The following is the full text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong. As described in the section "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VIII to this prospectus, a copy of the following accountants' report is available for public inspection.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong
20 June, 2008

The Board of Directors
China Shanshui Cement Group Limited
Morgan Stanley Asia Limited
Credit Suisse (Hong Kong) Limited
CCB International Capital Limited

Dear Sirs,

Introduction

We set out below our report on the financial information relating to China Shanshui Cement Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for each of the three years ended 31 December 2005, 2006 and 2007 (the "Relevant Period"), the consolidated balance sheets of the Group as at 31 December 2005, 2006 and 2007, together with explanatory notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated 20 June, 2008 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 26 April 2006 and registered as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. After the Group reorganisation (the "Reorganisation"), as detailed in the section headed "History and Corporate Structure" of the Prospectus, and the acquisitions of equity interests in companies set out in Section C Note 27 from third parties (the "Recent Acquisitions"), the Company became the holding company of the subsidiaries now comprising the Group, details of which are set out in Section A below.

As at the date of this report, no audited financial statements have been prepared for the Company, Dalian Shanshui Cement Co., Ltd., Yishui Shanshui Cement Co., Ltd. and Continental Cement Corporation as they were either established shortly before 31 December 2007, or are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

The statutory financial statements of the following subsidiaries of the Company were prepared either in accordance with the relevant requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China (the "PRC"), or in accordance with the Hong Kong Financial Reporting Standards issued by the Hong

Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and were audited during the Relevant Period by Peter W.H.Ma & Co. Certified Public Accountants ("Peter W.H.Ma & Co."), which is registered in Hong Kong, Zhonghezhengxin Certified Public Accountants (中和正信會計師事務所有限公司) ("Zhonghezhengxin"), Beijing Yongtuo Certified Public Accountants (北京永拓會計師事務所有限責任公司) ("Beijing Yongtuo"), Shandong Xinhua Certified Public Accountants (山東新華有限責任會計師事務所) ("Shandong Xinhua"), Liaoning Tianyi Certified Public Accountants (遼寧天億會計師事務所有限責任公司) ("Liaoning Tianyi") and Benxi Huafeng Certified Public Accountants (本溪華豐會計師事務所有限責任公司) ("Benxi Huafeng"), which are registered in the PRC, as set out below:

Name of Subsidiaries	Note	Financial Period	Auditor
China Shanshui Cement Group Company Limited ("China Shanshui (Hong Kong)")		Period from 25 January 2005 (date of incorporation) to 31 December 2005 and years ended 31 December 2006 and 2007	Peter W.H.Ma & Co.
China Pioneer Cement (Hong Kong) Company Limited ("Pioneer Cement")		Period from 25 January 2005 (date of incorporation) to 31 December 2005 and years ended 31 December 2006 and 2007	Peter W.H.Ma & Co.
Shandong Shanshui Cement Group Company Limited ("Shandong Shanshui") 山東山水水泥集團有限公司	(a)	Years ended 31 December 2005, 2006 and 2007	Zhonghezhengxin/Beijing Yongtuo
Pingyin Shanshui Cement Co., Ltd. ("Pingyin Shanshui") 平陰山水水泥有限公司		Years ended 31 December 2005, 2006 and 2007	Zhonghezhengxin
Anqiu Shanshui Cement Co., Ltd. ("Anqiu Shanshui") 安丘山水水泥有限公司		Years ended 31 December 2005, 2006 and 2007	Beijing Yongtuo
Shandong Cement Factory Co., Ltd. ("Shandong Cement Factory") 山東水泥廠有限公司		Years ended 31 December 2005, 2006 and 2007	Zhonghezhengxin
Jinan Shijichuangxin Cement Co., Ltd. 濟南世紀創新水泥有限公司		Years ended 31 December 2005, 2006 and 2007	Zhonghezhengxin
Weifang Shanshui Packaging Products Co., Ltd. 濰坊山水包裝製品有限公司		Years ended 31 December 2005, 2006 and 2007	Beijing Yongtuo
Jinan Shanshui Cement Mechanics Co., Ltd. 濟南山水水泥機械有限公司		Years ended 31 December 2005, 2006 and 2007	Zhonghezhengxin
Changle Shanshui Cement Co., Ltd. ("Changle Shanshui") 昌樂山水水泥有限公司		Years ended 31 December 2005, 2006 and 2007	Beijing Yongtuo
Jinan Shanshui Wuliugang Co., Ltd. ("Wuliugang") 濟南山水物流港有限公司		Years ended 31 December 2005, 2006 and 2007	Zhonghezhengxin
Binzhou Shanshui Cement Co., Ltd. 濱州山水水泥有限公司		Years ended 31 December 2005, 2006 and 2007	Beijing Yongtuo
Jinan Shanshui Cement Technology Development Co., Ltd. 濟南山水水泥技術開發有限公司		Years ended 31 December 2005, 2006 and 2007	Zhonghezhengxin
Liaocheng Shanshui Cement Co., Ltd. 聊城山水水泥有限公司		Years ended 31 December 2005, 2006 and 2007	Zhonghezhengxin
Gucheng Shanshui Cement Co., Ltd. 故城山水水泥有限公司		Years ended 31 December 2005, 2006 and 2007	Zhonghezhengxin
Dongying Shanshui Cement Co., Ltd. 東營山水水泥有限公司		Years ended 31 December 2005 and 2006 Year ended 31 December 2007	Beijing Yongtuo Shandong Xinhua
Zibo Shanshui Cement Co., Ltd. 淄博山水水泥有限公司		Years ended 31 December 2005, 2006 and 2007	Zhonghezhengxin
Weifang Shanshui Hongda Fuel Co., Ltd. 濰坊山水宏達燃料有限公司		Years ended 31 December 2005, 2006 and 2007	Beijing Yongtuo

Name of Subsidiaries	Note	Financial Period	Auditor
Weifang Shanshui Cement Co., Ltd. ("Weifang Shanshui") 濰坊山水水泥有限公司		Years ended 31 December 2005, 2006 and 2007	Beijing Yongtuo
Zibo Shuangfeng Shanshui Cement Co., Ltd. 淄博雙鳳山水水泥有限公司		Years ended 31 December 2005, 2006 and 2007	Zhonghezhengxin
Jinan Shanshui Chuangxin Transportation Co., Ltd. 濟南山水創新運輸有限公司	(b)	Years ended 31 December 2005 and 2006	Zhonghezhengxin
Juye Shanshui Cement Co., Ltd. 巨野山水水泥有限公司		Period from 17 May 2006 (date of incorporation) to 31 December 2006 and year ended 31 December 2007	Zhonghezhengxin
Continental (Shandong) Cement Corporation ("Continental (Shandong) Cement") 康達(山東)水泥有限公司		Year ended 31 December 2007	Beijing Yongtuo
Continental (Shandong) Cement Products Manufacturing Corporation ("Continental (Shandong) Cement Products Manufacturing") 康達(山東)水泥製成品有限公司		Year ended 31 December 2007	Beijing Yongtuo
Continental (Shandong) Cement Mining Corporation ("Continental (Shandong) Cement Mining") 康達(山東)水泥礦產品有限公司		Year ended 31 December 2007	Beijing Yongtuo
Yantai Shanshui Cement Co., Ltd. ("Yantai Shanshui") 煙台山水水泥有限公司		Year ended 31 December 2007	Beijing Yongtuo
Zaozhuang Shanshui Cement Co., Ltd. ("Zaozhuang Shanshui") 棗莊山水水泥有限公司		Year ended 31 December 2007	Zhonghezhengxin
Liaoyang Qianshan Cement Co., Ltd. ("Qianshan Cement") 遼陽千山水泥有限責任公司		Year ended 31 December 2007	Liaoning Tianyi
Liaoning Shanshui Gongyuan Cement Co., Ltd. ("Gongyuan Cement") 遼寧山水工源水泥有限公司		Year ended 31 December 2007	Benxi Huafeng
Benxi Gongyuan Clinker Sales Co., Ltd. 本溪工源熟料銷售有限公司		Year ended 31 December 2007	Benxi Huafeng
Tongliao Gongyuan Cement Co., Ltd. 通遼工源水泥有限責任公司		Year ended 31 December 2007	Benxi Huafeng

Notes:

(a) For the years ended 31 December 2005 and 2006, statutory financial statements of Shandong Shanshui and all its branches were audited by Zhonghezhengxin. Shandong Shanshui Qingdao branch and Rizhao branch changed their auditors of statutory financial statements for the year ended 31 December 2007 to Beijing Yongtuo.

(b) The company's operation was merged into Wuliugang in 2007.

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below. No adjustment was considered necessary to the consolidated management amounts prepared in accordance with International Financial Reporting Standards ("IFRSs"). For the purpose of this report, the Financial Information conforms with accounting policies as referred to in Section C below, which are in accordance with IFRSs promulgated by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK"). IFRSs include International Accounting Standards and related interpretations.

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit.

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant"(Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

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

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

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 31 December 2007.

Opinion

In our opinion, for the purpose of this report and on the basis of presentation set out in Section A below, the Financial Information gives a true and fair view of the Group's consolidated results and consolidated cash flows for the Relevant Period and of the Group's consolidated state of affairs as at 31 December 2005, 2006 and 2007 and the Company's state of affairs as at 31 December 2007.

A BASIS OF PRESENTATION

Shandong Shanshui, formerly known as Jinan Innovation Investment Management Co., Ltd. (濟南創新投資管理有限公司) ("Jinan Innovation"), was incorporated in Jinan, Shandong Province on 10 August 2001 with capital contributed by its employees participating in an employee stock ownership plan (the "PRC Employee Stock Ownership Plan") and Jinan Shanshui Group Co., Ltd. (濟南山水集團有限公司) ("Jinan Shanshui") with holdings of approximately 80.14% and 19.86% respectively. Their interests in Jinan Innovation were held by nine employee representatives. The members of the employee representatives changed a few times since the establishment of the PRC Employee Stock Ownership Plan.

In July 2003 Jinan Innovation changed its name to Jinan Shanshui Innovation Investment Management Co., Ltd. (濟南山水創新投資管理有限公司) ("Jinan Shanshui Innovation").

On 15 December 2004, Jinan Shanshui Innovation's nine employee representatives changed to the nine management shareholders led by Mr. Zhang Caikui (the "Management Shareholders"). Mr. Zhang Caikui and Mr. Li Yanmin were given irrevocable power to control, administer and make decisions for the employees participating in the PRC Employee Stock Ownership Plan. Thereafter, Mr. Zhang Caikui obtained a 65.55% majority control in Jinan Shanshui Innovation.

Jinan Shanshui and its subsidiaries were principally engaged in the production and sales of cement and cement-related products which were restructured from state-owned enterprises to privately-owned enterprise on 15 October 2004. On the same date, the equity holders of Jinan Shanshui changed from State-owned Assets Supervision and Administration Commission of Jinan Municipal Government to Jinan Shanshui Lixin Investment and Development Co., Ltd. (濟南山水立新投資發展有限公司) ("Shanshui Lixin"), and Jinan Shanshui Jianxin Investment and Development Co., Ltd. (濟南山水建新投資發展有限公司) ("Shanshui Jianxin"), with share holdings of 85% and 15%, respectively. The Management Shareholders acquired 100% equity interests in Shanshui Lixin and Shanshui Jianxin on 15 December 2004 with the same shareholding structure as those of Jinan Shanshui Innovation, in which Mr. Zhang Caikui held a 65.55% majority control. Thereafter, Jinan Shanshui, Jinan Shanshui Innovation, Shanshui Lixin and Shanshui Jianxin have been under the common control of the same group of Management Shareholders.

On 6 February 2005, Jinan Shanshui Innovation changed its name to Shandong Shanshui and expanded its registered scope of business to include the production and sales of cement, clinker and related products. In March 2005, Jinan Shanshui transferred its cement related assets and operations to Shandong Shanshui. After such transfer of assets and operations, Shandong Shanshui controlled all these entities.

On 11 April 2005, the Management Shareholders acquired China Shanshui Investment Company Limited ("China Shanshui Investment", or the "ultimate holding company"), a limited liability company incorporated in Hong Kong. China Shanshui Investment owns a 100% equity interest in China Shanshui

Cement Group Company Limited ("China Shanshui (Hong Kong)"), which in turn owns a 100% equity interest in China Pioneer Cement (Hong Kong) Company Limited ("Pioneer Cement"), a limited liability holding company established in Hong Kong on 25 January 2005.

On 11 April 2005, Mr. Zhang Caikui and Mr. Li Yanmin (the "Original Trustees") set up the Zhang Trust and the Li Trust (collectively the "Trusts") which were formally recorded in writing in November 2005 under the British Virgin Islands laws, to enable certain of the employees of the Group to receive benefits based on the performance of the subsidiary of China Shanshui Investment. On 28 November 2005, the formal trusts documents were signed; and on the same date, the Original Trustees entered into letters of wishes which serve as guidance to the trustees for exercise of their discretions in respect of the Trusts. As a result of the Trusts, a 65.55% equity interest of the Company was held by Mr. Zhang Caikui as trustee of the Zhang Trust; a 16.19% equity interest of the Company was held by Mr. Li Yanmin as trustee of the Li Trust. The remaining shares were held by other Management Shareholders. Pursuant to the trusts deeds and the letters of wishes, the Original Trustees have the absolute discretion to manage and administer the shares of China Shanshui Investment. The Trusts were intended to be an extension and mirror of the substance of the PRC Employee Stock Ownership Plan.

On 5 September 2005, Pioneer Cement entered into an equity transfer agreement with the Management Shareholders to acquire the entire equity interest in Shandong Shanshui at a total consideration of RMB162,768,565. In November 2005, Shandong Shanshui increased its registered capital from RMB105,287,161 to RMB272,616,445, which was fully subscribed to by Pioneer Cement. Upon completion of the equity transfer and capital increase, Shandong Shanshui became a wholly foreign-owned enterprise.

Based on the above, the Management Shareholders who controlled the Group before and after the Reorganisation are the same, and the Financial Information has been prepared using the common control basis of accounting as if the companies now comprising the Group had been consolidated as of the beginning of the earliest period presented. The net assets of companies now comprising the Group are consolidated using the existing book values from those companies' perspectives.

The acquisitions of equity interests in companies from unrelated third parties as stated in Section C Note 27 were accounted for under the purchase method in accordance with IFRS 3.

All material intra-group transactions and balances have been eliminated on consolidation.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct%	Attributable equity interest Indirect%	Principal activities
(a) Enterprises established in Hong Kong					
China Shanshui Cement Group Company Limited	Hong Kong, PRC 25 January 2005	HKD10,000	100.00	—	Investment holding
China Pioneer Cement (Hong Kong) Company Limited	Hong Kong, PRC 25 January 2005	HKD0.01	—	100.00	Investment holding

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct%	Attributable equity interest Indirect%	Principal activities
(b) Enterprise established outside the PRC					
Continental Cement Corporation	British Virgin Islands 30 May 2000	USD100	—	100.00	Investment holding
(c) Wholly foreign owned enterprises established in the PRC					
Shandong Shanshui Cement Group Company Limited 山東山水水泥集團有限公司	Shandong, PRC 10 August 2001	RMB1,736,441,445	—	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	Production and sales of cement
Continental (Shandong) Cement Products Manufacturing Corporation 康達(山東)水泥製成品有限公司	Shandong, PRC 6 February 2002	USD20,484,500	—	100.00	Manufacturing cement products and related spare parts
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	Mining, storage and sales of limestone
(d) Sino-foreign equity joint venture enterprises established in the PRC					
Pingyin Shanshui Cement Co., Ltd. 平陰山水水泥有限公司	Shandong, PRC 1 August 2003	RMB178,000,000	—	98.97	Production and sales of cement and clinker
Anqiu Shanshui Cement Co., Ltd. 安丘山水水泥有限公司	Shandong, PRC 4 August 2003	RMB152,000,000	—	99.06	Production and sales of cement and clinker
(e) Domestic companies established in the PRC					
Shandong Cement Factory Co., Ltd. 山東水泥廠有限公司	Shandong, PRC 3 April 1990	RMB182,000,000	—	99.00	Production and sales of cement; production of limestone
Jinan Shi-ji Chuang-xin Cement Co., Ltd. 濟南世紀創新水泥有限公司	Shandong, PRC 17 January 2002	RMB41,460,000	—	95.18	Production and sales of cement and related products
Weifang Shanshui Packaging Products Co., Ltd. 濰坊山水包裝製品有限公司	Shandong, PRC 20 January 2002	RMB500,000	—	99.90	Production and sales of cement packaging materials
Jinan Shanshui Cement Mechanics Co., Ltd. 濟南山水水泥機械有限公司	Shandong, PRC 12 March 2002	RMB1,500,000	—	99.00	Installation of equipment and spare parts of cement machines
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	Production and sales of cement; Production of limestone

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest		Principal activities
			Direct%	Indirect%	
Jinan Shanshui Wuliugang Co., Ltd. 濟南山水物流港有限公司	Shandong, PRC 28 March 2003	RMB5,000,000	—	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	Production and sales of cement
Jinan Shanshui Cement Technology Development Co., Ltd. 濟南山水水泥技術開發有限公司	Shandong, PRC 1 August 2003	RMB500,000	—	90.00	Development, manufacture, sales and technical support of cement related equipments, and consultation services
Liaocheng Shanshui Cement Co., Ltd. 聊城山水水泥有限公司	Shandong, PRC 1 August 2003	RMB5,000,000	—	99.00	Production and sales of cement
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	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	Production and sales of cement
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	Production and sales of cement, clinker and limestone
Weifang Shanshui Hongda Fuel Co., Ltd. 濰坊山水宏達燃料有限公司	Shandong, PRC 20 October 2003	RMB2,000,000	—	99.98	Sales of coal and construction material
Weifang Shanshui Cement Co., Ltd. 濰坊山水水泥有限公司	Shandong, PRC 29 December 2003	RMB50,000,000	—	100.00	Production and sales of cement and limestone
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	Production and sales of cement
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	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	RMB5,000,000	—	100.00	Establishment of cement production line
Yishui Shanshui Cement Co., Ltd. ("Yishui Cement") 沂水山水水泥有限公司	Shandong, PRC 28 September 2007	RMB20,000,000	—	96.00	Production and sales of cement
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	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	Production and sales of cement
Liaoyang Qianshan Cement Co., Ltd. 遼陽千山水泥有限責任公司	Liaoning, PRC 5 June 1989	RMB98,840,700	—	73.00	Production and sales of cement and concrete

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct%	Indirect%	Principal activities
Liaoning Shanshui Gongyuan Cement Co., Ltd. 遼寧山水工源水泥有限公司....	Liaoning, PRC 13 July 1998	RMB280,000,000	—	100.00	Production and sales of cement
Benxi Gongyuan Clinker Sales Co., Ltd. 本溪工源熟料銷售有限公司....	Liaoning, PRC 2 March 2006	RMB500,000	—	100.00	Production and sales of cement
Tongliao Gongyuan Cement Co., Ltd. 通遼工源水泥有限責任公司....	Inner Mongolia, PRC 2 April 2004	RMB5,000,000	—	100.00	Production and sales of cement
Dandong Shanshui Cement Co., Ltd. 丹東山水水泥有限公司....	Liaoning, PRC 31 March, 2008	USD12,000,000	—	100.00	Under formation. Not permitted for actual operation
Weihai Shanshui Cement Co., Ltd. 威海山水水泥有限公司....	Shandong, PRC 25 March, 2008	USD12,000,000	—	100.00	Manufacturing and selling of cement and concrete

B FINANCIAL INFORMATION

1 CONSOLIDATED INCOME STATEMENTS

	Section C Note	Year ended 31 December		
		2005	2006	2007
		RMB'000	RMB'000	RMB'000
Revenue	2	2,800,352	3,500,914	4,144,552
Cost of sales		(2,315,106)	(2,875,803)	(3,372,871)
Gross profit		485,246	625,111	771,681
Other income, net	3	52,298	82,351	79,869
Selling and marketing expenses		(125,253)	(126,428)	(156,756)
Administrative expenses		(150,354)	(190,857)	(262,887)
Profit from operations		261,937	390,177	431,907
Finance income		4,946	12,966	41,308
Finance expenses		(125,259)	(148,085)	(210,146)
Net finance expenses	*4(a)*	(120,313)	(135,119)	(168,838)
Profit before taxation	4	141,624	255,058	263,069
Income tax	5	(35,820)	(51,394)	(48,490)
Profit for the year		105,804	203,664	214,579
Attributable to:				
Equity holders of the Company		103,369	201,616	211,948
Minority interests		2,435	2,048	2,631
Profit for the year		105,804	203,664	214,579
Dividends	8	24,000	—	—
Earnings per share	9			
Basic (RMB)		0.05	0.10	0.11
Diluted (RMB)		0.05	0.10	0.10

The accompanying notes form part of the Financial Information.

2 CONSOLIDATED BALANCE SHEETS

	Section C Note	At 31 December 2005	2006	2007
		RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	*10*	2,807,617	2,945,812	5,784,887
Lease prepayments	*11*	278,196	298,239	1,078,406
Intangible assets	*12*	36,501	33,215	295,573
Goodwill	*13*	—	—	500,746
Other investments	*14*	9,713	12,776	18,323
Deferred tax assets	*15*	14,871	13,124	34,745
Total non-current assets		3,146,898	3,303,166	7,712,680
Current assets				
Inventories	*16*	373,962	403,060	532,997
Trade and other receivables	*17*	421,246	424,666	1,307,190
Pledged bank deposits	*18*	15,000	470	7,737
Cash and cash equivalents	*19*	487,288	323,514	721,265
Total current assets		1,297,496	1,151,710	2,569,189
Total assets		4,444,394	4,454,876	10,281,869
Equity				
Share capital	*20*	10	10	244
Reserves	*21*	287,303	491,615	2,531,249
Equity attributable to equity holders of the Company		287,313	491,625	2,531,493
Minority interests		16,981	19,056	41,485
Total equity		304,294	510,681	2,572,978

The accompanying notes form part of the Financial Information.

	Section C Note	At 31 December 2005	2006	2007
		RMB'000	RMB'000	RMB'000
Non-current liabilities				
Loans and borrowings	*22(a)*	480,000	1,024,800	1,492,700
Loans from equity holders	*22(a)*	—	391,118	309,041
Convertible notes	*22(c)*	—	—	85,458
Defined benefit obligations	*23(c)*	82,008	77,074	183,899
Deferred income	*24*	9,881	24,280	39,886
Long-term payables	*25*	—	—	414,744
Deferred tax liabilities	*15*	—	—	137,096
Total non-current liabilities		571,889	1,517,272	2,662,824
Current liabilities				
Loans and borrowings	*22(b)*	1,841,000	1,096,000	2,437,688
Loans from equity holders	*22(b)*	70,562	59,069	56,189
Trade and other payables	*26*	1,648,652	1,266,484	2,529,750
Current tax liabilities		7,997	5,370	22,440
Total current liabilities		3,568,211	2,426,923	5,046,067
Total liabilities		4,140,100	3,944,195	7,708,891
Total equity and liabilities		4,444,394	4,454,876	10,281,869
Net current liabilities		(2,270,715)	(1,275,213)	(2,476,878)
Total assets less current liabilities		876,183	2,027,953	5,235,802

The accompanying notes form part of the Financial Information.

3 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Share capital	Share premium	Statutory reserves	Other reserves	Exchange reserve	Fair value reserve	Retained earnings	Subtotal	Minority interests	Total equity
		Attributable to equity holders of the Company									
		RMB'000 (Note 20)	RMB'000 (Note 21(a))	RMB'000 (Note 21(b))	RMB'000 (Note 21(e))	RMB'000 (Note 21(c))	RMB'000 (Note 21(d))	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005		286,460	—	55,928	—	—	992	(189,433)	153,947	42,866	196,813
Issue of shares		10	413,238	—	—	—	—	—	413,248	—	413,248
Acquisition of subsidiaries		(286,460)	—	—	(58,211)	—	—	—	(344,671)	2,151	(342,520)
Acquisition of minority interests	(a)	—	—	—	(15,492)	—	—	—	(15,492)	(30,481)	(45,973)
Profit for the year		—	—	—	—	—	—	103,369	103,369	2,435	105,804
Available-for-sale investments — fair value change		—	—	—	—	—	985	—	985	10	995
Exchange differences		—	—	—	—	(73)	—	—	(73)	—	(73)
Appropriations		—	—	23,582	—	—	—	(23,582)	—	—	—
Dividends to equity holders		—	—	—	—	—	—	(24,000)	(24,000)	—	(24,000)
At 31 December 2005		10	413,238	79,510	(73,703)	(73)	1,977	(133,646)	287,313	16,981	304,294
At 1 January 2006		10	413,238	79,510	(73,703)	(73)	1,977	(133,646)	287,313	16,981	304,294
Issue of share of the Company		—	—	—	—	—	—	—	—	—	—
Profit for the year		—	—	—	—	—	—	201,616	201,616	2,048	203,664
Available-for-sale investments — fair value change		—	—	—	—	—	2,696	—	2,696	27	2,723
Appropriations		—	—	33,367	—	—	—	(33,367)	—	—	—
At 31 December 2006		10	413,238	112,877	(73,703)	(73)	4,673	34,603	491,625	19,056	510,681
At 1 January 2007		10	413,238	112,877	(73,703)	(73)	4,673	34,603	491,625	19,056	510,681
Nominal value of share capital of the subsidiaries acquired	(b)	(10)	(413,238)	—	413,173	—	—	—	(75)	—	(75)
Issue of shares	(c)	244	1,765,499	—	—	—	—	—	1,765,743	—	1,765,743
Increase in minority interests attributable to acquisition of subsidiaries and contribution to subsidiaries	(d)	—	—	—	—	—	—	—	—	19,762	19,762
Profit for the year		—	—	—	—	—	—	211,948	211,948	2,631	214,579
Available-for-sale investments — fair value change		—	—	—	—	—	7,551	—	7,551	37	7,588
— transfer upon disposal		—	—	—	—	—	(252)	—	(252)	(1)	(253)
Equity portion of convertible notes		—	—	—	64,774	—	—	—	64,774	—	64,774
Exchange differences		—	—	—	—	(9,821)	—	—	(9,821)	—	(9,821)
Appropriations		—	—	32,255	—	—	—	(32,255)	—	—	—
At 31 December 2007		244	1,765,499	145,132	404,244	(9,894)	11,972	214,296	2,531,493	41,485	2,572,978

Notes:

(a) In 2005, Shandong Shanshui acquired additional equity interests in certain cement subsidiaries from Jinan Shanshui.

(b) On 6 September 2007, the existing equity holders of China Shanshui (Hong Kong) exchanged all of their respective ordinary shares with a nominal value of H.K. Dollar (HKD) 0.01 each in China Shanshui (Hong Kong) for an equivalent number of the Company's ordinary shares (the "Share Swap") with a nominal value of U.S. Dollar (USD) 0.01 each (newly issued 999,999 ordinary shares plus one ordinary share issued previously) on a pro rata basis. Following the Share Swap, the Company replaced China Shanshui (Hong Kong) as a holding company of the Group.

(c) After the Share Swap, the Company conducted a rights offering by allotting and issuing to its existing equity holders, on a pro rata basis, an aggregate of 2,254,200 shares with a nominal value USD 0.01 each in the capital of the Company for a total consideration of USD 235,294,000.

(d) In 2007, the Group acquired Qianshan Cement, in which minority equity holders own 27% equity interests. Furthermore, in 2007, minority equity holders also contributed capital of RMB 800,000 and RMB 20,000 to Yishui Cement and Wuliugang respectively.

The accompanying notes form part of the Financial Information.

4 CONSOLIDATED STATEMENTS OF CASH FLOW

	Section C Note	Year ended 31 December		
		2005	2006	2007
		RMB'000	RMB'000	RMB'000
Operating activities				
Profit before taxation		141,624	255,058	263,069
Adjustments for:				
Depreciation	*10*	185,297	205,245	266,883
Amortisation of lease prepayments	*11*	6,081	7,185	8,950
Amortisation of intangible assets	*12*	3,917	3,417	8,340
Impairment losses on property, plant and equipment	*10*	4,306	—	—
Net finance expenses	*4(a)*	120,313	135,119	168,838
(Gain)/losses on sale of property, plant and equipment	*3*	(1,821)	(2,576)	144
		459,717	603,448	716,224
(Increase)/decrease in inventories		(39,545)	(29,098)	33,043
Decrease/(increase) in trade and other receivables		34,267	49,453	(243,252)
(Decrease)/increase in trade and other payables		(269,198)	(91,091)	54,105
Cash generated from operating activities		185,241	532,712	560,120
Interest paid		(128,065)	(150,792)	(196,372)
Income tax paid		(35,209)	(53,615)	(39,850)
Net cash generated from operating activities		21,967	328,305	323,898

The accompanying notes form part of the Financial Information.

	Section C Note	Year ended 31 December 2005	2006	2007
		RMB'000	RMB'000	RMB'000
Investing activities				
Payment for purchase of property, plant and equipment		(245,928)	(360,011)	(834,178)
Payment for purchase of land use rights		(43,873)	(21,600)	(74,116)
Payment for purchase of intangible assets		—	(131)	(141,586)
Proceeds from sale of property, plant and equipment		13,032	9,793	4,965
Proceeds from sale of other investments		—	1,000	7,176
Acquisition of subsidiaries, net of cash acquired	*27*	(395,912)	—	(1,075,309)
Dividend received		556	—	—
Interest received		4,127	5,588	19,522
Net cash used in investing activities		(667,998)	(365,361)	(2,093,526)
Financing activities				
Proceeds from new loans and borrowings		2,171,654	2,273,188	1,828,437
Proceeds from issue of shares		413,248	—	1,765,668
Proceeds from capital injection in subsidiaries by minority interests		—	—	820
Proceeds from issue of convertible notes		—	—	149,740
Repayment of loans and borrowings		(1,713,246)	(2,374,754)	(1,576,461)
Dividends paid to equity holders		(6,058)	(24,000)	—
Dividends paid to minority interests		(5,342)	(1,152)	—
Net cash generated from/(used in) financing activities		860,256	(126,718)	2,168,204
Net increase/(decrease) in cash and cash equivalents		214,225	(163,774)	398,576
Cash and cash equivalents at 1 January		273,229	487,288	323,514
Effect of foreign exchange rate changes		(166)	—	(825)
Cash and cash equivalents at 31 December		487,288	323,514	721,265
Supplemental disclosure of non-cash investing and financing transactions:				
Awarded government grants related to assets	*24*	9,378	322	—
Exchange of ordinary shares		—	—	413,248

The accompanying notes form part of the Financial Information.

C NOTES TO THE FINANCIAL INFORMATION

1 Significant accounting policies

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with IFRSs.

The Financial Information also complies with the disclosure requirement of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the SEHK.

The Group has not previously presented consolidated financial statements. This is the Group's first IFRS Financial Information and IFRS 1 has been applied.

For the purpose of preparing this Financial Information, the Group has applied all new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for accounting periods beginning on 1 January 2007, as set out in Note 32.

(b) Basis of preparation of the Financial Information

The Financial Information is presented in Renminbi ("RMB") (the "presentation currency"), rounded to the nearest thousand. It is presented on the historical cost basis except that the following assets and liabilities are stated at fair value: available-for-sale investments (see Note 1(e)) and derivative financial instruments (see Note 1(f)), and the methods used to measure fair value are discussed further in Note 1(x).

The Financial Information has been prepared on the basis that the Group will continue to operate throughout the next twelve months as a going concern. The Group's current liabilities exceeded its current assets by RMB2,476,878,000 as at 31 December 2007. Based on future projections of the Group's profits and cash inflows from operations and the ability of the Group to obtain continued bank financing to finance its continuing operation, the Company's directors have prepared the Financial Information on a going concern basis.

The preparation of the Financial Information 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.

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in Note 31.

The accounting policies set out below have been applied consistently to all periods presented in Financial Information and have been applied consistently by the Group.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

In the Company's balance sheet, investment in subsidiaries is stated at cost less any impairment losses (see Note 1(n)).

(ii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the equity holders that control the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in those combined companies' financial statements. The components of equity of the acquired entities are added to the same components within the equity of the Group except that any share capital and share premium of the acquired entities are recognised as part of other reserves. Any cash paid for the acquisition is recognised directly in equity.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in preparing the Financial Information. 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.

(iv) Transactions with minority interests

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Company has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statements as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

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

Acquisition of minority interests in subsidiaries is treated as a transaction between equity holders. No gain or loss is recognised in the income statement on such changes. Assets and liabilities of the subsidiaries in which the Group subsequently increased its ownership interests are stated at carrying amount. The differences between the cost of acquisition and the carrying amount of the net assets additionally acquired are directly recognised in equity.

(v) Indemnity in business combination

Contingent liability assumed in an acquisition is initially recorded at fair value as of acquisition date and remeasured through profit or loss in future periods. Subsequent indemnity recovered from seller is accounted for as contingent consideration with adjustment to goodwill.

(d) Foreign currency

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the "functional currency").

(ii) Foreign currency transaction

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

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 transactions dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(iii) Financial statements of foreign operations

Results and cash flows of foreign entities are translated into the Group's presentation currency at the average exchange rates for the financial period and their balance sheets are translated at the exchange rates ruling at the balance sheet date except for the equity items which are translated at the exchange rates ruling at the dates of the transactions. Exchange differences are recognised directly in equity.

(e) Investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets.

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

Investments in available-for-sale equity securities are initially recognised at fair value plus transaction cost. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. When these investments are derecognised or impaired (see Note 1(n)), the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

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

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

(g) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, are initially stated at cost less accumulated depreciation (see below) and impairment losses (see Note 1(n)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the

Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of each part of an item of property, plant and equipment, less their estimated residual value, if any, using the straight-line basis 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

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(iv) Retirement and disposal

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(v) Construction in progress

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

(h) Long-term prepayments

(i) Lease prepayments

Lease prepayments represent payments made to acquire land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see Note 1(n)). Amortisation is charged to the income statement on a straight-line basis over the respective periods of the land use rights.

(ii) Long-term consulting service contract

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

(i) Intangible assets

(i) Goodwill

All business combinations, except for business combinations involving entities under common control, are accounted for by applying the purchase method.

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment (see Note 1 (n)).

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

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

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in the income statement as incurred. Other development expenditure is recognised in the income statement as incurred.

(iii) Other intangible assets

Other intangible assets, that are acquired by the Group, which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses (see Note 1(n)).

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and trademarks, is recognised in the income statement as incurred.

(v) Amortisation

Amortisation for intangible assets with finite useful lives is recognised in the income statement on a straight-line basis over the contracted beneficial period or estimated useful lives of intangible assets, from the date that they are available for use.

The respective amortisation periods are as follows:

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

The Group reviews the estimated useful lives and amortisation methods annually.

(j) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating lease. Operating lease payments are charged to the income statement on a straight-line basis over the period of the respective leases.

(k) Inventories

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

The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing 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 selling expenses.

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.

(l) Trade and other receivables

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

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions. 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.

(n) Impairment losses

(i) Investments in equity securities and other receivables

Investments in equity securities (other than investment in subsidiaries (See Note 1(n)(ii)) and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

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

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

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

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

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

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the investments 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 are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the financial assets' original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

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 the income statement. 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 directly in equity is removed from equity and is recognised in the income statement. The amount of the cumulative loss that is recognised in the income statement 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 the income statement.

Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

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 the income statement.

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 the income statement.

(ii) Impairment of other assets

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

— property, plant and equipment;

— long-term prepayments;

— intangible assets other than goodwill;

— investment in subsidiaries; and

— goodwill.

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

— Calculation of recoverable amount

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

— Reversals of impairment losses

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

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

(o) Convertible notes

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

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

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

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

(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 the income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Employee benefits

(i) Short-term benefits

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

(ii) Defined contribution retirement plans

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

(iii) Defined benefit plans

The Group's obligations in respect of long-term employee benefits other than pension plans are 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 its present value. The discount rate is the yield at the reporting date on long-term treasury bonds of the PRC. The calculation is performed annually by a qualified actuary using the projected unit credit method. In calculating the Group's obligations, to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligations at the balance sheet date, that portion is amortised within the remaining life (any junior family member to age of 18) of the employees in the income statement.

(r) Financial guarantees, provisions and contingent liabilities

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

’*(i) Financial guarantees issued*

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

(ii) Financial guarantees received

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

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

(iii) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group 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.

(s) Trade and other payables

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

(t) Revenue recognition

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 the income statement as follows:

(i) Sales of goods

Revenue from the sales of goods is measured at the fair value of the consideration received or receivable, net of value added tax or other sales taxes, returns or allowance and trade discounts. Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, the continued management responsibility, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

(ii) Service rendered

Revenue from transportation services is recognised in the income statement as and when the services are performed.

Revenue from design and installation services is recognised in the income statement in proportion to the stage of completion. The stage of completion is assessed by reference to surveys of work performed.

(iii) Government grants

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

(iv) Rental income

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(u) Income tax

Income tax for the Relevant Period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income during the Relevant Period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried 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 amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

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

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 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 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.

(v) Expenses

(i) Repairs and maintenance expenditure

Repairs and maintenance expenditure, including cost of overhaul, are expensed as incurred.

(ii) Net finance expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and gains on derivative financial instruments and foreign currency gain that are recognised in the income statement. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established, which in case of quoted securities is the ex-dividend date.

Finance expenses comprise the interest expense on borrowings, net of interest capitalised, unwinding of the discount on provisions, losses on derivative financial instruments and foreign currency losses that are recognised in the income statement. All borrowing costs are calculated using the effective interest method.

(iii) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being 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.

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.

(w) Related parties

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

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

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

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

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

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

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

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

(x) Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment and motor vehicles and others items is based on the quoted market prices for similar items.

(ii) Intangible assets

The fair value of trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(iv) Investment in equity securities

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

(v) Trade and other receivables

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

(vi) Derivative financial instruments

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swaps at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(vii) Non-derivative financial liabilities

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

(viii) Financial guarantees

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

(y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group operates in a single business segment, the manufacturing and trading of cement and clinker in the PRC. Accordingly, no segmental analysis is presented.

2 Revenue

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	**RMB'000**	**RMB'000**
Sales of cement and clinker	2,679,793	3,369,111	3,908,289
Sales of other products and rendering of services	120,559	131,803	236,263
	2,800,352	3,500,914	4,144,552

3 Other income, net

Other income	2005	2006	2007
	Year ended 31 December		
	RMB'000	RMB'000	RMB'000
Government grants (Note)	52,680	80,189	71,714
Financial guarantee received	—	61,777	21,009
Amortisation of financial guarantee issued	15,518	23,222	31,040
Net gain/(losses) from sale of property, plant and equipment	1,821	2,576	(144)
Penalty income	1,592	1,152	1,940
Others	2,584	1,628	8,726
	74,195	170,544	134,285

Other expenses	2005	2006	2007
	Year ended 31 December		
	RMB'000	RMB'000	RMB'000
Financial guarantee issued	—	(61,777)	(21,009)
Amortisation of financial guarantee received	(15,518)	(23,222)	(31,040)
Impairment losses on property, plant and equipment	(4,306)	—	—
Penalty expenses	(1,389)	(1,552)	(740)
Others	(684)	(1,642)	(1,627)
	(21,897)	(88,193)	(54,416)
Other income, net	52,298	82,351	79,869

Note:

Government grants totalling RMB 39,733,000, RMB 66,189,000 and RMB 62,980,000 represent the refunds of value-added tax received from the tax bureaux for usage of industrial waste during the years ended 31 December 2005, 2006 and 2007 respectively. The remaining amounts mainly represent various government subsidies received from finance bureaux to encourage companies invested in the respective areas.

4 Profit before taxation

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

(a) Net finance expenses

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Finance income			
Interest income on bank deposits	4,127	5,588	19,522
Net foreign exchange gain	—	6,953	18,092
Dividend income from other investments	556	—	—
Disposal gain of other investment	263	425	3,694
	4,946	12,966	41,308

	Note	Year ended 31 December 2005	2006	2007
		RMB'000	RMB'000	RMB'000
Finance expenses				
Interest on interest-bearing borrowings		(126,480)	(145,507)	(209,859)
Less: capitalised interest expense	(i)	6,784	3,390	15,337
Net interest expense		(119,696)	(142,117)	(194,522)
Unwinding of discount	(ii)	(3,630)	(2,810)	(14,351)
Net foreign exchange loss		(900)	—	—
Bank charges		(1,033)	(3,158)	(454)
Interest rate swaps		—	—	(819)
		(125,259)	(148,085)	(210,146)
Net finance expenses		(120,313)	(135,119)	(168,838)

Notes:

(i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant are 4.7%, 5.6% and 5.9% for the years ended 31 December 2005, 2006 and 2007 respectively.

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

	Year ended 31 December 2005	2006	2007
	RMB'000	RMB'000	RMB'000
Convertible notes (Note 22(c))	—	—	2,856
Defined benefit plans (Note 23(c))	3,630	2,810	2,650
Acquisition consideration payable (Note 25)	—	—	8,845
Total	3,630	2,810	14,351

(b) Personnel expenses

	Year ended 31 December 2005	2006	2007
	RMB'000	RMB'000	RMB'000
Salaries, wages and other benefits	118,119	143,056	192,665
Contributions to defined contribution retirement plans	14,656	17,852	24,426
	132,775	160,908	217,091

(c) Other items

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Depreciation (Note 10)	185,297	205,245	266,883
Amortisation			
— lease prepayments (Note 11)	6,081	7,185	8,950
— intangible assets (Note 12)	3,917	3,417	8,340
Auditors' remuneration	2,586	1,142	3,210
Operating lease charges	22,438	31,661	31,764
Impairment losses provided			
— trade receivables (Note 17)	2,369	7,498	1,203
— property, plant and equipment (Note 10)	4,306	—	—
Cost of inventories	2,315,106	2,875,803	3,372,871
Net (gain)/losses from disposal of property, plant and equipment	(1,821)	(2,576)	144

Note:

Cost of inventories includes RMB 240,872,000, RMB 253,455,000 and RMB 324,205,000 relating to personnel expenses, depreciation and amortisation expenses and provision of inventories for the years ended 31 December 2005, 2006 and 2007 respectively, which are also included in the respective amounts disclosed separately above or in Note 4(b) for each type of expenses.

5 Income tax

(a) Taxation in the consolidated income statement represents:

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Current tax expenses			
Provision for the PRC income tax	40,549	50,988	51,681
Deferred tax expenses			
Origination and reversal of temporary differences	(4,729)	406	(8,489)
Change in tax rate	—	—	5,298
	35,820	51,394	48,490

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

(ii) No provision for Hong Kong Profits Tax has been made as the subsidiaries incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax during the Relevant Period.

(iii) Pursuant to the currently applicable income tax rules, the PRC regulations and local income tax concessions granted, the companies comprising the Group in the PRC are liable to the PRC enterprise income tax at a rate of 33% during the Relevant Period, except for the following:

The applicable income tax rate for Continental (Shandong) Cement, Continental (Shandong) Cement Products Manufacturing and Continental (Shandong) Cement Mining (collectively referred to as the "Kangda Cement"), Shandong Shanshui, Pingyin Shanshui and Anqiu Shanshui is 24%. Furthermore, those companies are registered as foreign invested enterprises and are entitled to a tax concession period during which they are fully exempted from the PRC enterprise income tax for two years starting from its first tax profit-making year, followed by a 50% reduction in the PRC enterprise income tax rate for the next three years.

The year 2006 was the first profit-making year of Shandong Shanshui, Pingyin Shanshui and Anqiu Shanshui, therefore, they are exempted from PRC enterprise income tax for the years ended 31 December 2006 and 2007.

As at 31 December 2007, the preferential tax treatment of Kangda Cement has not commenced as these entities do not have taxable profits.

(iv) On 16 March 2007, the National People's Congress promulgated the new Corporate Income Tax Law of the People's Republic of China (the "New Tax Law") which will take effect on 1 January 2008, and will supersede the PRC Foreign Invested Enterprise and Foreign Enterprise Income Tax Law and the Provisional Regulations on Enterprise Income Tax of the PRC at the same time. On 6 December 2007, the State Council promulgated the Implementation Rules of the New Tax Law (the "Implementation Rules of the New Tax Law"). The New Tax Law will consolidate the current two separate tax regimes for domestic enterprises and foreign-invested enterprises and impose a united enterprise income tax rate of 25% for both types of enterprises. According to the New Tax Law and Implementation Rules of the New Tax Law, enterprises that currently enjoy a preferential tax rate prior to the New Tax Law's promulgation will gradually transit to the new tax rate over five years from the effective date of the New Tax Law. Enterprises that currently enjoy a fixed period of tax exemption and reduction under currently applicable rules and regulations will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced due to lack of profit, such preferential tax treatment will commence from the effective date of the New Tax Law. The expected financial effect of the New Tax Law, if any, has been reflected in the Group's financial statements for the year ended 31 December 2007.

(v) Further to the New Tax Law, from 1 January 2008 onwards, non-resident enterprises without establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC will be subject to withholding tax at the rate of 20% on various types of passive income such as dividends derived from sources in the PRC. However, Implementation Rules of the New Tax Law reduces the withholding rate to 10%. Nevertheless, the Double Tax Arrangement between Mainland China and

Hong Kong further reduces and has capped the withholding tax rate on dividend to 5%. The Group has already commenced an assessment on the impact of the New Tax Law regarding the above mentioned withholding tax but is not yet in a position to state whether the New Tax Law would have a significant impact on the Group's results of operations and financial position.

(b) Reconciliation between actual income tax expense and expected income tax based on profit before taxation at applicable statutory tax rates:

		Year ended 31 December		
	Note	2005	2006	2007
		RMB'000	RMB'000	RMB'000
Profit before taxation		141,624	255,058	263,069
Expected income tax using the Group's PRC statutory tax rate	(i)	46,736	84,169	86,813
Effect of tax rates in foreign jurisdictions		—	—	5,794
Tax holiday (Note 5(a)(iii))		—	(37,757)	(41,260)
Non-deductible expenses	(ii)	11,725	21,687	17,763
Non-taxable income	(iii)	(20,215)	(16,705)	(21,116)
Tax credit	(iv)	(2,426)	—	(4,802)
Change in tax rate (Note 5(a)(iv))		—	—	5,298
Actual income tax expense		35,820	51,394	48,490
Effective tax rate		25.3%	20.1%	18.4%

Notes:

(i) The provision for current income tax is based on the PRC statutory rate of 33% of the taxable profit of the companies comprising the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries of the Company, which are tax-exempted.

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

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

(iv) Tax credit represents credit on income tax for purchase of certain domestically produced equipment pursuant to the applicable PRC tax laws and regulations.

6 Directors' remuneration

Details of the directors' remuneration are as follows:

	Fees	Salaries, allowances and other benefits	Bonuses	Contributions to defined contribution retirement plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2005					
Executive directors					
Zhang Caikui	—	19	2,587	11	2,617
Li Yanmin	—	19	1,487	9	1,515
Dong Chengtian	—	19	987	9	1,015
Yu Yuchuan	—	19	987	9	1,015
Non-executive directors					
Jiao Shuge	—	—	—	—	—
Homer Sun	—	—	—	—	—
	—	76	6,048	38	6,162

	Fees	Salaries, allowances and other benefits	Bonuses	Contributions to defined contribution retirement plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2006					
Executive directors					
Zhang Caikui	—	25	2,981	12	3,018
Li Yanmin	—	25	2,581	10	2,616
Dong Chengtian	—	25	1,581	10	1,616
Yu Yuchuan	—	25	1,381	10	1,416
Non-executive directors					
Jiao Shuge	—	—	—	—	—
Homer Sun	—	—	—	—	—
	—	100	8,524	42	8,666

	Fees	Salaries, allowances and other benefits	Bonuses	Contributions to defined contribution retirement plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2007					
Executive directors					
Zhang Caikui	—	59	2,941	23	3,023
Li Yanmin	—	53	2,547	20	2,620
Dong Chengtian	—	47	1,553	20	1,620
Yu Yuchuan	—	46	1,354	20	1,420
Non-executive directors					
Jiao Shuge	—	—	—	—	—
Homer Sun	—	—	—	—	—
	—	205	8,395	83	8,683

An analysis of directors' remuneration by the number of directors and remuneration range are set out below:

	Year ended 31 December		
	2005	2006	2007
Nil	2	2	2
RMB 1,000,000 to RMB 4,000,000	4	4	4
	6	6	6

During the Relevant Period, no remuneration was paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office. No directors of the Company waived or agreed to waive any remuneration during the Relevant Period. No remuneration was paid to independent non-executive directors during the Relevant Period.

7 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four were also directors whose remuneration is disclosed in Note 6 for each of the years ended 31 December 2005, 2006 and 2007.

The aggregate of the remuneration in respect of the remaining individual during the Relevant Period is as follows:

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Salaries, allowances and other benefits	25	36	61
Bonuses	987	1,381	1,354
Contributions to defined contribution retirement plans	8	14	17
	1,020	1,431	1,432

The remuneration of the remaining individual with the highest remuneration is within the following band:

	Year ended 31 December		
	2005	2006	2007
RMB1,000,000 to RMB1,500,000	1	1	1

8 Dividends

The following dividends were declared by the companies now comprising the Group to their then equity holders during the Relevant Period:

(a) Dividends payable to the equity holders of Shandong Shanshui attributable to the years:

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Dividends declared and approved	24,000	—	—

(b) Dividends payable to the equity holders of Shandong Shanshui attributable to the previous financial year and paid during the year:

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Dividends paid	6,058	24,000	—

The directors consider that the dividends during the Relevant Period are not indicative of the future dividend policy of the Group.

9 Earnings per share

The calculation of basic earnings per share for the Relevant Period is based on the profit attributable to equity holders of the Company for each of the Relevant Period and the 1,952,520,000 shares which has been determined after taking into account of the capitalisation issue as detailed in Section A Note 3(d) in Appendix VII of the Prospectus as if the shares were outstanding throughout the Relevant Period.

The calculation of the basic and diluted earnings per share attributable to equity holders of the Company is based on the following data:

Earnings	Year ended 31 December 2005 RMB'000	2006 RMB'000	2007 RMB'000
Profit attributable to equity holders of the Company (basic)	103,369	201,616	211,948
Unwinding of discount on convertible notes	—	—	2,856
Profit attributable to equity holders of the Company (diluted)	103,369	201,616	214,804

Number of shares	Year ended 31 December 2005	2006	2007
Weighted average number of ordinary shares (basic)	1,952,520,000	1,952,520,000	1,952,520,000
Effect of conversion of shares for convertible notes	—	—	114,964,200
Weighted average number of ordinary shares (diluted)	1,952,520,000	1,952,520,000	2,067,484,200

	Year ended 31 December 2005 RMB	2006 RMB	2007 RMB
Basic earnings per share	0.05	0.10	0.11
Diluted earnings per share	0.05	0.10	0.10

10 Property, plant and equipment

	Plants and buildings	Equipment	Motor vehicles and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
At 1 January 2005	1,312,277	1,378,047	348,712	3,887	3,042,923
Additions	124,507	200,040	40,550	81,811	446,908
Transfers	12,386	6,455	1,322	(20,163)	—
Disposals	(26,576)	(17,737)	(7,735)	—	(52,048)
At 31 December 2005	1,422,594	1,566,805	382,849	65,535	3,437,783
At 1 January 2006	1,422,594	1,566,805	382,849	65,535	3,437,783
Additions	61,163	86,435	24,487	178,572	350,657
Transfers	23,340	59,130	4,879	(87,349)	—
Disposals	(7,394)	(8,590)	(8,278)	—	(24,262)
At 31 December 2006	1,499,703	1,703,780	403,937	156,758	3,764,178
At 1 January 2007	1,499,703	1,703,780	403,937	156,758	3,764,178
Additions	11,320	47,553	48,160	586,648	693,681
Transfers	39,754	474,657	7,095	(521,506)	—
Additions through business combinations (Note 27)	883,896	1,361,324	58,493	113,673	2,417,386
Disposals	(7,817)	(24,753)	(7,476)	—	(40,046)
At 31 December 2007	2,426,856	3,562,561	510,209	335,573	6,835,199
Accumulated depreciation and impairment					
At 1 January 2005	(132,258)	(254,686)	(94,456)	—	(481,400)
Depreciation for the year	(37,507)	(117,320)	(30,470)	—	(185,297)
Impairment loss	(137)	(4,167)	(2)	—	(4,306)
Disposals	19,654	15,235	5,948	—	40,837
At 31 December 2005	(150,248)	(360,938)	(118,980)	—	(630,166)
At 1 January 2006	(150,248)	(360,938)	(118,980)	—	(630,166)
Depreciation for the year	(38,530)	(131,137)	(35,578)	—	(205,245)
Disposals	6,343	2,820	7,882	—	17,045
At 31 December 2006	(182,435)	(489,255)	(146,676)	—	(818,366)
At 1 January 2007	(182,435)	(489,255)	(146,676)	—	(818,366)
Depreciation for the year	(48,060)	(169,343)	(49,480)	—	(266,883)
Disposals	7,341	23,519	4,077	—	34,937
At 31 December 2007	(223,154)	(635,079)	(192,079)	—	(1,050,312)
Carrying amount					
At 31 December 2007	2,203,702	2,927,482	318,130	335,573	5,784,887
At 31 December 2006	1,317,268	1,214,525	257,261	156,758	2,945,812
At 31 December 2005	1,272,346	1,205,867	263,869	65,535	2,807,617

(a) All plants and buildings are located in the PRC.

(b) Certain properties and equipment with an aggregate carrying amount of RMB 1,011,946,000, RMB 1,590,781,000 and RMB 1,879,283,000 for the years ended 31 December 2005, 2006 and 2007 respectively, are pledged to secure bank loans (see Note 22) granted to the Group.

(c) As at the date of this report, the ownership certificates for certain plants and buildings with a carrying amount of RMB 21,185,481 have not been obtained.

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

(e) As at the date of this report, the Group is in the process of obtaining construction permits for certain clinker production lines. The carrying amount for these clinker production lines as at 31 December 2007 was RMB 89,882,000.

11 Lease prepayments

	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January	245,269	289,142	316,370
Additions	43,873	27,228	67,327
Additions through business combinations (Note 27)	—	—	721,790
At 31 December	289,142	316,370	1,105,487
Accumulated amortisation			
At 1 January	(4,865)	(10,946)	(18,131)
Amortisation for the year	(6,081)	(7,185)	(8,950)
At 31 December	(10,946)	(18,131)	(27,081)
Carrying amount	278,196	298,239	1,078,406

(a) Lease prepayments represent land use rights in the PRC, which expire between 36 years and 70 years.

(b) Certain land use rights with an aggregate carrying amount of RMB 18,484,000, RMB 237,987,000 and RMB 357,409,000 for the years ended 31 December 2005, 2006 and 2007 respectively, are pledged to secure bank loans (see Note 22) granted to the Group.

12 Intangible assets

	Limestone mining rights	Customer relationships	Supplier relationship	Trademarks	Software and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2005	30,154	—	—	—	5,206	35,360
Additions	9,378	—	—	—	—	9,378
At 31 December 2005	39,532	—	—	—	5,206	44,738
At 1 January 2006	39,532	—	—	—	5,206	44,738
Additions	—	—	—	—	131	131
At 31 December 2006	39,532	—	—	—	5,337	44,869
At 1 January 2007	39,532	—	—	—	5,337	44,869
Additions	840	—	—	—	5,059	5,899
Additions through business combinations (Note 27)	168,761	25,291	5,897	63,100	1,750	264,799
At 31 December 2007	209,133	25,291	5,897	63,100	12,146	315,567
Accumulated amortisation						
At 1 January 2005	(1,445)	—	—	—	(2,875)	(4,320)
Amortisation for the year	(3,340)	—	—	—	(577)	(3,917)
At 31 December 2005	(4,785)	—	—	—	(3,452)	(8,237)
At 1 January 2006	(4,785)	—	—	—	(3,452)	(8,237)
Amortisation for the year	(3,127)	—	—	—	(290)	(3,417)
At 31 December 2006	(7,912)	—	—	—	(3,742)	(11,654)
At 1 January 2007	(7,912)	—	—	—	(3,742)	(11,654)
Amortisation for the year	(5,839)	(1,328)	(805)	—	(368)	(8,340)
At 31 December 2007	(13,751)	(1,328)	(805)	—	(4,110)	(19,994)
Carrying amount						
At 31 December 2007	195,382	23,963	5,092	63,100	8,036	295,573
At 31 December 2006	31,620	—	—	—	1,595	33,215
At 31 December 2005	34,747	—	—	—	1,754	36,501

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

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

(c) The customer relationships amounting to RMB 25,291,000 are non-contractual customer relationships acquired through acquisitions of Yantai Shanshui and Zaozhuang Shanshui. They are amortised over five years based on the Group's estimate on how long the Group could retain the customers. Further details of acquisitions are set out in Note 27.

(d) The supplier relationship amounting to RMB 5,897,000 represents the value of the 15-month electricity supply contract acquired through the acquisition of Yantai Shanshui. Further details of acquisitions are set out in Note 27.

(e) Trademarks represent valuation of "千山", "工源" and "長白山" brands acquired through acquisitions of Qianshan Cement and Gongyuan Cement. According to the resolution of the Board of Directors of the Group, trademarks acquired through business combinations would be phased out ten years later; management considers the estimated useful lives of trademarks are ten years though their legal rights are renewable. Further details of acquisitions are set out in Note 27.

13 Goodwill

	2007
	RMB'000
Cost	
At 1 January	—
Additions	500,746
At 31 December	500,746

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

	At 31 December 2007
	RMB'000
Continental Cement Corporation and Kangda Cement (the "Continental Cement")	2,078
Yantai Shanshui	240,075
Zaozhuang Shanshui	65,169
Qianshan Cement	99,568
Gongyuan Cement and its subsidiaries (the "Gongyuan Cement Group")	93,856
	500,746

The recoverable amounts of the cash-generating unit are determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 16.27%. 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 relevant subsidiaries.

14 Other investments

	Note	At 31 December 2005	2006	2007
		RMB'000	RMB'000	RMB'000
Available-for-sale investments, at fair value	(a)	4,362	8,425	17,063
Unquoted equity investments in non-listed companies	(b)	5,351	4,351	1,260
		9,713	12,776	18,323

Notes:

(a) Available-for-sale investments are valued with reference to the trading price at the balance sheet date discounted for its restrictive trading right.

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

The Directors of the Company are of the view that it is not meaningful to perform the sensitivity analysis for other investments.

15 Deferred tax assets and liabilities

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

	At 31 December 2005	2006	2007
	RMB'000	RMB'000	RMB'000
Deferred tax assets	17,296	18,965	54,735
Set off of tax	(2,425)	(5,841)	(19,990)
	14,871	13,124	34,745
Deferred tax liabilities	2,425	5,841	157,086
Set off of tax	(2,425)	(5,841)	(19,990)
	—	—	137,096

Movements in deferred tax assets and liabilities (prior to offsetting of balances) during the Relevant Period are as follows:

	At 1 January 2005	Recognised in profit or loss	Recognised in equity	At 31 December 2005
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets				
Unrealised profits resulted from intra-group transactions	3,063	3,433	—	6,496
Depreciation of property, plant and equipment	4,759	744	—	5,503
Tax loss carry-forwards	3,112	348	—	3,460
Impairment losses for property, plant and equipment	2,814	(977)	—	1,837
	13,748	3,548	—	17,296
Deferred tax liabilities				
Accrued staff welfare	2,625	(1,181)	—	1,444
Change of fair value of available-for-sale investments	491	—	490	981
	3,116	(1,181)	490	2,425

	At 1 January 2006	Recognised in profit or loss	Recognised in equity	At 31 December 2006
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets				
Unrealised profits resulted from intra-group transactions	6,496	2,084	—	8,580
Depreciation of property, plant and equipment	5,503	1,249	—	6,752
Tax loss carry-forwards	3,460	(93)	—	3,367
Impairment losses for property, plant and equipment	1,837	(1,571)	—	266
	17,296	1,669	—	18,965
Deferred tax liabilities				
Accrued staff welfare	1,444	2,075	—	3,519
Change of fair value of available-for-sale investments	981	—	1,341	2,322
	2,425	2,075	1,341	5,841

	At 1 January 2007	Acquisition of subsidiaries	Recognised in profit or loss	Recognised in profit or loss due to changes in tax rate	Recognised in equity	Recognised in equity due to changes in tax rate	At 31 December 2007
	RMB'000	RMB'000 (Note 27)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets							
Unrealised profits resulted from intra-group transactions	8,580	—	2,102	(2,590)	—	—	8,092
Depreciation of property, plant and equipment	6,752	1,200	2,634	(2,234)	—	—	8,352
Tax loss carry-forwards	3,367	31,959	(2,778)	(530)	—	—	32,018
Impairment losses for property, plant and equipment	266	—	—	(64)	—	—	202
Intangible assets amortisation	—	2,743	(199)	—	—	—	2,544
Impairment losses for intangible assets	—	673	—	—	—	—	673
Accrued bonus	—	—	2,854	—			2,854
	18,965	36,575	4,613	(5,418)	—	—	54,735
Deferred tax liabilities							
Accrued staff welfare	3,519	1,534	(3,130)	(120)	—	—	1,803
Change of fair value of available-for-sale investments	2,322	—	—	—	2,978	(1,285)	4,015
Revaluation surplus of property, plant and equipment	—	37,640	(26)	—	—	—	37,614
Revaluation surplus of intangible assets	—	114,526	(872)	—	—	—	113,654
Revaluation surplus of inventory	—	(152)	152	—	—	—	—
	5,841	153,548	(3,876)	(120)	2,978	(1,285)	157,086

As at 31 December 2007, the Group did not recognise deferred tax assets in respect of Kangda Cement's cumulative tax losses totalling RMB33,849,000 out of the total RMB81,849,000. It is not probable that future taxable profits generated by Kangda Cement against which the losses can be utilised will be available within five years. There are no significant unrecognised deferred tax assets or liabilities as at 31 December 2005 and 2006.

16 Inventories

	At 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Raw materials	118,430	130,362	241,477
Semi-finished goods	63,522	99,394	91,010
Finished goods	134,772	136,909	112,325
Spare parts	57,238	36,395	88,185
	373,962	403,060	532,997

The analysis of the amount of inventories recognised as an expense is as follows:

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Carrying amount of inventories sold	2,314,233	2,875,674	3,372,856
Write down of inventories	873	129	15
	2,315,106	2,875,803	3,372,871

17 Trade and other receivables

		At 31 December		
	Note	2005	2006	2007
		RMB'000	RMB'000	RMB'000
Bills receivable		68,246	93,523	319,861
Trade receivables		116,481	72,463	109,393
Prepayments for raw materials		56,718	67,835	114,849
Prepayments for long-lived assets	(a)	65,712	42,157	365,966
Loans receivable via bank		10,000	—	—
VAT recoverables		16,405	23,124	33,079
Financial guarantee received		37,147	75,702	65,961
Amount due from related parties	(b)	21,012	19,331	8,894
Amount due from third parties	(c)	19,077	24,051	251,875
Others		10,448	6,480	37,312
		421,246	424,666	1,307,190

Notes:

(a) As at 31 December 2007, prepayment for long-lived assets totalling RMB 365,966,000 includes prepayments for construction of plant and equipment of RMB 180,481,000, prepayment of RMB 93,688,000 to China Northeastern Building Materials Consulting Limited ("Northeastern Consulting") in connection with a consultancy service agreement, RMB 49,797,000 prepaid for acquisition of land use rights, and RMB 42,000,000 prepaid for acquisition of mining rights. In December 2007, Pioneer Cement entered into a service agreement with Northeastern Consulting (the "Service Agreement") for HKD 150,000,000. Under the Service Agreement, Northeastern Consulting will provide the Group with various services from 1 January 2008 to 31 December 2019. As at 31 December 2007, HKD 100,000,000 (approximately RMB 93,688,000) has been paid. The balance is expected to be paid before 30 September 2008. The prepayment will be transferred to other long-term assets upon the commencement of the Service Agreement in 2008 and will be amortised over the effective period of various services as stated in the Service Agreement.

(b) Amount due from related parties mainly represents receivables from sales of clinker and raw materials, loans to related parties and uncollected rental fees. The receivables are unsecured, interest free and recoverable on demand during the Relevant Period. As at 31 December 2007, amount due from related parties totalling RMB 8,894,000 includes receivables arising from sales of clinker and raw materials of RMB 5,202,000, a related-party loan of RMB 3,000,000 and uncollected rental fee of RMB 692,000. The related-party loan was fully repaid by the borrower in February 2008. Further details are set out in Note 30(c).

(c) The balance as at 31 December 2007 mainly represents amounts due from third parties of Qianshan Cement and Kangda Cement.

The trade and other receivables are expected to be recovered within one year. The Group's credit policy is set out in Note 28(a).

An aging analysis of trade receivables of the Group is as follows:

	At 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Within 3 months	85,487	47,722	93,497
Over 3 months but less than 6 months	6,353	8,909	5,168
Over 6 months but less than 12 months	9,707	5,680	8,729
Over 12 months	20,087	22,623	9,068
	121,634	84,934	116,462
Less: Allowances for bad and doubtful accounts	(5,153)	(12,471)	(7,069)
	116,481	72,463	109,393

The movement in the allowance for bad and doubtful accounts during the Relevant Period is as follows:

	2005	2006	2007
	RMB'000	RMB'000	RMB'000
At 1 January	3,036	5,153	12,471
Impairment loss recognised	2,369	7,498	1,203
Uncollectible amounts written off	(252)	(180)	(6,605)
At 31 December	5,153	12,471	7,069

As at 31 December 2005, 2006 and 2007, the Group's trade receivables of RMB 30,653,000, RMB 29,482,000 and RMB 28,696,000 were individually determined to be impaired. The individually impaired receivables were mainly related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, the amounts of provision for impairment on such receivables were RMB 5,153,000, RMB 12,471,000 and RMB 7,069,000 respectively. The Group does not hold any collateral over these balances.

An aging analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	At 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	84,458	41,366	73,033
Past due but not impaired			
Less than 3 months past due	3,119	7,346	12,443
3 to 6 months past due	3,404	5,692	1,903
Over 6 months past due	—	1,048	387
	90,981	55,452	87,766

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 independent customers that have a good credit track record with the Group. Based on past experience, the Group 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.

18 Pledged bank deposits

Bank deposits of RMB 15,000,000, RMB 470,000 and RMB 7,737,000 as at 31 December 2005, 2006 and 2007 respectively were pledged to banks as security for certain of the Group's banking facilities in relation to bills payable (see Note 26). The pledged bank deposits will be released upon the expiry of the relevant banking facilities.

19 Cash and cash equivalents

	At 31 December		
	2005	**2006**	**2007**
	RMB'000	**RMB'000**	**RMB'000**
Cash at bank and in hand	487,288	323,514	721,265
Pledged bank deposits (Note 18)	15,000	470	7,737
	502,288	323,984	729,002
Less: Pledged bank deposits	(15,000)	(470)	(7,737)
Cash and cash equivalents	487,288	323,514	721,265

The Group's exposure to interest rate risk and currency risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 28.

20 Share capital

For the purpose of this report, share capital as at 31 December 2005 represents the share capital of China Shanshui (Hong Kong), which is the effective holding company of the companies comprising the Group as at 31 December 2005. The issue of new shares in 2005 represents the issue of shares of China Shanshui (Hong Kong). The share capital of 2006 represents the aggregate of the share capital of China Shanshui (Hong Kong) and the Company, which was incorporated in 2006. The issue of new share in 2006 represents one share issued by the Company at USD 0.01.

After the Share Swap with China Shanshui (Hong Kong) (see Section B Note 3(b)) in 2007, the Company became the holding company of the Group. Share capital as at 31 December 2007 represents the share capital of the Company. The issue of new shares represents the issue of shares of the Company in 2007.

21 Reserves

(a) Share premium

For the purpose of this report, share premium as at 31 December 2005 and 2006 represents the share premium of China Shanshui (Hong Kong).

Share premium as at 31 December 2007 represents the share premium of the Company.

(b) 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.

(c) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 1(d).

(d) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies set out in Notes 1(e) and 1(n).

(e) Other reserves

Other reserves include:

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

(ii) the differences of consideration over the net assets of minority interests acquired by Shandong Shanshui in 2005;

(iii) 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 China Shanshui (Hong Kong) on the Share Swap; and

(iv) the equity portion of the convertible notes issued by the Company in 2007 as disclosed in Note 22(c).

(f) Distributable reserves

As at 31 December 2007, the aggregate amounts of distributable reserves of the Company was RMB 1,762,643,000.

On the basis set out in Section A, the aggregate amounts of distributable reserves as at 31 December 2005, 2006 and 2007 of the companies comprising the Group were RMB 279,592,000, RMB 447,841,000 and RMB 1,979,795,000 respectively.

22 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk and maturities, please refer to Note 28.

(a) The Group's long-term loans and borrowings comprise:

		At 31 December		
	Note	2005	2006	2007
		RMB'000	RMB'000	RMB'000
Bank loans				
— Secured	(i)	704,000	1,082,800	2,018,620
Loans from equity holders				
— Secured	(ii)	—	391,118	365,230
Loan from govenment				
— Unsecured	(iii)	—	—	10,000
		704,000	1,473,918	2,393,850
Less: Current portion of long-term loans				
Secured bank loans	(i)	(224,000)	(58,000)	(535,920)
Secured equity holders loans	(ii)	—	—	(56,189)
		480,000	1,415,918	1,801,741
Representing:				
Bank loans		480,000	1,024,800	1,482,700
Government loan		—	—	10,000
Equity holders loans		—	391,118	309,041
		480,000	1,415,918	1,801,741

(b) The Group's short-term loans and borrowings comprise:

		At 31 December		
		2005	2006	2007
		RMB'000	RMB'000	RMB'000
Bank loans				
— Secured	(iv)	1,617,000	1,038,000	1,612,268
Loan from Management Shareholders				
— Unsecured	(v)	70,562	59,069	—
Loan from third parties				
— Secured	(vi)	—	—	289,500
Current portion of long-term loans				
— Secured		224,000	58,000	592,109
		1,911,562	1,155,069	2,493,877
Representing:				
Bank loans		1,841,000	1,096,000	2,148,188
Equity holders loans		70,562	59,069	56,189
Third parties loans		—	—	289,500
		1,911,562	1,155,069	2,493,877

Notes:

(i) Non-current secured bank loans with amount of RMB 100,000,000, RMB 44,500,000 and RMB 44,500,000 as at 31 December 2005, 2006 and 2007 respectively, were secured by Jinan Shanshui as disclosed in Note 30. Loans of RMB 144,000,000, RMB 520,000,000 and RMB 804,000,000 as at 31 December 2005, 2006 and 2007 respectively, were guaranteed by third party. Other balances were either pledged by certain items of property, plant and equipment and land use rights as disclosed in Notes 10 and 11, pledged by equity interests of certain subsidiary of the Group as disclosed in Note 27(b), or guaranteed by companies within the Group.

(ii) Anqiu Shanshui and Pingyin Shanshui entered into loan agreements with one of the Company's equity holders, International Finance Corporation totalling USD 50,000,000 in 2006.

The loans bear interest at London Inter Bank Offered Rate ("LIBOR") plus 2% per annum and are repayable bi-annually from 2008 to 2014. These loans are secured by certain fixed assets of the subsidiaries.

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

(iv) RMB 222,000,000 of the Group's short-term bank loans was guaranteed by Jinan Shanshui as at 31 December 2005 (see Note 30). Bank loan of RMB 495,000,000, RMB 365,000,000 and RMB 540,000,000 respectively, as at 31 December 2005, 2006 and 2007 were guaranteed by third parties (see Note 28(a)), the remaining current secured bank loans as at 31 December 2005, 2006 and 2007 were pledged by certain items of property, plant and equipment and land use rights as disclosed in Notes 10 and 11, or guaranteed by companies within the Group.

Current secured bank loans carried annual variable interest rates ranging from 5.22% to 6.14%, 5.58% to 6.44%, and 6.12% to 8.48% for the years ended 31 December 2005, 2006 and 2007 respectively.

(v) The Management Shareholders loan represents the amount lent by Mr. Zhang Caikui and eight individual investors. It was interest-free and the loan was fully repaid in 2007.

(vi) Except for unsecured interest-free loans of RMB 30,500,000, current unsecured third parties loans carried interest at annual rates ranging from 6.45% to 8.748% as at 31 December 2007.

The balance represents loans due to predecessor equity holders of the newly acquired subsidiaries including Yantai Shanshui and Zaozhuang Shanshui, which were pledged by equity interest of Yantai Shanshui and Zaozhuang Shanshui respectively as disclosed in Note 27(b) and 27(c). The Group has entered into agreements with respective predecessor investors of those subsidiaries to settle the balance in 2008.

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

The balance sheet ratio of certain subsidiaries exceeded the limit set in the covenant of certain loan agreements, with a relevant outstanding balance of interest-bearing loans totalling RMB 488,000,000 as at 31 December 2007. As at the date of this report, the Group has obtained confirmation from certain banks in respect of disregarding the breach of bank loans with an amount of RMB 215,000,000.

Qianshan Cement was acquired by the Group on 28 December 2007. As at 31 December 2007, Qianshan Cement had past due short-term bank loans totalling RMB 283,188,000. The Group is working with these lenders to restructure the outstanding loans and interest payments.

The Group's exposure to liquidity risk and currency risk is set out in Note 28.

(c) Convertible notes

	Liability portion	Equity portion	Total
	RMB'000	RMB'000	RMB'000
Proceeds from issue of convertible notes at 21 September 2007	85,171	64,929	150,100
Transaction costs	(205)	(155)	(360)
Net proceeds	84,966	64,774	149,740
Interest charged	2,856	—	2,856
Foreign exchange gain	(2,364)	—	(2,364)
At 31 December 2007	85,458	64,774	150,232

On 30 November 2005, China Shanshui (Hong Kong) signed a convertible notes purchase agreement with the minority equity holders which agreed to issue convertible notes amounting to USD 20,000,000 to the minority equity holders (the "notes holders"). The convertible notes were issued by the Company on 21 September 2007 with zero coupon rate.

According to the terms of the convertible notes, the notes holders may elect to require the Company to redeem in whole or in part the convertible notes at a price equal to the outstanding principal amount at any time after 2 July 2011. The convertible notes are convertible into a total of 191,607 of the Company's ordinary shares of USD 0.01 each at a conversion price of USD 104.4 per share six months after the completion of an initial public offering. If the Company declares any dividends or distribution on its shares before the notes holders elect to exercise the conversion rights, the notes holders are entitled to receive payments equal to the dividend payable for each share multiplied by the total number of shares issuable upon exercise of the conversion rights.

23 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 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 local government authorities are responsible for the entire pension obligations payable to retired employees.

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

(b) Staff compensation and termination provision

		At 31 December		
	Note	2005	2006	2007
		RMB'000	RMB'000	RMB'000
For staff of				
— Shandong Shanshui	(i)	140,113	137,444	137,019
— Weifang Shanshui	(ii)	46,648	46,338	44,749
— Qianshan Cement	(iii)	—	—	28,162
Amount payable (see Note 26)		186,761	183,782	209,930

Notes:

(i) In accordance with a contractual agreement with Jinan Shanshui dated 10 March 2005, the Group committed to the termination compensation of RMB 146,054,000 to 3,581 employees as part of the restructuring plan of Jinan Shanshui. Following the agreement, the Group recognised a provision of RMB 146,054,000 for expected compensation costs. Estimated costs and the settlement schedule were based on the terms of the Jinan Shanshui restructuring plan agreed with the Jinan Municipal Government in 2004.

(ii) In connection with the acquisition of Weifang Shanshui on 29 December 2003 and pursuant to Wei Cai Guo Gu [2003] No. 44 issued by the local finance bureau, the Group is responsible for the related compensation and termination obligation of RMB 47,229,000.

(iii) Pursuant to the Capital Injection Agreement entered into with Jiang Ming (姜明) and Wang Yinlong (王蔭龍), the Group shall be responsible for the staff compensation and termination costs resulting from the restructuring of Xiaotun Cement Plant, the predecessor of Qianshan Cement. Details of this acquisition are set out in Note 27(d).

(c) Defined benefit plans

	At 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
For staff of			
— Shandong Shanshui	75,457	71,089	65,292
— Weifang Shanshui	6,551	5,985	5,575
— Qianshan Cement	—	—	24,442
— Gongyuan Cement	—	—	88,590
Recognised liability for defined benefit plans	82,008	77,074	183,899

Net liabilities recognised in the consolidated balance sheet represent:

	At 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Present value of the obligations	91,908	86,894	185,589
Unrecognised actuarial losses	(9,900)	(9,820)	(1,690)
Recognised liability for defined benefit plans	82,008	77,074	183,899

The balance represents the provision for the post employment benefits according to the non-cancellable staff relocation plans agreed in respect of Jinan Shanshui, Weifang Shanshui, Qianshan Cement (excluding the compensation stated in Note 23(b)) and Gongyuan Cement. The Group's obligations in respect of the defined benefit plans at the balance sheet date were reviewed by an independent actuary, Towers, Perrin, Forster & Crosby, Inc., Hong Kong, which is a member of the Society of Actuaries of the United States of America, using the projected unit credit actuarial cost method.

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

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

	2005	2006	2007
	RMB'000	RMB'000	RMB'000
At 1 January	84,560	82,008	77,074
Payments	(6,182)	(7,824)	(8,997)
Interest expense	3,630	2,810	2,650
Actuarial loss recognised in consolidated income statement	—	80	140
Additions through business combinations (Note 27)	—	—	113,032
At 31 December	82,008	77,074	183,899

Expenses recognised in the consolidated income statement are as follows:

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Interest expense	3,630	2,810	2,650
Actuarial loss	—	80	140
	3,630	2,890	2,790

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

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Finance expenses	3,630	2,810	2,650
Administrative expenses	—	80	140
	3,630	2,890	2,790

Principal actuarial assumptions at each balance sheet date:

	At 31 December		
	2005	2006	2007
Discount rate	3.25%	3.25%	4.50%
Annual growth rate of living expenditure	4%-8%	4%-8%	4%-8%
Reimbursement of employee dependants	5.00%	5.00%	5.00%
Average expected future lifetime of eligible employees	8 years	8 years	12 years

24 Deferred income

	2005	2006	2007
	RMB'000	RMB'000	RMB'000
At 1 January	1,852	9,881	24,280
Additions	9,378	15,628	16,794
Recognised in consolidated income statement	(1,349)	(1,229)	(1,188)
At 31 December	9,881	24,280	39,886

Deferred income mainly represents the PRC local government grants received from the Jinan Finance Bureau, Municipal People's Government of Binzhou, Weifang Finance Bureau and Municipal People's Government of Juye for fixed asset investment, such as cement and clinker plants and residual heat generation plants. Land use rights and limestone mining rights valued at RMB 9,378,000 and RMB 321,750 were received for the years ended 31 December 2005 and 2006 respectively. The subsidies are recognised in the consolidated income statement over the estimated useful lives of the respective assets. There are no unfulfilled conditions and contingencies relating to the grants.

25 Long-term payables

	At 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Acquisition consideration payable (Note)	—	—	405,902
Others	—	—	8,842
	—	—	414,744

Note:

This balance represents the consideration payable for the acquisition of Continental Cement. The nominal value of consideration is RMB 584,162,000 and is payable over a period of five years. The amount has been discounted to present value as at 31 December 2007. Further details on this acquisition are set out in Note 27(a).

26 Trade and other payables

		At 31 December		
	Note	2005	2006	2007
		RMB'000	RMB'000	RMB'000
Trade and bills payables	(a)	883,174	499,475	835,531
Financial guarantee issued		37,147	75,702	66,460
Customer deposits and receipts in advance		113,960	129,611	233,878
Accrued payroll and welfare	(b)	106,512	106,328	157,586
Taxes payable other than income tax		28,109	34,694	70,313
Staff compensation and termination provisions (Note 23(b))		186,761	183,782	209,930
Payable to related parties (Note 30(c))		153,938	138,846	—
Payable to third parties of acquired subsidiaries	(c)	—	—	251,429
Acquisition consideration payable	(d)	—	—	354,299
Lease prepayment payable	(e)	39,932	1,287	239,148
Dividend payables		25,152	—	—
Interest rate swaps	(f)	—	—	819
Other acquisition consideration payable	(g)	7,710	—	9,252
Construction quality deposit		3,572	10,752	13,328
Water and electricity expenses		1,622	2,304	11,274
Accrued interest expenses		672	248	5,057
Other accrued expenses and payables	(h)	60,391	83,455	71,446
		1,648,652	1,266,484	2,529,750

Notes:

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

	At 31 December		
	2005	**2006**	**2007**
	RMB'000	**RMB'000**	**RMB'000**
Within 3 months	519,261	403,249	495,741
Over 3 months but less than 6 months	299,197	20,782	157,750
Over 6 months but less than 12 months	29,566	51,225	133,828
Over 12 months	35,150	24,219	48,212
	883,174	499,475	835,531

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 28.

(b) Accrued payroll and welfare represents payable to staff in respect of staff payroll, other social insurance and welfare payable, among which, RMB 62,915,000, RMB 56,736,000 and RMB 53,038,000 as at 31 December 2005, 2006 and 2007 respectively mainly represent housing fund subsidy payables to staff of Weifang Shanshui, Changle Shangshui and Shandong Cement Factory. The payables arose from acquisitions of the respective companies by Shandong Shanshui, and will be gradually paid to the staff of the respective companies.

(c) The balance represents payable to third parties of newly acquired subsidiaries, which mainly consists of accrued interest expense of RMB 64,650,000, accrued water and electricity expenses totalling RMB 21,406,000, current account with former related parties of Gongyuan Cement and Kangda Cement totalling RMB 121,926,000, and payable to a third party of Qianshan Cement of RMB 41,600,000. The balance is to be paid up in 2008.

(d) The balance as at 31 December 2007 represents acquisition consideration payable for Continental Cement of RMB 64,163,000, Yantai Shanshui of RMB 50,000,000 and Gongyuan Cement Group of RMB 240,136,000. Pursuant to the respective acquisition agreements, the balance will be paid up in 2008.

(e) The balance as at 31 December 2007 mainly represents land lease prepayment of Qianshan Cement with an amount of RMB 211,289,000. The balance was paid in January 2008.

(f) In 2007, the Group entered into three interest rate swap agreements with the Bank of China and the Agricultural Bank of China respectively. The Group conducted the swaps solely for investment purpose. As at 31 December 2007, the fair value for these interest rate swaps was an RMB 819,000 deficit in aggregate.

(g) As at 31 December 2005, other acquisition consideration payable represents consideration payable to predecessor equity holders of Weifang Shanshui, and the payable was paid up in 2006. As at 31 December 2007, other acquisition consideration payable represents consideration payable to the local government of Qianshan, which was taken over from predecessor equity holders of Qianshan Cement by the Company in 2007.

(h) Other accrued expenses and payables represent the balance of miscellaneous payables, such as accrued transportation expenses, repair and maintenance payable and rental fees.

27 Acquisitions

As a part of the Group's plan to further expand its cement business, the Group acquired the equity interests of the following entities engaged in cement business in Shandong and Liaoning provinces from independent third parties during 2007. The valuation for the property, plant and equipment, lease prepayments and intangible assets of the acquirees are performed by Jones Lang LaSalle Sallmanns Limited, which is a qualified independent valuer registered in Hong Kong. Liabilities in respect of supplementary defined benefit plans at acquisition dates were reviewed by Towers, Perrin, Forster & Crosby, Inc., as set out in Note 23(c).

During 2007, the Group acquired the following cement related businesses:

Name of company	Note	Voting right	Date of acquisition	Principal activities	Fair value of the acquirees at date of acquisition
					RMB'000
Continental Cement . .	(a)	100%	28 September 2007	Production and sales of cement, limestone, and cement products	610,652
Yantai Shanshui	(b)	100%	29 September 2007	Production and sales of cement	561,725
Zaozhuang Shanshui	(c)	100%	29 September 2007	Production and sales of cement	266,901
Qianshan Cement	(d)	73%	28 December 2007	Production and sales of cement and concrete	70,153
Gongyuan Cement Group	(e)	100%	24 December 2007	Production and sales of cement and concrete	451,957

(a) Acquisition of Continental Cement

On 19 September 2007, the Group signed an agreement to acquire the entire equity interests in Continental Cement Corporation and its three subsidiaries in Yantai for a consideration of RMB 734,163,000 (RMB 730,000,000 for the purchase of equity interest and RMB 4,163,000 for the payment of inventory taken over from predecessor equity holder). After the first instalment of USD 20,000,000 was paid on 25 September 2007, the control of Continental Cement was transferred to the Group on 28 September 2007.

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

	Note	Pre-acquisition carrying amount	Fair value adjustment	Recognised values on acquisition
		RMB'000	RMB'000	RMB'000
Property, plant and equipment, net	10	588,062	29,461	617,523
Lease prepayments	11	13,610	33,514	47,124
Deferred tax assets	15	3,456	—	3,456
Inventories		4,163	—	4,163
Trade and other receivables		113,793	—	113,793
Trade and other payables		(163,228)	—	(163,228)
Deferred tax liabilities	15	—	(12,179)	(12,179)
Net identifiable assets and liabilities		559,856	50,796	610,652
Goodwill arising on acquisition	13			2,078
Total purchase consideration (including direct acquisition cost of RMB 1,332,000)				612,730
Satisfied by:				
Cash paid				151,110
Consideration payable (Note)				461,620
Net cash outflow in respect of the acquisition				151,110

Note:

The consideration payable consists of acquisition consideration payable totalling RMB 461,220,000, of which RMB 64,163,000 is to be paid in 2008, and professional fees of RMB 400,000 which is directly attributable to this acquisition. The present value of deferred consideration is discounted using the prevailing market interest rate for a long-term loan repayable in six instalments over a five-year period. The nominal value of this deferred consideration is RMB 584,163,000 as at the date of acquisition and is denominated in RMB. The deferred consideration is pledged by all equity interests of Continental Cement Corporation and 5% equity interests of Pioneer Cement.

(b) Acquisition of Yantai Shanshui

On 29 September 2007, the Group acquired a 100% equity interest in Yantai Shanshui for a total consideration of RMB 801,000,000 (RMB 405,500,000 for the purchase of equity interest and RMB 395,500,000 for payment of predecessor equity holders' loan to Yantai Shanshui).

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

	Note	Pre-acquisition carrying amount	Fair value adjustment	Recognised values on acquisition
		RMB'000	RMB'000	RMB'000
Property, plant and equipment, net	10	680,442	13,049	693,491
Lease prepayments	11	15,308	33,287	48,595
Intangible assets	12	26,531	46,228	72,759
Deferred tax assets	15	4,994	—	4,994
Inventories		49,193	—	49,193
Trade and other receivables		41,174	—	41,174
Cash and cash equivalents		15,456	—	15,456
Bank loans		(238,684)	—	(238,684)
Trade and other payables		(101,433)	—	(101,433)
Deferred tax liabilities	15	(501)	(23,319)	(23,820)
Net identifiable assets and liabilities		492,480	69,245	561,725
Goodwill arising on acquisition	13			240,075
Total purchase consideration (including direct acquisition cost of RMB 800,000)				801,800
Satisfied by:				
Cash paid				475,700
Consideration payable (Note)				326,100
Less: Cash acquired				(15,456)
Net cash outflow in respect of the acquisition				460,244

Note:

The consideration payable is to be settled before 29 September 2008. The amount consists of RMB 275,500,000 in respect of loans and borrowings, RMB 50,000,000 acquisition considerations payable and RMB 600,000 professional fee payable which is directly attributable to this acquisition. The consideration payable is pledged by all equity interests of Yantai Shanshui.

(c) Acquisition of Zaozhuang Shanshui

On 29 September 2007, the Group obtained the entire equity interests of Zaozhuang Shanshui for a total consideration of RMB 331,320,000 (RMB 78,820,000 for the purchase of equity interest and RMB 252,500,000 for payment of predecessor equity holders' loan to Zaozhuang Shanshui).

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

	Note	Pre-acquisition carrying amount	Fair value adjustment	Recognised values on acquisition
		RMB'000	RMB'000	RMB'000
Property, plant and equipment, net	10	298,102	5,619	303,721
Lease prepayments	11	12,763	6,339	19,102
Intangible assets	12	—	7,433	7,433
Deferred tax assets	15	8,802	—	8,802
Inventories		11,568	—	11,568
Trade and other receivables		7,168	—	7,168
Cash and cash equivalents		1,920	—	1,920
Trade and other payables		(87,701)	—	(87,701)
Deferred tax liabilities	15	(223)	(4,889)	(5,112)
Net identifiable assets and liabilities		252,399	14,502	266,901
Goodwill arising on acquisition	13			65,169
Total purchase consideration (including direct acquisition cost of RMB 750,000)				332,070
Satisfied by:				
Cash paid				227,520
Consideration payable (Note)				104,550
Less: Cash acquired				(1,920)
Net cash outflow in respect of the acquisition				225,600

Note:

The consideration payable represents the predecessor equity holders' loan of RMB 104,000,000 and professional fees payable of RMB 550,000 which is directly attributable to this acquisition. The consideration payable is pledged by all equity interests of Zaozhuang Shanshui.

(d) Acquisition of Qianshan Cement

On 28 December 2007, the Group obtained a 73% equity interest in Qianshan Cement by additional capital injection of RMB 150,000,000. Pursuant to the Capital Increase Agreement dated 31 August 2007, the Group shall pay RMB 150,000,000 in three instalments over a two year period. After the payment of first instalment of RMB 15,000,000, the Group is entitled to the rights and obligations and share dividends on 73% equity interests in Qianshan Cement.

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

	Note	Pre-acquisition carrying amount	Fair value adjustment	Recognised values on acquisition
		RMB'000	RMB'000	RMB'000
Property, plant and equipment, net	10	308,450	(1,021)	307,429
Lease prepayments	11	211,289	—	211,289
Intangible assets	12	26,473	26,215	52,688
Deferred tax assets	15	18,750	—	18,750
Inventories		36,707	—	36,707
Trade and other receivables		344,312	—	344,312
Cash and cash equivalents		3,479	—	3,479
Bank loans		(283,188)	—	(283,188)
Trade and other payables		(459,006)	—	(459,006)
Tax payable		(346)	—	(346)
Employee benefits		(52,604)	—	(52,604)
Long-term payables		(102,141)	—	(102,141)
Deferred tax liabilities	15	(917)	(6,299)	(7,216)
Net identifiable assets and liabilities		51,258	18,895	70,153
Minority interests arising on business combination				(18,941)
Goodwill arising on acquisition	13			99,568
Total purchase consideration (including direct acquisition cost of RMB 780,000)				150,780
Satisfied by:				
Cash paid				15,150
Consideration payable (Note)				135,630
Less: Cash acquired				(3,479)
Net cash outflow in respect of the acquisition				11,671

Note:

The consideration payable represents the remaining amount of capital injection of RMB 135,000,000 and professional fees payable of RMB 630,000 which is directly attributable to this acquisition.

(e) Acquisition of Gongyuan Cement Group

On 24 December 2007, Shandong Shanshui obtained the entire equity interests of Gongyuan Cement Group for RMB 543,465,998. Gongyuan Cement Group is primarily engaged in production and sales of cement in Liaoning province and Inner Mongolia Autonomous Region.

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

	Note	Pre-acquisition carrying amount	Fair value adjustment	Recognised values on acquisition
		RMB'000	RMB'000	RMB'000
Property, plant and equipment, net	10	380,932	114,290	495,222
Lease prepayments	11	180,531	215,149	395,680
Intangible assets	12	40,475	91,444	131,919
Deferred tax assets	15	573	—	573
Inventories		61,349	—	61,349
Trade and other receivables		64,987	—	64,987
Cash and cash equivalents		63,293	—	63,293
Bank loans		(381,000)	—	(381,000)
Long-term payables		(8,842)	—	(8,842)
Employee benefits		(88,590)	—	(88,590)
Trade and other payables		(172,520)	—	(172,520)
Tax payable		(4,893)	—	(4,893)
Deferred tax liabilities	15	—	(105,221)	(105,221)
Net identifiable assets and liabilities		136,295	315,662	451,957
Goodwill arising on acquisition	13			93,856
Total purchase consideration (including direct acquisition cost of RMB 2,347,000)				545,813
Satisfied by:				
Cash paid				304,977
Consideration payable (Note)				240,836
Less: Cash acquired				(63,293)
Net cash outflow in respect of the acquisition				241,684

Note:

The consideration payable represents acquisition consideration payable of RMB 240,136,000 and professional fees of RMB 700,000 which is directly attributable to this acquisition. The consideration payable is to be settled in 2008.

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately before the above acquisitions. The values of assets, liabilities, and contingent liabilities recognised on these acquisitions are their estimated fair values.

The goodwill recognised on above acquisitions is attributable mainly to the synergies expected to be achieved from integrating acquired subsidiaries into the Group's existing cement business (Note 13).

The aggregate revenue and net profit of the Group as though the acquisitions had been completed at the beginning of 2007 are RMB 5,815,656,000 and RMB 66,659,000 respectively.

These acquired subsidiaries contributed aggregate revenue of RMB 293,717,462 and aggregate losses of RMB 215,090 to the Group after acquisitions for the year ended 31 December 2007.

28 Financial instruments

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout the Financial Information.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The management is responsible for developing and monitoring the Group's risk management policies and reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customer and financial guarantee issued.

Trade and other receivables

The Group typically requires full payment upon delivery of goods for sales of cement, clinkers and bubble bricks. Credit sales with general credit period of 30 days are occasionally allowed to certain selected customers with good credit histories. Settlement with bank acceptance notes with maturity within three to six months is also acceptable.

For sales of pipes, the Group allows a credit period ranging from 90 days to 180 days.

Guarantees

The Group provided financial guarantees to its subsidiaries and other third parties who entered into reciprocal financial guarantee contracts with the Group.

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

The Group took over the guarantee to Benxi Economic Development Zone Jinze Materials Co., Ltd ("Benxi Jinze") for RMB 45,000,000 and the Group received a guarantee from Liaoning Chengde Trading Co., Ltd. for RMB 33,000,000 upon acquisition of Gongyuan Cement Group. The guarantees received and issued shall expire in 2008. The Group is not expected to renew the guarantee arrangement after the expiration date.

Exposure to credit risks

The maximum exposure to credit risk without taking into account of any collateral held is by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. Except for the financial guarantees given by the Group as set out in Note 26, the Group does not provide any other guarantees which would expose the Group to credit risk.

The quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables is set out in Note 17.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Individual operating entities within the Group are responsible for executing their own cash management, including the raising of loans to cover expected cash demand, based on the Group's policy and subject to approval by the Group when exceeding certain predetermined levels of authority.

The Group had net current liabilities of RMB 2,270,715,000, RMB 1,275,213,000 and RMB 2,476,878,000 as at 31 December 2005, 2006 and 2007, respectively. The Group had net cash inflow generated from operating activities amounted to RMB 21,967,000, RMB 328,305,000 and RMB 323,898,000 during the years ended 31 December 2005, 2006 and 2007, respectively. As at the date of this report, the unutilised banking facility granted to the Group amounted to RMB3,400,000,000.

The directors of the Company have carried out a detailed review of the cash flow forecast for the 18-month period ending 30 June 2009. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during the period. The directors are of the opinion that the assumptions which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreement.

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	more than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2005							
Non-derivative financial liabilities							
Secured bank loans (Note 22)	2,321,000	2,455,139	1,299,349	611,123	155,642	389,025	—
Management Shareholders' loan (Note 22(b))	70,562	70,562	70,562	—	—	—	—
Trade and other payables (Note 26)	1,497,545	1,497,545	1,497,545	—	—	—	—
	3,889,107	4,023,246	2,867,456	611,123	155,642	389,025	—
31 December 2006							
Non-derivative financial liabilities							
Secured bank loans (Note 22)	2,120,800	2,323,958	956,988	229,694	403,985	709,157	24,134
Equity holders' loans (Note 22(a))	391,118	517,193	14,196	14,196	87,352	235,130	166,319
Management Shareholders' loan (Note 22(b))	59,069	59,069	59,069	—	—	—	—
Trade and other payables (Note 26)	1,061,171	1,061,171	1,061,171	—	—	—	—
	3,632,158	3,961,391	2,091,424	243,890	491,337	944,287	190,453
31 December 2007							
Non-derivative financial liabilities							
Secured bank loans (Note 22)	3,630,888	3,852,000	1,382,687	898,061	1,028,159	543,093	—
Equity holders' loans (Note 22(a))	365,230	457,688	41,255	40,580	77,449	208,050	90,354
Unsecured government loan (Note 22(a))	10,000	13,996	219	225	444	3,110	9,998
Secured third party loans (Note 22(b))	289,500	295,269	247,661	47,608	—	—	—
Convertible notes (Note 22(c))	85,458	146,092	—	—	—	146,092	—
Trade and other payables (Note 26)	2,228,593	2,228,593	2,228,593	—	—	—	—
Long-term payables (Note 25)	414,744	531,200	—	—	63,000	468,200	—
Derivative financial liabilities							
Interest rate swaps (Note 26(f))	819	819	819	—	—	—	—
	7,025,232	7,525,657	3,901,234	986,474	1,169,052	1,368,545	100,352

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on sales and borrowings that are denominated in a currency other than the respective functional currencies of group entities, primarily the RMB and USD. The currencies in which these transactions primarily are denominated are RMB, HKD and USD.

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	At 31 December								
	2005			2006			2007		
	RMB	HKD	USD	RMB	HKD	USD	RMB	HKD	USD
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	—	5	—	—	5	452	—	46,835	538
Secured equity holders' loans	—	—	—	—	—	(391,118)	—	—	(365,230)
Trade and other payables	—	—	—	—	—	—	(465,901)	—	—
Net exposure	—	5	—	—	5	(390,666)	(465,901)	46,835	(364,692)

The following are the significant exchange rates applied during the Relevant Period:

	Average rate			Reporting date spot rate		
	2005	2006	2007	2005	2006	2007
USD	8.1826	7.9602	7.5869	8.0702	7.8087	7.3046
HKD	1.0520	1.0247	0.9727	1.0403	1.0047	0.9364

A 10% strengthening of the RMB against the following currencies as at 31 December 2005, 2006 and 2007 would have increased/(decreased) the profit by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis during the Relevant Period.

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
HKD	—	(1)	(4,683)
USD	—	39,067	(10,121)
Total	—	39,066	(14,804)

Interest rate risk

Cash and cash equivalents, pledged bank deposits and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk.

The Group does not anticipate significant impact to cash and cash equivalents and the pledged bank deposits because the interest rates of bank deposits are not expected to change significantly.

The Group's majority interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to the cash flow interest-rate risk. Borrowing obtained at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk.

A change of 10% in interest rates as at 31 December 2005, 2006 and 2007 would have increased or decreased the profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Year ended 31 December					
	2005		2006		2007	
	10% increase RMB'000	10% decrease RMB'000	10% increase RMB'000	10% decrease RMB'000	10% increase RMB'000	10% decrease RMB'000
Variable rate instruments	(6,289)	6,289	(10,665)	10,665	(15,562)	15,562
Interest rate swaps	—	—	—	—	13	(13)
Cash flow sensitivity	(6,289)	6,289	(10,665)	10,665	(15,549)	15,549

Commodity price risk

The major raw material used in the production of the Group's products is coal. The Group is exposed to fluctuations in the price of coal which are influenced by regional supply and demand conditions. Fluctuations in the price of coal could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(d) Fair value

Fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

		At 31 December					
		2005		2006		2007	
	Note	Carrying Amount	Fair value	Carrying Amount	Fair value	Carrying Amount	Fair value
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other investments		9,713	9,713	12,776	12,776	18,323	18,323
Loans receivables		10,000	10,000	—	—	—	—
Advances due from related parties	(i)	21,012	—	19,331	—	8,894	—
Trade and other receivables	(ii)	390,234	390,234	405,335	405,335	1,298,296	1,298,296
Pledged bank deposit		15,000	15,000	470	470	7,737	7,737
Cash and cash equivalents		487,288	487,288	323,514	323,514	721,265	721,265
Secured bank loans		(2,321,000)	(2,321,000)	(2,120,800)	(2,121,257)	(3,630,888)	(3,630,134)
Loans from third parties		—	—	—	—	(289,500)	(289,500)
Loans from government		—	—	—	—	(10,000)	(10,000)
Loans from equity holders		—	—	(391,118)	(391,118)	(365,230)	(365,230)
Loans from Management Shareholders	(i)	(70,562)	—	(59,069)	—	—	—
Convertible notes-liability portion		—	—	—	—	(85,458)	(85,458)
Long-term payables		—	—	—	—	(414,744)	(414,744)
Interest rate swaps		—	—	—	—	(819)	(819)
Advances due to related parties	(i)	(153,938)	—	(138,846)	—	—	—
Trade and other payables	(iii)	(1,494,714)	(1,494,714)	(1,127,638)	(1,127,638)	(2,528,931)	(2,528,931)

Notes:

(i) Advance due to/from related parties and loans from Management Shareholders are interest-free, unsecured and with no repayment terms. As a result, no fair value is disclosed;

(ii) Trade and other receivables for this note exclude loans receivable and advances due from other related parties (shown separately);

(iii) Trade and other payables for this note exclude interest rate swaps and advances due to related parties (shown separately).

The basis for determining fair value is disclosed in Note 1(x). The interest rates used to discount estimated cash flows, where applicable, are as follows:

	At 31 December		
	2005	2006	2007
Interest rate swaps	—	—	3.85%-4.73%
Bank loans	—	6.48%	7.56%-7.83%
Convertible notes	—	—	12%
Long-term payables	—	—	7.74%

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders 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 equity holders return that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

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

The gearing ratios as at 31 December 2005, 2006 and 2007 are as follows:

	At 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Loans and borrowings	2,321,000	2,120,800	3,930,388
Loans from equity holders	70,562	450,187	365,230
Convertible notes	—	—	85,458
Less: Cash and cash equivalents	(487,288)	(323,514)	(721,265)
Net debt	1,904,274	2,247,473	3,659,811
Equity attributable to equity holders of the Company	287,313	491,625	2,531,493
Total capital	2,191,587	2,739,098	6,191,304
Gearing ratio	86.9%	82.1%	59.1%

29 Commitments and contingent liabilities

(a) Capital commitments

As at 31 December 2005, 2006 and 2007, the Group had entered into construction contracts of plants as well as contracts to purchase equipment as follows:

	At 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Authorised and contracted for	35,035	184,136	462,456
Authorised but not contracted for	24,017	501,392	—
	59,052	685,528	462,456

(b) Operating lease commitments

The Group leases a number of pieces of land and ports 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. As at 31 December 2005, 2006 and 2007 non-cancellable operating lease rentals were payable as follows:

	At 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Within 1 year	16,293	15,523	16,348
After 1 year but within 2 years	16,203	16,332	15,547
After 2 years but within 5 years	47,386	46,595	46,115
After 5 years	194,912	179,371	165,071
	274,794	257,821	243,081

(c) Financial guarantees issued

As at 31 December 2005, 2006 and 2007, the Group provided guarantees to Shandong Gold in respect of banking facilities and as at 31 December 2007, the Group also provided guarantee to Benxi Jinze, which was taken over upon acquisition of Gongyuan Cement Group.

As at 31 December 2007, the directors of the Company did not consider it is probable that a claim would be made against the Group under any of the guarantees. The maximum exposure relating to financial guarantees issued by the Group as at 31 December 2005, 2006 and 2007 was RMB 305,000,000, RMB 765,000,000 and RMB 1,470,000,000 respectively.

(d) Environmental contingencies

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

(e) Legal contingencies

From time to time, the Group is involved in claims, actions and legal proceedings, as plaintiff or defendant, arising in the ordinary course of the business. As at 31 December 2007, the Group was the defendant in certain pending litigations and disputes with gross claims of RMB 3,900,000. Provision has been made for the estimated losses of these litigations based upon the opinions of the Group's internal and external legal counsel. The Group considers that the provisions made are reasonable and adequate.

30 Related party transactions

(a) During the Relevant Period, transactions with the following parties are considered as related party transaction.

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

(All above collectively the "Management Shareholders")

Name of party	Relationship
China Shanshui Investment Company Limited ("China Shanshui Investment")	Ultimate holding company
MS Cement Limited ("MS Cement")	Equity holder of the Company
MS Cement II Limited ("MS Cement II")	Equity holder of the Company
CDH Cement Limited ("CDH Cement")	Equity holder of the Company
International Finance Corporation ("IFC")	Equity holder of the Company
Jinan Shanshui Group Co, Ltd. ("Jinan Shanshui") 濟南山水集團有限公司	Fellow subsidiary under common ultimate control
Jinan Shanshui Lixin Investment Development Co., Ltd. ("Shanshui Lixin") 濟南山水立新投資發展有限公司	Fellow subsidiary under common ultimate control
Jinan Shanshui Jianxin Investment Development Co., Ltd. ("Shanshui Jianxin") 濟南山水建新投資發展有限公司	Fellow subsidiary under common ultimate control
Tianjin Tianhui Cement Co., Ltd. ("Tianjin Tianhui") 天津市天輝水泥有限公司	Fellow subsidiary under common ultimate control
Shanshui Stanford New Building Materials Co., Ltd. ("Stanford") 濟南山水史坦富新型建材有限公司	Fellow subsidiary under common ultimate control
Shanshui Jinzhu Powder Co., Ltd. ("Jinzhu Powder") 山東金珠粉末注射製造有限公司	Fellow subsidiary under common ultimate control
Dongyue Packaging Co., Ltd. ("Dongyue") 濟南東岳塑編包裝有限公司	Fellow subsidiary under common ultimate control
Jinan Cement Product Factory ("Jinan Cement Product") 濟南水泥製品廠	Fellow subsidiary under common ultimate control
Jinan Cement Factory ("Jinan Cement") 濟南水泥廠	Fellow subsidiary under common ultimate control
Jinan Huanghai Cement Co., Ltd. ("Jinan Huanghai") 濟南黃海水泥有限公司	Fellow subsidiary under common ultimate control
Jinan Dongfanghong Cement Co., Ltd. ("Jinan Dongfanghong") 濟南東方紅水泥廠	Fellow subsidiary under common ultimate control
Jinan Shanshui Group Property Development Co., Ltd. ("Property Development") 濟南山水集團房地產開發有限公司	Fellow subsidiary under common ultimate control
Jinan Shanshui Commercial City Co., Ltd. ("Commercial City") 濟南山水商城有限公司	Fellow subsidiary under common ultimate control

(b) Transactions with related parties of the Group

	Note	Year ended 31 December 2005	2006	2007
		RMB'000	RMB'000	RMB'000
Recurring transactions				
Sales:	(i)			
— Tianjin Tianhui		18,221	9,192	21,606
Rental income:				
— Jinzhu Powder		135	135	135
— Stanford		559	559	559
		694	694	694
Royalty permission:	(ii)			
— Tianjin Tianhui		—	—	—
Non-recurring transactions				
Transactions with the Group treasury:	(iii)			
From:				
— Jinan Shanshui		1,862,947	61,013	—
— Tianjin Tianhui		38,754	42,707	37,810
— Jinan Cement Product		3,303	631	—
— Shanshui Lixin		262,799	181,986	—
— Shanshui Jianxin		18,523	5,103	—
— Jinan Cement		3	3	—
— Property Development		11,442	2,953	—
— Jinan Dongfanghong		1	2	—
— Jinan Huanghai		2	2	—
		2,197,774	294,400	37,810
To:				
— Jinan Shanshui		1,966,187	60,939	762
— Tianjin Tianhui		54,650	38,703	25,418
— Jinan Cement Product		3,425	626	50
— Shanshui Lixin		266,800	220,460	9,702
— Shanshui Jianxin		18,553	5,100	60
— Jinan Cement		80	—	442
— Commercial City		—	—	2
— Property Development		11,455	2,912	41
— Jinan Dongfanghong		69	—	179
— Jinan Huanghai		—	—	268
		2,321,219	328,740	36,924
Advances from:	(iii)			
— Jinan Shanshui		974,965	344,571	—
— Tianjin Tianhui		8,150	50	—
— Jinan Cement Product		2,034	289	—
— Dongyue		—	—	276
		985,149	344,910	276

	Note	Year ended 31 December 2005	2006	2007
		RMB'000	RMB'000	RMB'000
Advances to:	(iii)			
— Jinan Shanshui		882,595	321,506	115,434
— Tianjin Tianhui		8,150	—	—
— Jinan Cement Product		2,212	604	9,557
— Dongyue		10	—	2,233
		892,967	322,110	127,224
Investment disposal to:				
— Shanshui Lixin	(iv)	—	—	2,584
— Shanshui Jianxin	(iv)	—	—	456
— Jinan Shanshui		—	1,000	—
		—	1,000	3,040
Financing from:				
— Management Shareholders		162,752	—	—
— IFC		—	399,982	—
		162,752	399,982	—
Repayment of loans to:				
— Management Shareholders		92,190	11,493	59,069
Convertible notes issued to:				
— MS Cement		—	—	76,088
— MS Cement II		—	—	26,673
— CDH Cement		—	—	30,828
— IFC		—	—	16,511
		—	—	150,100
Security obtained from:				
— Jinan Shanshui	(v)	237,000	44,500	—

Notes:

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

(ii) During the Relevant Period, Tianjin Tianhui was permitted by the Group to use the Group's trademark of Shanshui Dongyue at no consideration. The Group is planning to enter into a trademark licence agreement with Tianjing Tianhui for the use of the trademark at a fixed fee charged RMB 1 per ton of cement produced by Tianjin Tianhui each year. The directors of the Company have confirmed that this agreement will come into effect prior to the listing of the Company's shares on the SEHK.

(iii) These transactions represent the deposit into/withdrawal from the Group's treasury by related parties and advances from/to related parties. The Group has ceased such transactions with those related parties since 1 January 2008.

(iv) Investment disposal by Shandong Cement Factory represents disposal of a 3.04% equity interest in Jinan Safari World Company Limited.

(v) Security obtained from Jinan Shanshui represent security or guarantees offered by Jinan Shanshui against certain bank facilities of the Group. The directors of the Company have confirmed that such security will be released before the listing of the Company's shares on the SEHK.

The directors have confirmed that the above recurring transactions will continue in the future after the listing of the Company's shares on the SEHK.

(c) Balances with related parties of the Group:

	At 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Other receivables due from:			
— Tianjin Tianhui	16,446	15,283	4,846
— Stanford	4,364	3,879	3,879
— Jinzhu Powder	202	169	169
	21,012	19,331	8,894
Other payables due to:			
— Jinan Shanshui	93,057	116,196	—
— Shanshui Lixin	48,176	9,702	—
— Shanshui Jianxin	57	60	—
— Tianjin Tianhui	—	502	—
— Jinan Cement Product	9,807	9,497	—
— Dongyue	1,957	1,957	—
— Jinan Cement	439	442	—
— Jinan Huanghai	266	268	—
— Jinan Dongfanghong	177	179	—
— Property Development	—	41	—
— Commercial City	2	2	—
	153,938	138,846	—
Loans due to:			
— Management shareholders	70,562	59,069	—
— IFC	—	391,118	365,230
	70,562	450,187	365,230
Investment in:			
— Property Development	1,000	—	—
Liability portion of convertible notes due to:			
— MS Cement	—	—	43,320
— MS Cement II	—	—	15,186
— CDH Cement	—	—	17,552
— IFC	—	—	9,400
	—	—	85,458
Outstanding bank loans secured by:			
— Jinan Shanshui	322,000	44,500	44,500

(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 6, is as follows:

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Salary, allowances and other benefits	9,429	13,143	13,157
Contributions to defined contribution retirement plans	75	100	128
	9,504	13,243	13,285

31 Accounting estimates and judgments

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 Information. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an ongoing basis, the Group evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

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

(a) Impairments

(i) Property, plant and equipment

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

(ii) Trade and other receivables

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

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

(iii) Inventories

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

(iv) Goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 1(n). The recoverable amounts of cash-generating units have been determined based on the higher of the cash-generating units' fair value less cost to sell and its value in use. These calculations require the use of estimates which are disclosed in Note 13.

(v) Impairment of customer, supplier relationship and trademarks

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

(b) Depreciation and amortisation

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

(c) Land use rights

The Group reviews the legal compliance and effectiveness of the usage of land use rights, the impact due to the change of the ownership and lease period of land use rights, and the amendment of laws and regulations of land resources.

(d) Taxation

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

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

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

(e) Actuarial determined benefit obligations

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

The Group assesses 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.

(f) Going concern basis

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

The Group is dependent upon future projections of the Group's profits and cash inflows from operations and the ability of the Group to obtain continued bank financing to finance its continuing operation 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 operations. Accordingly, management has prepared the Financial Information on a going concern basis. An adverse change in any of the above conditions would require the Financial Information to be prepared on an alternative authoritative basis and such basis, together with the fact that the Financial Information 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 Information.

32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year beginning on 1 January 2007

As at the date of this report, the International Accounting Standards Board has issued the following amendments, new standards and interpretations which are not yet effective for the accounting year beginning on 1 January 2007 and which have not been adopted in preparing the Financial Information:

	Effective for accounting period beginning on or after
IFRS 8, "Operating segments"	1 January 2009
IFRIC 11, "IFRS 2 — Group and Treasury Share Transactions"	1 March 2007
IFRIC 12, "Service concession arrangements"	1 January 2008
IFRIC 13, "Customer loyalty programmes"	1 July 2008
IFRIC 14, "IAS 19 — The limit on a defined benefit asset, minimum funding requirements and interaction"	1 January 2008
IAS 1 (revised), "Presentation of financial statements"	1 January 2009
IAS 23 (revised), "Borrowing costs"	1 January 2009
Amendments to IFRS 2, "Share-based payment-Vesting conditions and cancellations"	1 January 2009
IFRS 3 (revised), "Business combinations"	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009
IAS 27 (revised), "Consolidated and separate financial statements"	1 July 2009

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. As at the date of this report, the Group believes that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D SUBSEQUENT EVENTS

(a) Valuation of properties

For the purpose of the listing of the Company's shares on the SEHK, the Group's properties were revalued as at 30 April 2008 by Jones Lang LaSalle Sallmanns Limited, an independent appraiser. The valuation gave rise to a valuation surplus of approximately RMB837,763,000 over the carrying amount of the relevant assets at that date. Such valuation surplus will not be incorporated in the financial statements subsequently prepared for the year ending 2008. Details of the valuation are set out in Appendix IV to the Prospectus.

(b) Payment for land use rights of Qianshan Cement

On 15 January 2008, the Company paid RMB 211,289,000 to the local finance bureau to settle the payable for land use rights of Qianshan Cement as set out in Section C Note 26(e). Subsequently on 17 January 2008, the Company obtained a government subsidy from the local finance bureau for the amount of RMB 207,777,573. Pursuant to meeting minutes of the local government dated 15 January 2008, the grant was given to Qianshan Cement to encourage the Company's investment in the region and should be utilised for settlement of staff compensation payable and for use of technology development and infrastructure construction.

(c) Distribution of dividend

Pursuant to a resolution of the Board of Directors of the Company passed on 18 April 2008, the Company declared dividends of approximately USD 28,311,540 for 3,254,200 nominal shares to the then equity holders and USD 1,666,981 for 191,607 potential shares to notes holders of convertible notes at USD 8.7 per share respectively, from retained earnings for the year ended 31 December 2007. Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Several Preferential Policies in Respect of Corporate Income Tax (Caishui [2008] No.1), for a foreign holding company, dividends arsing from pre-2008 retained earnings of its PRC affiliates will not be subject to the withholding tax if it is declared after 2007. The dividends will be fully paid out to the equity holders of the Company before the listing of the Company's shares on the SEHK.

(d) Related party loan to the ultimate holding company

On 2 April 2008, Pioneer Cement signed a loan agreement with the ultimate holding company to loan the ultimate holding company USD 5,100,000. The loan is unsecured, bears interest at 2.7037% per annum and is repayable at the earlier of 2 months after the drawdown or before the listing of the Company's shares on the SEHK. The related party loan will be fully repaid by the ultimate holding company prior to the listing of the Company's shares on the SEHK.

(e) Subsequent adjustment on total consideration of Gongyuan Cement

On 25 March 2008, the Company signed a supplementary agreement with the predecessor equity holders of Gongyuan Cement, which stated that the final consideration for the acquisition of Gongyuan Cement is RMB 543,465,998. As at the date of this report, the Company has paid RMB 533,465,998 out of the total RMB 543,465,998 acquisition consideration of Gongyuan Cement. The remaining RMB 10,000,000 is expected to be paid in 2008.

(f) Litigation claim

In March 2008, the Liaoyang branch of Industrial and Commercial Bank of China ("ICBC") applied for a payment order from the Intermediary Court of Liaoyang (the "Court") for past due bank loans of Qianshan Cement for the amount of RMB 48,988,000 out of past due loans from ICBC totalling RMB 73,988,000, together with interest of RMB 28,480,000. The payment order was approved by the Court on the same date. As at 31 December 2007, the Group has recognised the past due loans of RMB 73,988,000 and accrued related interest expenses of RMB 39,000,000 accordingly. As at the date of this report, the settlement of the said past due loans is still being negotiated with the lender.

(g) Share Option Scheme

Pursuant to a resolution in writing passed by the equity holders of the Company on 14 June 2008, the Company has conditionally adopted a share option scheme (the "Share Option Scheme"), whereby the directors of the Company may, at their discretion, invite any employees and directors of the Group, any supplier or customer of the Group and consultants of and advisors to the Group (subject to eligibility requirements as set out therein) to take options which entitle them to subscribe for shares of the Company. The principal terms of the Share Option Scheme are set out in Appendix VII Section E to the Prospectus. As at the date of this report, no option has been granted by the Company under the Share Option Scheme.

(h) Post balance sheet changes in applicable tax rates

On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government announced his annual Budget which proposes a cut in the profits tax rate from 17.5% to 16.5% with effect from the fiscal year 2008-09 and a one-off reduction of 75% of the tax payable for the 2007-08 assessment subject to a ceiling of HKD25,000. In accordance with the Group's accounting policy set out in Section C Note 1(u), no adjustments have been made to the Financial Information as a result of this announcement. The directors estimate that these proposed changes will not affect the opening balances of the Group and the Company as at 1 January 2008.

E ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company as at 31 December 2007 to be China Shanshui Investment Company Limited, which is incorporated in Hong Kong, China.

F BALANCE SHEET OF THE COMPANY

The particulars of the balance sheet of the Company as at 31 December 2006 and 2007 are set out below:

	Note	At 31 December 2006	At 31 December 2007
		RMB'000	RMB'000
Non-current assets			
Investment in subsidiary	(a)	—	413,248
Current assets			
Amount due from subsidiary	(b)	—	1,864,471
Total assets		—	2,277,719
Equity			
Share capital	(d)	—	244
Share premium	(d)	—	1,765,499
Other reserves	(e)	—	477,947
Exchange reserve		—	(48,573)
Accumulated losses		—	(2,856)
Total equity		—	2,192,261
Non-current liabilities			
Convertible notes	(c)	—	85,458
Total liabilities		—	85,458
Total equity and liabilities		—	2,277,719
Net current assets		—	1,864,471

Notes:

(a) Investment in a subsidiary is stated at cost and details of the subsidiary as at 31 December 2007 are set out in Section A.

(b) Amount due from subsidiary represents receivable due from Pioneer Cement.

(c) Convertible notes were issued to minority equity holders of the Company; details are set out in Section C Note 22(c).

(d) The Company was incorporated in the Cayman Islands on 26 April 2006 and registered as an exempted company with limited liability with an authorized share capital of USD 10,000,000, comprising 1,000,000,000 ordinary shares of USD 0.01 each, of which one subscriber share was issued in 2006 and 3,254,199 shares were issued in 2007; details are set out in Section B Note 3.

(e) Other reserves represents reserves arising from the Share Swap between China Shanshui (Hong Kong) and the Company as set out in Section B Note 3(b) and equity portion of convertible notes as set out in Section C Note 22(c).

G SUBSEQUENT ACCOUNTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2007.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong