-16.5%
Profit from operations	**1,812,813**	2,557,206	-29.1%
Profit before taxation	**690,123**	1,613,894	-57.2%
Net profit for the year	**308,578**	1,074,712	-71.3%
Profit attributable to equity holders of the Company	**347,650**	1,016,707	-65.8%

During the Reporting Period, the Group recorded sales revenue of RMB15,596 million, representing a year-on-year decrease of 5.7%; profit from operations was RMB1,813 million, representing a year-on-year decrease of 29.1%; profit for the year was RMB309 million, representing a year-on-year decrease of 71.3%; profit attributable to equity shareholders of the Company was RMB348 million, representing a year-on-year decrease of 65.8%. The decrease in profit was mainly due to the fall of selling prices.

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

(Unit: RMB'000)

Cost of sales	2014 Amount	2014 Proportion to revenue	2013 Amount	2013 Proportion to revenue	Change of proportion to revenue
Raw materials	**4,120,774**	**26.4%**	4,222,236	25.5%	0.9 P.Pt.
Coal	**3,136,584**	**20.1%**	3,326,077	20.1%	0 P.Pt.
Power	**1,812,545**	**11.6%**	1,863,420	11.3%	0.3 P.Pt.
Depreciation and amortisation	**1,108,744**	**7.1%**	1,016,019	6.1%	1.0 P.Pt.
Others	**2,070,928**	**13.3%**	2,278,215	13.8%	-0.5 P.Pt.
Total cost of sales	**12,249,575**	**78.5%**	12,705,967	76.8%	1.7 P.Pt.

During the Reporting Period, the proportion of the Group's total cost of sales to revenue was 78.5%, representing a year-on-year increase of 1.7 percentage points. Of which, the proportion of raw materials costs to revenue was 26.4%, an increase of 0.9 percentage points over last year. The proportion of coal costs to revenue was 20.1%, remained flat over last year. The Group's average unit purchase price of coal in 2014 decreased by 9.2% to RMB521.2/tonne compared with the corresponding period of the previous year. As for cost reduction, output of residual heat power generation was 1,178 million KWH in 2014, thus reducing the cost of clinker by RMB429 million.

FINANCIAL REVIEW

1. Expenses during the year

(Unit: RMB'000)

	2014 Amount	2014 Proportion to sales revenue	2013 Amount	2013 Proportion to sales revenue	Proportion to sales revenue change
Sales and marketing expenses	**527,168**	**3.38%**	477,618	2.89%	0.49 P.Pt.
Administrative expenses	**1,246,446**	**7.99%**	1,092,379	6.61%	1.38 P.Pt.
Finance costs	**1,140,985**	**7.32%**	967,688	5.85%	1.47 P.Pt.
Total	**2,914,599**	**18.69%**	2,537,685	15.35%	3.34 P.Pt.

During the Reporting Period, the proportion of sales and marketing expenses to sales revenue increased by 0.49 percentage point as compared with that of 2013. The proportion of administrative expenses to sales revenue increased by 1.38 percentage point as compared with that of 2013. In addition, the proportion of the Group's finance costs to sales revenue increased by 1.47 percentage point as compared with that of 2013.

2. Changes in balance sheet items

(Unit: RMB'000)

	31 December 2014	31 December 2013	Change
Non-current assets	**26,645,735**	24,992,311	6.6%
Current assets	**7,049,762**	7,244,085	-2.7%
Total assets	**33,695,497**	32,236,396	4.5%
Current liabilities	**9,845,099**	12,047,157	-18.3%
Non-current liabilities	**12,484,072**	10,222,513	22.1%
Total liabilities	**22,329,171**	22,269,670	0.3%
Minority interest	**768,359**	720,774	6.6%
Equity attributable to equity shareholders of the Company	**10,597,967**	9,245,952	14.6%
Total liabilities and equity	**33,695,497**	32,236,396	4.5%
Net gearing ratio	**56.9%**	60.4%	-3.5 P.Pt.

As at 31 December 2014, the Group's total assets were RMB33,695 million, total liabilities were RMB22,329 million and its net assets were RMB11,366 million. The net gearing ratio (net liabilities/(net liabilities + equity of the Company)) was 56.9%, representing an decrease of 3.5 percentage points as compared with the end of the previous year. The Group's total current assets were RMB7,050 million, its total current liabilities were RMB9,845 million, and its net current liabilities were RMB2,795 million. The Group's cash flow from operating activities for 2015, and the banking facilities granted to the Group are sufficient to satisfy the capital requirements for its continuing operations.

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

(Unit: RMB'000)

Term of borrowings	**31 December 2014**	31 December 2013
Short-term borrowings (including long-term borrowings with maturity within one year)	**4,244,120**	6,875,818
Long-term borrowings	**11,904,899**	9,614,005
Total	**16,149,019**	16,489,823

As at 31 December 2014, the Company's total borrowings were RMB16,149 million, an decrease of RMB341 million as compared with the end of 2013. Of which, long-term borrowings with maturity more than 1 year amounted to RMB11,905 million and accounted for 73.7% of the Group's total borrowings.

4. Capital expenditures

During the Reporting Period, the capital expenditures of the Group were approximately RMB2,218 million, which were mainly used as the investments in the construction and acquisition of cement and clinker production lines. And the capital expenditures of the Group are expected to be RMB1,500 million in 2015.

Below is the outstanding capital commitments under the production facility construction contract and the equipment purchase contract which has not been provided for in the financial statements as at 31 December 2014:

(Unit: RMB'000)

	31 December 2014	31 December 2013
Authorised and contracted for		
– plant and equipment	**594,894**	1,574,619
– the acquisitions of subsidiaries	**–**	190,220
Authorised but not contracted for		
– plant and equipment	**517,243**	1,278,457
Total	**1,112,137**	3,043,296

As at 31 December 2014, the capital commitments authorised and contracted for by the Group amounted to RMB595 million, representing an decrease of RMB1,170 million or 66.3% as compared with the end of 2013. Capital commitments authorised but not contracted for amounted to RMB517 million.

5. Net cash flow analysis

(Unit: RMB'000)

	2014	2013
Net cash generated from operating activities	**1,375,826**	1,924,751
Net cash used in investing activities	**(2,184,284)**	(4,395,283)
Net cash generated from financing activities	**682,207**	2,665,505
Net changes in cash and cash equivalents	**(126,251)**	194,973
Balance of cash and cash equivalents at 1 January	**1,277,369**	1,083,220
Effect of foreign exchange rate changes	**235**	(824)
Balance of cash and cash equivalents at 31 December	**1,151,353**	1,277,369

During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB1,376 million, representing an decrease of RMB549 million over the corresponding period of the previous year. The negative net cash flow used in investing activities amounted to RMB2,184 million, representing an decrease of RMB2,211 million compared with negative net cash flow used in investing activities during the same period of the previous year. Net cash generated from financing activities decreased by RMB1,983 million to RMB682 million over the corresponding period of the previous year.

(VII) Management Discussion and Analysis

FINANCIAL REPORTING AND CORPORATE ACCOUNTING POLICY

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

OUTLOOK FOR 2015

Operating Environment Outlook

The Central Economic Work Conference proposed that, in 2015, the Chinese government will adhere to the fundamental guideline of seeking advancement while maintaining stability, focus on quality and efficiency enhancement of economic development, maintain the continuity and stability of the macroeconomic policies and stick to the proactive fiscal policy and prudent monetary policy. Emphasis will be placed on proactively adapting to the state of new normality of economic development, keeping economic growth within a reasonable range and prioritizing transformation and structural adjustment. The Chinese government's macroeconomic policy on general economic development has provided a market orientation for the structural adjustment and industrial upgrade of the cement industry.

Looking ahead to the operating environment for the cement industry in 2015, we believe there is positive impact from the increase of infrastructure investment by the government which will boost up cement demand. Meanwhile, we should also be aware of unfavourable factors such as severe overcapacity in the industry, intense market competition and continuously sagged price.

In 2015, the Chinese government will make the task of keeping steady economic growth as its top priority, while efforts will be put on transformation and structural adjustment, and promoting the synchronized development of modern industrialization, information technology, urbanization and modern agriculture. Meanwhile, the government will optimize the geographical layout of economic development, continue to promote the overall regional development strategies, including development of Western China, revitalisation of Northeast China, rise of Central China and pioneered by Eastern China, and focus on implementation of the three major strategies of "One Belt, One Road", coordinated development of Beijing, Tianjin and Hebei, and the Yangtze River Economic Zone. We believe, with the general development strategies at national level in place, coupled with the promotion and implementation of a series of major infrastructure construction projects, will inevitably drive the demand in the cement market and maintain the aggregate cement consumption at a relatively high level.

In 2015, the implementation of the new Environmental Protection Law will serve as a legal foundation for the new "Emission Standard of Air Pollutants for Cement Industry" promulgated at the end of 2013. In addition, in December 2014, the Standardization Administration of the People's Republic of China approved and announced the abolishment of PC32.5 grade cement, which will take effect from 1 December 2015. We believe that the imposition of more stringent emission standards in the cement industry, the rise in environmental compliance costs, and the gradual elimination of low-end cement products will speed up the elimination of obsolete production capacity, reduce the market share of small cement enterprises, facilitate M&A and consolidation by large enterprises in the cement industry, and further increase market concentration in the cement industry, gradually rebalance supply and demand in the cement market.

(VII) Management Discussion and Analysis

After a comprehensive analysis of the domestic economic situation and the development trend of the cement industry, we believe that, although regional differentiation exists amongst cement enterprises, the competitive advantages of large cement enterprises will become more apparent under the current operating environment, therefore market domination and internal control capability will determine the profitability of an enterprise.

Business Outlook of the Company

In 2015, the Group will continue to adhere to its operational guideline of "standardization, centralization, promotion and development" and put more efforts in the following key tasks:

1. **Further consolidate our market share in core regions and stabilize the price of cement.** With relatively weak market demand and low selling price, the Company will further optimize its sales network and adjust its marketing strategies in a timely manner, in order to further consolidate its market share in core regions. For the markets in Shandong, Liaoning and the eastern part of Inner Mongolia, the Company will adhere to the fundamental principles of increasing sales volume, stabilizing price and enhancing profitability so as to consolidate its market share. Meanwhile, for the markets in Shanxi, northern part of Shaanxi and Kashi of Xinjiang, the Company will proactively establish and optimize its sales network, improve utilization rate of new production lines and reduce production costs, develop new customers and increase market presence, to lay a solid foundation for future profitability.

2. **Optimize centralized procurement and supply systems to strictly control costs and expenses.** In 2015, the Company will further promote the implementation of the centralized procurement and supply model at three levels, that is, the group, region and the operating company, optimize relevant operation and appraisal systems, to ensure the smooth operation of the centralized procurement and supply systems and reduce the costs of procurement and supply effectively. The Group will continue to implement benchmark management and strive to promote various cost indicators to catch up with those of advanced enterprises. Meanwhile, the Group will exercise strict approval and control on costs and expenses and prevent drain of funds in management, in order to enhance corporate profitability.

3. **Reinforce basic management and enhance operational efficiency.** Continuous reinforcement of corporate basic management is an eternal theme of the Group. In 2015, the Group will continue to optimize its complementary procedures and systems, and further strengthen various basic management tasks such as cost control, benchmark management, on-site supervision and internal appraisal on the basis of the overall budget. In particular, the Group will devote more resources to further reinforce the basic management of equipment, enhance the quality of inspection and maintenance and the effectiveness of operations, adapt to the new situation of market competition in the cement industry, to further improve operational quality and enhance production efficiency of the Company.

In conclusion, Shanshui Group will overcome all difficulties by taking effective measures, and will strive for fruitful returns for our investors to reward their continued trust and support.

(VIII) Report of the Directors

1. PRINCIPAL BUSINESS

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

2. MAJOR INVESTMENTS DURING THE REPORTING PERIOD

(1) Significant projects invested and constructed during the Reporting Period

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period (RMB'000)
1	Alu Kerqin Qi Shanshui Cement Company Limited 3,200/d clinker production line (equipped with residual heat generation facilities) (Phase 2)	Commenced operation	33,526
2	Yulin Shanshui Environmental Building Material cement grinding production line with annual production capacity of 1 million tonnes	Commenced operation	59,243
3	Feicheng City Mashan Cement Company Limited grinding production line project with annual production capacity of 1 million tonnes	Commenced operation	47,490
4	Yingjisha Shanshui Cement Company Limited grinding production line project with annual production capacity of 1 million tonnes	Commenced operation	8,539
5	Kazuo Congyuanhao Cement Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities)	Trial run	104,340
6	Zalaite Qi Shanshui Cement Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities)	Trial run	78,147
7	Linfen Shanshui Cement Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities) with an annual production capacity of 2 million tonnes cement grinding production line	Under construction	199,696

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period (RMB'000)
8	Shuozhou Shanshui New Era Cement Company Limited 4,500t/d clinker production line project (equipped with residual heat generation facilities) with an annual production capacity of 2 million tonnes cement grinding production line	Under construction	143,837
9	Baishan Shanshui Cement Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities) with an annual production capacity of 1 million tonnes cement grinding production line	Under construction	100,438
10	Linqu Shanshui Cement Company Limited 4,000t/d clinker production line project (equipped with residual heat generation facilities) (Phase 2)	Under construction	42,858
11	Jingbian Shanshui Cement Company Limited cement grinding production line with annual production capacity of 1 million tonnes	Under construction	69,735
12	Dongming Shanshui Cement Company Limited grinding production line project with annual production capacity of 1 million tonnes	Under construction	29,666
13	Aohan Qi Shanshui Cement Company Limited grinding production line project with annual production capacity of 1 million tonnes	Under construction	21,593
14	Yantai Shanshui Cement Company Limited Beihai Branch grinding production line technology transformation project with annual production capacity of 1 million tonnes	Under construction	13,999

(2) Capital increase/decrease in subsidiaries during the Reporting Period

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

Serial No.	Name of company	Capital injection/ reduction amount	Registered capital after capital increase/decrease	Remark
1	Zhangqiu Shanshui Trading Company Limited		RMB1,000,000	Newly established
2	Jinan City Changqing District Micro-credit Company Limited		RMB100,000,000	Newly established
3	Shandong Shanshui Financial Leasing Company Limited		RMB230,000,000	Newly established
4	Shenmu Meijian Cement Company Limited		RMB60,000,000	Acquired
5	Shanxi Yongzhongsheng Environmental Building Materials Company Limited		RMB40,000,000	Acquired
6	Qingdao Jian Concrete Company Limited		RMB10,200,000	Acquired
7	Heze Fuyu Concrete Company Limited		RMB15,000,000	Acquired
8	Shandong Shanshui Heavy Industrial Company Limited	RMB45,000,000	RMB145,000,000	Capital injection
9	Liaocheng Shanshui Cement Company Limited	RMB10,000,000	RMB20,000,000	Capital injection
10	Shenyang Shanshui Gongyuan Cement Company Limited	RMB6,110,000	RMB88,060,000	Capital injection
11	Liaoyang Qianshan Shanshui Cement Company Limited	RMB1,160,000	RMB100,000,000	Capital injection
12	Chifeng Shanshui Yuanhan Cement Company Limited	RMB33,850,000	RMB100,000,000	Capital injection
13	Aohan Qi Shanshui Cement Company Limited	RMB15,500,000	RMB16,000,000	Capital injection
14	Shanxi Shanshui Cement Company Limited	RMB157,000,000	RMB1,716,500,000	Capital injection
15	Dongming Shanshui Cement Company Limited	RMB30,000,000	RMB35,000,000	Capital injection

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

To achieve better corporate governance structure, the subsidiaries of the Group Benxi Shanshui Gongyuan Truck Transportation Company Limited, Suizhong Shanshui Bohai Cement Company Limited and Linqing Shanshui Cement Company Limited completed de-registration during the Reporting Period.

3. MAJOR SUBSIDIARIES WITH CONTROLLING INTERESTS

As at 31 December 2014, the Company had controlling interests in 117 subsidiaries. For details, please refer to Note 17 to the Financial Statements of this report prepared in accordance with IFRS.

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

Name of company	Revenue (RMB'000)	Profit from operations (RMB'000)	Net profit (RMB'000)
Pingyin Shanshui	906,758	217,370	189,134
Zibo Shanshui Cement Company Limited	669,263	150,320	116,193
Shandong Shanshui Factory	848,339	138,475	113,099
Anqiu Shanshui	615,012	110,825	88,056
Yantai Shanshui Cement Company Limited	624,382	77,908	62,115

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 21 March 2014, the Board of Directors considered and passed the 2013 annual results of the Company and the resolution regarding distribution of dividend for 2013.

2. On 22 August 2014, the Board of Directors considered and passed the 2014 interim results of the Company and the resolution regarding distribution of interim dividend for 2014.

3. On 27 October 2014, the Board of Directors considered and passed the resolution regarding the issuance of 563,190,040 shares to CNBM at the subscription price of HK$2.77 per subscription share.

5. PROFIT DISTRIBUTION PROPOSAL FOR 2014

Due to inability to comply with the Fixed Charge Coverage Ratio (FCCR) for the year ended 31 December 2014 which is a financial requirement in the Group's US dollars senior notes, the Board of Directors does not recommend any dividend distribution for the year ended 31 December 2014.

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 2014, 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 2014, the changes in the land leases, real estate to properties, plant and equipment are set out in Note 12 to the Financial Statements prepared in accordance with IFRS.

9. TOTAL ASSETS

For the year ended 31 December 2014, the total assets of the Group as confirmed in accordance with IFRS were RMB33,695 million, representing an increase of RMB1,459 million compared to the previous year.

10. RESERVES

Changes in reserves of the Group for the year ended 31 December 2014 are set out in Note 32 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 2014 are set out in Notes 22 and 23 of the Financial Statements prepared in accordance with IFRS. Deposits of the Company for the year ended 31 December 2014 are placed with commercial banks with good creditworthiness. The Group has no entrusted deposits or any fixed deposits that cannot be withdrawn upon maturity. During the year, capitalised interest for projects under construction amounted to RMB167.5 million, the details of which are set out in Note 5 to the Financial Statements prepared in accordance with IFRS.

1. MATERIAL LITIGATION AND ARBITRATION MATTERS

(1) The Company received a generally endorsed writ of summons dated 30 October 2014 issued by six individual minority shareholders (the "Plaintiffs") of China Shanshui Investment Company Limited (a controlling shareholder of the Company) ("China Shanshui Investment") in the High Court of Hong Kong Special Administrative Region (the "High Court") against the Company and other defendants. The Plaintiffs sought an order from the High Court for, the subscription agreement with CNBM signed on 27 October 2014 (the "Subscription Agreement"), and the shares subscription transaction acted in accordance with the terms in Subscription Agreement by the Subscriber (the "Subscription Transaction") be set aside.

On 23 January 2015, a statement of claim (the "Statement of Claim") was served on the Company's legal adviser by the Plaintiffs' legal adviser. According to the Statement of Claim, the Plaintiffs seek, on the basis of various allegations, an order that the Subscription Agreement and the relevant subscription of shares in the Company be set aside.

(2) On 11 February 2015, certain individual minority shareholders of China Shanshui Investment (the "Applicants") have issued an originating summons for leave to be granted by the High Court to bring derivative action for and on behalf of China Shanshui Investment against, amongst others, the Company (the "Originating Summons").

On 12 March 2015, a court hearing was held in respect of the Originating Summons. On 13 March 2015, the Company was informed that leave has been granted by the High Court.

On 17 March 2015, a court hearing was held in respect of the injunction application made by the Applicants for and on behalf of China Shanshui Investment seeking, amongst others, an order to restrain the Company from (i) issuing any new shares of the Company pursuant to the exercise of the share options to subscribe for a total of 207,300,000 shares of the Company offered to certain Directors and employees of the Group (the "Share Options"); and (ii) holding the extraordinary general meeting of the Shareholders for the purpose of allowing the Shareholders to consider and, if thought fit, approve the grant of Share Options to Mr. Zhang Caikui and Mr. Zhang Bin. The High Court has adjourned the court hearing in respect of the abovementioned injunction application to 6 July 2015.

For details of the legal proceedings, please refer to the announcements issued by the Company dated 27 October 2014, 3 November 2014, 26 January 2015, 27 February 2015, 16 March 2015 and 18 March 2015.

Saved as disclosed above, the Group was not involved in any material litigation or arbitration matters during the Reporting Period.

2. MATERIAL ASSET ACQUISITIONS, DISPOSALS AND RESTRUCTURING MATTERS

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

3. CONTINUING CONNECTED TRANSACTIONS

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

4. MATERIAL CONTRACTS

(1) Signing of material contracts

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

(2) Guarantees

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

(3) Signing of material trustee arrangements

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

(4) Performance of commitments

Details of the performance of the Company's commitments during the Reporting Period are set out in Note 35 to the Financial Statements prepared in accordance with IFRS.

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

We have audited the consolidated financial statements of China Shanshui Cement Group Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 59 to 168, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

(X) Independent Auditor's Report

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 2014 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

28 March 2015

(XI) Financial Statements
Consolidated Statement of Profit or Loss

For the year ended 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Turnover	3	**15,596,440**	16,535,204
Cost of sales		**(12,249,575)**	(12,705,967)
Gross profit		**3,346,865**	3,829,237
Other revenue	4	**262,559**	263,413
Other net (expenses)/income	4	**(22,997)**	34,553
Selling and marketing expenses		**(527,168)**	(477,618)
Administrative expenses		**(1,246,446)**	(1,092,379)
Profit from operations		**1,812,813**	2,557,206
Finance costs	5(a)	**(1,140,985)**	(967,688)
Share of profits less losses of associates		**18,295**	24,376
Profit before taxation	5	**690,123**	1,613,894
Income tax	6(a)	**(381,545)**	(539,182)
Profit for the year		**308,578**	1,074,712
Attributable to:			
Equity shareholders of the Company		**347,650**	1,016,707
Non-controlling interests		**(39,072)**	58,005
Profit for the year		**308,578**	1,074,712
Earnings per share	11		
Basic (RMB)		**0.12**	0.36
Diluted (RMB)		**0.12**	0.36

The notes on pages 66 to 168 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 32(b).

(XI) Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Profit for the year		**308,578**	1,074,712
Other comprehensive income for the year (after tax and reclassification adjustments)	10		
Item that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit obligations	28(c)	**(14,300)**	(1,300)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**(15,579)**	112,449
Available-for-sale securities: net movement in the fair value reserve		**2,849**	(1,059)
Other comprehensive (expenses)/income for the year		**(27,030)**	110,090
Total comprehensive income for the year		**281,548**	1,184,802
Attributable to:			
Equity shareholders of the Company		**320,620**	1,126,797
Non-controlling interests		**(39,072)**	58,005
Total comprehensive income for the year		**281,548**	1,184,802

The notes on pages 66 to 168 form part of these financial statements.

(XI) Financial Statements
Consolidated Statement of Financial Position

At 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Fixed assets	12		
– Property, plant and equipment		**20,108,485**	18,945,634
– Interests in leasehold land held for own use under operating leases		**2,450,209**	2,458,855
		22,558,694	21,404,489
Intangible assets	13	**485,308**	464,230
Goodwill	14	**2,345,857**	2,323,762
Other financial assets	15	**674,793**	523,670
Investments in associates	16	**336,197**	80,472
Deferred tax assets	30(b)	**244,886**	219,175
		26,645,735	25,015,798
Current assets			
Inventories	18	**2,055,585**	1,966,096
Trade and bills receivable	19	**2,090,619**	2,019,954
Other receivables and prepayments	20	**1,617,543**	1,876,544
Pledged bank deposits	21	**134,662**	80,635
Cash and cash equivalents	21	**1,151,353**	1,277,369
		7,049,762	7,220,598
Current liabilities			
Short-term bank loans	22	**1,747,878**	2,909,685
Current portion of other borrowings	23	**2,496,242**	1,570,768
Current portion of long-term bonds	24	**–**	2,395,365
Trade and bills payable	25	**3,540,565**	3,179,446
Other payables and accrued expenses	26	**1,960,821**	1,847,898
Current portion of obligation under finance lease	27	**10,530**	12,844
Current taxation	30(a)	**89,063**	131,151
		9,845,099	12,047,157
Net current liabilities		**(2,795,337)**	(4,826,559)
Total assets less current liabilities		**23,850,398**	20,189,239

The notes on pages 66 to 168 form part of these financial statements.

(XI) Financial Statements
Consolidated Statement of Financial Position

At 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current liabilities			
Long-term bank loans	22	**2,775,390**	2,963,980
Other borrowings less current portion	23	**6,364**	58,080
Long-term bonds less current portion	24	**9,123,145**	6,591,945
Obligation under finance lease	27	**9,718**	18,826
Defined benefit obligations	28(c)	**173,808**	159,210
Deferred income	29	**301,186**	317,151
Long-term payables		**32,475**	38,580
Deferred tax liabilities	30(b)	**61,986**	74,741
		12,484,072	10,222,513
NET ASSETS		**11,366,326**	9,966,726
CAPITAL AND RESERVES			
Share capital	32(c)	**227,848**	193,198
Other statutory capital reserves		**4,654,010**	3,451,085
Share capital and other statutory capital reserves		**4,881,858**	3,644,283
Other reserves		**5,716,109**	5,601,669
Total equity attributable to equity shareholders of the Company		**10,597,967**	9,245,952
Non-controlling interests		**768,359**	720,774
TOTAL EQUITY		**11,366,326**	9,966,726

Approved and authorised for issue by the board of directors on 28 March 2015.

ZHANG Bin
Director

ZHANG Caikui
Director

The notes on pages 66 to 168 form part of these financial statements.

(XI) Financial Statements
Statement of Financial Position

At 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Investments in subsidiaries	17	**413,248**	413,248
Amounts due from subsidiaries	37	**6,316,569**	7,183,597
		6,729,817	7,596,845
Current assets			
Other receivables		**12,806**	15
Cash and cash equivalents	21(a)	**271,559**	10,099
		284,365	10,114
Current liabilities			
Short-term bank loans	22	**272,075**	30,485
Current portion of long-term bonds	24	**–**	1,495,755
Amount due to a subsidiary	37	**27,955**	31,946
Amounts due to related parties		**–**	8,170
Other payables and accrued expenses	26	**87,029**	130,106
		387,059	1,696,462
Net current liabilities		**(102,694)**	(1,686,348)
Total assets less current liabilities		**6,627,123**	5,910,497
Non-current liabilities			
Long-term bank loans	22	**–**	268,257
Long-term bonds less current portion	24	**4,845,126**	4,803,105
		4,845,126	5,071,362
NET ASSETS		**1,781,997**	839,135
CAPITAL AND RESERVES			
Share capital	32(a)	**227,848**	193,198
Reserves		**1,554,149**	645,937
TOTAL EQUITY		**1,781,997**	839,135

Approved and authorised for issue by the board of directors on 28 March 2015.

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

The notes on pages 66 to 168 form part of these financial statements.

(XI) Financial Statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
	Share capital RMB'000	**Share premium** RMB'000	**Statutory reserves** RMB'000	**Other reserves** RMB'000	**Exchange reserve** RMB'000	**Fair value reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
Balance at 1 January 2013	193,198	3,451,085	962,395	199,126	8,361	4,004	3,832,680	8,650,849	745,653	9,396,502
Changes in equity for 2013:										
Profit for the year	–	–	–	–	–	–	1,016,707	1,016,707	58,005	1,074,712
Other comprehensive (expenses)/income	–	–	–	–	112,449	(1,059)	(1,300)	110,090	–	110,090
Total comprehensive (expenses)/ income for the period	–	–	–	–	112,449	(1,059)	1,015,407	1,126,797	58,005	1,184,802
Dividends approved in respect of the previous year	–	–	–	–	–	–	(522,680)	(522,680)	–	(522,680)
Acquisition of non-controlling interests	–	–	–	(9,014)	–	–	–	(9,014)	(66,999)	(76,013)
Increase in non-controlling interests attributable to acquisition of subsidiaries and capital contribution to subsidiaries	–	–	–	–	–	–	–	–	38,826	38,826
Distribution to non-controlling interests	–	–	–	–	–	–	–	–	(54,711)	(54,711)
Transfer between reserves	–	–	108,157	–	–	–	(108,157)	–	–	–
Balance at 31 December 2013 and 1 January 2014	193,198	3,451,085	1,070,552	190,112	120,810	2,945	4,217,250	9,245,952	720,774	9,966,726
Changes in equity for 2014:										
Profit for the year	–	–	–	–	–	–	347,650	347,650	(39,072)	308,578
Other comprehensive (expenses)/income	–	–	–	–	(15,579)	2,849	(14,300)	(27,030)	–	(27,030)
Total comprehensive (expenses)/ income for the period	–	–	–	–	(15,579)	2,849	333,350	320,620	(39,072)	281,548
Issuance of new shares	34,650	1,202,925	–	–	–	–	–	1,237,575	–	1,237,575
Dividends approved in respect of the previous year	–	–	–	–	–	–	(206,180)	(206,180)	–	(206,180)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	(224)	(224)
Increase in non-controlling interests attributable to acquisition of subsidiaries and capital contribution to subsidiaries	–	–	–	–	–	–	–	–	117,758	117,758
Distribution to non-controlling interests	–	–	–	–	–	–	–	–	(30,877)	(30,877)
Transfer between reserves	–	–	71,803	–	–	–	(71,803)	–	–	–
Balance at 31 December 2014	227,848	4,654,010	1,142,355	190,112	105,231	5,794	4,272,617	10,597,967	768,359	11,366,326

The notes on pages 66 to 168 form part of these financial statements.

(XI) Financial Statements
Consolidated Statement of Cash Flows

For the year ended 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Operating activities			
Cash generated from operations	21(b)	**2,854,240**	3,410,669
Interest paid		**(1,019,517)**	(821,360)
Income tax paid		**(458,897)**	(664,558)
Net cash generated from operating activities		**1,375,826**	1,924,751
Investing activities			
Payment for purchase of fixed assets		**(1,881,608)**	(3,495,953)
Payment for purchase of intangible assets		**(176,275)**	(84,840)
Acquisition of subsidiaries, net of cash acquired		**(160,175)**	(574,356)
New loans to associates		**(4,473)**	(3,164)
Acquisition of non-controlling interests		**(224)**	(28,410)
Proceeds from sale of fixed assets		**22,421**	35,028
Payment for the performance deposit on potential acquisition		**–**	(285,700)
Investment in an associate		**(34,013)**	–
Interest received		**49,729**	18,026
Dividend received		**334**	24,086
Net cash used in investing activities		**(2,184,284)**	(4,395,283)
Financing activities			
Capital element of finance lease rentals paid		**(9,131)**	(15,268)
Proceeds from new loans and borrowings		**5,651,331**	5,479,075
Proceeds from issue of long-term bonds		**2,478,715**	1,783,800
Proceeds from capital injection in subsidiaries by non-controlling interests		**54,513**	702
Proceeds from shares issued		**1,237,575**	–
Repayment of loans and borrowings		**(6,130,888)**	(4,009,532)
Repayment of long-term bond		**(2,360,560)**	–
Interest element of finance lease rentals paid		**(2,291)**	(3,238)
Dividends paid to equity shareholders of the Company	32(b)	**(206,180)**	(522,680)
Dividends paid to non-controlling interests		**(30,877)**	(47,354)
Net cash generated from financing activities		**682,207**	2,665,505
Net (decrease)/increase in cash and cash equivalents		**(126,251)**	194,973
Cash and cash equivalents at 1 January	21(a)	**1,277,369**	1,083,220
Effect of foreign exchange rate changes		**235**	(824)
Cash and cash equivalents at 31 December	21(a)	**1,151,353**	1,277,369

The notes on pages 66 to 168 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 2014 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in an associate.

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in section 76 to 87 of Schedule 11 to the Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

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

The financial statements have been prepared on the basis that the Group and the Company will continue to operate throughout the next twelve months as a going concern. The Group's and the Company's current liabilities exceeded its current assets by RMB2,795,337,000 and RMB102,694,000, respectively, as at 31 December 2014. Based on future projections of the Group's profits and cash inflows from operations for the year ending 31 December 2015, the ability of the Group to obtain continued bank financing to finance its continuing operation and the Group has issued a five-year senior note of USD500 million on 10 March 2015, the directors believe that adequate funding is available to fulfill the Group's short-term obligations and capital expenditure requirements. Accordingly, the financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

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 2.

(c) Changes in accounting policies

The IASB has issued the following amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- IFRIC 21, *Levies*

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

Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Amendments to IAS 32, Offsetting financial assets and financial liabilities

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to IAS 36, Recoverable amount disclosures for non-financial assets

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating unit whose recoverable amount is based on fair value less costs of disposal. The amendments do not have a material impact on these financial statements.

IFRIC 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

(d) Subsidiaries and non-controlling interests

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(p) or (q) depending on the nature of the liability.

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Associates

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(g) Other investments in debt and equity securities

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

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(m)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 1(v)(iv) and (v), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

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

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

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

(i) Property, plant and equipment

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

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

(j) Construction in progress

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

(k) Intangible assets (other than goodwill)

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

The estimated useful lives are as follows:

Limestone mining rights	3-30 years
Customer relationships	5 years
Trademarks	5-10 years
Software and others	3-10 years

Both the period and method of amortisation are reviewed annually.

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

(l) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Assets acquired under finance leases

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Leased assets *(continued)*

(iii) Operating lease charges

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

(m) Impairment of assets

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

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

– significant financial difficulty of the debtor;

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

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

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

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

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

– For investments in associates accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(m)(ii).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment of assets *(continued)*

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment of assets *(continued)*

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

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

(ii) Impairment of other assets

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

– property, plant and equipment;

– leasehold land held for own use under operating leases;

– intangible assets;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment of assets *(continued)*

(iii) Interim financial reporting and impairment

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

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

(n) Inventories

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Trade and other receivables

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

(p) Interest-bearing borrowings

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

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

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

(s) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Employee benefits *(continued)*

(ii) Defined benefit retirement plan obligations

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Income tax

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Income tax *(continued)*

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

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

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

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

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

    – the same taxable entity; or

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Provisions and contingent liabilities

(i) Contingent liabilities assumed in business combinations

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

(ii) Other provisions and contingent liabilities

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

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

(v) Revenue recognition

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

(i) Sales of goods

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Revenue recognition *(continued)*

(ii) Services rendered

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

(iii) Government grants

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

(iv) Dividends

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

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

(v) Interest income

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

(w) Translation of foreign currencies

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

(x) Borrowing costs

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

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

(y) Related parties

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

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

(ii) has significant influence over the Group; or

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Related parties *(continued)*

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

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

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

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

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

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

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

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

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

(z) Segment reporting

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

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES

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

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

Determining whether an arrangement contains a lease

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

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

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

(b) Sources of estimation uncertainty

Note 34 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty are as follows:

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

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

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

(i) Impairments

– Property, plant and equipment

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

– Trade and other receivables

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

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

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

(i) Impairments (continued)

– Inventories

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

– Goodwill

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

(ii) Actuarial determined benefit obligations

The Group assesses the actuarial assumptions and methodology periodically to ensure their reasonableness at each end of the reporting period.

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

(iii) Taxation

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

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

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

(iii) Taxation *(continued)*

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

(iv) Going concern basis

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

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

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

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

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

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

	2014 RMB'000	2013 RMB'000
Sales of cement	**12,511,031**	13,348,920
Sales of clinker	**1,880,675**	1,800,283
Sales of concrete	**1,036,440**	849,975
Sales of other products and rendering of services	**168,294**	536,026
	15,596,440	16,535,204

(b) Segment reporting

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

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

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

3 TURNOVER AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(i) Segment results, assets and liabilities

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

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

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

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

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

3 TURNOVER AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2014 and 2013 is set out below.

	2014					2013				
	Shandong Province RMB'000	Northeastern China RMB'000	Shanxi Province RMB'000	Xinjiang Region RMB'000	Total RMB'000	Shandong Province RMB'000	Northeastern China RMB'000	Shanxi Province RMB'000	Xinjiang Region RMB'000	Total RMB'000
Revenue from external customers	10,479,307	4,028,333	759,243	329,557	15,596,440	10,853,362	4,553,538	838,485	289,819	16,535,204
Inter-segment revenue	61,268	–	–	–	61,268	152,561	–	–	–	152,561
Reportable segment revenue	10,540,575	4,028,333	759,243	329,557	15,657,708	11,005,923	4,553,538	838,485	289,819	16,687,765
Reportable segment profit/(loss) (adjusted profit/(loss) before taxation)	1,591,099	306,398	(97,299)	9,551	1,809,749	1,937,743	613,976	(4,667)	3,536	2,550,588
Interest income	2,999	22,030	205	26	25,260	1,778	19,291	863	252	22,184
Interest expense	64,274	43,274	400	19,344	127,292	54,366	47,135	–	20,612	122,113
Depreciation and amortisation for the year	708,429	418,035	171,224	40,323	1,338,011	657,768	397,463	103,252	34,307	1,192,790
Impairment of plant and machinery	28	–	–	–	28	3	–	9,993	–	9,996
Reportable segment assets	13,384,293	10,207,093	6,004,077	959,195	30,554,658	12,871,098	9,832,065	5,265,391	944,367	28,912,921
Additions to non-current segment assets during the year	858,587	772,926	897,175	42,848	2,571,536	1,358,668	1,315,685	1,469,131	104,505	4,247,989
Reportable segment liabilities	3,355,441	1,796,153	762,771	380,335	6,294,700	3,547,146	1,925,583	774,134	434,147	6,681,010

3 TURNOVER AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

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

	2014 **RMB'000**	2013 RMB'000
Revenue		
Reportable segment revenue	**15,657,708**	16,687,765
Elimination of inter-segment revenue	**(61,268)**	(152,561)
Consolidated turnover	**15,596,440**	16,535,204
Profit		
Reportable segment profit	**1,809,749**	2,550,588
Elimination of inter-segment profits	**(7,902)**	(14,722)
Reportable segment profit derived from group's external customers	**1,801,847**	2,535,866
Share of profits less losses of associates	**18,295**	24,376
Unallocated finance costs	**(1,013,693)**	(845,575)
Unallocated head office and corporate expenses	**(116,326)**	(100,773)
Consolidated profit before taxation	**690,123**	1,613,894

3 TURNOVER AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

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

	At 31 December 2014 RMB'000	At 31 December 2013 RMB'000
Assets		
Reportable segment assets	**30,554,658**	28,912,921
Elimination of inter-segment profits	**(51,852)**	(43,950)
Elimination of inter-segment receivables	**(40,056)**	(69,458)
	30,462,750	28,799,513
Deferred tax assets	**244,886**	219,175
Investments in associates	**336,197**	80,472
Unallocated head office and corporate assets	**2,651,664**	3,137,236
Consolidated total assets	**33,695,497**	32,236,396
Liabilities		
Reportable segment liabilities	**6,294,700**	6,681,010
Elimination of inter-segment payables	**(40,056)**	(69,458)
	6,254,644	6,611,552
Deferred tax liabilities	**61,986**	74,741
Unallocated bank loans	**6,079,511**	5,775,280
Unallocated long-term bonds	**9,123,145**	8,987,310
Unallocated head office liabilities	**809,885**	820,787
Consolidated total liabilities	**22,329,171**	22,269,670

4 OTHER REVENUE AND OTHER NET (EXPENSE)/INCOME

	Note	**2014 RMB'000**	2013 RMB'000
Other revenue			
Interest income		**49,729**	40,527
Government grants		**163,922**	204,919
Amortisation of deferred income		**24,011**	16,881
Dividend income from listed securities		**334**	1,086
Others		**24,563**	–
		262,559	263,413
Other net (expense)/income			
Net foreign exchange (losses)/gain		**(18,916)**	63,926
Net gain/(losses) from disposal of fixed assets		**6,843**	(9,147)
Impairment losses on fixed assets	12	**(28)**	(9,996)
Donations		**(7,077)**	(8,769)
Others		**(3,819)**	(1,461)
		(22,997)	34,553

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Note	2014 RMB'000	2013 RMB'000
Interest on bank loans, other borrowings and long-term bonds		**1,210,153**	1,056,880
Less: capitalised interest expenses	(i)	**(167,498)**	(163,798)
Net interest expenses		**1,042,655**	893,082
Unwinding of discount	(ii)	**13,230**	7,922
Finance charges on obligations under finance lease	27	**2,291**	3,238
Bank charges		**82,809**	63,446
		1,140,985	967,688

Notes:

(i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 6.72% (2013: 5.60%) for the year ended 31 December 2014.

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

	Note	2014 RMB'000	2013 RMB'000
Defined benefit obligations	28(c)	**6,880**	6,450
Long-term payables		**6,350**	1,472
		13,230	7,922

5 PROFIT BEFORE TAXATION *(continued)*

(b) Personnel expenses

	Note	**2014 RMB'000**	2013 RMB'000
Salaries, wages and other benefits		**1,353,331**	1,147,972
Contributions to defined contribution retirement plans		**147,474**	116,118
Expense recognised in respect of defined benefit obligations	28(c)	**12,280**	10,860
		1,513,085	1,274,950

(c) Other items

	Note	**2014 RMB'000**	2013 RMB'000
Amortisation			
– land lease premium		**60,353**	59,218
– intangible assets		**59,161**	67,428
		119,514	126,646
Depreciation		**1,221,737**	1,090,450
Impairment losses			
– fixed assets	12	**28**	9,996
– trade receivables	19(b)	**21,229**	43,736
– inventory	18(b)	**2,798**	4,629
		24,055	58,361
Operating lease charges		**24,828**	25,191
Auditors' remuneration			
– audit services		**6,800**	7,931
– other services		**2,480**	690
		9,280	8,621
Cost of inventories	18(b)	**12,249,575**	12,705,967

Note:

Cost of inventories includes RMB1,840,470,000 (2013: RMB1,648,580,000) relating to personnel expenses, depreciation and amortisation expenses and provision of inventories for the year ended 31 December 2014, which are also included in the respective amounts disclosed separately above or in note 5(b) for each type of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2014 RMB'000	2013 RMB'000
Current tax		
Provision for PRC income tax	**417,134**	571,057
(Over)/under-provision in respect of prior years	**(303)**	4,339
Deferred tax		
Origination and reversal of temporary differences	**(35,286)**	(36,214)
	381,545	539,182

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

	Note	2014 RMB'000	2013 RMB'000
Profit before taxation		**690,123**	1,613,894
Notional tax on profit before taxation, calculated at the PRC statutory income tax rate of 25%	(i)	**172,531**	403,474
Tax rate differential in foreign jurisdictions	(ii)	**121,225**	109,490
Effect of tax holiday	(iii)	**(7,827)**	(5,225)
Effect of non-deductible expenses	(iv)	**6,734**	7,222
Effect of non-taxable income	(v)	**(475)**	(4,239)
Effect of unused tax losses not recognised		**110,506**	31,036
Effect of tax credit	(vi)	**(4,176)**	–
Tax effect of unrecognised prior year's tax losses utilised during the year		**(12,096)**	(821)
(Over)/under-provision in respect of prior years		**(303)**	4,339
Share of profits of associates		**(4,574)**	(6,094)
Actual income tax expense		**381,545**	539,182
Effective tax rate		**55.3%**	33.4%

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

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

Notes:

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

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

No provision for Hong Kong Profits Tax has been made as the subsidiaries incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax during the year ended 31 December 2014 (2013: nil).

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

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

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

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

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	Note	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Bonuses RMB'000	Contributions to defined contribution retirement plans RMB'000	Subtotal RMB'000	Share-based payment RMB'000	Total RMB'000
Chairman, Executive director								
Zhang Bin		–	471	–	22	493	–	493
Executive directors								
Zhang Caikui		–	260	–	–	260	–	260
Li Cheung Hung		–	232	–	7	239	–	239
Non-executive directors								
Jiao Shuge	(i)	–	–	–	–	–	–	–
Xiao Yu		–	596	–	–	596	–	596
Independent non-executive directors								
Wang Yanmou	(i)	–	–	–	–	–	–	–
Wang Jian		100	–	–	–	100	–	100
Hou Huailiang		–	–	–	–	–	–	–
Wu Xiaoyun	(ii)	62	–	–	–	62	–	62
		162	1,559	–	29	1,750	–	1,750

Notes:

(i) Mr. Jiao Shuge and Mr. Wang Yanmou were resigned from their relative director positions on 16 May 2014.

(ii) Mrs. Wu Xiaoyun was appointed as independent non-executive director on 16 May 2014.

7 DIRECTORS' REMUNERATION *(continued)*

Details of the directors' remuneration for the year ended 31 December 2013 are as follows:

	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Bonuses RMB'000	Contributions to defined contribution retirement plans RMB'000	Subtotal RMB'000	Share-based payment RMB'000	Total RMB'000
Chairman							
Zhang Bin	100	2,929	–	22	3,051	–	3,051
Executive directors							
Zhang Caikui	100	4,900	–	–	5,000	–	5,000
Dong Chengtian	173	19	–	16	208	–	208
Yu Yuchuan	166	16	–	19	201	–	201
Li Cheung Hung	149	942	–	12	1,103	–	1,103
Non-executive directors							
Homer Sun	–	–	–	–	–	–	–
Jiao Shuge	–	–	–	–	–	–	–
Xiao Yu	–	350	–	–	350	–	350
Independent non-executive directors							
Wang Yanmou	–	–	–	–	–	–	–
Sun Jianguo	64	–	–	–	64	–	64
Wang Jian	100	–	–	–	100	–	100
Hou Huailiang	–	–	–	–	–	–	–
	852	9,156	–	69	10,077	–	10,077

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one is directors whose emoluments are disclosed in note 7 for the year ended 31 December 2014 (2013: Two).

The aggregate of the remuneration in respect of the other four (2013: Three) individuals are as follows:

	2014 RMB'000	2013 RMB'000
Salaries, allowances and other benefits	**766**	392
Bonuses	**1,551**	6,000
Contributions to defined contribution retirement plans	**93**	67
	2,410	6,459

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

The emoluments of the four (2013: Three) individuals with the highest remuneration are within the following bands:

	2014 Number of individuals	2013 Number of individuals
HKD500,001 to HKD1,000,000	**4**	–
HKD2,500,001 to HKD3,000,000	**–**	3
	4	3

9 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The loss attributable to equity shareholders of the Company includes a loss of RMB82,574,000 in 2014 (2013: a profit of RMB125,993,000) (See note 32(a)) which has been dealt with in the financial statements of the Company.

10 OTHER COMPREHENSIVE INCOME

Except for the following item, other components of other comprehensive income do not have any significant tax effect for the year ended 31 December 2014 and 2013.

	2014			2013		
	Before-tax amount RMB'000	**Tax expense RMB'000**	**Net-of-tax amount RMB'000**	Before-tax amount RMB'000	Tax benefit RMB'000	Net-of-tax amount RMB'000
Available-for-sale securities: net movement in fair value reserve	**3,799**	**950**	**2,849**	(1,411)	352	(1,059)

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2014 is based on the profit attributable to ordinary equity shareholders of the Company of RMB347,650,000 (2013: RMB1,016,707,000) and the weighted average number of ordinary shares of 2,906,986,398 (2013: 2,815,950,200) shares in issue during the year.

(b) Diluted earnings per share

On 25 May 2011, the Company had granted 7,300,000 ordinary share options to certain directors and employees, which was vested immediately after granted. These options were not included in the calculation of diluted earning per share because they are antidilutive for the years ended 31 December 2014 and 2013. Accordingly, diluted earnings per share are the same as the basic earnings per share.

12 FIXED ASSETS

	Plants and buildings RMB'000	Equipment RMB'000	Motor vehicles and others RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total fixed assets RMB'000
Cost:							
At 1 January 2013	7,371,784	9,743,129	426,200	2,930,967	20,472,080	2,571,976	23,044,056
Additions	54,849	112,204	24,870	3,624,330	3,816,253	120,147	3,936,400
Transfers	1,449,327	1,352,267	46,220	(2,847,814)	–	–	–
Additions through business combinations	47,845	206,713	6,511	–	261,069	45,153	306,222
Disposals	(25,887)	(79,269)	(11,141)	–	(116,297)	(8,169)	(124,466)
Reclassification	6,635	(4,710)	(1,925)	–	–	–	–
At 31 December 2013	8,904,553	11,330,334	490,735	3,707,483	24,433,105	2,729,107	27,162,212
At 1 January 2014	**8,904,553**	**11,330,334**	**490,735**	**3,707,483**	**24,433,105**	**2,729,107**	**27,162,212**
Additions	**42,081**	**82,688**	**27,618**	**2,017,270**	**2,169,657**	**41,810**	**2,211,467**
Transfers	**1,139,366**	**1,589,139**	**9,090**	**(2,737,595)**	**–**	**–**	**–**
Additions through business combinations	**149,125**	**67,984**	**13,428**	**–**	**230,537**	**9,897**	**240,434**
Transfer to CIP	**(16,407)**	**(23,088)**	**–**	**39,495**	**–**	**–**	**–**
Disposals	**(10,218)**	**(38,364)**	**(18,213)**	**–**	**(66,795)**	**–**	**(66,795)**
Reclassification	**5,603**	**37,898**	**(43,501)**	**–**	**–**	**–**	**–**
At 31 December 2014	**10,214,103**	**13,046,591**	**479,157**	**3,026,653**	**26,766,504**	**2,780,814**	**29,547,318**
Accumulated depreciation amortisation and impairment:							
At 1 January 2013	(848,498)	(3,462,418)	(149,721)	–	(4,460,637)	(212,486)	(4,673,123)
Charge for the year	(204,512)	(843,956)	(41,982)	–	(1,090,450)	(59,218)	(1,149,668)
Impairment loss for the year	–	(9,993)	(3)	–	(9,996)	–	(9,996)
Written back on disposals	3,648	62,938	7,026	–	73,612	1,452	75,064
Reclassification	(358)	128	230	–	–	–	–
At 31 December 2013	(1,049,720)	(4,253,301)	(184,450)	–	(5,487,471)	(270,252)	(5,757,723)
At 1 January 2014	**(1,049,720)**	**(4,253,301)**	**(184,450)**	**–**	**(5,487,471)**	**(270,252)**	**(5,757,723)**
Charge for the year	**(265,597)**	**(951,158)**	**(4,982)**	**–**	**(1,221,737)**	**(60,353)**	**(1,282,090)**
Impairment loss for the year	**–**	**(24)**	**(4)**	**–**	**(28)**	**–**	**(28)**
Transfer to CIP	**1,014**	**5,124**	**–**	**(6,138)**	**–**	**–**	**–**
Written back on disposals	**880**	**34,311**	**16,026**	**–**	**51,217**	**–**	**51,217**
Reclassification	**(538)**	**(220)**	**758**	**–**	**–**	**–**	**–**
At 31 December 2014	**(1,313,961)**	**(5,165,268)**	**(172,652)**	**(6,138)**	**(6,658,019)**	**(330,605)**	**(6,988,624)**
Net book value:							
At 31 December 2014	**8,900,142**	**7,881,323**	**306,505**	**3,020,515**	**20,108,485**	**2,450,209**	**22,558,694**
At 31 December 2013	7,854,833	7,077,033	306,285	3,707,483	18,945,634	2,458,855	21,404,489

12 FIXED ASSETS *(continued)*

(a) All plants, buildings and interests in leasehold land held for own uses under operating leases are located in the PRC. The Group's interests in leasehold land held for own uses under operating leases expire between 25 years and 70 years.

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

(c) As at 31 December 2014, application for the registration of interests in leasehold land acquired during the year for own use under operating leases with cost of approximately RMB155,693,000 (2013: RMB185,572,000) was still in progress.

(d) As 31 December 2014, the ownership certificates for certain plants and buildings with a carrying amount of RMB453,514,000 have not been obtained (2013: RMB375,085,000).

(e) As at the date of this report, the Group is in the process of obtaining construction permits for certain clinker and cement production lines. The carrying amount for these clinker and cement production lines as at 31 December 2014 was RMB2,235,672,000 (2013: RMB2,766,218,000).

(f) Certain properties, equipment and interests in leasehold land held for own use under operating leases with an aggregate carrying amount of RMB4,679,000 (2013: RMB1,394,100,000) for the year ended 31 December 2014, are pledged to secure bank loans and other borrowings (see note 22 and 23) granted to the Group.

(g) 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 2014 was RMB28,000 (2013: RMB9,996,000).

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

The Group leases production plant and machinery under finance leases expiring from 1 to 5 years (see note 27). One of the leases is an arrangement that is not in the legal form of a lease, but is accounted for as such based on its terms and conditions (see note 2(a)). None of the leases includes contingent rentals. At the end of the reporting period, the carrying amount for the fixed assets held under finance lease was RMB35,614,000 (2013: RMB45,433,000).

13 INTANGIBLE ASSETS

	Limestone mining rights RMB'000	Customer relationships RMB'000	Trademarks RMB'000	Software and others RMB'000	Total RMB'000
Cost:					
At 1 January 2013	582,840	48,181	92,522	54,197	777,740
Additions	46,330	–	–	4,692	51,022
Additions through business combinations	7,956	–	–	–	7,956
Disposals	–	–	–	(3,600)	(3,600)
At 31 December 2013	637,126	48,181	92,522	55,289	833,118
At 1 January 2014	**637,126**	**48,181**	**92,522**	**55,289**	**833,118**
Additions	**67,075**	**–**	**–**	**13,164**	**80,239**
At 31 December 2014	**704,201**	**48,181**	**92,522**	**68,453**	**913,357**
Accumulated amortisation and impairment:					
At 1 January 2013	(215,669)	(35,282)	(35,679)	(18,430)	(305,060)
Amortisation for the year	(49,524)	(4,360)	(7,138)	(6,406)	(67,428)
Written back on disposals	–	–	–	3,600	3,600
At 31 December 2013	(265,193)	(39,642)	(42,817)	(21,236)	(368,888)
At 1 January 2014	**(265,193)**	**(39,642)**	**(42,817)**	**(21,236)**	**(368,888)**
Amortisation for the year	**(44,095)**	**(4,360)**	**(7,138)**	**(3,568)**	**(59,161)**
At 31 December 2014	**(309,288)**	**(44,002)**	**(49,955)**	**(24,804)**	**(428,049)**
Net book value:					
At 31 December 2014	**394,913**	**4,179**	**42,567**	**43,649**	**485,308**
At 31 December 2013	371,933	8,539	49,705	34,053	464,230

13 INTANGIBLE ASSETS *(continued)*

(a) The limestone mining rights which are granted from the respective land resources bureaux are valid for a period of 3 to 30 years. The limestone mines are located in Shandong, Liaoning and Shanxi provinces and Inner Mongolia.

As at 31 December 2014, the ownership certificates for certain limestone mining rights with a carrying amount of RMB116,204,000 have not been obtained (2013: RMB106,550,000).

(b) The customer relationships amounting to RMB4,179,000 are non-contractual customer relationships acquired through acquisitions of Chifeng Yuanhang Cement Co., Ltd. ("Chifeng Yuanhang") in September 2010. They are amortised over five years based on the Group's estimate on how long the Group could retain the customers.

(c) Trademarks represent valuation of "千山", "工源", "遠航" and "渤海" brands acquired through acquisitions of Liaoyang Qianshan Cement Co., Ltd. ("Qianshan Cement") and Liaoning Shanshui Gongyuan Cement Co., Ltd. ("Liaoning Shanshui") in December 2007, Chifeng Yuanhang in September 2010 and Bohai Cement in April 2012.

According to the resolution of the Board of Directors of the Group, trademarks of "千山", and "工源" would be phased out in ten years and trademark of "渤海" would be phased out in one year. Management considers the estimated useful lives of trademarks are ten years and one year, respectively, though their legal rights are renewable.

Due to the good reputation of "遠航" brand in the local area, the Board of Directors of the Group assess that the useful life of "遠航" brand is indefinite. The carrying amount of "遠航" brand as at 31 December 2014 is RMB22,230,000.

14 GOODWILL

	Note	**2014 RMB'000**	2013 RMB'000
Cost			
At 1 January		**2,323,762**	1,832,746
Additions	33	**22,095**	379,943
Others		**–**	111,073
At 31 December		**2,345,857**	2,323,762

14 GOODWILL *(continued)*

Impairment tests for cash-generating units containing goodwill

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

The recoverable amounts of the cash-generating unit are determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and with a discount rate of 9% (2013: 10.5%). One major assumption is annual growth rates in revenue which vary among different subsidiaries. The growth rates are based on the subsidiaries' growth forecasts and the average long-term growth rate for the relevant industry. Another key assumption for the value-in-use calculations is the stable budgeted gross margin, which is determined based on the subsidiaries' past performance and its expectation for market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of each subsidiary to exceed its recoverable amount. The discount rates used are pre-tax and reflect specific risks relating to the Group.

15 OTHER FINANCIAL ASSETS

	Note	**2014** **RMB'000**	2013 RMB'000
Available-for-sale securities, at fair value	(a)	**8,725**	4,927
Unquoted equity investments in non-listed companies	(b)	**54,260**	54,260
Loans to an associate	(c)	**61,524**	61,180
Loans due from a third party	(d)	**343,461**	379,816
Amount due from third parties		**206,823**	23,487
		674,793	523,670

15 OTHER FINANCIAL ASSETS *(continued)*

Notes:

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

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

(c) The loans to an associate are unsecured, bear interest at one-year PRC bank loan interest rate of 6% (2013: 6.65%) and have no fixed repayment terms.

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

16 INVESTMENTS IN ASSOCIATES

	2014 **RMB'000**	2013 RMB'000
Share of net assets	**336,197**	80,472

As at 31 December 2014, the Group held investments in the following associates:

Name of associate	Place and date of incorporation	Principal activities	Registered capital	Paid-in capital	Proportion of ownership interest Direct	Proportion of ownership interest Indirect
Dong'e Shanshui Dongchang Cement Co., Ltd. ("Dong'e Shanshui")	Shandong, PRC 2 February 2010	Production and sales of cement, clinker and related products	RMB100,000,000	RMB100,000,000	–	51% *Note*
Dalian Cement Group Co., Ltd. ("Dashui Group")	Liaoning, PRC 21 June 1992	Production and sales of cement and related products	RMB888,980,000	RMB888,980,000	–	38%

Note:

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

16 INVESTMENTS IN ASSOCIATES *(continued)*

All of the above associates are accounted for using the equity method in the consolidated financial statements.

The directors of the Company are of the opinion that no associates are individually material to the Group. Aggregate information of associates that are not individually material are listed below:

	2014 RMB'000	2013 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**336,197**	80,472
Aggregate amounts of the Group's share of those associates'		
Profit from continuing operation	**37,893**	51,463
Total comprehensive income	**37,893**	51,463

17 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2014	2013
	RMB'000	RMB'000
Unlisted shares, at cost	**413,248**	413,248

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

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

(Expressed in Renminbi unless otherwise indicated)

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by sub-sidiaries	Principal activities
(c) Wholly foreign owned enterprises established in the PRC *(continued)*						
Continental (Shandong) Cement Product Manufacturing Corporation 康達（山東）水泥製成品有限公司	Shandong, PRC 6 April 2002	USD20,484,500	100.00	–	100.00	Production and sales of cement
Continental (Shandong) Cement Mining Corporation 康達（山東）水泥礦產品有限公司	Shandong, PRC 6 April 2002	USD7,101,000	100.00	–	100.00	Mining, storage and sales of limestone
Shandong Shanshui Financial Leasing Co., Ltd. 山東山水融資租賃有限公司	Shandong, PRC 18 July 2014	RMB230,000,000	100.00	–	100.00	Offering financial leasing service
(d) Sino-foreign equity joint venture enterprises established in the PRC						
Pingyin Shanshui Cement Co., Ltd. ("Pingyin Shanshui") 平陰山水水泥有限公司	Shandong, PRC 1 August 2003	RMB178,000,000	98.97	–	99.65	Production and sales of cement and clinker
Anqiu Shanshui Cement Co., Ltd. ("Anqiu Shanshui") 安丘山水水泥有限公司	Shandong, PRC 4 August 2003	RMB226,500,000	99.06	–	99.76	Production and sales of cement and clinker
Weihai Shanshui Cement Co., Ltd. ("Weihai Shanshui") 威海山水水泥有限公司	Shandong, PRC 25 March 2008	USD24,000,000	100.00	–	100.00	Production and sales of cement and concrete
Dandong Shanshui Gongyuan Cement Co., Ltd. 丹東山水工源水泥有限公司	Liaoning, PRC 31 March 2008	USD12,000,000	100.00	–	100.00	Production and sales of cement
Qingdao Shanshui Chuangxin Cement Co., Ltd. ("Qingdao Shanshui Chuangxin") 青島山水創新水泥有限公司	Shandong, PRC 25 April 2008	USD28,000,000	100.00	–	100.00	Production and sales of cement
Shenyang Shanshui Gongyuan Cement Co., Ltd. 瀋陽山水工源水泥有限公司	Liaoning, PRC 9 July 2008	USD12,000,000	100.00	–	100.00	Production and sales of cement
Linqu Shanshui Cement Co., Ltd. ("Linqu Shanshui") 臨朐山水水泥有限公司	Shandong, PRC 18 July 2008	Registered capital of USD25,000,000 and paid-in capital USD24,990,700	100.00	–	100.00	Production and sales of cement and clinker

(Expressed in Renminbi unless otherwise indicated)

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

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

(Expressed in Renminbi unless otherwise indicated)

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Shandong Shanshui *(continued)*						
Shandong Shanshui Heavy Industries Co., Ltd. 山東山水重工有限公司	Shandong, PRC 12 March 2002	RMB100,000,000	99.98	–	99.98	Installation of equipment and spare parts of cement machines
Tianjin City Tianhui Cement Co., Ltd. 天津市天輝水泥有限公司	Tianjin, PRC 22 July 2002	RMB16,000,000	100.00	–	100.00	Production and sales of cement and related products
Changle Shanshui Cement Co., Ltd. 昌樂山水水泥有限公司	Shandong, PRC 30 July 2002	RMB24,700,000	99.00	–	99.00	Production and sales of cement, clinker and concrete
Yantai Shanshui Cement Co., Ltd. 煙台山水水泥有限公司	Shandong, PRC 22 November 2002	RMB155,500,000	100.00	–	100.00	Production and sales of cement
Jinan Shanshui Wuliugang Co., Ltd. 濟南山水物流港有限公司	Shandong, PRC 28 March 2003	RMB10,000,000	99.00	–	99.00	Logistic service and sales of coal
Binzhou Shanshui Cement Co., Ltd. 濱州山水水泥有限公司	Shandong, PRC 30 July 2003	RMB5,000,000	99.00	–	99.00	Production and sales of cement
Shandong Shanshui Cement Industrial Design Development Co., Ltd. 山東山水水泥工業設計開發有限公司	Shandong, PRC 1 August 2003	RMB6,000,000	90.00	–	90.00	Development, manufacture, sales and technical support of cement related equipments
Liaocheng Shanshui Cement Co., Ltd. 聊城山水水泥有限公司	Shandong, PRC 1 August 2003	RMB10,000,000	99.00	–	99.00	Production and sales of cement and concrete
Gucheng Shanshui Cement Co., Ltd. 故城山水水泥有限公司	Hebei, PRC 4 August 2003	RMB5,000,000	99.00	–	99.00	Production and sales of cement
Dongying Shanshui Cement Co., Ltd. 東營山水水泥有限公司	Shandong, PRC 4 August 2003	RMB5,000,000	99.00	–	99.00	Production and sales of cement

(Expressed in Renminbi unless otherwise indicated)

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Shandong Shanshui *(continued)*						
Zibo Shanshui Cement Co., Ltd. 淄博山水水泥有限公司	Shandong, PRC 5 August 2003	RMB60,000,000	99.00	–	99.00	Production and sales of cement, clinker and limestone
Liaocheng Meijing Zhongyuan Cement Co., Ltd. 聊城美景中原水泥有限公司	Shandong, PRC 5 August 2003	RMB20,000,000	100.00	–	100.00	Production and sales of cement and clinker
Weifang Shanshui Cement Co., Ltd. ("Weifang Shanshui") 濰坊山水水泥有限公司	Shandong, PRC 29 December 2003	RMB50,000,000	100.00	–	100.00	Production and sales of cement, limestone and concrete
Qingdao Shanshui Hengtai Cement Co., Ltd. 青島山水恒泰水泥有限公司	Shandong, PRC 10 June 2004	RMB50,000,000	100.00	–	100.00	Production and sales of cement and related products
Zibo Shuangfeng Shanshui Cement Co., Ltd. 淄博雙鳳山水水泥有限公司	Shandong, PRC 1 July 2004	RMB10,000,000	99.00	–	99.00	Production and sales of cement
Zaozhuang Shanshui Cement Co., Ltd. 棗莊山水水泥有限公司	Shandong, PRC 28 July 2004	RMB70,000,000	100.00	–	100.00	Production and sales of cement and clinker
Qixia City Xinghao Cement Co., Ltd. ("Qixia Xinghao") 棲霞市興昊水泥有限公司	Shandong, PRC 10 January 2005	RMB200,000,000	100.00	–	100.00	Production and sales of cement and clinker
Jining Shanshui Cement Co., Ltd. 濟寧山水水泥有限公司	Shandong, PRC 21 January 2005	RMB100,000,000	100.00	–	100.00	Production and sales of cement, clinker, concrete, limestone and related products
Weifang Shanshui Packaging products Co., Ltd 濰坊山水包裝製品有限公司	Shandong, PRC 30 August 2005	RMB500,000	99.90	–	100.00	Production and sales of cement packaging material
Rushan Shanshui Cement Co., Ltd. 乳山山水水泥有限公司	Shandong, PRC 17 November 2005	RMB5,000,000	67.00	–	67.00	Production and sales of cement and related products

(Expressed in Renminbi unless otherwise indicated)

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Shandong Shanshui *(continued)*						
Juye Shanshui Cement Co., Ltd. 巨野山水水泥有限公司	Shandong, PRC 17 May 2006	RMB10,000,000	99.96	–	100.00	Production and sales of cement
Yishui Shanshui Cement Co., Ltd. 沂水山水水泥有限公司	Shandong, PRC 28 September 2007	RMB128,700,000	99.38	–	99.38	Production and sales of clinker and limestone
Kenli Shanshui Cement Co., Ltd. 墾利山水水泥有限公司	Shandong, PRC 21 December 2007	RMB12,000,000	90.00	–	90.00	Production and sales of cement
Qingdao Huading Building Material Co., Ltd. 青島華鼎建材有限公司	Shandong, PRC 24 January 2008	RMB20,000,000	100.00	–	100.00	Production and sales of concrete
Weifang Ningshi Building Material Co., Ltd. 濰坊凝石建材有限公司	Shandong, PRC 16 May 2008	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Yishui Chuangxin Shanshui Cement Co., Ltd. 沂水創新山水水泥有限公司	Shandong, PRC 2 June 2009	RMB10,000,000	100.00	–	100.00	Production and sales of cement
Qingdao Shanshui Jianxin Cement Co., Ltd. 青島山水建新水泥有限公司	Shangdong, PRC 18 June 2009	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Weifang Binhai Shanshui Cement Co., Ltd. 濰坊濱海山水水泥有限公司	Shandong, PRC 4 August 2009	RMB42,000,000	100.00	–	100.00	Production and sales of cement
Tianjin Shanshui Cement Co., Ltd. 天津山水水泥有限公司	Tianjin, PRC 26 August 2009	RMB100,000,000	100.00	–	100.00	Production and sales of cement
Shanxian Shanshui Cement Co., Ltd. 單縣山水水泥有限公司	Shandong, PRC 27 August 2009	RMB60,000,000	100.00	–	100.00	Production and sales of cement
Caoxian Shanshui Cement Co., Ltd. 曹縣山水水泥有限公司	Shandong, PRC 28 August 2009	RMB22,000,000	100.00	–	100.00	Production and sales of cement
Bozhou Shanshui Cement Co., Ltd. 亳州山水水泥有限公司	Anhui, PRC 3 September 2009	RMB40,000,000	100.00	–	100.00	Establishment of cement production line

(Expressed in Renminbi unless otherwise indicated)

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

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

(Expressed in Renminbi unless otherwise indicated)

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest Group's effective interest	Held by the Company	Held by sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Shandong Shanshui *(continued)*						
Shandong Shanshui Building Materials Co., Ltd. 山東山水建築材料有限公司	Shandong, PRC 2 March 2011	RMB300,000,000	100.00	–	100.00	Production and sales of building materials and related products
Huixian City Shanshui Cement Co., Ltd. 輝縣市山水水泥有限公司	Henan, PRC 30 June 2011	RMB100,000,000	100.00	–	100.00	Establishment of clinker production line
Weifang City Leixin Concrete Co., Ltd. ("Weifang Leixin") 濰坊市磊鑫混凝土有限公司	Shandong, PRC 16 August 2011	RMB10,000,000	100.00	–	100.00	Production and sales of concrete
Zhoukou Shanshui Pipeline Co., Ltd. 周口山水管道有限公司	Henan, PRC 22 August 2011	RMB30,000,000	100.00	–	100.00	Production and sales of cement and cement related products
Dongming Shanshui Cement Co., Ltd. 東明山水水泥有限公司	Shandong, PRC 20 March 2012	RMB5,000,000	100.00	–	100.00	Production and sales of cement
Jiaxiang Shanshui Aggregate Co., Ltd. 嘉祥山水骨料有限公司	Shandong, PRC 10 October 2012	RMB10,000,000	100.00	–	100.00	Production and sales of concrete aggregate
Shandong Shanshui Cement Group International Trading Co., Ltd. 山東山水水泥集團國際貿易有限責任公司	Shandong, PRC 5 March 2013	RMB10,000,000	100.00	–	100.00	Import and export of cement, clinker and related products
Caoxian Chuangxin Concrete Co., Ltd. 曹縣創新商砼有限公司	Shandong, PRC 27 March 2013	RMB10,000,000	100.00	–	100.00	Production and sales of concrete
FeiCheng Shanshui Concrete Co., Ltd. 肥城山水商砼有限公司	Shandong, PRC 5 September 2013	RMB10,000,000	100.00	–	100.00	Production and sales of concrete
Zhangqiu Shanshui Trading Co., Ltd. 章丘山水商貿有限公司	Shandong, PRC 3 January 2014	RMB1,000,000	100.00	–	100.00	Production and sales of cement
Jinan Changqing Shanshui Micro Finance Co., Ltd. ("Shanshui Micro Finance") 濟南市長清區山水小額貸款有限公司	Shandong, PRC 10 March 2014	RMB100,000,000	49.00 note	–	49.00	Offering finance lending business

(Expressed in Renminbi unless otherwise indicated)

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Shandong Shanshui *(continued)*						
Qingdao Ji'an Concrete Co., Ltd. 青島基安混凝土有限公司	Shandong, PRC 6 March 2014	RMB10,200,000	70.00	–	70.00	Production and sales of concrete
Heze Fuyu Concrete Co., Ltd. 菏澤福余混凝土有限公司	Shandong, PRC 28 September 2014	RMB15,000,000	100.00	–	100.00	Production and sales of concrete
Owned by Liaoning Shanshui						
Huludao Bohai Railway Co., Ltd. 葫蘆島渤海鐵路股份有限公司	Liaoning, PRC 17 July 1993	RMB52,000,000	50.917	–	72.739	Development and maintenance of special railway-lines
Tongliao Shanshui Gongyuan Cement Co., Ltd. 通遼山水工源水泥有限公司	Inner Mongolia, PRC 2 April 2004	RMB25,000,000	100.00	–	100.00	Production and sales of cement
Chaoyang Shanshui Dongxin Cement Co., Ltd. 朝陽山水東鑫水泥有限公司	Liaoning, PRC 22 March 2005	RMB180,000,000	80.00	–	80.00	Production and sales of cement
Bohai Cement 渤海水泥（葫蘆島）有限公司	Liaoning, PRC 29 August 2005	RMB74,000,000	70.00	–	70.00	Production and sales of cement, clinker and related products
Zhalaite Qi Shanshui Cement Co., Ltd. 紮賚特旗山水水泥有限公司	Inner Mongolia, PRC 17 January 2006	RMB65,000,000	90.00	–	90.00	Production and sales of cement
Yingkou Shanshui Cement Co., Ltd. 營口山水水泥有限公司	Liaoning, PRC 5 December 2006	RMB30,000,000	100.00	–	100.00	Production and sales of cement
Dalian Shanshui Cement Co., Ltd. 大連山水水泥有限公司	Liaoning, PRC 17 August 2007	RMB180,000,000	100.00	–	100.00	Production and sales of cement, clinker and related products

(Expressed in Renminbi unless otherwise indicated)

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Liaoning Shanshui *(continued)*						
Benxi Shanshui Mining Co., Ltd. 本溪山水礦業有限公司	Liaoning, PRC 18 February 2009	RMB500,000	100.00	–	100.00	Mining and sales of limestone
Kazuo Congyuanhao Cement Co., Ltd. 喀左叢元號水泥有限責任公司	Liaoning, PRC 2 April 2009	RMB110,000,000	80.00	–	100.00	Production and sales of cement and clinker
Panjin Shanshui Cement Co., Ltd. 盤錦山水水泥有限公司	Liaoning, PRC 1 September 2009	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Wulanhaote Shanshui Cement Co., Ltd. 烏蘭浩特山水水泥有限公司	Inner Mongolia, PRC 13 November 2009	RMB5,000,000	90.00	–	90.00	Production and sales of cement
Alu Kerqin Qi Shanshui Cement Co., Ltd. 阿魯科爾沁旗山水水泥有限公司	Inner Mongolia, PRC 23 December 2009	RMB76,470,000	85.00	–	85.00	Production and sales of cement and clinker
Balinyou Qi Shanshui Cement Co., Ltd. 巴林右旗山水水泥有限公司	Inner Mongolia, PRC 19 March 2010	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Huolin Guole Shanshui Cement Co., Ltd. 霍林郭勒山水水泥有限公司	Inner Mongolia, PRC 19 April 2010	RMB20,000,000	100.00	–	100.00	Production and sales of cement
Bohai Cement (Jinzhou) Co., Ltd. 渤海水泥（錦州）有限公司	Liaoning, PRC 5 July 2010	RMB20,000,000	45.50	–	65.00	Production and sales of cement, concrete and related products
Keyouzhong Qi Shanshui Cement Co., Ltd. 科右中旗山水水泥有限公司	Inner Mongolia, PRC 7 April 2011	RMB30,000,000	100.00	–	100.00	Production and sales of cement
Benxi Shanshui Shiye Co., Ltd. 本溪山水實業有限公司	Liaoning, PRC 2 June 2011	RMB6,000,000	100.00	–	100.00	Installation and maintenance of equipment and spare parts of cement machines

(Expressed in Renminbi unless otherwise indicated)

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Liaoning Shanshui *(continued)*						
Baishan Shanshui Cement Co., Ltd. ("Baishan Shanshui") 白山山水水泥有限責任公司	Jilin, PRC 11 November 2011	RMB100,000,000	70.00	–	70.00	Production and sales of cement and related products
Aohan Qi Shanshui Cement Co., Ltd. 敖漢旗山水水泥有限公司	Inner Mongolia, PRC 4 January 2012	RMB500,000	80.00	–	80.00	Production and sales of cement and related products
Owned by Shanxi Shanshui						
Taiyuan Shanshui Cement Co., Ltd. ("Taiyuan Shanshui") 太原山水水泥有限公司	Shanxi, PRC 27 October 1999	RMB61,224,500	60.00	–	60.00	Production and sales of cement
Jincheng Shanshui Heju Cement Co., Ltd. 晉城山水合聚水泥有限公司	Shanxi, PRC 25 July 2006	RMB240,000,000	90.00	–	90.00	Production and sales of cement and clinker
Lvliang Yilong Cement Co., Ltd. 呂梁億龍水泥有限公司	Shanxi, PRC 16 November 2007	RMB170,000,000	90.00	–	90.00	Production and sales of cement and clinker
Yulin Shanshui Cement Co., Ltd. 榆林山水水泥有限公司	Shaanxi, PRC 7 August 2008	RMB60,000,000	62.00	–	62.00	Production and sales of cement and related products
Hequ Zhongtianlong Cement Co., Ltd. 河曲縣中天隆水泥有限公司	Shanxi, PRC 31 August 2009	RMB80,000,000	68.00	–	68.00	Production and sales of cement and clinker
Wuxiang Shanshui Cement Co., Ltd. 武鄉山水水泥有限公司	Shanxi, PRC 4 November 2009	RMB75,490,000	55.00	–	55.00	Production and sales of cement and clinker
Jincheng Shanshui Cement Co., Ltd. 晉城山水水泥有限公司	Shanxi, PRC 22 January 2010	RMB150,000,000	85.00	–	85.00	Production and sales of cement and clinker
Yulin Shanshui environmental Building Materials Co., Ltd. 榆林山水環保建材有限公司	Shaanxi, PRC 18 February 2011	RMB80,400,000	85.00	–	85.00	Production and sales of cement and related products

(Expressed in Renminbi unless otherwise indicated)

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by sub-sidiaries	Principal activities
(e) Domestic companies established in the PRC *(continued)*						
Owned by Shanxi Shanshui *(continued)*						
Linfen Shanshui Cement Co., Ltd. 臨汾山水水泥有限公司	Shanxi, PRC 13 May 2011	RMB200,000,000	90.00	–	90.00	Establishment of cement production line
Shuozhou Shanshui New Era Cement Co., Ltd. 朔州山水新時代水泥有限公司	Shanxi, PRC 10 June 2011	RMB160,000,000	75.00	–	75.00	Establishment of cement and related products production line
Jingbian Xian Shanshui Cement Co., Ltd. ("Jingbian Shanshui") 靖邊縣山水水泥有限公司	Shaanxi, PRC 15 November 2011	RMB30,000,000	80.00	–	80.00	Production and sales of cement
Shenmu Xian Meijian Cement Co., Ltd. ("Shenmu Meijian") 神木縣煤建水泥有限公司	Shaanxi, PRC 16 January 2014	RMB60,000,000	70.00	–	70.00	Production and sales of cement
Shanxi Yongzhongsheng Environmental Building Material Co., Ltd. ("Yongzhongsheng") 山西永中晟環保建材有限公司	Shanxi, PRC 8 February 2014	RMB40,000,000	70.00	–	70.00	Production and sales of cement
Owned by Kashi Shanshui						
Shule Shanshui 疏勒山水水泥有限公司	Xinjiang, PRC 24 August 2010	RMB20,000,000	100.00	–	100.00	Production and sales of cement and concrete
Yingjisha Shanshui 英吉沙山水水泥有限公司	Xinjiang, PRC 24 August 2010	RMB232,000,000	100.00	–	100.00	Production and sales of cement, concrete and clinker
Shache Shanshui 莎車山水水泥有限公司	Xinjiang, PRC 14 October 2010	RMB20,000,000	100.00	–	100.00	Production and sales of cement and concrete
Xinjiang Balikun Shanshui Mining Co., Ltd. 新疆巴里坤山水礦業有限公司	Xinjiang, PRC 18 April 2012	RMB10,000,000	100.00	–	100.00	Oil shale, gypsum and other minerals investment
Kezhou Shanshui Materials Trading Co., Ltd. 克州山水物貿有限公司	Xinjiang, PRC 17 April 2013	RMB20,000,000	100.00	–	100.00	Logistic service and sales of cement and materials

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Note:

The operation of Shanshui Micro Finance is to provide financing to qualified individual borrowers. The Group is dominated the loan approval process of Shanshui Micro Finance and the loan balances of each qualified borrower are guaranteed by his/her receivables from the Group. Due to the reasons, the directors of the Company are of the view that the Group have (i) existing rights that give it the current ability to direct the relevant activities which significantly affect Shanshui Micro Finance's returns; (ii) exposure and rights to variable returns from its involvement with Shanshui Micro Finance; and (iii) the ability to affect the returns of Shanshui Micro Finance through its power over Shanshui Micro Finance. Accordingly, the Group treated Shanshui Micro Finance as a subsidiary.

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

18 INVENTORIES

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

	2014	2013
	RMB'000	RMB'000
Raw materials	**579,454**	646,878
Semi-finished goods	**516,885**	449,736
Finished goods	**347,541**	352,271
Spare parts	**611,705**	517,211
	2,055,585	1,966,096

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

	2014	2013
	RMB'000	RMB'000
Carrying amount of inventories sold	**12,260,971**	12,703,705
Write-down of inventories	**2,798**	4,629
Reversal of write-down of inventories	**(14,194)**	(2,367)
	12,249,575	12,705,967

19 TRADE AND BILLS RECEIVABLE

	Note	2014 RMB'000	2013 RMB'000
Bills receivable		**662,881**	1,047,473
Trade debtors		**1,488,581**	1,051,543
Less: allowance for doubtful debts	19(b)	**(60,843)**	(79,062)
		2,090,619	2,019,954

(a) Ageing analysis

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

	2014 RMB'000	2013 RMB'000
Within 3 months	**1,264,347**	1,636,259
3 to 6 months	**304,207**	161,876
6 to 12 months	**263,333**	102,231
Over 12 months	**258,732**	119,588
	2,090,619	2,019,954

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 34(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)).

19 TRADE AND BILLS RECEIVABLE *(continued)*

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

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

	2014 **RMB'000**	2013 RMB'000
At 1 January	**79,062**	59,732
Impairment loss recognised	**21,229**	43,736
Uncollectible amounts written off	**(1,586)**	(1,880)
Reversal of doubtful debt	**(37,862)**	(22,526)
At 31 December	**60,843**	79,062

At 31 December 2014, the Group's trade and bills receivable of RMB184,360,000 (2013: RMB129,594,000) 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:

	2014 **RMB'000**	2013 RMB'000
Neither past due nor impaired	**1,417,572**	1,755,930
Overdue within one year	**549,530**	213,492
	1,967,102	1,969,422

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.

20 OTHER RECEIVABLES AND PREPAYMENTS

	Note	2014 RMB'000	2013 RMB'000
Prepayments for raw materials		**75,940**	66,692
Prepayments for long-lived assets		**557,073**	601,334
VAT recoverable		**534,216**	561,244
Amount due from related parties	36(c)	**2,036**	22,149
Amount due from third parties		**294,499**	588,691
Loans to third parties	(a)	**92,013**	–
Others		**61,766**	36,434
		1,617,543	1,876,544

Note:

(a) Loans to third parties represent to loans lent to qualified individual borrowers by Shanshui Micro Finance, which are secured and have fixed terms within one year.

21 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	Note	The Group 2014 RMB'000	The Group 2013 RMB'000	The Company 2014 RMB'000	The Company 2013 RMB'000
Cash at bank and in hand		**1,151,353**	1,277,369	**271,559**	10,099
Pledged bank deposits	(i)	**134,662**	80,635	**–**	–
		1,286,015	1,358,004	**271,559**	10,099
Less: Pledged bank deposits		**(134,662)**	(80,635)	**–**	–
Cash and cash equivalents		**1,151,353**	1,277,369	**271,559**	10,099

Notes:

(i) Cash deposits of RMB134,662,000 as at 31 December 2014 (2013: RMB80,635,000) were mainly pledged to banks for the performance guarantee in relation to certain sales or purchases contracts and overseas bank loans. The pledged bank deposits will be released upon the expiry of the relevant guarantee in 2015.

(XI) Financial Statements
Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

21 CASH AND CASH EQUIVALENTS *(continued)*

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

	Note	2014 RMB'000	2013 RMB'000
Profit before taxation		**690,123**	1,613,894
Adjustments for:			
Depreciation	5(c)	**1,221,737**	1,090,450
Amortisation of land lease premium for property held for own use	5(c)	**60,353**	59,218
Amortisation of intangible assets	5(c)	**59,161**	67,428
Impairment losses on fixed assets	4	**28**	9,996
Finance costs	5(a)	**1,140,985**	967,688
Share of profits less losses of associates		**(18,295)**	(24,376)
Interest income	4	**(49,729)**	(40,527)
Dividend income	4	**(334)**	(1,086)
(Gain)/loss on sales of fixed assets	4	**(6,843)**	9,147
Foreign exchange loss/(gain)		**4,784**	(44,193)
		3,101,970	3,707,639
Changes in working capital:			
Increase in inventories		**(83,659)**	(167,024)
Increase in trade and bills receivable		**(70,665)**	(331,864)
Increase in pledged bank deposits		**(54,027)**	(39,581)
Decrease in other receivables and prepayments		**70,342**	52,040
Increase in trade and bills payable		**151,677**	297,422
Decrease in other payables and accrued expenses		**(260,031)**	(92,386)
Increase/(decrease) in defined benefit obligations		**14,598**	(8,586)
Decrease in deferred income		**(15,965)**	(6,991)
Cash generated from operations		**2,854,240**	3,410,669

22 BANK LOANS

At 31 December 2014, the bank loans were secured as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Bank loans – Secured	**2,213,268**	3,196,864
Bank loans – Unsecured	**2,310,000**	2,676,801
	4,523,268	5,873,665

	The Company	
	2014	2013
	RMB'000	RMB'000
Bank loans – Secured	**272,075**	298,742

Bank loans were either pledged by certain items of interests in leasehold land held for own use under operating leases or guaranteed by companies within the Group, except for bank loans of RMB308,503,000 (31 December 2013: RMB307,333,000) is guaranteed by the pledged bank deposits of RMB48,360,000.

22 BANK LOANS *(continued)*

At 31 December 2014, the bank loans were repayable as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Within one year on demand	**1,747,878**	2,909,685
After one year but within two years	**1,522,190**	1,467,859
After two years but within five years	**1,206,000**	1,196,121
After five years	**47,200**	300,000
	2,775,390	2,963,980
	4,523,268	5,873,665

	The Company	
	2014	2013
	RMB'000	RMB'000
Within one year on demand	**272,075**	30,485
After one year but within two years	**–**	119,225
After two years but within three years	**–**	149,032
	–	268,257
	272,075	298,742

Some of the Group's banking facilities are subject to the fulfilment of certain covenants. As at 31 December 2014, the balance sheet ratio of the Company exceed certain limits set out in the covenant of the loan agreement with Bank of China Macau Branch, an outstanding loan balance of USD45,000,000 (RMB272,075,000 equivalent). This loan fully settled on 9 January 2015. Further details of the Group's management of liquidity risk are set out in note 34(b).

Further details of the interest rate range beared by the bank loans are set out in note 34(c).

23 OTHER BORROWINGS

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

	Note	2014 RMB'000	2013 RMB'000
Loan from government – Unsecured	(i)	**7,273**	8,182
Loan from International Finance Corporation ("IFC") – Secured	(ii)	**–**	125,061
Short-term financing bills	(iii)	**2,495,333**	1,495,605
		2,502,606	1,628,848

Notes:

(i) The government loan was received by Liaoning Shanshui for constructing an environmental friendly production line. The loan is unsecured, bears interest at one-year PRC deposit interest rate plus 0.3% and is repayable equally from 2012 to 2021.

(ii) Certain subsidiaries of the Group entered into loan agreements with IFC, totaling USD50,000,000 in 2010. The loans bear interest at LIBOR plus 4.25% per annum and are repayable bi-annually from 2010 to 2015 and are secured by certain items of property, plant and equipment of the subsidiaries. On 15 December 2014, the loans were fully repaid.

(iii) All of the short-term financing bills are issued by Shandong Shanshui Cement Group Co., Ltd. ("Shandong Shanshui") in the PRC intern-bank debenture market. As at 31 December 2014, the details of short-term financing bills are listed below:

Issuer	Principal (RMB'000)	Issue date	Maturity date	Interest rates (per annum)	Interest payment term
Shandong Shanshui	RMB1,500,000	06/08/2014	05/05/2015	Shibor 3M+70bp	settled at the maturity date
Shandong Shanshui	RMB1,000,000	02/12/2014	30/08/2015	Shibor 1Y+61bp	settled at the maturity date

23 OTHER BORROWINGS *(continued)*

At 31 December 2014, other borrowings were repayable as follows:

	2014 RMB'000	2013 RMB'000
Within one year on demand	**2,496,242**	1,570,768
After one year but within two years	**909**	51,716
After two years but within five years	**2,727**	2,727
After five years	**2,728**	3,637
	6,364	58,080
	2,502,606	1,628,848

24 LONG-TERM BONDS

	Note	The Group **2014 RMB'000**	The Group 2013 RMB'000	The Company **2014 RMB'000**	The Company 2013 RMB'000
Medium-term notes and other note		**4,278,019**	2,688,450	**–**	–
Less: Current portion of medium-term notes and other note		**–**	(899,610)	**–**	–
Senior notes		**4,845,126**	6,298,860	**4,845,126**	6,298,860
Less: Current portion of senior notes		**–**	(1,495,755)	**–**	(1,495,755)
Long-term bonds, less current portion	(i)	**9,123,145**	6,591,945	**4,845,126**	4,803,105

24 LONG-TERM BONDS *(continued)*

Notes:

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

Issuer	Principal (RMB'000/ USD'000)	Issue date	Maturity date	Interest rates (per annum)	Interest payment term
(a) Medium-term notes issued in the PRC inter-bank debenture market					
Shandong Shanshui	RMB1,800,000	18/01/2013	21/01/2016	5.44%	annually
Shandong Shanshui	RMB1,000,000	27/02/2014	21/01/2017	6.10%	annually
Shandong Shanshui	RMB1,200,000	09/05/2014	12/05/2017	6.20%	annually
(b) Senior notes issued in the Singapore Exchange Ltd.					
The Company	USD400,000	25/05/2011	25/05/2016	8.50%	semi-annually
The Company	USD400,000	20/04/2012	27/04/2017	10.50%	semi-annually
(c) Other note					
Shandong Shanshui	RMB300,000	31/03/2014	31/03/2017	6.60%	annually

25 TRADE AND BILLS PAYABLE

	2014 RMB'000	2013 RMB'000
Trade payables	**3,539,553**	3,177,229
Bills payable	**1,012**	2,217
	3,540,565	3,179,446

As at 31 December 2014 and 2013, all trade and bills payable of the Group are repayable on demand except for bills payable which are repayable within 6 months. All trade and bills payable are expected to be settled within one year.

26 OTHER PAYABLES AND ACCRUED EXPENSES

		The Group	
		2014	2013
	Note	**RMB'000**	RMB'000
Customer deposits and receipts in advance		**415,339**	372,679
Accrued payroll and welfare		**135,152**	146,766
Taxes payable other than income tax		**151,916**	153,291
Staff compensation and termination provisions	28(b)	**162,326**	166,547
Amount due to related parties	36(c)	**21,185**	46,794
Payable to third parties of acquired subsidiaries		**242,677**	246,100
Acquisition consideration payable		**194,691**	171,765
Current portion of long-term payables		**77,295**	49,344
Accrued expenses and other payables		**560,240**	494,612
		1,960,821	1,847,898

		The Company	
		2014	2013
	Note	**RMB'000**	RMB'000
Accrued withholding tax for final dividend of year 2008	32(b)	**16,788**	16,728
Accrued interest expenses		**69,847**	112,985
Other accrued expenses and payables		**394**	393
		87,029	130,106

27 OBLIGATION UNDER FINANCE LEASE

At 31 December 2014, the Group had obligation under finance lease payable as follows:

	2014		2013	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**10,530**	**11,937**	12,844	13,755
After 1 year but within 2 years	**8,709**	**9,252**	10,298	11,937
After 2 years but within 5 years	**1,009**	**1,200**	8,528	10,452
	9,718	**10,452**	18,826	22,389
Total	**20,248**	**22,389**	31,670	36,144
Less: total future interest expenses		**2,141**		4,474
Present value of lease obligation		**20,248**		31,670

28 EMPLOYEE BENEFITS

(a) Defined contribution retirement plans

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

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

(b) Staff compensation and termination provision

	Note	**2014** **RMB'000**	2013 RMB'000
Staff compensation and termination provision	26	**162,326**	166,547

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

(c) Defined benefit obligations

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

	2014 **RMB'000**	2013 RMB'000
Present value of the defined benefit obligations	**173,808**	159,210

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 28(b)) and Liaoning Shanshui. The Group's obligations in respect of the defined benefit obligations at the end of the reporting period were reviewed by a qualified independent actuary, using the projected unit credit actuarial cost method.

28 EMPLOYEE BENEFITS *(continued)*

(c) Defined benefit obligations *(continued)*

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

	2014 RMB'000	2013 RMB'000
At 1 January	**159,210**	160,046
Remeasurements	**14,300**	1,300
Payments	**(11,982)**	(12,996)
Current service cost	**5,400**	4,410
Interest expense	**6,880**	6,450
At 31 December	**173,808**	159,210

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

	2014 RMB'000	2013 RMB'000
Interest expense	**6,880**	6,450
Current service cost	**5,400**	4,410
Total amounts recognised in profit or loss	**12,280**	10,860
Actuarial losses recognised in other comprehensive income	**14,300**	1,300
Total defined benefit costs	**26,580**	12,160

28 EMPLOYEE BENEFITS *(continued)*

(c) Defined benefit obligations *(continued)*

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

	2014	2013
	RMB'000	RMB'000
Finance expenses	**6,880**	6,450
Administrative expenses	**5,400**	4,410
	12,280	10,860

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

	2014	2013
Discount rate	**3.75%**	4.5%
Annual growth rate of cost of living	**3.00%-8.00%**	3.00%-8.00%
Social average salary increase rate	**10.00%**	10.00%
Average expected remaining working life of eligible employees	**9 years**	9 years

The below analysis shows how the defined benefit obligation as at 31 December 2014 would have (increase)/decrease as a result of 0.5% change in the significant actuarial assumptions:

	Increase in 0.5%	**Decrease in 0.5%**
Discount rate	RMB'000	RMB'000
Effect on defined benefit obligation	(8,350)	9,170

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

29 DEFERRED INCOME

	2014 RMB'000	2013 RMB'000
At 1 January	**317,151**	324,142
Additions	**8,046**	9,890
Recognised in consolidated statement of profit or loss	**(24,011)**	(16,881)
At 31 December	**301,186**	317,151

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

30 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position

	2014 RMB'000	2013 RMB'000
Provision for PRC income tax for the year	**417,134**	571,057
Under/(over)-provision in respect of prior years	**(303)**	4,339
Provisional income tax paid	**(327,768)**	(444,245)
	89,063	131,151

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

(b) Deferred tax assets and liabilities recognised

Movements in deferred tax assets and liabilities for the year ended 31 December 2014 are as follows:

	At 1 January 2014 RMB'000	Acquisition through business combination RMB'000	Recognised in profit or loss RMB'000	Recognised in other comprehensive income RMB'000	At 31 December 2014 RMB'000
Deferred tax assets					
Intra-group unrealised profits	51,660	–	(7,007)	–	44,653
Fair value adjustment on fixed assets	5,595	–	(17)	–	5,578
Depreciation of property, plant and equipment	5,078	–	–	–	5,078
Tax loss (*)	45,792	–	22,724	–	68,516
Impairment losses for property, plant and equipment	28,988	–	(953)	–	28,035
Write down of inventory	2,333	–	–	–	2,333
Deferred income	39,351	–	(928)	–	38,423
Accrued bonus	14,811	–	5,390	–	20,201
Long-term payables	9,715	–	(489)	–	9,226
Accrued expenses	20,529	–	(1,166)	–	19,363
Impairment of trade receivable	17,550	–	8,972	–	26,522
	241,402	–	26,526	–	267,928
Deferred tax liabilities					
Change of fair value of available-for-sale securities	(980)	–	–	(950)	(1,930)
Fair value adjustments on:					
Fixed assets	(86,239)	4,130	4,512	–	(77,597)
Intangible assets	(9,749)	–	4,248	–	(5,501)
	(96,968)	4,130	8,760	(950)	(85,028)
Total	144,434	4,130	35,286	(950)	182,900

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

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

Movements in deferred tax assets and liabilities for the year ended 31 December 2013 are as follows:

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

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

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

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

Reconciliation to the consolidated statement of financial position

	2014 **RMB'000**	2013 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**244,886**	219,175
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(61,986)**	(74,741)
	182,900	144,434

(c) Deferred tax assets not recognised

As at 31 December 2014, the Group did not recognise deferred tax assets in respect of unused tax losses of certain PRC subsidiaries totalling RMB615,335,000 (2013: RMB221,695,000), as it is not probable that future taxable profits which the losses can be utilised will be available. As at 31 December 2014, tax losses of RMB44,932,000, RMB7,971,000, RMB34,524,000, RMB119,020,000 and RMB408,888,000 will expiry by the end of 2015, 2016, 2017, 2018 and 2019, respectively, if unused.

(d) Deferred tax liabilities not recognised

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

As at 31 December 2014, temporary differences relating to the undistributed profits of the Company's PRC subsidiaries amounted to RMB8,045,466,000 (2013: RMB7,343,409,000). Deferred tax liabilities of RMB804,546,600 (2013: RMB734,340,900) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

31 EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

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

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

	2014		2013	
	Weighted average exercise price HKD	**Number of options '000**	Weighted average exercise price HKD	Number of options '000
Outstanding at the beginning of the year	**7.90**	**7,300**	7.90	7,300
Granted during the year	**–**	**–**	–	–
Outstanding at the end of year	**7.90**	**7,300**	7.90	7,300
Exercisable at the end of the year	**7.90**	**7,300**	7.90	7,300

The option outstanding at 31 December 2014 had an exercise price of HKD7.90 (2013: HKD7.90) and a weighted average remaining contractual life of 6.5 years (2013: 7.5 years).

32 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)/ profit	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2013	193,198	3,451,085	435,164	(376,193)	(2,453,933)	1,249,321
Changes in equity for 2013:						
Dividend approved in respect of the previous year	–	–	–	–	(522,680)	(522,680)
Total comprehensive income for the year	–	–	–	(13,499)	125,993	112,494
Balance at 31 December 2013 and 1 January 2014	**193,198**	**3,451,085**	**435,164**	**(389,692)**	**(2,850,620)**	**839,135**
Changes in equity for 2014:						
Issuance of new shares	**34,650**	**1,202,925**	**–**	**–**	**–**	**1,237,575**
Dividend approved in respect of the previous year	**–**	**–**	**–**	**–**	**(206,180)**	**(206,180)**
Total comprehensive expenses for the year	**–**	**–**	**–**	**(5,959)**	**(82,574)**	**(88,533)**
Balance at 31 December 2014	**227,848**	**4,654,010**	**435,164**	**(395,651)**	**(3,139,374)**	**1,781,997**

32 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividend

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

	2014 RMB'000	2013 RMB'000
Final dividend proposed after the end of the reporting period	**–**	204,347

Pursuant to the shareholders' approval at the Annual General Meeting on 16 May 2014, a final dividend of HKD0.092 per share totaling HKD259,067,418 in respect of the year ended 31 December 2013 was approved on 16 May 2014.

Due to inability to comply with the certain covenants from the indentures of the Senior Notes issued by the Company (see note 24), the Board of Directors does not recommend any dividend distribution for the year ended 31 December 2014.

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

	2014 RMB'000	2013 RMB'000
Final dividend in respect of the previous financial year, declared and paid during the year	**206,180**	522,680

Pursuant to the Corporate Income Tax Law and the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China" (the "Implementation Rules"), the Company is likely to be required to withhold and pay corporate income tax for its non-resident enterprise shareholders to whom the Company pays the dividends for the year ended 31 December 2008. The Company withheld 10% corporate income tax of HKD21,305,000 when it distributed the dividends for the year ended 31 December 2008 to its non-resident enterprise shareholders.

Till now, the Company is in the process to negotiate with the relevant PRC tax authorities. If the relevant PRC tax authorities finally determined that the Corporate Income Tax Law and the Implementation Rules are not applicable to the Company, and hence no enterprise income tax should have been withheld, the Company will procure such tax, amounting to HKD21,305,000 (equivalent to RMB16,788,000) as at 31 December 2014, to be refunded to the relevant non-resident enterprise shareholders whose tax had been withheld pursuant to the arrangement above.

32 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital

	2014 Number of shares	2014 RMB equivalent RMB'000	2013 Number of shares	2013 RMB equivalent RMB'000
Authorised:				
Ordinary shares of the Company of USD0.01 each	**10,000,000,000**	**701,472**	10,000,000,000	701,472
Ordinary shares of the Company, issued and fully paid:				
At 1 January	**2,815,950,200**	**193,198**	2,815,950,200	193,198
Issuance of new shares	**563,190,040**	**34,650**	–	–
At 31 December	**3,379,140,240**	**227,848**	2,815,950,200	193,198

Note:

(i) Authorised share capital

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

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

On 4 July 2008, the Company listed its shares on the Main Board of the Stock Exchange of Hong Kong Limited. On 25 July 2008, the Global Coordinator fully exercised the over-allotment option on behalf of the International Underwriters. The notes holders of the Company's convertible notes were fully convert their notes on 30 April 2009 and 29 November 2010 respectively.

Pursuant to the written resolutions of the Board of the Company passed on 27 October 2014, the Company allotted and issued a total of 563,190,040 ordinary shares of USD0.01 each to China National Building Material Company Limited (中國建材股份有限公司). The proceeds were fully received on 3 November 2014. The Company received a statement of claim in respect of this issuance, for details please refer to note 38.

32 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Statutory reserves

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

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

(iii) Other reserves

Other reserves include:

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

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

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

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

(iv) Exchange reserve

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

(v) Fair value reserve

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

32 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 2014 the Company had RMB1,118,985,000 available for distribution to equity shareholders of the Company (2013: RMB210,773,000).

(f) Capital management

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

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

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

32 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(f) Capital management *(continued)*

The gearing ratio is as follows:

		The Group	
	Note	**2014 RMB'000**	2013 RMB'000
Current liabilities:			
Short-term bank loans	22	**1,747,878**	2,909,685
Current portion of other borrowings	23	**2,496,242**	1,570,768
Current portion of long-term bonds	24	**–**	2,395,365
		4,244,120	6,875,818
Non-current liabilities:			
Long-term bank loans	22	**2,775,390**	2,963,980
Other borrowings less current portion	23	**6,364**	58,080
Long-term bonds less current portion	24	**9,123,145**	6,591,945
		11,904,899	9,614,005
Total debt		**16,149,019**	16,489,823
Less: Cash and cash equivalents	21(a)	**(1,151,353)**	(1,277,369)
Net debt		**14,997,666**	15,212,454
Total equity		**11,366,326**	9,966,726
Total capital		**26,363,992**	25,179,180
Gearing ratio		**56.9%**	60.4%

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

(Expressed in Renminbi unless otherwise indicated)

33 ACQUISITIONS

The Group acquired the equity interests of the following entity engaged in cement business in Shandong, Shanxi and Shaanxi Province during the year ended 31 December 2014. The acquisition is expected to provide the Group with an increased market share in the respective regions. The fair value of net identifiable assets of the acquirees is determined based on the valuation carried out by a qualified independent valuer.

From the date of acquisition to 31 December 2014, these acquirees contributed revenue of RMB75,850,000 and net loss of RMB23,844,000. If these acquisitions had occurred on 1 January 2014, management estimates that consolidated revenue would have been RMB15,672,231,000 and consolidated profit for the year would have been RMB309,013,000.

Name of company	Voting right	Date of acquisition	Principal activities
Shenmu Xian Meijian Cement Co., Ltd. 神木縣煤建水泥有限公司	70%	16 January 2014	Production and sales of cement
Shanxi Yongzhongsheng Environmental Building Material Co., Ltd. 山西永中晟環保建材有限公司	70%	8 February 2014	Production and sales of cement
Qingdao Ji'an Concrete Co., Ltd. 青島基安混凝土有限公司	70%	6 March 2014	Production and sales of concrete
Heze Fuyu Concrete Co., Ltd. 菏澤福余混凝土有限公司	100%	28 September 2014	Production and sales of concrete

33 ACQUISITIONS *(continued)*

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

	Pre-acquisition carrying amount RMB'000	**Fair value adjustment** RMB'000	**Recognised values on acquisition** RMB'000
Fixed assets	256,954	(16,520)	240,434
Cash and cash equivalents	461	–	461
Trade and other receivables	332	–	332
Inventories	5,830	–	5,830
Deferred tax assets	–	4,130	4,130
Trade and other payables	(26,812)	–	(26,812)
Net identifiable assets	236,765	(12,390)	224,375
Non-controlling interests arising on business combination			(63,245)
Goodwill arising on acquisition			22,095
Total purchase consideration			183,225
Satisfied by:			
Consideration payable			154,225
Cash paid			29,000
Net cash outflow in respect of the acquisitions			183,225
Cash flow in respect of the acquisition:			
Cash paid by the Group			29,000
Less: Cash acquired			(461)
Net cash outflow in respect of the acquisitions			28,539

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

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

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

In respect of trade and bills receivable for sales of cement, clinker and bubble bricks, individual credit evaluations are only performed when the customers required credit. These evaluations focus on the customer's construction project size, the customer's payment history take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

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

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 1.9% (2013: nil) and 2.8% (2013: nil) of the total trade and bills receivable were due from the Group's largest customer and the five largest customers respectively.

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

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk

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

Shandong Shanshui and the Company are responsible for the Group's overall cash management and the raising of borrowings in the mainland China or overseas market to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

The Group

	2014					
	Contractual undiscounted cash outflow					Balance sheet carrying amount
	Within 1 year or on demand RMB'000	1-2 years RMB'000	2-5 years RMB'000	More than 5 years RMB'000	Total RMB'000	RMB'000
Bank loans (note 22)	1,943,554	1,582,723	1,244,578	48,411	4,819,266	4,523,268
Other borrowings (note 23)	2,635,119	1,089	3,087	2,817	2,642,112	2,502,606
Long-term bonds (note 24)	718,164	4,965,764	6,159,798	–	11,843,726	9,123,145
Trade and bills payable (note 25)	3,540,565	–	–	–	3,540,565	3,540,565
Other payables and accrued expense (note 26)	1,545,482	–	–	–	1,545,482	1,545,482
Current tax liabilities (note 30(a))	89,063	–	–	–	89,063	89,063
Obligation under finance leases (note 27)	11,937	9,252	1,200	–	22,389	20,248
Long-term payables	–	14,781	6,500	26,060	47,341	32,475
	10,483,884	6,573,609	7,415,163	77,288	24,549,944	21,376,852

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk *(continued)*

The Group

	2013					
	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
Bank loans (note 22)	3,195,906	1,610,814	1,299,554	327,402	6,433,676	5,873,665
Other borrowings (note 23)	1,668,348	53,677	3,177	3,816	1,729,018	1,628,848
Long-term bonds (note 24)	3,110,804	561,284	7,494,874	–	11,166,962	8,987,310
Trade and bills payable (note 25)	3,179,446	–	–	–	3,179,446	3,179,446
Other payables and accrued expense (note 26)	1,475,219	–	–	–	1,475,219	1,475,219
Current tax liabilities (note 30(a))	131,151	–	–	–	131,151	131,151
Obligation under finance leases (note 27)	13,755	11,937	10,452	–	36,144	31,670
Long-term payables	–	12,064	16,191	28,432	56,687	38,580
	12,774,629	2,249,776	8,824,248	359,650	24,208,303	21,345,889

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk *(continued)*

The Company

	2014					
	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
Other payables and accrued expense (note 26)	**87,029**	**–**	**–**	**–**	**87,029**	**87,029**
Bank loans (note 22)	**293,253**	**–**	**–**	**–**	**293,253**	**272,075**
Long-term bonds (note 24)	**465,044**	**2,912,644**	**2,704,598**	**–**	**6,082,286**	**4,845,126**
	845,326	**2,912,644**	**2,704,598**	**–**	**6,462,568**	**5,204,230**

The Company

	2013					
	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
Other payables and accrued expense (note 26)	130,106	–	–	–	130,106	130,106
Bank loans (note 22)	41,980	129,548	150,367	–	321,895	298,742
Long-term bonds (note 24)	2,012,089	414,589	5,499,404	–	7,926,082	6,298,860
	2,184,175	544,137	5,649,771	–	8,378,083	6,727,708

(c) Interest rate risk

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

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk *(continued)*

The Group's interest rate risk arises primarily from bank loans, other borrowings and long-term bonds. Borrowings issued at variable rates and at fixed rates and long-term bonds issued at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of the Group's and the Company's borrowings and long-term bonds are disclosed in note 22, 23 and 24 respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

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

The Group

	2014 Effective interest rate %	**2014** RMB'000	2013 Effective interest rate %	2013 RMB'000
Fixed rate borrowings:				
Bank loans	**2.80%~6.77%**	**806,393**	2.80%~6.46%	937,334
Other borrowings	**6.50%**	**2,495,333**	6.50%	1,495,605
Long-term bonds	**5.44%~10.50%**	**9,123,145**	4.20%~10.50%	8,987,310
Less: Loans to third parties	**15.60%~21.60%**	**(92,013)**	–	–
		12,332,858		11,420,249
Variable rate borrowings:				
Bank loans	**6.00%~7.05%**	**3,716,875**	3.85%~6.77%	4,936,331
Other borrowings	**3.30%~4.60%**	**7,273**	3.30%~4.60%	133,243
		3,724,148		5,069,574
Total borrowings		**16,057,006**		16,489,823
Net fixed rate borrowings as a percentage of total borrowings		**77%**		69%

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.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

At 31 December 2014, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB25,775,000 (2013: RMB22,508,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2013.

(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 Group's bank loans (see note 22), and senior notes (see note 24), 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.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

(iii) Exposure to currency risk

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

The Group

	Exposure to foreign currencies (expressed in Renminbi)			
	2014		2013	
	HKD	**USD**	HKD	USD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and cash equivalents	**3,166**	**74,429**	3,558	49,358
Bank loans	**(307,333)**	**(272,075)**	(307,333)	–
Loans from IFC	**–**	**–**	–	(125,061)
Senior notes	**–**	**(4,845,126)**	–	(4,803,105)
Net exposure arising from recognised assets and liabilities	**(304,167)**	**(5,042,772)**	(303,775)	(4,878,808)

The Company

	Exposure to foreign currencies (expressed in Renminbi)			
	2014		2013	
	HKD	**USD**	HKD	USD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and cash equivalents	**415**	**2,751**	148	1,842
Bank Loans	**–**	**(272,075)**	–	–
Senior notes	**–**	**(4,845,126)**	–	(4,803,105)
Net exposure arising from recognised assets and liabilities	**415**	**(5,114,450)**	148	(4,801,263)

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

(iv) Sensitivity analysis

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

The Group

	2014		2013	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States Dollars	**10%**	**(497,721)**	10%	(485,936)
	(10%)	**497,721**	(10%)	485,936
Hong Kong Dollars	**10%**	**(30,417)**	10%	(30,378)
	(10%)	**30,417**	(10%)	30,378

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2013.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(e) Equity price risk

The Group is exposed to equity price changes primarily arising from the listed investment classified as available-for-sale equity securities (see note 15).

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

At 31 December 2014, it is estimated that an increase/decrease of 50% (2013: 50%) in the relevant stock price (for listed investment), with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) as follows:

The Group

	2014		2013	
	Increase/ (decrease) in the relevant risk variable rates	**Effect on other components of equity RMB'000**	Increase/ (decrease) in the relevant risk variable rates	Effect on other components of equity RMB'000
Change in the stock price of the listed investment	**50%**	**3,272**	50%	1,848
	(50%)	**(3,272)**	(50%)	(1,848)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the changes in the stock price had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock price, that none of the Group's available-for-sale securities would be considered impaired as a result of the decrease in the relevant stock price, and that all other variables remain constant. The analysis is performed on the same basis for 2013.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

As a result of the adoption of the amendments to IFRS 13, *Fair value measurement*, the fair value measurement of the Group's financial instruments categorises into a three-level fair value hierarchy according to the extent to which they are based on observable market data. As at 31 December 2014, the Group only has available-for-sale securities which was measured at fair value at the end of the reporting period under Level 1 of the fair value hierarchy defined in IFRS 13, Level 1 is defined as follows:

Level 1 valuations: fair values measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

2014

	The Group			
	Fair value at 31 December 2014 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**
Assets				
Available-for-sale securities:				
– Listed	**8,725**	**8,725**	**–**	**–**

2013

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

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(f) Fair value measurement *(continued)*

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2014 and 31 December 2013 except for the following senior notes which bears fixed interest rate of 10.50% per annum (see note 24), for which its carrying amounts and fair values are disclosed below:

	At 31 December 2014		At 31 December 2013	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Senior notes	**2,425,074**	**2,576,099**	2,404,063	2,666,028

35 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2014 not provided for in the financial statements were as follows:

	2014 RMB'000	2013 RMB'000
Authorised and contracted for		
– the acquisitions of fixed assets	**594,894**	1,574,619
– the acquisitions of subsidiaries	**–**	190,220
Authorised but not contracted for		
– the acquisitions of fixed assets	**517,243**	1,278,457
	1,112,137	3,043,296

35 COMMITMENTS *(continued)*

(b) At 31 December 2014, the total future minimum lease payments under non-cancellable operating lease are payable as follows:

	2014 **RMB'000**	2013 RMB'000
Within 1 year	**18,437**	18,258
After 1 year but within 2 years	**16,798**	17,592
After 2 years but within 5 years	**50,267**	48,349
After 5 years	**90,433**	97,314
	175,935	181,513

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.

36 MATERIAL RELATED PARTY TRANSACTIONS

(a) During the years ended 31 December 2014 and 2013, 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 director of the Company
Mr. Zhang Bin	Chairman of the Company
Mr. Dong Chengtian	Equity holder of the ultimate holding company
Mr. Yu Yuchuan	Equity holder of the ultimate holding company
Mr. Zhao Liping	Equity holder of the ultimate holding company
Mr. Zhao Yongkui	Equity holder of the ultimate holding company
Mr. Mi Jingtian	Equity holder of the ultimate holding company
Mr. Wang Yongping	Equity holder of the ultimate holding company
Mr. Li Maohuan	Equity holder of the ultimate holding company

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) During the years ended 31 December 2014 and 2013, transactions with the following parties are considered as related party transaction: *(continued)*

Name of party	Relationship
China Shanshui Investment Company Limited ("China Shanshui Investment")	Ultimate holding company
Jinan Shanshui Group Co., Ltd.	Fellow subsidiary under common ultimate control
Jinan Shanshui Lixin Investment Development Co., Ltd. ("Lixin Investment")	Fellow subsidiary under common ultimate control
Jinan Shanshui Jianxin Investment Development Co., Ltd.	Fellow subsidiary under common ultimate control
Dongyue Packaging Co., Ltd.	Fellow subsidiary under common ultimate control
Jinan Cement Product Factory	Fellow subsidiary under common ultimate control
Jinan Cement Factory	Fellow subsidiary under common ultimate control
Jinan Huanghai Cement Co., Ltd.	Fellow subsidiary under common ultimate control
Jinan Dongfanghong Cement Co., Ltd.	Fellow subsidiary under common ultimate control
Jinan Shanshui Group Property Development Co., Ltd. ("Property Development")	Fellow subsidiary under common ultimate control
Jinan Shanshui Commercial City Co., Ltd.	Fellow subsidiary under common ultimate control
Dong'e Shanshui	Associate of the Group
Dashui Group	Associate of the Group

(b) Transactions with related parties of the Group

	Note	**2014 RMB'000**	2013 RMB'000
Recurring transactions			
Sales:			
– Dong'e Shanshui	(i)	**4,623**	30,506
– Dashui Group	(ii)	**33,188**	–
		37,811	30,506
Purchase:			
– Dong'e Shanshui	(i)	**2,030**	23,395

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

	Note	2014 RMB'000	2013 RMB'000
Non-recurring transactions			
Repayment of advances			
– China Shanshui Investment		**–**	20
Loans to an associate and relevant interest income:			
– Dong'e Shanshui	(iii)	**4,473**	3,164
Repayment of loans to an associate and related interests by:			
– Dong'e Shanshui	(iii)	**4,129**	8,177
Loans from related parties and relevant interest expenses:			
– Lixin Investment	(iv)	**318**	65,000
Repayment of loans from related parties and related interests:			
– Lixin Investment	(iv)	**23,318**	26,525
Dividends from an associate:			
– Dong'e Shanshui		**–**	43,120

Notes:

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

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

(iii) These relate to loans and related interests to Dong'e Shanshui, the associate of the Group. These loans with total principal of RMB60,600,000 bear interest at one-year PRC bank loan interest rate of 6% (2013: 6.65%).

(iv) These relate to loans and related interests from Lixin Investment. These loans with total principal of RMB38,475,000 bear interest at one-year PRC bank loan interest rate of 6%. During the year ended 31 December 2014, the loan repaid to Lixin Investment was RMB23,318,000.

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties of the Group

	2014 RMB'000	2013 RMB'000
Accounts receivable due from:		
– Dong'e Shanshui	**–**	8,820
Advances to suppliers:		
– Dong'e Shanshui	**9**	5
Advances to customers:		
– Dong'e Shanshui	**672**	149
– Dashui Group	**5,008**	–
	5,680	149
Other receivables due from:		
– China Shanshui Investment	**685**	683
– Property Development	**1,341**	1,341
	2,026	2,024
Other financial asset due from:		
– Dong'e Shanshui	**61,524**	61,180
Dividends receivable due from:		
– Dong'e Shanshui	**–**	20,120
Accounts payable due to:		
– Dong'e Shanshui	**–**	29
Other payable due to:		
– Dong'e Shanshui	**30**	–
– Lixin Investment	**15,475**	38,475
– Others	**–**	8,170
	15,505	46,645

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:

	2014 RMB'000	2013 RMB'000
Salary, allowances and other benefits	**3,601**	21,427
Contributions to defined contribution retirement plans	**141**	203
	3,742	21,630

37 AMOUNT DUE FROM/TO SUBSIDIARIES

At 31 December 2014, these mainly represent the principal and interest of loans to Pioneer Cement and cash advances from Shandong Shanshui. These amounts are unsecured and repayable on demand.

38 CONTINGENT LIABILITIES

On 23 January 2015, the Company received a statement of claim, which required to suspend the subscription agreement between the Company and the China National Building Material Company Limited ("CNBM") on the issuance of 563,190,040 ordinary shares to CNBM on 27 October 2014. The status of the proceedings is in the preliminary stage and the Directors of the Company are of the view that the ultimate outcome of this claim cannot be reliably estimated at this stage and consider that no provision for this claim is needed accordingly. In addition, the Directors of the Company are also of the view that the subscription agreement and the issuance are valid and binding among the parties thereto.

39 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Under the Share Option Scheme, the Board granted a total of 207,300,000 new shares to certain Directors and employees of the Company and its subsidiaries on 27 January 2015 ("the Options"). The validity period of the Options shall be ten years from the date of grant and the Options shall lapse at the expiry of the validity period. On 11 February 2015, certain individual minority shareholders of China Shanshui Investment have issued an originating summons for leave to be granted by the High Court of Hong Kong to apply for an injunction for an order to restrain the Company from (i) issuing any new shares pursuant to the exercise of the Options; and (ii) holding the Extraordinary General Meeting. The High Court has adjourned the court hearing in respect of the injunction application to 6 July 2015.

(b) The Company issued senior notes of USD0.5 billion (five-year period) to corporate investors in the Stock Exchange of Hong Kong Limited on 10 March 2015. The senior notes bears fixed interest rates of 7.50% per annum and interests is paid semi-annually.

(Expressed in Renminbi unless otherwise indicated)

40 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The directors consider the ultimate holding company of the Company as at 31 December 2014 to be China Shanshui Investment, which is incorporated in Hong Kong, China. This entity does not produce financial statements available for public use.

41 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the IASB has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 19, *Defined benefit plans: Employee contributions*	1 July 2014
Annual improvements to IFRSs 2010-2012 cycle	1 July 2014
Annual improvements to IFRSs 2011-2013 cycle	1 July 2014
Amendments IFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
IFRS 15, *Revenue from contracts with customers*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018

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

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of the Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

CHINA SHANSHUI CEMENT GROUP LIMITED

Headquarter:
Sunnsy Industrial Park, Gushan Town,
Changqing District, Jinan, Shandong,
China

Hong Kong Office:
Room 2609, 26/F, Tower 2, Lippo Centre,
89 Queensway, Admiralty,
Hong Kong