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CHINA SHANSHUI CEMENT GROUP LIMITED
中國山水水泥集團有限公司
（於開曼群島註冊成立之有限公司）
（股份代號：691）

海外監管公告

本海外監管公告乃根據香港聯合交易所有限公司（「**聯交所**」）《證券上市規則》（「**上市規則**」）第13.09(2)條而刊發。

謹此提述中國山水水泥集團有限公司（「**本公司**」）於二零一一年五月九日及二零一一年五月十九日就票據發行而刊發的公告（「**票據發行公告**」）。除另有界定外，本公告所用詞彙與票據發行公告所界定者具有相同涵義。

請參閱隨附有關票據的發售備忘錄（「**發售備忘錄**」）。發售備忘錄已於二零一一年五月二十六日在新加坡證券交易所有限公司網站刊載。

在聯交所網站刊載發售備忘錄純粹以便向香港的投資者發放同等信息，以及遵守《上市規則》第13.09(2)條的規定，此外別無其他目的。

發售備忘錄不構成向任何司法權區的公眾提呈出售任何證券的招股章程、通告、通函、宣傳冊或廣告，亦非邀請公眾提出認購或購買任何證券的要約，亦非旨在邀請公眾提出要約以認購或購買任何證券。

發售備忘錄不得被視為對認購或購買本公司任何證券的勸誘，而本公司亦無意進行有關勸誘。投資者不應依據發售備忘錄所載的資料作出投資決定。

承董事會命
中國山水水泥集團有限公司
董事長
張才奎

香港，二零一一年五月二十六日

於本公告發出之日，本公司董事會成員包括四名執行董事，即張才奎（董事長）、董承田、于玉川及張斌（副董事長兼總經理）；兩名非執行董事，即孫弘及焦樹閣；及三名獨立非執行董事，即孫建國、王燕謀及王堅。

STRICTLY CONFIDENTIAL – DO NOT FORWARD

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) UNDER RULE 144A OR (2) PERSONS OR ADDRESSEES OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the offering memorandum attached to this e-mail. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached offering memorandum. In accessing the attached offering memorandum, you agree to be bound by the following terms and conditions including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: You have accessed the attached document on the basis that you have confirmed your representation to Barclays Bank PLC, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, Singapore Branch and Standard Chartered Bank (the "**Initial Purchasers**") that (l)(i) you are not resident the United States and to the extent you purchase the securities described in the attached offering memorandum, you will be doing so pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**") OR (ii) you are acting on behalf of, or you are a qualified institutional buyer ("**QIB**"), as defined in Rule 144A under the U.S. Securities Act, AND (2) that you consent to delivery of the attached offering memorandum and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Initial Purchasers or any person who controls them or any of their directors, employees representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the issuer of the securities or to the Initial Purchasers to subscribe for or purchase any of the securities described therein and access has been limited so that it shall not constitute a general advertisement or solicitation in the United States or elsewhere. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be described to be made by the Initial Purchasers or their respective affiliates on behalf of the issuer in such jurisdiction.

You are reminded that you have accessed the attached offering memorandum on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

Actions That You May Not Take: You should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORIZED AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE ATTACHED OFFERING MEMORANDUM, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

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OFFERING MEMORANDUM **STRICTLY CONFIDENTIAL**

US$400,000,000

China Shanshui Cement Group Limited

(incorporated in the Cayman Islands with limited liability)

8.50% Senior Notes due 2016

Issue Price: 100%

plus accrued interest, if any

The Notes will bear interest at 8.50% per annum from May 25, 2011. We will pay interest on the Notes semi-annually in arrears on May 25 and November 25 of each year, starting on November 25, 2011. The Notes will mature on May 25, 2016. The Notes will be guaranteed by our subsidiaries organized outside the People's Republic of China.

We may redeem some or all of the Notes on or after May 25, 2014 at the redemption prices set forth in this offering memorandum, plus accrued and unpaid interest up to the redemption date. At any time prior to May 25, 2014, we may redeem up to 35% of the aggregate principal amount of the Notes with the proceeds of certain equity offerings, at a redemption price of 108.50% of the principal amount, plus accrued and unpaid interest up to the redemption date. At any time prior to May 25, 2014, we may redeem all of the Notes at a price equal to 100% of their principal amount plus a "make-whole" premium plus accrued and unpaid interest up to the redemption date. If we sell certain of our assets or experience certain types of changes of control, we may be required to purchase the Notes. Subject to conditions, we may redeem all of the Notes at 100% of their principal amount plus accrued and unpaid interest if at any time we or any guarantor becomes obligated to pay withholding taxes as a result of certain changes in tax law.

The Notes will rank at least equally with our other unsecured indebtedness. The Notes will be junior to our secured indebtedness as to the assets over which security is given for such other indebtedness, and effectively subordinated to all liabilities of our subsidiaries that do not guarantee the Notes.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 14.

The Notes and the guarantees have not been, and will not be, registered under the U.S. Securities Act of 1933 or the securities laws of any other place. We are offering the Notes within the United States only to qualified institutional buyers under Rule 144A and to persons outside the United States under Regulation S. We do not intend to register the Notes for an exchange offer under the Securities Act. For a description of certain restrictions on resale or transfer, see "Transfer Restrictions" beginning on page 181.

We have received approval in-principle for listing the Notes on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this offering memorandum. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of our company, the Notes, the guarantors or any other subsidiary of our company.

We expect that the Notes will be ready for delivery in book-entry form through The Depository Trust Company on or about May 25, 2011.

Joint Lead Managers and Joint Bookrunners
(in alphabetical order)

Barclays Capital **Credit Suisse** **Deutsche Bank** **Standard Chartered Bank**

The date of this offering memorandum is May 18, 2011.

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In making your investment decision, you should rely only on the information contained in this offering memorandum. Neither we nor the investment banking firms identified on the cover of this offering memorandum (the "Initial Purchasers") have authorized anyone to provide you with any other information. If you receive any unauthorized information, you must not rely on it.

We are offering to sell our Notes only in places where sales are permitted.

You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date of this offering memorandum. Our business, financial condition, results of operations and prospects may have changed since that date.

This offering memorandum is a confidential document that we are providing only to prospective buyers of our Notes. You should read this offering memorandum before deciding to buy any Notes. You must not:

- use this offering memorandum for any other purpose;
- make copies of any part of this offering memorandum or give a copy of it to any other person; or
- disclose any information in this offering memorandum to any other person.

We have prepared this offering memorandum and we are solely responsible for its contents.

You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in our Notes. You may contact us if you need any additional information. By purchasing any Notes, you acknowledge that:

- you have reviewed this offering memorandum;
- you have had an opportunity to request from us any additional information that you need from us; and

- the Initial Purchasers are not responsible for, and are not, making any representations or warranties to you concerning our future performance or the accuracy or completeness of this offering memorandum.

The Initial Purchasers assume no responsibility for the accuracy or completeness of, any of the information contained in this offering memorandum. To the fullest extent permitted by law, none of the Initial Purchasers accept any responsibility for the contents of this offering memorandum or for any statement made or purported to be made by the Initial Purchasers or on its behalf in connection with our company or the issue and offering of the Notes. The Initial Purchasers accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this offering memorandum or any such statement.

We and the Initial Purchasers reserve the right to reject any offer to purchase any of the Notes for any reason, or to sell less than the principal amount of the Notes for which any prospective purchaser has subscribed.

This offering memorandum is personal to each offeree and is not an offer to any other person or to the public generally to subscribe for the Notes. You represent that you are basing your investment decision solely on this offering memorandum and your own examination of us and the terms of this offering.

Neither we, the Initial Purchasers, the trustee nor any agent is providing you with any legal, business, tax or other advice in this offering memorandum. You should consult your own advisors to assist you in making your investment decision and to advise you whether you are legally permitted to purchase our Notes.

You must comply with all laws that apply to you in any place in which you buy, offer or sell any Notes or possess this offering memorandum. You must also obtain any consents or approvals that you need in order to purchase the Notes. Neither we nor any of the Initial Purchasers is responsible for your compliance with these legal requirements.

We are making this offering of the Notes in reliance on exemptions from the registration requirements of the U.S. Securities Act. These exemptions apply to offers and sales of securities that do not involve a public offering. The Notes have not been recommended by any U.S. federal or state securities commission or regulatory authority or any regulatory authority in any other jurisdiction, and no such authority has determined that this offering memorandum is accurate or complete. Any representation to the contrary is a criminal offense.

The Notes are subject to restrictions on transfer and resale that are described under "Transfer Restrictions." By purchasing any Notes, you represent and agree to all of the provisions contained in that section of this offering memorandum. You may have to bear the financial risks of investing in our Notes for an indefinite period of time.

The Notes have not been and will not be registered under the U.S. Securities Act, or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered, sold, pledged or otherwise transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with applicable state securities laws. **Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A.**

In connection with this offering, Barclays Bank PLC, as the stabilizing manager, or any person acting for it, may purchase and sell the Notes in the open market. These transactions may, to the extent permitted by applicable laws and regulations, include short sales, stabilizing transactions and purchases to cover positions created by short sales. These activities may stabilize, maintain or otherwise affect the market price of the Notes. As a result, the price of the Notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time and must in any event be brought to an end after a limited time. These activities will be undertaken solely for the account of the Initial Purchasers, and not for us or on our behalf.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT, OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CERTAIN CONVENTIONS AND CURRENCY PRESENTATION

In this offering memorandum, references to "China" or the "PRC" are to the People's Republic of China, excluding Hong Kong, Macau and Taiwan; references to "HK$" or "Hong Kong dollars" are to the lawful currency of Hong Kong; and references to "US$" or "U.S. dollars" are to the lawful currency of the United States and references to "RMB" or "Renminbi" are to the lawful currency of China. We record and publish our financial statements in Renminbi. Solely for your convenience, certain Renminbi amounts in this offering memorandum have been converted into U.S. dollars based on the exchange rate of RMB6.6000 to US$1.00, which was the noon buying rates in New York City for cable transfers payable in Renminbi, as certified for customs purposes by the Federal Reserve Bank of New York on December 30, 2010, the last business day of 2010. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to in this offering memorandum have been, could have been or could be converted into U.S. dollars, or vice versa, at any particular rate or at all. For further information relating to the exchange rates, see "Exchange Rate Information."

In this offering memorandum, the terms "we," "us," "our" and "our company" refer to China Shanshui Cement Group Limited and its subsidiaries, unless the context otherwise requires.

Any discrepancies in the tables between the listed amounts and their totals are due to rounding.

FORWARD-LOOKING STATEMENTS

This offering memorandum includes "forward-looking statements." All statements, other than statements of historical fact in this offering memorandum, including, without limitation, those regarding our future financial position and results of operations, strategy, plans, objectives, goals, targets, future developments in the markets where we participate or are seeking to participate, and any statements that include the words "believe," "expect," "aim," "intend," "will," "may," "anticipate," "seek," "should," "estimate" or similar expressions, are forward-looking statements.

These forward-looking statements relate to events that are subject to known and unknown risks, uncertainties and other factors, some beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include the following:

- our business and operating strategies and our ability to implement such strategies;
- our capital expenditure and project plans;
- our ability to further develop and manage our projects as planned;
- our operations and business prospects;
- various business opportunities that we may pursue;
- our financial condition;
- the availability and costs of bank loans and other forms of financing;
- our projects under construction or planning;
- the regulatory environment of our industry in general;
- the performance and future developments of construction markets in the PRC or any region in the PRC where we may engage in project developments;
- the PRC construction market outlook in general;
- changes in political, economic, legal and social conditions in the PRC, including the specific policies of the PRC government and the local authorities in the regions where we operate, which affect availability and cost of financing, pricing and volume of our projects;
- changes in competitive conditions and our ability to compete under these conditions;
- changes in currency exchange rates;
- delays in obtaining the necessary government permits or approvals for our projects; and
- other factors beyond our control.

Additional factors that could cause actual results, performance or achievements to differ materially include those discussed under "Risk Factors" and elsewhere in this offering memorandum. We caution you not to place undue reliance on these forward-looking statements which reflect our management's view only as of the date of this offering memorandum. We undertake no obligation to update, revise or publicly announce any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this offering memorandum might not occur.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the U.S. Securities Act in connection with resales of the Notes, we are required to furnish upon request of a holder of Notes and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) if at the time of such request we are neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. So long as any of the Notes remain outstanding, we will file with the trustee and furnish to holders of the Notes upon request financial and other reports as described in "Description of the Notes – Certain Covenants – Provision of Financial Statements and Reports."

ENFORCEMENT OF CIVIL LIABILITIES

We are an exempted company incorporated in the Cayman Islands with limited liability, and each guarantor is incorporated in British Virgin Islands or Hong Kong. Each of the Cayman Islands, the British Virgin Islands and Hong Kong has a different body of securities laws from the United States and protections for investors may differ. All of our assets and the assets of the guarantors are located outside the United States. In addition, all of our directors and officers and the guarantors' directors and officers are nationals or residents of countries other than the United States (principally in the PRC), and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us, any of the guarantors or such persons or to enforce against us or any of the guarantors or such persons judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

We have been advised by our Cayman Islands legal advisers, Maples and Calder, that the courts of the Cayman Islands are unlikely (i) to recognize or enforce against us judgments of courts of the United States predicated upon the civil liability provisions of the securities laws of the United States or any state and (ii) in original actions brought in the Cayman Islands, to impose liabilities against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state, on the grounds that such provisions are penal in nature. However, in the case of laws that are not penal in nature, although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will recognize and enforce a judgment of a foreign court of competent jurisdiction without retrial on the merits based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given provided that such judgment is final and conclusive, for a liquidated sum, not in respect of taxes or a fine or penalty, is not inconsistent with a Cayman Islands judgment in respect of the same matter, and was not obtained in a manner, and is not a kind the enforcement of which is, contrary to the public policy of the Cayman Islands (awards of punitive or multiple damages may well be held to be contrary to public policy). A Cayman Islands court may stay proceedings if concurrent proceedings are being brought elsewhere.

We and each of the guarantors have appointed Corporation Service Company as our respective agent to receive service of process with respect to any action brought against us or the guarantors in the U.S. federal courts or New York state courts located in the Borough of Manhattan, The City of New York in respect of actions relating the Notes, the guarantees or the indenture governing the Notes and guarantees.

Certain remedies available under the laws of U.S. jurisdictions would not be allowed in the Cayman Islands courts to the extent that they are contrary to public policy.

We have been advised by Maples & Calder, our British Virgin Islands counsel, that the United States and the British Virgin Islands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters and that a final judgment for the payment of money rendered by any federal or state court in the United States would not be automatically enforceable in the British Virgin Islands.

The courts of the British Virgin Islands would recognize as a valid judgment a final and conclusive judgment *in personam* obtained in the U.S. courts under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that:

- such courts issuing the judgment had jurisdiction in the matter and the parties either submitted to such jurisdiction or were resident or carrying on business within such jurisdiction and were duly served with process;
- in obtaining judgment there was no fraud on the part of the person in whose favor judgment was given or on the part of the courts;
- recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to public policy; and
- the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

Certain remedies available under the laws of U.S. jurisdictions would not be allowed in the British Virgin Islands courts to the extent that they are contrary to public policy.

We have been advised by Norton Rose Hong Kong, our Hong Kong counsel, that the United States and Hong Kong have not entered into any bilateral reciprocal enforcement agreement providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. A final judgment for the payment of money rendered by any federal or state court of the United States would not be automatically enforceable in Hong Kong. A judgment *in personam* obtained in a court of the United States may be enforceable in Hong Kong at common law provided that:

- the judgment is for a definite sum of money (other than a sum of money payable in respect of taxes or penalties);
- the judgment is final and conclusive between the parties;
- the relevant court from which the judgment was obtained had proper jurisdiction over the parties according to Hong Kong private international law;
- the judgment was not obtained by fraud;
- enforcement of the judgment would not be contrary to the public policy in Hong Kong;
- the proceedings in which the judgment was obtained were not opposed to natural justice;
- the judgment was not in conflict with a prior Hong Kong judgment or foreign judgment which is entitled to recognition in Hong Kong;
- the judgment is not for multiple damages; and
- the judgment does not fall within section 3(1) of the Foreign Judgments (Restriction on Recognition and Enforcement) Ordinance (Chapter 46 of the Laws of Hong Kong).

We have been advised by Commerce and Finance Law Offices, our PRC counsel, that PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between the PRC and the country where the judgment is made or on reciprocity between jurisdictions. If there are no treaties or reciprocity arrangements between the PRC and a foreign jurisdiction where a judgment is rendered, according to PRC Civil Procedures Law, matters relating to the recognition and enforcement of the foreign judgment in the PRC may be resolved through diplomatic channels. The PRC does not have any treaties or other arrangements with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. As a result, it is generally difficult to enforce in the PRC a judgment rendered by a U.S. court against us or the guarantors.

MARKET AND INDUSTRY DATA

Market data and certain industry forecasts and statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or the Initial Purchasers or our or their directors or advisors, and neither we, the Initial Purchasers nor our or any of their directors or advisors make any representation as to the accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified.

The statistics set forth in this offering memorandum relating to the PRC and the construction industry in the PRC were taken or derived from various government and private publications. Neither we, the Initial Purchasers nor our or their directors or advisors make any representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly inconsistent collection methods and other problems, the statistics referred in this offering memorandum may be inaccurate and should not be unduly relied upon.

SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire offering memorandum, including the section entitled "Risk Factors" and the financial statements and related notes thereto included elsewhere in this offering memorandum, before making an investment decision.

Our Business

We are one of the largest producers of clinker and cement in China, particularly in Shandong and Liaoning provinces, as measured by production volume. Leveraging our leading market position in Shandong and Liaoning provinces, we have taken advantage of the considerable growth opportunities in the construction and infrastructure sectors within Shanxi province and Inner Mongolia, and quickly established our presence in these areas through organic growth and acquisitions. We are also expanding into Xinjiang by greenfield developments.

We produce and sell various grades of cement products using advanced NSP (new suspension preheater) production technology. Our principal products also include clinker, a key intermediary component of cement. We also produce and sell other products, such as concrete. Our sales volume of cement products increased from 25.1 million tons in 2008 to 29.4 million tons in 2009 and 39.3 million tons in 2010. While most of the clinker we produced was used in our cement production, we also sold 5.5 million tons, 8.4 million tons and 9.8 million tons of clinker to external customers in 2008, 2009 and 2010, respectively. The average unit selling price per ton of our cement products was RMB235.2, RMB224.9 and RMB235.9 (US$35.7) in 2008, 2009 and 2010, respectively, and the average unit selling price per ton of our clinker was RMB213.9, RMB187.5 and RMB197.2 (US$29.9), respectively, during the same periods. Our products are primarily provided to our customers under our "Shanshui Dongyue" brand name (山水東岳), which was honored the "Famous Trademark of Shandong Province" in September 2008. In addition, in 2010, we were awarded the "Quality Award by Governor of Shandong" and recognized by the Ministry of Railways as the only construction material company with the award for "Beijing-Shanghai High-Speed Rail Best Supplier."

Our production facilities are principally located in Shandong province, Liaoning province and the eastern part of Inner Mongolia and Shanxi province, and our clinker production facilities are located near our limestone mines serving cement grinding stations that are strategically located in close proximity to our end-markets and customers. This layout of our production facilities enables us to minimize our logistics and transportation costs, and to broaden our market coverage. As of December 31, 2010, we had a total production capacity (including production lines in test run) of 66.5 million tons of cement and 31.0 million tons of clinker, representing an increase of 18.2 million tons of cement and 5.8 million tons of clinker over the year ended December 31, 2009. Separately, as of December 31, 2010, the total capacity of cement and clinker in Shandong province reached 48.1 million tons and 22.1 million tons, respectively, while the total capacity of cement and clinker in Northeast China, including both Liaoning province and Inner Mongolia, reached 17.4 million tons and 8.9 million tons. As of the same date, the cement capacity in Shanxi province reached 1.0 million tons.

The map below indicates the locations of our primary production facilities in Shandong province, Northeastern China (including Liaoning province and Inner Mongolia) and Shanxi province as of December 31, 2010:

We have achieved significant revenue and earnings growth in recent years. Our revenue increased from RMB7,500.7 million in 2008 to RMB8,727.6 million in 2009 and RMB11,854.1 million (US$1,796.1 million) in 2010. Our profit for the year increased from RMB549.1 million in 2008 to RMB714.0 million in 2009 and to RMB1,004.9 million (US$152.3 million) in 2010.

Competitive Strengths

Dominant market position in Shandong and Liaoning provinces enhances our ability to attract customers.

We are a leading producer of clinker and cement in Shandong and Liaoning provinces, as measured by production volume. We have actively carried out market consolidation primarily through acquisitions in Shandong and Liaoning provinces. In addition, we have established a recognized brand for our products. Our brand name "Shanshui Dongyue" (山水東岳) was honored the "Famous Trademark of Shandong Province" in September 2008. In 2010, we were awarded the "Quality Award by Governor of Shandong" and recognized by the Ministry of Railways as the only construction material company with the award for "Beijing-Shanghai High-Speed Rail Best Supplier." Due to our dominant market position within Shandong and Liaoning provinces as well as industry recognition of the high quality of our products, our cement and clinker products usually enjoy price premiums over products sold by our competitors and we are able to attract key customers in our core markets in Shandong and Liaoning provinces.

We are well positioned to capture attractive growth opportunities in China's infrastructure projects and construction industry, especially in fast growing regions in China.

We are well positioned to take advantage of the PRC government's economic policies which have increased and are expected to continue to increase the demand for building and construction materials, including cement, in each of the markets where we have business operations. One of the objectives of the government's "Twelfth Five-Year Plan," released in 2011, and its economic stimulus package under the plan is to foster growth at an accelerated pace in Northwestern China, which includes our new target markets in Shanxi province and Xinjiang as well as Inner Mongolia. According to the local governments' working reports published in 2011, substantial resources have been pledged to construct affordable housing in each of Shandong, Liaoning and Shanxi provinces, Xinjiang and Inner Mongolia. Plans have also been formulated to improve the transportation network by construction of highways and railroads in these areas, including six railroads and eight highways connecting the harbor, the airport and other major locations in Shandong province, approximately 5,000 kilometers of highways connecting neighboring rural villages and industrial parks and harbors in Liaoning province, over 3,000 kilometers of railroads in Inner Mongolia and over 13,000 kilometers of highways in Xinjiang. All these government stimulus measures are expected to accelerate economic developments in these areas, which are also our target markets, creating high demand of our products for infrastructure and construction projects and presenting ample opportunities for our growth.

Efficient operational management and continuous technological advancement enable us to enjoy sustainable profitability.

We enjoy sustainable profitability with our efficient operational management system to prepare our annual budget and with our advanced technology in our production process. Our head office delivers the annual business goals down to our operating subsidiaries based on our comparisons with similar enterprises within our industry. Our operating subsidiaries submit monthly reports on their respective achievement of our annual goals for publication within our company. In addition, the command delivered down and the reports submitted up from time to time strengthen our budget preparation. The implementation of approved budget is scrutinized quarterly. Furthermore, we employ advanced technology in our production process, which provides us with substantial cost savings. For instance, our output of residual heat power generation increased from 463 KwH in 2008 to 914 million KwH in 2010. As a result of this energy savings technology, we achieved total cost savings of RMB164 million, RMB273 million and RMB347 million (US$52.6 million) in 2008, 2009 and 2010, respectively. Moreover, our use of coal of better quality enabled us to reduce our coal consumption per ton of clinker from 156 kg to 143 kg and avert the worldwide increase in coal price. As a result of our efficient management system and technological advancement, we have been able to achieve substantial cost-savings, allowing us to enjoy sustainable profitability.

We have an extensive sales network to meet demands of our diverse customer base.

Our extensive sales network enables us to optimize regional market penetration. We have an extensive direct sales network that is segmented into two geographical groups, Shandong and Liaoning. The Shandong network covers 140 counties and districts in Shandong province and the Liaoning network covers 95 counties and districts in Liaoning province, 26 counties and districts in Inner Mongolia and Shanxi province. As of December 31, 2010, the two networks combined have 53 regional sales branches, 154 local sales offices and approximately 1,300 third-party sales outlets. All of our regional sales branches and local sales offices are centrally managed by the sales department in our headquarters in Jinan. Our direct sales personnel are divided into teams to cover different customer groups in urban areas. Our sales coverage of rural customers is primarily achieved through our third-party sales outlets at which we sell our products to end-users. We believe our extensive sales network enables us to cover a diverse customer base, including concrete station and infrastructure project management offices, aligned with the government's policy of "Bring building materials to the rural area."

Our production plants are located in proximity to abundant coal reserve and limestone resources, minimizing our transportation costs.

We carefully select the locations of our production facilities. The strategic layout of our production facilities in our key regional markets enables us to minimize transportation costs by being located in proximity to our raw material sources. Our raw materials principally consist of coal and limestone. All of our clinker production facilities are located near coal reserves and our limestone mines, serving a network of cement grinding stations that are strategically located in proximity to our end markets. Coal is used during our clinker production process and constitutes the largest cost component of our production. We also have long-term relationships with coal suppliers. Our top ten coal suppliers who in aggregate provided approximately 40% of our coal supplies in the year ended December 31, 2010 had supplied coal to us for at least two years with some over five years. In addition, we have an investment strategy that acquires limestone resources, which would be sufficient, as required by the PRC government's policy, to provide for at least 30 years for our planned production.

We have an experienced, stable and professional management team with a proven track record.

Our senior management team, most of whom have been working for our company since our establishment, has an average of over 28 years of experience working in the PRC cement industry and considerable financial and business management expertise. For example, Mr. Caikui Zhang, our chairman and executive director, has over 42 years of industry experience as chairperson of several industry committees, such as the Jinan Municipal Bureau of Building Materials. Other members of our senior management team also have significant experience in key aspects of our operations, including production management, sales and distribution, research and development and delivery logistics.

Strategy

Continue to expand production capacity and increase market presence

We devise our strategy to align with the government's policy of phasing out outdated enterprises and encouraging consolidation of the cement industry, while leveraging our own competitive strength in terms of established production systems and processes. Our objective is to double our production capacity within the next three years and increase our market presence with the goal of becoming the largest cement producer north of Yangtze River. By the end of 2011, we plan to increase our cement production capacity to reach 80 million tons from 66.5 million tons for the year ended December 31, 2010. We intend to proactively carry out market research for our strategic target locations, seek opportunities for reorganizations, mergers and acquisitions, and strategically expand our production capacity to improve our presence in key markets. We also plan to establish a strategic development center and integrate our internal organizations and human resources to achieve our goal.

Promote total budget management initiatives to enhance operational management efficiency

We plan to revise and improve the various management systems introduced in 2010, enhance internal control systems, and strengthen various fundamental management functions. The following are our objectives in order of priority: (1) use the established procurement and supply center as the platform for centralized purchase of bulk raw materials, fuel and general equipment, and further regulate tender procedures, reduce procurement costs and enhance cooperation between upstream and downstream industries; (2) optimize the integrated production-sale business model for companies under our supervision, further regulate the management of contracts, prices, transportation and settlement to reduce market and operational risks; (3) continue to implement strict funds approval and granting procedures, and to improve financial management, focusing on funds management and increased efficiency in the use of funds; and (4) enhance internal audit and supervision, and establish and improve various processes, procedures and systems to ensure the effective control of our company to cope with rapid business expansion and enlarged management scope.

Diversify our product offerings such as concrete and aggregate, thereby developing new drivers for profit growth

Leveraging the favorable environment created by government policies supporting the extension of the whole industry chain and comprehensive utilization of resources, and based on prudent investigation and research, we intend to use Shandong province, where our cement business is most concentrated, as the pilot program to vertically integrate the whole cement industry chain and accelerate the preparation work for businesses such as concrete and aggregate. We intend to adopt the same growth strategy for other regional markets we operate in if the pilot program in Shandong is proven successful, developing new drivers for our growth in the future.

Optimize the internal and external sales of clinker

In accordance with the supply and demand condition of clinker in our markets and our operational philosophy of "clinker for profits and cement for market expansion," we expect to further improve both the internal and external sales models for clinker in order to stabilize and increase the price of clinker to ensure reasonable pricing for cement and to maximize our profit. Because clinker is the intermediate product for cement, the pricing of clinker is an indicator for the pricing of cement. For clinker sold within our company, we plan to adopt market pricing mechanisms to determine the agreed price for clinker. For clinker sold externally, we intend to adopt strategic methods, including adjustments of sales volumes between seasons, to manage our pricing in order to avoid benefiting downstream cement competitors. We believe such strategies enable us to narrow the price of clinker sold internally and externally and to achieve our goals of fully utilizing our own cement grinding capacity while increasing the sales volumes of cement and increasing our market share.

Recent Developments

Asia Cement Investment

On November 19, 2010, we entered into a non-legally binding memorandum of understanding with Asia Cement Corporation, a Taiwan corporation, and Asia Cement (China) Holdings Corporation, a Cayman company whose controlling shareholder is Asia Cement Corporation. The parties intend to enter into cooperative arrangements in connection with our businesses in Liaoning province and Inner Mongolia. The memorandum of understanding contemplates the investment by Asia Cement Corporation, through Asia Cement (China) Holdings, in our company through subscription of up to 30% new equity interests in our several subsidiaries and up to 10% of equity interests in China Shanshui Cement Group Limited. These subsidiaries are expected to be engaged in the business of production, design and sales of cement, cement products and construction raw materials in Liaoning and Inner Mongolia. We may undertake a corporate restructuring to streamline our shareholding structure of our subsidiaries engaged in the cement business in Liaoning and Inner Mongolia in connection with our cooperation with Asia Cement. On April 27, 2011, we agreed with Asia Cement Corporation to extend the exclusivity period for such negotiation to July 2, 2011. As of the date of this offering memorandum, we have not entered into any definitive agreement pursuant to the memorandum of understanding.

2011 Term Loans

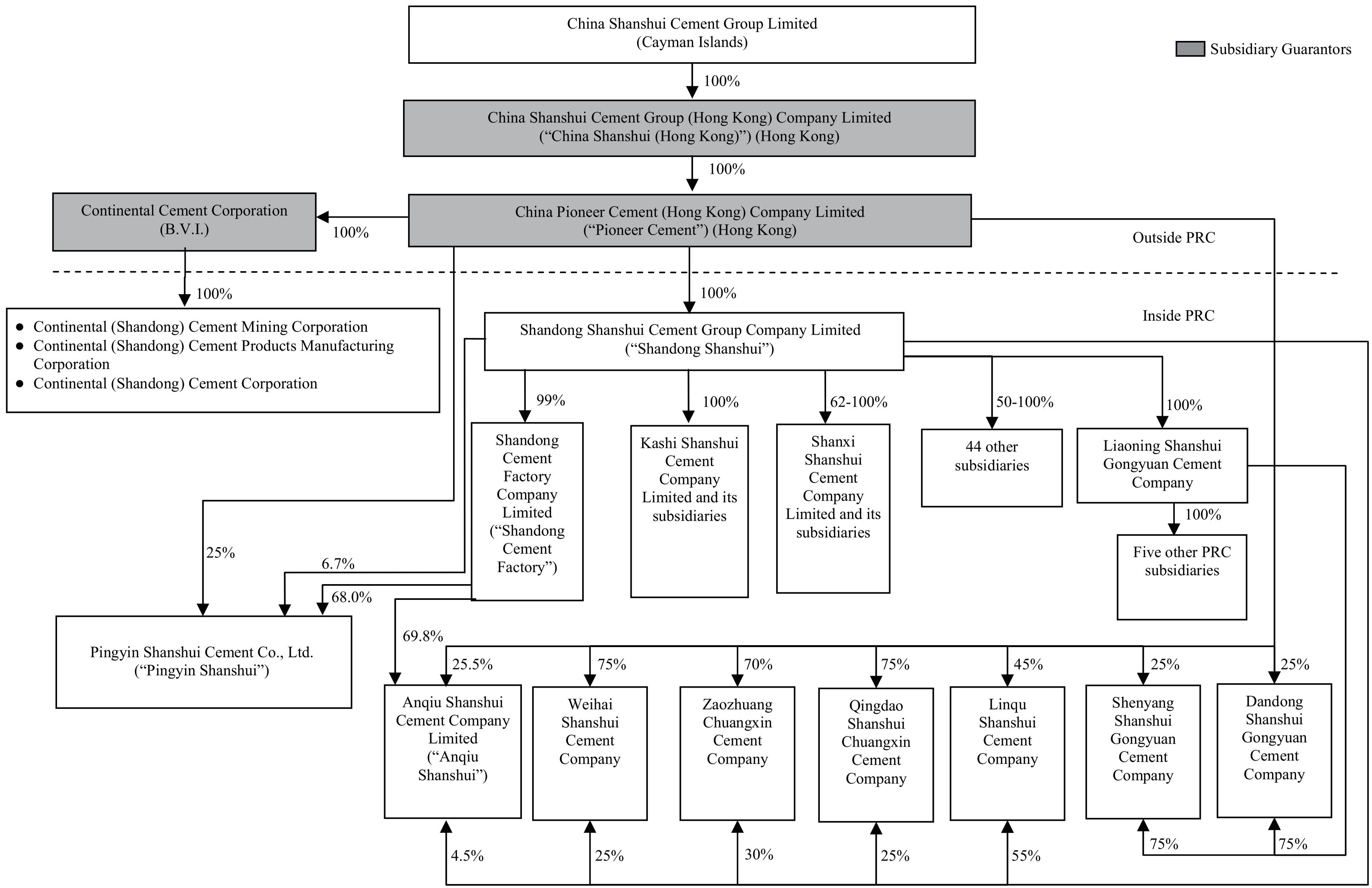
In April 2011, we signed a term sheet with Wing Lung Bank Limited, a commercial bank in Hong Kong, for a term loan facility in the principal amount of not exceeding HK$450 million for the purposes of financing the general working capital of our company, including dividend payments. The loan is to mature one year from the first drawdown date with an interest rate of 3.65% over HIBOR per annum. As of the date of this offering memorandum, we have not entered into the definitive agreement for this loan. In May 2011, we accepted an offer by Standard Chartered Bank (Hong Kong) Limited of a banking facility in an amount of HK$200 million for the purposes of financing our dividend payment. The loan will mature one year from the drawdown date and will accrue interest at 3.15% over HIBOR per annum. As of the date of this offering memorandum, we have not drawn this facility. Subject to shareholders' approval, we plan to declare and pay a dividend in July 2011 in the amount of HK$408,312,779 in respect of fiscal year 2010.

Corporate Information

We were incorporated in the Cayman Islands as an exempted company with limited liability. Our principal place of business in Hong Kong is located at Room 2609, 26/F, Tower 2, Lippo Centre, 89 Queensway, Admiralty, Hong Kong. Our principal place of business in China is Sunnsy Industrial Park, Gushan Town, Changqing District, Jinan, Shandong, China. Our registered office is located at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY 1-1104, Cayman Islands. Our website is www.shanshuigroup.com. Information contained on our website does not constitute part of this offering memorandum. We have been listed on the Hong Kong Stock Exchange since July 4, 2008, with the stock code "0691." As of March 31, 2011, our market capitalization was RMB17,172.8 million (US$2,601.9 million).

Corporate Structure

The following chart sets forth our corporate structure based on our beneficial interests in our subsidiaries as of December 31, 2010:



The Offering

The following summary contains basic information about this offering and is not intended to be complete. It does not contain all of the information that is important to you. For a more complete understanding of the terms of the Notes being sold in this offering, see "Description of the Notes."

Issuer	China Shanshui Cement Group Limited
Notes Offered	US$400,000,000 aggregate principal amount of 8.50% Senior Notes due 2016.
Issue Price	100% of the principal amount of the Notes.
Maturity Date	May 25, 2016
Interest Payment Dates	Interest will be payable semi-annually in arrears on May 25 and November 25 of each year. The first interest payment will be due on November 25, 2011.
Rankings of the Notes	The Notes will be our general obligations and: • will be senior in right of payment to any of our existing and future subordinated indebtedness, if any; • will rank at least equal in right of payment with all of our other unsecured, unsubordinated indebtedness (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law); • will be unconditionally guaranteed by the guarantors; • will be effectively subordinated to all existing and future indebtedness of our subsidiaries that do not guarantee the Notes; and • will be effectively subordinated to all our existing and future secured obligations to the extent of the collateral securing such obligations.
Guarantees	Our obligations under the Notes and the indenture will be guaranteed by our subsidiaries that are incorporated or organized outside the PRC. None of our existing or future subsidiaries that are organized under the laws of the PRC will guarantee the Notes in the future.

Rankings of the Guarantees	The guarantee of each guarantor will be a general obligation of such guarantor and: • will rank at least equal in right of payment with all other unsecured, unsubordinated indebtedness of such guarantor (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law); • will be senior in right of payment to such guarantor's future subordinated indebtedness, if any; and • will be effectively subordinated to any existing and future indebtedness of such guarantor that is secured by liens that do not secure such note guarantee, to the extent of the property and assets securing such indebtedness.
Optional Redemption....................	We may redeem some or all of the Notes on or after May 25, 2014 at the redemption prices, plus accrued and unpaid interest up to the redemption date, as described under "Description of the Notes – Optional Redemption." At any time prior to May 25, 2014, we may redeem all the Notes at a price equal to 100% of their principal amount plus a "make-whole" premium, plus accrued and unpaid interest up to the redemption date, as described under "Description of the Notes – Optional Redemption." At any time prior to May 25, 2014, we may redeem up to 35% of the aggregate principal amount of Notes at a redemption price equal to 108.50% of the principal amount of the Notes with the proceeds of certain equity offerings, plus accrued and unpaid interest up to the redemption date, provided that at least 65% of the original principal amount of the Notes remains outstanding after the redemption
Additional Amounts; Redemption for Taxation Reasons.................	All payments in respect of the Notes or under the guarantees will be made without withholding or deduction for any taxes or other governmental charges, except to the extent required by law. If withholding or deduction is required by law, subject to certain exceptions, we or the relevant guarantor, as applicable, will pay additional amounts so that the net amount received by the holder and beneficial owner of each Note is no less than the amount that such holder and beneficial owner would have received in the absence of such withholding or deduction. See "Description of the Notes – Additional Amounts." We may redeem the Notes in whole, but not in part, at any time, upon giving prior notice, if certain changes in tax law impose certain withholding taxes on amounts payable on the Notes, and, as a result, we or any guarantor is required to pay additional amounts with respect to such withholding taxes. If we exercise such redemption right, we must pay you a price equal to the principal amount of the Notes plus accrued and unpaid interest and additional amounts, if any, to the date of redemption. See "Description of the Notes – Redemption for Taxation Reasons."

Change of Control	If we experience a change of control, we will be required to offer to repurchase the Notes at 101% of their principal amount plus accrued interest to the date of such repurchase. See "Description of the Notes – Repurchase of Notes Upon a Change of Control."
Certain Covenants	We will issue the Notes under the indenture. The indenture will partially limit, among other things, our ability and the ability of our restricted subsidiaries to: • incur or guarantee additional indebtedness and issue certain preferred stock; • pay dividends, redeem capital stock and make certain investments; • make certain other restricted payments; • create or permit to exist certain liens; • impose restrictions on the ability of our subsidiaries to pay dividends or make other payments to us; • transfer, lease or sell certain assets including subsidiary stock; • merge or consolidate with other entities; • enter into certain transactions with affiliates; and • enter into unrelated businesses. Each of these covenants is subject to a number of significant exceptions and qualifications. See "Description of the Notes – Certain Covenants" and the related definitions.
Notice to Investors	The Notes and the guarantees of the Notes have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any other jurisdiction. The Notes are subject to restrictions on transfer and may only be offered or sold in transactions that are exempt from or not subject to the registration requirements of the U.S. Securities Act. See "Plan of Distribution" and "Transfer Restrictions."
Absence of a Public Market for the Notes	The Notes will be new securities for which there is currently no market. Although the Initial Purchasers have informed us that they intend to make a market in the Notes, they are not obligated to do so and they may discontinue market making at any time without notice. Accordingly, we cannot assure you that a liquid market for the Notes will develop or be maintained.

Listing	We have received approval in-principle for listing the Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes are required to be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes will be traded on the SGX-ST in a minimum board lot size of US$200,000.
Book-Entry Only	The Notes will be issued in book-entry form through The Depository Trust Company for the accounts of its participants, including Euroclear and Clearstream, Luxembourg. For a description of certain factors relating to clearance and settlement, see "Description of the Notes – Book-Entry; Delivery and Form."
Ratings	The Notes are expected to be rated "BB-" by S&P and "BB-" by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.
Security Codes	

	Notes sold under Rule 144A	**Notes sold under Regulation S**
CUSIP	16951P AA7	G2116M AA9
ISIN	US16951PAA75	USG2116MAA92

Trustee	Citicorp International Limited
Registrar, Principal Paying and Transfer Agent	Citibank, N.A., London Branch
Use of Proceeds	We intend to use the proceeds of the offering of the Notes for refinancing our existing borrowings, expanding our production capacity through construction of additional production lines at our existing production facilities or acquisitions of other production facilities if and when opportunities that we consider appropriate arise, and general corporate purposes.
Governing Law of the Indenture, Notes and Guarantees	New York law.
Risk Factors	Please see the "Risk Factors" section for a description of certain of the risks you should carefully consider before investing in the Notes.

Summary Financial Information and Other Data

You should read the following summary financial information and other data together with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes included elsewhere in this offering memorandum.

We have derived the following summary financial information from our audited consolidated financial statements as of and for the years ended December 31, 2008, 2009 and 2010, which are included elsewhere in this offering memorandum. We prepare and present our consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS").

	2008	2009	2010	
	RMB	RMB	RMB	US$
	(in millions, except percentages)			
Consolidated income statement data:				
Revenue	7,500.7	8,727.6	11,854.1	1,796.1
Cost of sales	(5,914.3)	(6,947.2)	(9,304.0)	(1,409.7)
Gross profit	1,586.4	1,780.4	2,550.1	386.4
Other revenue	188.2	138.3	148.5	22.5
Other net (expenses)/income	14.8	(2.3)	(68.3)	(10.3)
Selling and marketing expenses	(175.2)	(196.5)	(214.2)	(32.5)
Administrative expenses	(553.3)	(469.1)	(689.6)	(104.5)
Profit from operations	1,060.9	1,250.8	1,726.5	261.6
Finance costs	(348.0)	(309.6)	(363.1)	(55.0)
Share of profits less losses of an associate	–	–	(0.2)	–
Profit before taxation	712.9	941.2	1,363.2	206.6
Income tax	(163.8)	(227.2)	(358.3)	(54.3)
Profit for the year	549.1	714.0	1,004.9	152.3
Attributable to:				
Equity holders of the company	539.4	701.6	979.1	148.3
Non-controlling interests	9.7	12.4	25.8	4.0
Other financial data:				
EBITDA(1)	1,599.6	1,898.8	2,534.0	383.9
EBITDA margin(2)	21.3%	21.8%	21.4%	21.4%
EBITDA/gross interest expense(3)	4.9	6.2	7.0	7.0
Total debt/EBITDA	3.0	3.0	2.9	2.9

	As of December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US$
		(in millions)		
Consolidated statement of financial position data:				
Non-current assets	9,666.6	11,302.3	14,722.4	2,230.7
Current assets	3,106.1	3,306.9	4,228.0	640.6
Current liabilities	5,185.6	4,969.9	6,481.6	982.1
Net current liabilities	(2,079.5)	(1,663.0)	(2,253.6)	(341.5)
Total assets less current liabilities	7,587.1	9,639.3	12,468.8	1,889.2
Non-current liabilities	2,981.5	4,410.2	6,319.8	957.5
Net assets	4,605.6	5,229.1	6,149.0	931.7
Capital and reserves	4,560.6	5,160.2	5,687.5	861.7
Total equity attributable to equity shareholders of the company	4,560.6	5,160.2	5,687.5	861.7
Non-controlling interest	45.0	68.9	461.5	70.0
Total equity	4,605.6	5,229.1	6,149.0	931.7
Consolidated statement of cash flow data:				
Net cash flows from operating activities	1,037.3	1,025.7	1,789.0	271.1
Net cash flows used in investing activities	(2,404.5)	(2,136.4)	(2,926.8)	(443.5)
Net cash flows generated from financing activities	1,912.8	748.6	1,398.3	211.9
Net increase/(decrease) in cash and cash equivalents	545.6	(362.1)	260.5	39.5
Cash and cash equivalents at the beginning of the year	721.3	1,248.4	886.1	134.3
Cash and cash equivalents at the end of the year	1,248.4	886.1	1,144.8	173.5

The following table sets forth the sales volume and unit selling price for our cement, clinker and concrete products for the periods indicated.

	2008	2009	2010
Sales volume (thousands tons)			
Cement	25,112	29,388	39,318
Clinker	5,466	8,422	9,844
Concrete	513	860	785
Unit selling price			
Cement (RMB per ton)	235.2	224.9	235.9
Clinker (RMB per ton)	213.9	187.5	197.2
Concrete (RMB per cubic meter)	274.0	262.3	237.5

(1) EBITDA consists of profit before income tax expense, depreciation and amortization and finance costs (excluding capitalized interest). EBITDA is not a standard measure under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented above is calculated differently from Consolidated EBITDA as defined and used in the indenture

governing the Notes. See "Description of the Notes – Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the indenture governing the Notes. Set forth below is a reconciliation of EBITDA to the most directly comparable IFRS measure, profit for the year.

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB (in millions)	RMB	US$
Profit for the year	549.1	714.0	1,004.9	152.3
Add:				
Amortization	83.8	96.6	114.2	17.3
Depreciation	454.9	551.4	693.3	105.0
Finance costs	348.0	309.6	363.3	55.0
Income tax expense	163.8	227.2	358.3	54.3
EBITDA	1,599.6	1,898.8	2,534.0	383.9

(2) EBITDA margin means EBITDA divided by revenue.

(3) Gross interest expense includes interest expense capitalized in property, plant and equipment. Gross interest expense is not a standard measure under IFRS. Gross interest expense presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our gross interest express to the gross interest expense provided by other companies because not all companies use the same definition. Investors should also note that the gross interest expense presented herein is calculated differently from Consolidated Interest Expense as defined and used in the Indenture governing the Notes. See "Description of the Notes – Definitions" for a description of the manner in which Consolidated Interest Expense is defined for purposes of the indenture governing the Notes.

RISK FACTORS

An investment in the Notes is subject to significant risks. You should carefully consider all of the information in this offering memorandum and, in particular, the risks described below before deciding to invest in the Notes. The following describes some of the significant risks that could affect us and the value of the Notes. Some risks may be unknown to us and other risks, currently believed to be immaterial, could be material. All of these could materially and adversely affect our business, financial condition, results of operations and prospects. The market price of the Notes could decline due to any of these risks and you may lose all or part of your investment. This offering memorandum also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this offering memorandum.

Risks Relating to Our Business

Our business depends significantly on the level of activity and growth in the construction industry in Shandong and Liaoning provinces.

Until recently, our cement products have been sold exclusively in Shandong and Liaoning provinces. Although we have expanded into other areas of China as our target markets, we expect Shandong and Liaoning provinces will remain our core markets in the near future. As a result, the demand for our products is predominantly dependent on the level of activity and growth in the construction industry in Shandong and Liaoning provinces, which in turn depends on factors such as general economic conditions, government policy, GDP growth, fixed asset investment ("FAI"), consumer confidence, inflation and demographic trends in Shandong and Liaoning provinces. Our lack of geographical diversity exposes us to risks associated with fluctuations in the political and economic conditions of Shandong and Liaoning provinces.

We have historically benefited from the high rate of growth in the economy of Shandong and Liaoning provinces. Since 2001, the growth rates of Shandong and Liaoning provinces' respective GDP and FAI have consistently been above the national averages. For the year ended December 31, 2010, according to Shandong Provincial Bureau of Statistics, Shandong province's GDP and FAI increased by approximately 12.5% and 22.3%, respectively, compared with 2009, and according to Liaoning Provincial Bureau of Statistics, Liaoning province's GDP and FAI increased by approximately 14.1% and 30.5%, respectively, compared with 2009, while GDP and FAI for China increased by approximately 10.3% and 23.8%, respectively, during the same period. As a result of the economic development and growth in Shandong and Liaoning provinces, the demand for construction materials, including cement, grew rapidly. Meanwhile, as a result of the PRC government's policy mandating phasing out of obsolete production facilities, supply of cement products decreased significantly. The fast growth of the economy and the construction industry, particularly government infrastructure projects, and decreased supply of cement products in the market, have been the main drivers of the growth of the cement industry in Shandong and Liaoning provinces and the growth of our business.

We cannot assure you that the GDP, FAI or the demand for cement in Shandong and Liaoning provinces will continue to grow at historical rates, or at all. Any slowdown in the growth of Shandong and Liaoning provinces' economy or a downturn in the construction industry, particularly government infrastructure projects, in Shandong and Liaoning provinces could affect the demand for our products, which in turn could have a material and adverse effect on our business, financial condition and results of operations.

We may face difficulties in integrating acquired businesses with our own, and if we do not realize the anticipated benefits from the acquired businesses or our strategic investments, our business, results of operations and financial condition may be adversely affected.

In 2010, we acquired equity interests in 12 entities engaged in the cement business in Shanxi province, Shaanxi province, Inner Mongolia and Tianjin municipality, and we may make similar acquisitions in the future. We may experience difficulties in integrating the acquired businesses, and their personnel and products with those of ours due to differences in our respective business cultures or other factors. Our management's time and attention may as a result be diverted from other business concerns, and we may experience difficulties in retaining key employees and customers of the acquired businesses or strategic investments. In addition, we may incur higher capital expenditure and integration costs than we initially anticipated. Our acquisitions or strategic investments may also result in the incurrence and/or assumption of debt or other liabilities and the amortization of expenses related to goodwill and other intangible assets, which could have a material adverse effect on our results of operations and financial condition. We cannot assure you that we will be successful in realizing all of the anticipated benefits in the acquisitions or strategic investments that we have made or may make in the future. Failure to realize these anticipated benefits may materially adversely affect our business, results of operations and financial condition.

We may not be successful in identifying and acquiring suitable acquisition targets or making strategic investments, which could adversely affect our growth.

We have in the past expanded, and intend to expand in the future, our operations and markets through acquisitions or strategic investments. The identification and completion of such acquisitions or investments are dependent upon various factors, including satisfactory completion of due diligence, negotiation of definitive agreements and our ability to compete with other entities to acquire attractive targets. There is no assurance that in the future we will be able to identify and acquire appropriate acquisition targets on commercially acceptable terms, if at all, or will have sufficient capital to fund such acquisitions or investments. Failure in identifying and acquiring suitable acquisition targets or making strategic investments in the future could adversely affect our growth.

We may not be able to continue to grow at rates comparable to our historical growth rates, or we may have difficulty managing our future growth and expansion into new markets.

Our revenue and net profit have grown significantly during the years ended December 31, 2008, 2009 and 2010. Our revenue was approximately RMB7,500.7 million, RMB8,727.6 million and RMB11,854.1 million (US$1,796.1 million), respectively, representing a CAGR of 16.5%, and our net profit for the same periods was approximately RMB549.1 million, RMB714.0 million and RMB1,004.9 million (US$152.3 million), respectively, representing a CAGR of 22.3%. The significant increases in our revenue and net profit were mainly due to the growth in the demand for our products and the expansion of our production capacity, which in turn were attributable to the growth of the economy in general and the construction industry in Shandong and Liaoning provinces.

We may not be able to grow, either in terms of revenue or net profit, at rates comparable to our historical growth rates, or at all. Our plan to expand capacity in certain markets may involve our construction of additional production lines and acquisitions of other companies, which in turn may strain our managerial, operational, technical support, financial and human resources. We have until recently only operated in Shandong and Liaoning provinces. Given suitable business opportunities, we have expanded and continue to expand our operations into other parts of China, in particular western China, where we believe there is substantial opportunities for growth. If we were to expand into other provinces or regions, we cannot assure you that we would be able to overcome challenges posed by the new markets we choose to enter, including different customer and supplier practices and differing regulations and regulatory environment. As a result, we may not be able to manage such growth in a cost effective manner. Failure to effectively manage our growth could have a material adverse effect on our business, financial condition and results of operations, and could jeopardize our ability to achieve our business strategies and maintain our market position.

Our profitability and results of operations are subject to fluctuations in the supply and costs of raw materials, coal and electricity, and we may be unable to pass on some or all of any the increases in such costs to our customers.

The costs of limestone, coal and electricity account for a substantial portion of our production costs. For the years ended December 31, 2008, 2009 and 2010, the aggregate costs of raw materials, coal and electricity represented 84.0%, 77.7% and 77.6%, of our total cost of sales, respectively. See "Business – Raw Materials, Coal and Electricity."

We rely on third party suppliers and our own limestone mines for the supply of limestone. For the years ended December 31, 2008, 2009 and 2010, we sourced 57.0%, 54.5% and 46.6% of our limestone supply from third party suppliers. Since January 2007, we have experienced a surge in limestone prices caused by the closure of small-scale limestone processing plants mandated by the PRC government. Our unit purchase price of limestone increased from RMB12.72 per ton in 2008 to RMB13.53 per ton in 2010. As a result, we used a greater amount of our own limestone mine reserves in 2010 than in previous years to support our production. Meanwhile, our mining rights to our limestone mines are subject to certain conditions and various national and local government regulations. The mining rights we have obtained are valid for a period of 2 to 13 years and generally renewable upon expiration. As of December 31, 2010, the ownership certificates for certain limestone mining rights with a carrying amount of RMB123.5 million (US$18.7 million) have not been obtained. To the extent we are ordered by the relevant authorities to cease excavation of the mines pending ownership certificates, we may be subject to fines and disgorge profits obtained from the relevant mines. There is no assurance that our mining rights to our limestone mines will not be revoked or will be renewed upon expiration, or significant restrictions on the usage of the rights will not be imposed on us in the future. In addition, there is no assurance that in the future we will be able to acquire more limestone reserves and obtain relevant mining rights. Furthermore, we have experienced significant increases in coal prices in recent years due to a surge in coal demand coupled with transportation bottlenecks in China. Our unit purchase price of coal per ton increased from RMB680.1 in 2008 to RMB691.8 in 2010. Such increase in coal prices may also cause an increase in electricity prices. Our average purchase price of electricity increased from RMB0.46 KWh in 2008 to RMB0.53 KWh in 2010. If our raw materials and energy costs were to continue to increase and if we were unable to fully pass on any increased costs to our customers, our profitability and results of operations may be materially adversely affected.

The cement industry is capital intensive, and we may need to seek additional financing to support our growth.

The cement industry is highly capital intensive. We require a substantial amount of capital to build our production facilities, purchase production equipment, develop and implement new technologies in our new and existing facilities and undertake business acquisitions. For the years ended December 31, 2008, 2009 and 2010, our capital expenditures, as represented by payment for purchase of fixed assets, payment for purchase of intangible assets and acquisition of subsidiaries, net of cash acquired, were approximately RMB2,394.6 million, RMB2,155.3 million and RMB2,851.9 million (US$432.1 million), respectively, accounting for approximately 31.9%, 24.7% and 24.1% of our revenue for the same periods. Such amounts have exceeded our net cash generated from operating activities in the years ended December 31, 2008, 2009 and 2010. We expect to continue incurring significant capital expenditures which may continue to exceed our net cash from operating activities.

If our internally generated capital resources, net proceeds from the offering of the Notes and available credit facilities are insufficient to finance our capital expenditure and growth plans, we may have to seek additional financing from third parties, including banks, venture capital funds, joint-venture partners and other strategic investors. We may also consider raising funds through issuance of new shares, which would lead to dilution of our existing shareholders' interests in our company. Our ability to obtain external financing in the future and the cost of such financing are subject to uncertainties, including our future financial and cash flow conditions and results of operations, general economic and capital market conditions, the cement industry conditions, credit availability from financial institutions, investors' confidence in our company and the legal environment in China.

We recorded net current liabilities as of December 31, 2008, 2009 and 2010. We may record net current liabilities after the offering of the Notes and in future periods as we continue to expand and make significant capital investments. Our net current liabilities position exposes us to liquidity risks. Our future liquidity, the payment of trade and other payables and the repayment of our outstanding debt obligations as and when they become due will depend primarily on our ability to maintain adequate cash inflows from operating activities. There is no assurance that external sources of financing will be available on reasonable terms or at all, in the future to fund our existing operations and business expansion. Failure to obtain such financing may force us to delay our expansion plans, downsize or abandon such plans, which may materially and adversely affect our business, financial condition and results of operations, as well as our future prospects.

We had high gearing ratios in the past and our financial performance and operating results could be materially and adversely affected by our indebtedness.

We have historically relied on both short-term and long-term borrowings to fund a portion of our capital requirements, and expect to continue to do so in the future. As of December 31, 2008, 2009 and 2010, we had total debt (including loans and borrowings as well as convertible notes and corporate bonds) of approximately RMB4,767.4 million, RMB5,755.2 million and RMB7,398.7 million (US$1,121.0 million), respectively, and we had net current liabilities (total current liabilities minus total current assets) of approximately RMB2,079.5 million, RMB1,663.0 million and RMB2,253.6 million (US$341.5 million), respectively, as of the same dates. Our gearing ratios (net debt divided by total capital) as of December 31, 2008, 2009 and 2010 were 43.6%, 48.2% and 50.4%, respectively.

Our level of indebtedness could have a materially adverse effect on us. For example, it could:

- require us to dedicate a large portion of our cash flow from operations to fund repayments of our debt, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- increase our vulnerability to adverse general economic or industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business or the industry in which we operate;
- limit our ability to raise additional debt or equity capital in the future or increase the cost of such funding;
- restrict us from making strategic acquisitions or exploring business opportunities; and
- increase our exposure to interest rate fluctuations.

Our net current liabilities positions as of December 31, 2008, 2009 and 2010 were primarily due to our large amounts of borrowings, which mainly included short-term and long-term bank borrowings from commercial banks in China. We have historically repaid the short-term loans and the portions due within one year of our long-term loans by rolling over the loans on an annual basis. We cannot assure you that we will be able to continue to roll over our bank loans when they become due. We may not have sufficient funds available to repay our borrowings, particularly our short-term borrowings, upon maturity. Failure to service our debt could result in the imposition of penalties, including among other things, increases in rates of interest that we pay on our debt and legal actions against us by our creditors, and may negatively impact our business operations.

Our bank borrowings from certain PRC commercial banks have terms that require our subsidiaries to maintain certain financial ratios and conditions of assets related to cement operations. For details of these ratios and conditions, see "Description of Other Material Indebtedness." If we breach any of these terms, the loans will become repayable on demand. As of December 31, 2010, with respect to such loans with a total outstanding balance of RMB160.0 million (US$24.2 million), certain subsidiaries did not meet their respective covenants in the relevant long-term loan agreements and their lenders provided confirmations that the non compliance would not accelerate repayment of these loans.

Our liquidity depends on cash generated from operations, cash and cash equivalents, and our access to further financial resources to fulfill our short-term payment obligations, which will be affected by our future operating performance, prevailing economic conditions, and financial, business and other factors, many of which are beyond our control.

We have a substantial amount of bank borrowings and some of our bank loans have floating interest rates and an increase in the interest rate may have an adverse effect on our financial performance.

As of December 31, 2010, we had total debt of approximately RMB7,398.7 million (US$1,121.0 million), among which a number of loans have floating interest rates linked to, among others, one to three years benchmark rates of the People's Bank of China ("PBOC") and the London Interbank Offered Rate ("LIBOR"). If there is a material increase in the reference rates during the term of our relevant loan facilities or when our current loan facilities become due, our finance costs may increase substantially and our results of operations and financial performance may be adversely affected.

We rely on our key management personnel.

Our performance and implementation of our business plan rely, to a significant extent, on the service of our Directors, particularly Mr. Caikui Zhang, our chairman and executive director, and Mr. Bin Zhang, our vice chairman, executive director and general manager, and other senior management. We do not maintain key employee insurance. In the event that we lose the services of any key management personnel, we may be unable to identify and recruit suitable replacements in a timely manner or at all. In addition, if any member of our senior management were to join a competitor or form a competing company, we may lose some of our know-how and customers. These will materially adversely affect our business and operations. We may also need to employ and retain more management personnel to support our expansion into other new target markets in the future. We cannot assure you that we will be able to attract and retain qualified personnel. If we are unable to hire and retain qualified management personnel, our business and future growth may be adversely affected.

Our business depends on our ability to manage our working capital successfully.

We depend on cash from our operating activities and short-term bank loans for our working capital needs. Our success depends on our ability to continue to secure and successfully manage sufficient amounts of working capital. Such successful management primarily involves (i) timely payments of, or rolling over of, our short-term indebtedness and securing new loans on favorable terms, (ii) timely payments or re-negotiation of our payment terms for our trade payables, (iii) efficiently utilizing banking facilities, (iv) timely collection of trade receivables and (v) establishing and executing accurate and feasible budgets for our business operations. If we cannot manage our working capital successfully, our business, financial condition and results of operations could be materially and adversely affected.

Our operations rely on a continuous power supply and the ready availability of utilities. Any shortages or interruptions could disrupt our operations and increase our expenses.

The production of our cement and clinker products relies on a continuous and uninterrupted supply of electric power, water and natural gas, as well as water, waste and emissions discharge facilities. Any shortage or interruption of such supply could significantly disrupt our operations and increase our expenses. We do not have backup generators or alternate sources of power to support our production in the event of a blackout. In addition, our insurance coverage does not extend to any damages resulting from interruption in our power supply. Any interruption in our ability to continue operations at our facilities may have an adverse effect on our operations and reputation, or our ability to retain existing customers or attract new customers, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our operations are subject to relevant environmental laws and regulations.

Our operations are subject to various national and regional laws and regulations relating to environmental protection. These include provisions for prevention and treatment of noise, water, soil and air pollution and other industrial pollution. Failure to comply with these laws and regulations could result in legal proceedings, the assessment of damages or imposition of fines or penalties against us, suspension of production or cessation of our operations. The implementation of more stringent laws and regulations, or stricter interpretation of the existing laws and regulations, may require us to incur additional expenses to comply with such laws and regulations, which may adversely affect our profitability and results of operations.

We may not have sufficient insurance coverage against potential operational risks and losses.

We face various risks in connection with our business and operations which may not be completely eliminated through the implementation of preventive measures. The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited commercial insurance products for the manufacturing sector and do not generally offer them on terms which are commercially acceptable to us. We maintain an all-risks property insurance policy covering our equipment and facilities for loss due to fire or natural disasters, excluding earthquake and floods. We also maintain public liability insurance, profit loss insurance, machinery break-down insurance and product liability insurance. However, we do not maintain key employee insurance. If we incur substantial liabilities that were not covered by insurance or our insurance coverage was not sufficient for the liabilities, or if our business operations were interrupted for more than a short period of time, we could incur costs and losses that could materially and adversely affect our results of operations.

Our results of operations are subject to seasonal changes in demand for our products.

We usually experience a reduction in sales during the first quarter of each calendar year. Our sales volume of cement products in the first quarters of 2008, 2009 and 2010 accounted for approximately 19.7%, 15.7% and 13.7%, respectively, of our total sales volume in 2008, 2009 and 2010. Demand for our products is seasonal because climatic conditions, such as cold weather, snow and heavy or sustained rainfall, negatively affect the level of activity in the construction industry, which in turn results in a decrease in demand for and sales of our products. As a result of the seasonal fluctuations, our quarterly results may not be indicative of our business and financial performance for a given year as a whole.

Any failure to maintain an effective quality control system at our production facilities could have a material and adverse effect on our business, financial condition and results of operations.

The quality of our products is critical to the success of our business. The quality of our products depends on the effectiveness of our quality control system, which in turn depends on a number of factors, including the design of the system, the quality control training program, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any failure of our quality control system could result in the production of defective or substandard products, which in turn may result in delays in the delivery of our products, the need to replace defective or substandard products and damage to our reputation, which could have a material and adverse effect on our business, financial condition and results of operations.

We currently enjoy certain PRC government incentives. Expiration of, or changes to, these incentives could have a material adverse effect on our results of operations.

Shandong Shanshui, one of our subsidiaries in the PRC, is one of 12 national cement producers that are entitled to government support in the form of priority with respect to project approvals, land use right grants and credit approvals when undertaking mergers, acquisitions and project investments. The PRC government is also currently offering VAT refunds and enterprise income tax exemptions to cement producers that use a certain level of recycled materials, such as slag and fly ash. In 2010, VAT refunds from selling cement products produced using recycled materials represented approximately 7.67% of our profit before taxation. There is no assurance that we will be able to continue to enjoy such preferential treatments, incentives and favorable support on the same terms, or at all in the future. Unfavorable changes in such preferential treatments, incentives or support will adversely affect our business, results of operations and financial condition.

Any unauthorized use of our brand names, trademarks and other intellectual property rights may adversely affect our business.

We rely on the PRC intellectual property and anti-unfair competition laws and contractual restrictions to protect our brand names, trademarks and other intellectual property rights. We believe our brand names, trademarks and other intellectual property rights are important to our business. We market and sell most of our products under our "Shanshui Dongyue" brand name (山水東岳), which has been designated by Jinan Administration for Industry and Commerce as a "Famous Trademark." Any unauthorized use of our brand names, trademarks and other intellectual property rights could adversely affect our business, reputation and market position. Our "Shanshui Dongyue" brand name has been subject to third party infringement in the past. In an effort to prevent infringements of our intellectual property, we have, among other things, established a committee to focus on intellectual property infringement issues and implemented policies and procedures to address such issues. These policies and procedures include, among other things, using an authenticity code on the package of our products that can be easily identified by our customers. However, any measure we take to protect our intellectual property rights may not be sufficient. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could expose us to substantial risks. If we are unable to adequately protect our brand names, trademarks and other intellectual property rights, our reputation and profitability may be materially and adversely affected.

Product liability claims may be brought against us and may materially and adversely affect our business, results of operations and financial condition.

We produce and sell a wide variety of cement products with different specifications and formulations. Although cement products must pass applicable industry tests and comply with contractual specifications and regulatory requirements, there is no assurance that product claims will not be brought against us in the future. If such claims are brought against us, they may adversely affect the reputation of our brand and may materially and adversely affect our business, results of operations and financial condition.

We may become involved in legal and other proceedings from time to time and may suffer significant liabilities or other losses as a result.

We have in the past, and may in the future, become involved in disputes with various parties, which may lead to legal or other proceedings and may result in substantial costs and diversion of resources and management's attention. See "Business – Legal and Administrative Proceedings." Third parties that are found to be liable to us may not have resources to compensate us for the costs and damages we incurred. In addition, we may be required to pay significant costs and damages if we do not prevail in any such disputes or proceedings.

Our business operations and construction of new facilities may be disrupted by reasons beyond our control, which could materially and adversely affect our business, results of operations and financial condition.

Our business operations and construction of new facilities may be disrupted by, among other things, extreme climatic and weather conditions, fires, natural disasters, epidemics, raw material supply shortages, equipment and system failures and labor force shortages. In addition, due to the nature of our business and despite compliance with requisite safety requirements and standards, our operations are subject to operational risks associated with building materials production, including storage tank leaks and ruptures, explosions, discharges or releases of hazardous substances and malfunctioning of production machinery. These risks may result in personal injuries, property damage and imposition of civil or criminal penalties.

In August 2010, certain inventories of Gongyuan Cement located in Dandong city, Liaoning province were damaged as a result of a serious flood, and we incurred a loss totaling RMB10.2 million (US$1.5 million). Our assets, business operations, customers and suppliers are principally located in Shandong and Liaoning provinces. If floods or other natural disasters continue to occur in or affect Shandong province or

Liaoning province in which we have operations, our business, results of operations and financial condition may be materially and adversely affected.

We outsource some of our limestone mining activities to third-party contractors and we may be liable for the contractors' failure to comply with applicable laws and regulations.

We outsource a portion of the mining of our limestone reserves to third party contractors whose operations are beyond our control. We cannot assure you that these third-party contractors would continue to provide the limestone excavation services to us. If any or all of them cease to provide such services or fail to perform to our satisfaction, we may not be able to locate suitable replacements to ensure a continuous and adequate supply of limestone for our production of cement products, and our results of operation and financial performance could be adversely affected.

In addition, we require our contractors to provide us with the applicable licenses and renewal certificates, as mandated under the relevant PRC laws and regulations, as well as conduct safety inspections at the quarries. However, we may still be held liable by the authority if any of our contractors failed to comply with relevant PRC laws and regulations and we may be subject to fine or other penalties, which may negatively and adversely affect our results of operation and financial performance.

We have not obtained legal titles to some of the properties we occupy and certain of our leased properties may be subject to title encumbrances.

We have not obtained land use rights and building ownership certificates relating to some of the properties we occupy. For instance, Tianjin Tianhui and Zibo Shuangfeng currently occupy land by leases from the local village committees, pending finalization of official transfer of such land from the local land authorities. In addition, Chifeng Yuanhang currently occupies land allocated by the local government, pending the official change of land use for our production purposes and transfer of such properties from the local government. If any ownership dispute or claim regarding such properties occurs, or we could not obtain the land use rights certificates for such properties and could not secure alternative and comparable sites and properties at reasonable costs or at all, our operating rights and production in connection with these properties may be adversely affected, which could in turn materially and adversely affect our business, results of operations and financial condition. In addition, there is no assurance that we would not be subject to any claims for compensation with respect to any actual or alleged illegal and/or unauthorized use of land or buildings owned by third parties.

We may not have obtained the necessary licenses, permits and approvals for our production and construction projects.

As of the date of this offering memorandum, we were in the process of applying certain licenses and permits for some of our production and construction projects. We are currently in the process of applying for 13 construction land planning permits, 14 construction project planning permits, 16 construction commencement permits and 12 industrial products production permits for 22 production lines of our various products. A failure to obtain these licenses or permits could subject us to fines, penalties and/or sanctions for the operations. We have not in the past experienced any suspension in production arising from a lack of requisite licenses. However, there is no assurance that we will not be required to cease production by the relevant local authority or subject to fines due to the lack of the above licenses, permits and approvals. If we are required to cease production, we will not be able to use the facilities and will suffer financial losses.

If we fail to maintain effective internal control over financial reporting, our business, results of operations and reputation could be materially and adversely affected.

Our internal control system is essential to the integrity of our business, results of operations and reputation. To help us address prior deficiencies and weaknesses in our internal control over financial reporting, we engaged an independent internal control consulting firm in connection with our initial public offering on the Hong Kong Stock Exchange in 2008 to review our key business and management processes and to assist us in establishing and improving relevant internal control processes and developing related organizational structures and systems. With the assistance of this consulting firm, we have established various plans and procedures that we believe will allow us to remedy our prior internal control deficiencies and weaknesses. In particular, we have provided and are continuing to provide further training to our financial and accounting staff to enhance their knowledge of the IFRSs and improve our overall corporate governance. However, we cannot assure you that similar or other deficiencies or weaknesses in our internal control over financial reporting will not be discovered in the future. If we fail to maintain effective internal control over financial reporting in the future, our business, results of operations and reputation may be materially and adversely affected. Our efforts to improve our internal control over financial reporting have also required, and may in the future continue to require, increased costs and significant management time and commitment.

Our business, financial condition and results of operations may be adversely affected by the downturn in the global or Chinese economy.

The global financial markets have experienced significant disruptions since 2008 and the effect of the crisis persisted in 2009. China's economy has also faced challenges. Although there have been improvements in some geographical areas, it is uncertain whether such recovery is sustainable. Because we derive substantially all of our revenues from China, uncertainties in China's economy could materially and adversely affect the construction and infrastructure sectors in China, thereby our business and prospects may be materially and adversely affected.

Moreover, a slowdown in the global or Chinese economy or the recurrence of any financial disruptions may have a material and adverse impact on financings available to us. Any financial turmoil affecting the financial markets and banking system may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all. We are uncertain about the extent to which a global financial and economic crisis and slowdown of the Chinese economy may impact our business in the long term. There is a risk that our business, results of operations and prospects would be materially and adversely affected by the global economic downturn and the slowdown of the Chinese economy.

Risks Relating to China's Cement Industry

The cement industry is subject to significant regulation by the PRC government.

Various PRC government authorities, including the National Development and Reform Commission of the PRC ("NDRC"), the Ministry of Land and Resources, the State Environmental Protection Administration, the General Administration of Quality Supervision Inspection and Quarantine, or GAQSIQ, the Ministry of Commerce of the PRC, or MOFCOM, the Ministry of Industry and Information Technology and the Ministry of Construction of the PRC, have the authority to issue and implement regulations governing various aspects of cement production.

In order to engage in cement production, we are required to maintain certain licenses and permits such as the cement production permit and the production safety permit in China. In addition, our products are also required to meet certain standards stipulated by various PRC government authorities. For example, GAQSIQ issued the B175-2007 standards that govern certain aspects of the production and sales of cement products. All cement producers in the PRC must comply with these standards, and cement products that fail to meet the relevant quality standards may not be sold in the PRC. These standards provide strict guidelines regarding the composition and technical specifications for cement products. They also standardize the testing methods for cement products and the types of packaging permitted. Should there be any change to the existing requirements or new requirements applicable to our cement products, we may need to incur additional expenses to ensure compliance and we cannot assure you that we will successfully obtain such licenses, permits or approvals in a timely manner, or at all. If we are not able to meet all the licensing conditions or the regulatory requirements, our business, financial condition and results of operations could be adversely and materially affected.

The cement industry has traditionally been subject to government control at the policy level in terms of production method and volume, product mix and environmental protection. While the PRC government's current policies in respect of the domestic cement industry are generally market oriented, the PRC government still closely monitors the development of the cement industry and may from time to time regulate the industry by issuing and implementing new regulations and policies. For example, according to the Notice Regarding Replacement of Obsolete Cement Production Capability issued by NDRC on February 18, 2007, local governments are required to gradually phase out cement producers with annual output of less than 200,000 tons and those with production methods that are less environmentally friendly. In addition, according to the State Council's Notice Approving the NDRC's Guidelines on Redundant Construction, Curbing Overcapacity in Certain Industries and the Healthy Development of Industries promulgated on September 26, 2009, or the "2009 Notice," the industrial policies on the cement industry in the PRC are, among others, to strictly control newly added cement capacities and phase out obsolete cement production capacity. For instance, newly constructed projects' heat consumption of cement and clinker burning should be lower than 105 kg of standard coal/ton of clinker and the comprehensive electricity consumption for cement should be lower than 90KWh/ton of cement; the limestone reserve life must be more than 30 years; the density of waste gas and dust content must be lower than 50 mg/standard cubic meter.

In addition, according to the Criteria for Entry to the Cement Industry newly promulgated by the Ministry of Industry and Information Technology, which came into effect on January 1, 2011, the entry barriers for the new expansion of cement production have been significantly increased. The Criteria for Entry to Cement Industry requires any relevant cement production expansion to have a production capacity of new dry process cement clinker of more than 900 kilogram per capita and sets strict requirements for new cement production projects in terms of production volume, production methods, energy conservation and environmental protection.

In addition to the entry barriers, the cement industry has been subject to a credit control policy in recent years as it is an energy intensive industry. In June 2007, the PBOC promulgated the Guidelines on the Enhancement and Improvement of Financial Services in Energy Saving and Environmental Protection Fields, or the "2007 Guidelines," which tightened credit in energy intensive and heavily polluting industries and effectively constrained bank lending to PRC cement companies. Although we have adopted energy saving and environmentally friendly production technologies, and our production facilities are in compliance with relevant industry policies, we may still have limited access to RMB-denominated loans from time to time due to different interpretations and implementation of the 2007 Guidelines by various PRC banks.

Moreover, projects involving significant capital investment are subject to approval or filing requirements at different levels of the PRC government. Compliance with these government regulations and policies and efforts to obtain such approvals may result in significant adjustments to our current or future development plans, increase our costs and divert our management resources, which may adversely affect our profitability and growth prospects.

Compliance with environmental and energy conservation regulations can be expensive, and any failure to comply with these regulations could result in adverse publicity, significant monetary damages and fines and suspension of our business operations.

As an industry that generates significant levels of pollution and consumes large amounts of energy, the cement industry is subject to national and local environmental protection and energy conservation laws and regulations. As the production of cement is regarded as one of the major sources of pollution in the PRC, the PRC government has adopted a series of environmental policies to reduce the adverse effects of the cement industry on the environment, such as the requirement to use the more environmentally friendly NSP production technology. Governmental requirements that affect our operations include those relating to noise, soil, air quality, solid waste management, and waste-water treatment. In addition, the PRC government has adopted energy saving policies specifically for the cement industry. On November 25, 2010, the Ministry of Industry and Information Technology issued the Guidelines on Energy Saving and Emission Reduction of the Cement Industry, which aims to conserve energy and reduce the emissions resulting from cement production in the coming years. Failure to comply with these policies and regulations may result in the assessment of damages or imposition of penalties, fines, administrative sanctions, proceedings and/or suspension of production or cessation of our operations or revocation of our licenses or permits to conduct our business. With the increasing awareness of environmental protection and energy conservation issues, we anticipate that the PRC regulatory framework will become increasingly stringent. The implementation of more stringent laws and regulations or stricter interpretation of the existing laws and regulations may require us to incur additional expenses for compliance purposes. We cannot assure you that we will be able to comply with any additional regulations in the future, or enhanced implementation of such existing regulations, on a cost-effective basis, or at all. In such circumstances, our business, financial condition and results of operations could be adversely and materially affected.

We are subject to safety and health laws and regulations in China, and any failure to comply could adversely affect our operations.

We are required to comply with the applicable production safety standards in relation to our production processes. Our production plants and facilities are subject to regular inspections by the regulatory authorities for compliance with the Safe Production Law of the PRC. Furthermore, under the PRC Labor Law and the PRC Law on the Prevention and Treatment of Occupational Diseases, we must ensure that our facilities comply with PRC standards and requirements on occupational safety and health conditions for employees. We also provide our employees with labor safety training, all necessary protective tools and facilities, and regular health examinations for those who may be exposed to risks of occupational hazards. Nevertheless, failure to meet the relevant legal requirements on production safety and labor safety could subject us to warnings from relevant governmental authorities, governmental orders to rectify such non-compliance within a specified time frame and maximum fines of up to RMB500,000 per incident. We may also be required to suspend our production temporarily or cease our operations permanently for significant non-compliance, which may have a material adverse effect on our reputation, business, financial condition and results of operations.

We are heavily dependent on the performance of the construction industry in China.

Cement is one of the basic construction materials. Demand for our products depends on the condition and growth of the construction industry, which in turn depend on macro-economic conditions and other factors, such as interest rates, inflation, unemployment levels, demographic trends and consumer confidence. There is no assurance that China's economy will continue to grow at the current speed or the demand for cement will continue to grow or remain at the same level. Since early 2004, the PRC government has implemented certain measures to control the pace of economic growth, in particular to curtail the overheating of the real estate sector. Such measures include more stringent approval processes for large-scale fixed asset investment projects and tightening of credit to fund these projects. Any slowdown or decline in China's economy and/or construction industry growth may materially and adversely affect the cement industry, which in turn would have an adverse effect on our business, results of operations and financial condition.

We face intense competition from other cement producers.

China's cement industry is highly competitive and extremely fragmented, with over 5,000 cement producers as recorded in November 2010 according to Hexun.com. Our major competitors are national players that have presence in Shandong and Liaoning provinces, as well as smaller scale regional cement producers in the individual markets in which we compete. Some of our competitors have financial and technological support from well-established international players. If we cannot compete effectively on the basis of, among other things, product quality, variety of product offerings, technology, location of production facilities, access to resources, sales and marketing network and brand image, we may not be able to maintain our leading market position and the same level of profitability in the future in light of the highly competitive market environment.

Risks Relating to Conducting Business in the PRC

PRC economic, political and social conditions, as well as government policies, could affect our business.

Substantially all of our assets are located in the PRC, and all of our revenue is derived from within the PRC. Accordingly, our results of operations, financial position and prospects are significantly subject to the economic, political and legal developments of the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including but not limited to:

- structure;
- level of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

While the PRC economy has grown significantly in the past 20 years, growth has been uneven, both geographically and across the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also negatively affect our operations. For example, our financial condition and results of operations may be materially and adversely affected by the PRC government's control over capital investments and changes in tax regulations or foreign exchange controls that are applicable to us.

The PRC economy has been transitioning from a planned economy to a market-oriented economy. For the past two decades, the PRC government has implemented economic reform measures emphasizing the utilization of market forces in the development of the PRC economy. Although we believe these reforms will have a positive effect on our overall and long-term development, we cannot predict whether changes in the PRC's economic, political and social conditions, laws, regulations and government policies will have any material and adverse effect on our current or future business, results of operations or financial condition.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency to jurisdictions outside China. We receive substantially all of our revenue in Renminbi. Under our current structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us or otherwise satisfy their foreign currency denominated or settled obligations, such as the Notes. Under the PRC's foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade, may be made in foreign currencies without prior approval, subject to certain procedural requirements. However, strict foreign exchange controls continue for capital account transactions, including repayment of loan principal and return of direct capital investments and investments in negotiable securities. The PRC government may also, at its discretion, restrict access to foreign currencies for current account transactions in the future. In the past, there have been shortages of US dollars or other foreign currency available for conversion of Renminbi in the PRC, and it is possible that such shortages could recur, or that restrictions on conversion could be re-imposed. If the PRC foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, our PRC subsidiaries may not be able to pay dividends in foreign currencies to us and we may not be able to service our debt obligations denominated or settled in foreign currencies, such as the Notes.

There are significant uncertainties under the PRC enterprise income tax law relating to the withholding tax liabilities of our PRC subsidiaries.

Under the Enterprise Income Tax Law of the PRC and its implementation rules (collectively, the "EIT Law"), the profits of a foreign invested enterprise generated in 2008 and onwards which are distributed to its immediate holding company outside the PRC will be subject to a withholding tax rate of 10.0% or a lower treaty rate. Pursuant to a special arrangement between Hong Kong and the PRC, such rate is lowered to 5.0% if a Hong Kong resident enterprise owns over 25% of the PRC company. Some of our PRC subsidiaries are currently wholly owned by Hong Kong subsidiaries. However, according to the Circular of State Administration of Taxation on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties, which became effective on October 1, 2009, the 5% withholding tax rate does not automatically apply and approvals from competent local tax authorities are required before an enterprise can enjoy any benefits under the relevant taxation treaties. Moreover, according to a tax circular issued by the State Administration of Taxation ("SAT") in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment and the offshore entity is not the beneficial owner of the relevant income, the PRC tax authorities have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. Furthermore, the SAT issued Circular 601 on October 27, 2009 to clarify that a beneficial owner should be a person engaged in actual operation and this person could be an individual or any other entity. Circular 601 expressly excludes a "conduit company," which is established for the purposes of tax avoidance and dividend transfers and is not engaged in actual operations such as manufacturing, sales and management, from being a beneficial owner. It is still unclear how Circular 601 is being implemented by SAT or its local counterparts in practice. The PRC tax authorities might not grant approvals on the 5% withholding tax rate on dividends received by our subsidiaries in Hong Kong from our PRC subsidiaries.

Under the EIT Law, we may be classified as a "resident enterprise" of China. Such classification could result in unfavorable tax consequences to us and our non-PRC noteholders.

Under the EIT Law, an enterprise established outside of China with "de facto management organization" located within China will be considered a "resident enterprise," and consequently will be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementation rules of the EIT Law define "de facto management" as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. The SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Organization ("SAT Circular 82") on April 22, 2009. SAT Circular 82 provides certain specific criteria for determining whether the "de facto management organization" of a Chinese-controlled offshore incorporated enterprise is located in China. Although SAT Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by PRC individuals, the determining criteria set forth in Circular 82 may reflect the SAT's general position on how the "de facto management organization" test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. If the PRC tax authorities determine that we are a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. We may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest from any investment of any portion of the offering proceeds and other income sourced from outside the PRC would be subject to PRC enterprise income tax at a rate of 25%, whereas no direct tax is imposed on enterprises under the laws of the Cayman Islands. Furthermore, as described in "Taxation – PRC," if we are considered a "resident enterprise," interest payable to certain "non-resident enterprise" holders on the Notes may be treated as income derived from sources within China and be subject to PRC withholding tax at a rate of 10%, or a lower rate for holders who qualify for the benefits of a double-taxation treaty with China, and capital gains realized by holders of Notes may be treated as income derived from sources within China and be subject to a 10% PRC tax. If we are required under the EIT Law to withhold PRC tax on our interest payable to our non-resident noteholders who are "non-resident enterprises," we will be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Notes, as well as our profitability and cash flow. In addition to the uncertainty as to the application of the new "resident enterprise" classification, the PRC government could amend or revise the taxation laws, rules and regulations to impose stricter tax requirements, higher tax rates or apply the EIT Law, or any subsequent changes in PRC tax laws, rules or regulations retroactively. As there may be different applications of the EIT Law and any amendments or revisions, comparisons between our past financial results may not be meaningful and should not be relied upon as indicators of our future performance. If such changes occur or are applied retroactively, they could materially and adversely affect our results of operations and financial condition.

PRC regulations relating to the investment in offshore special purpose companies by PRC residents may subject our shareholders that are PRC residents to personal liability, limit our ability to contribute capital into or provide loans to our PRC subsidiaries, limit our subsidiaries' ability to increase their registered capital, pay dividends or otherwise distribute profits to us, or otherwise adversely affect us.

The PRC's State Administration of Foreign Exchange ("SAFE") has promulgated several regulations, including the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in financing and Inbound Investment via Overseas Special Purpose Vehicles, or Circular No. 75, issued on October 21, 2005, which require PRC residents and PRC corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment activities.

Under these SAFE regulations, PRC residents who make, or have previously made, direct or indirect investments in offshore companies are required to register those investments with the local branch of SAFE. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of SAFE, to reflect any material change involving that offshore company's round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest, and the PRC subsidiaries of the relevant offshore company are required to urge the PRC resident shareholders to do so. If any PRC shareholder fails to make the required initial SAFE registration or update the previously filed registration, the PRC subsidiaries of that offshore parent company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company, and the offshore parent company may also be prohibited from injecting additional capital into its PRC subsidiaries.

Due to uncertainty concerning the reconciliation of these SAFE rules with other approval or registration requirements, it remains unclear how these rules, and any future legislation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. We attempt to comply, and attempt to ensure that our shareholders who are subject to these rules comply, with the relevant requirements. However, we cannot assure you that all of our shareholders who are PRC residents, will comply with our request to make or update any applicable registrations or comply with other requirements required by these rules or other related rules. The failure or inability of our PRC resident shareholders to make any required registrations or comply with other requirements may subject such shareholders to fines and legal sanctions and may also limit our ability to contribute additional capital into or provide loans to (including using the proceeds from any equity or debt securities offerings) our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital, pay dividends or otherwise distribute profits to us, or otherwise materially and adversely affect us.

Substantially all of our revenue is denominated in Renminbi and fluctuations in the exchange rate of Renminbi may materially and adversely affect our business, financial condition and results of operations.

Substantially all of our revenue is denominated in Renminbi and must be converted to pay dividends or make other payments in freely convertible currencies. The value of RMB against other foreign currencies is subject to changes in the PRC government's policies and international economic and political developments. Under the current unified floating exchange rate system, the conversion of RMB into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are quoted daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. Since 1994, the official exchange rates for the conversion of RMB to Hong Kong and U.S. dollars have generally been stable. However, with effect from July 21, 2005, the PRC government reformed the exchange rate regime by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. As a result, the RMB appreciated against the Hong Kong and U.S. dollars by approximately 2% on the same date. In September 2005, the PRC government widened the daily trading band for RMB against non-U.S. dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system. The floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar was expanded from 0.3% to 0.5% around the central parity rate, effective in May 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 21.8% from July 21, 2005 to April 29, 2011. Any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable to us by our PRC subsidiaries. For example, an appreciation of the Renminbi against the U.S. dollar would make any new Renminbi denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into Renminbi for such purposes.

PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire PRC companies and materially and adversely affect the implementation of our strategy as well as our business and prospects.

The Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (the "M&A Provisions") issued by six PRC ministries including the MOFCOM, effective from September 8, 2006 and further amended on June 22, 2009, provide the rules with which foreign investors must comply should they seek to purchase by agreement the equities of the shareholders of a domestic non-foreign-invested enterprise or subscribe to the increased capital of a domestic non-foreign-invested enterprise, and thus convert the domestic non-foreign invested enterprise into a foreign invested enterprise to conduct asset merger and acquisition. It stipulates that the business scope upon acquisition of domestic enterprises must conform to the Foreign Investment Industrial Guidance Catalog issued by the NDRC and the MOFCOM, which restricts the scope of permitted foreign investment. It also provides the takeover procedures for equity interests in domestic companies.

Our PRC legal advisors have advised us that there are uncertainties as to how the M&A Provisions will be interpreted or implemented. If we decide to acquire a PRC company, we cannot assure you that we or the owners of such PRC company can successfully complete all necessary approval requirements under the M&A Provisions. This may restrict our ability to implement any acquisition strategy and materially and adversely affect our business and prospects.

The legal system in the PRC is less developed than in certain other countries and uncertainty with respect to the PRC legal system could affect our operations.

As substantially all of our businesses are conducted, and substantially all of our assets are located, in the PRC, our operations are governed principally by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation, foreign exchange and trade, with a view to developing a comprehensive system of commercial law. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

The national and regional economies in the PRC and our prospects may be materially and adversely affected by natural disasters, acts of God, and occurrence of epidemics.

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God that are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some regions in the PRC, including the cities in which we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome ("SARS"), H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1). For instance, a serious earthquake and its successive aftershocks hit Sichuan province in May 2008 and resulted in tremendous loss of lives and destruction of assets in the region. Past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in the PRC.

In addition, the outbreak of SARS or other virulent contagious diseases, such as the H5N1 avian flu or the human swine flu, could potentially disrupt our operations if any buyers or sellers in our markets are suspected to have contracted such diseases, and our markets are identified as a possible source of spreading the contagious disease infection. We may be required to quarantine tenants who are suspected of being infected. We may also be required to disinfect the affected markets and therefore suffer a temporary suspension of operations. Any quarantine of users or suspension of operations at any one of markets is likely to materially and adversely affect our business, financial condition and results of operations.

It may be difficult to enforce any judgments obtained from non-PRC courts against us, our directors or our senior management in the PRC.

Substantially all of our assets are located within the PRC. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with many countries, including Japan, the United States and the United Kingdom. Therefore, it may be difficult for you to enforce any judgments obtained from non-PRC courts against us, any of our directors or our senior management in the PRC.

We cannot guarantee the accuracy of facts, forecasts and other statistics included in this offering memorandum that are derived from official government publications with respect to the PRC, the PRC economy and the PRC industries that affect our business.

Facts, forecasts and other statistics in this offering memorandum relating to the PRC, the PRC economy and the PRC industries that affect our business have been derived from various official government publications generally believed to be reliable. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Initial Purchasers or any of our or their affiliates or advisors and, therefore, none of them makes any representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between official government publications and market practice and other problems, the statistics cited in this offering memorandum may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, they might not be stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases you should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.

Risks Relating to the Notes

We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries that do not guarantee the Notes.

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. The Notes will not be guaranteed by any current or future PRC subsidiaries. Our primary assets are ownership interests in our PRC subsidiaries, which are held through our subsidiaries incorporated outside the PRC. On the date of issue of the Notes, all the guarantors of the Notes are subsidiaries incorporated outside the PRC. The guarantors do not have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the guarantors to satisfy their obligations under their guarantees will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our subsidiaries.

Creditors, including trade creditors of non-guarantor subsidiaries and any holders of preferred shares in such entities, would have a claim on the assets of the non-guarantor subsidiaries that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our subsidiaries that do not guarantee the Notes, including their obligations under guarantees they have issued or will issue in connection with our business operations, and all claims of creditors of our non-guarantor subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of December 31, 2010, our Company had capital commitments arising from guarantees of RMB3,723.2 million (US$564.1 million) and no material contingent liabilities. The Notes and the indenture permit us, the guarantors and our non-guarantor subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. In addition, our secured creditors or those of any guarantor would have priority as to our assets or the assets of such guarantor securing the related obligations over claims of holders of the Notes.

We have substantial indebtedness and may incur substantial additional indebtedness.

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. Our total debt, including both current and non-current borrowings, as of December 31, 2008, 2009, and 2010 were RMB4,767.4 million, RMB5,755.2 million, and RMB7,398.7 million (US$1,121.0 million), respectively. Our substantial indebtedness could have important consequences to you. For example, it could:

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and for other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that has less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, our ability to borrow additional funds; and
- increase the cost of additional financing.

We may from time to time incur substantial additional indebtedness and contingent liabilities. Although the indenture restricts us and our restricted subsidiaries from incurring additional debt and contingent liabilities, these restrictions are subject to important exceptions and qualifications. If we or our subsidiaries incur additional debt, the risks that we face as a result of our existing indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, we may not generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms or at all.

In addition, the indenture governing the Notes prohibits us from incurring additional indebtedness unless (i) we are able to satisfy a certain financial ratio or (ii) we are able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratio requirement, and meet any other applicable restrictions. Our ability to meet our financial ratio requirement may be affected by events beyond our control. We might not be able to meet this ratio. Certain of our financing arrangements also impose operating and financial restrictions on our business. See "Description of Other Material Indebtedness." Such restrictions in the Notes and our other financing arrangements may impair our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

To meet our obligations under our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including the Notes, and to fund planned capital expenditures and project development will depend on our future performance and ability to generate cash. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. As of December 31, 2010, our total debt amounted to RMB7,398.7 million (US$1,121.0 million). See "Description of Other Material Indebtedness."

Our business might not generate cash flow from operations in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the Notes, on or before maturity. We might not be able to refinance any of our indebtedness on commercially reasonable terms or at all. If we are unable to service our indebtedness or obtain refinancing on terms acceptable to us, we may be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries.

We may depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments of such subsidiaries. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Notes. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the guarantees for the Notes.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with IFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends by the board of directors. In addition, since January 1, 2008, dividends paid by our PRC subsidiaries to their non-PRC parent companies have been subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. In addition, according to PRC regulations issued by SAFE, our PRC subsidiaries are only permitted to declare and distribute dividends after the completion of a financial year. Also, pursuant to the articles of association of some of our PRC subsidiaries, dividends may only be declared and distributed annually. As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Notes or satisfy our obligations under the guarantees for the Notes, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

Furthermore, in practice, the market interest rate that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholders' loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay a 10% or lower treaty rate withholding tax on our behalf on the interest paid under any shareholders' loans. PRC regulations require approval by SAFE prior to any of our non-PRC subsidiaries making shareholder loans in foreign currencies to our PRC subsidiaries and require such loans to be registered with SAFE. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with SAFE, as well as any other documents that SAFE or its local branch may require.

As a result of the foregoing, we might not have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Notes or the obligations of the guarantors under the guarantees.

Under PRC regulations, we may not be able to transfer to our PRC subsidiaries proceeds from this offering in the form of a loan, which could impair our ability to make timely payments of interest and principal under the Notes.

According to PRC rules and regulations relating to supervision of foreign debt, loans by foreign companies to their subsidiaries in China, such as our PRC subsidiaries established as foreign-invested enterprises in China, are considered foreign debt, and such loans must be registered with the relevant local branches of SAFE. Such rules and regulations also provide that the total outstanding amount of such foreign debt borrowed by any foreign- invested enterprise may not exceed the difference between its total investment and its registered capital, each as approved by the relevant PRC authorities. Foreign-invested enterprises include joint ventures and wholly foreign-owned enterprises established in China, such as most of our PRC subsidiaries. Therefore, the proceeds of this offering, if any, that will be used for production facilities and acquisitions in China may only be transferred to our PRC subsidiaries as equity investments and not as loans. We would therefore have to rely on dividend payments from our PRC subsidiaries, and we cannot assure you that dividend payments will be available on each interest payment date to pay the interest due and payable under the Notes, on the maturity date to pay the principal of the outstanding notes, or at the time of the occurrence of any change of control to make purchases of outstanding Notes.

In addition, equity contributions by us and our non-PRC subsidiaries to our PRC subsidiaries will require approvals from the commerce department of the local government and filing with the MOFCOM and the local branch of SAFE, which may take considerable time and delay the actual contribution to the PRC subsidiaries. This may adversely affect the financial condition of the PRC subsidiaries and may cause delays to the development undertaken by such PRC subsidiaries. We cannot assure you that we have obtained or will obtain in a timely manner all relevant necessary approval certificates or filings for all our operating subsidiaries in the PRC to comply with this regulation.

Further, we cannot assure you that the PRC government will not introduce new policies that further restrict our ability to deploy in the PRC, or that prevent us from deploying in the PRC, the funds raised outside China. Therefore, we may not be able to use all or any of the capital that we may raise outside China to finance our projects in a timely manner or at all.

The insolvency laws of the Cayman Islands and other local insolvency laws may differ from those of jurisdictions with which you are familiar, and enforcing your rights under the Notes or the guarantees across multiple jurisdictions may prove difficult.

Because we are incorporated under the laws of the Cayman Islands, an insolvency proceeding relating to us, regardless of where they are brought, might involve Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy laws of other jurisdictions. For example, under Cayman Islands insolvency laws, the claims of unsecured creditors are payable only to the extent that assets remain available and can be sold after the assets subject to the claims of secured and preferred creditors are sold and the proceeds applied to pay those secured and preferred creditor claims. In addition, each guarantor is incorporated either in the British Virgin Islands or Hong Kong, and the insolvency laws of these jurisdictions may also differ from the laws of the other jurisdictions with which you are familiar.

In addition, the Notes will be issued by us and guaranteed by the guarantors. We are incorporated in the Cayman Islands. There are three guarantors, one of which are incorporated under the laws of the British Virgin Islands and two in Hong Kong. The Notes, the guarantees and the Indenture will be governed by the laws of the State of New York. In the event of a bankruptcy, insolvency or similar event, proceedings could be initiated in the Cayman Islands, the British Virgin Islands and Hong Kong. Such multi-jurisdictional proceedings are complex, may be costly for creditors and otherwise may result in greater uncertainty and delay regarding the enforcement of your rights. Your rights under the Notes and the guarantees will be subject to the insolvency and administrative laws of several jurisdictions and there can be no assurance that you will be able to effectively enforce your rights in such complex multiple bankruptcy, insolvency or similar proceedings. For instance, the bankruptcy, insolvency, administrative and other laws of the Cayman Islands, the British Virgin Islands and Hong Kong may conflict with each other, including in the areas of rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceeding. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's laws should apply and could adversely affect your ability to enforce your rights under the Notes and the guarantees in the relevant jurisdictions or limit any amounts that you may receive.

We may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our PRC subsidiaries to obtain and remit sufficient foreign currency to pay dividends to us and, if applicable, to repay shareholder loans. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of China, including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE. Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% withholding tax or lower tax treaty rate on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on shareholder loans, which may affect our ability to satisfy our obligations under the Notes.

We may not be able to repurchase the Notes upon a change of control.

We must offer to purchase the Notes upon the occurrence of a change of control, at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See "Description of the Notes." The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have enough available funds at the time of the occurrence of any change of control to make purchases of outstanding Notes. If an event constituting a change of control occurs at a time when we are prohibited from repurchasing the Notes, we may seek the consent of the lenders under such indebtedness to purchase the Notes or may attempt to refinance the borrowings that contain such prohibition. If such a consent to repay such borrowings is not obtained, we may be unable to repurchase the Notes. Our failure to make the offer to purchase or purchase the outstanding Notes would constitute an event of default under the Notes. The event of default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

Certain of the events constituting a change of control under the Notes may also constitute an event of default under certain of our or our subsidiaries' debt instruments. Future debt of the issuer and the guarantor may also (1) prohibit us from purchasing notes in the event of a change of control; (2) provide that a change of control is a default; or (3) require repurchase of such debt upon a change of control. Moreover, the exercise by the noteholders of their right to require us to purchase the Notes could cause a default under our or our subsidiaries other indebtedness, even if the change of control itself does not, due to the financial effect of the purchase on us and our subsidiaries.

In addition, the definition of change of control for purposes of the indenture does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations, although these types of transactions could increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of change of control for purposes of the indenture also includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or our assets taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly-leveraged transaction or a sale of less than all of our assets may be uncertain.

If we are unable to comply with the terms of the indenture governing the Notes or our future debt agreements, there could be a default under those agreements, which could cause repayment of our debt to be accelerated.

If we are unable to comply with the terms in the indenture governing the Notes or our future debt obligations and other agreements, there could be a default under those agreements. If that occurs, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, the indenture governing the Notes contains, and our future debt agreements are likely to contain, cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under our other debt agreements, including the indenture governing the Notes. If any of these events occur, our assets and cash flow might not be sufficient to repay in full all of our indebtedness and we might not be able to find alternative financing. Even if we could obtain alternative financing, it might not be on terms that are favorable or acceptable to us.

Our operations are restricted by the terms of the Notes, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk.

The indenture governing the Notes includes a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our restricted subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on capital stock or purchase or redeem capital stock;

- make investments or other specified restricted payments;
- issue or sell capital stock of restricted subsidiaries;
- guarantee indebtedness of restricted subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- engage in any business other than permitted business;
- enter into agreements that restrict the restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates;
- effect a consolidation or merger; and
- engage in different business activities.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance.

A trading market for the Notes may not develop, and there are restrictions on resale of the Notes.

The Notes are a new issue of securities for which there is currently no trading market. We have received approval in-principle to list the Notes on the SGX-ST but we cannot assure you that we will be able to maintain a listing on the SGX-ST and, even if listed, a liquid trading market might not develop. If no active trading market develops, you may not be able to resell your Notes at their fair market value or at all. Future trading prices of the Notes will depend on many factors, including prevailing interest rates, our operating results and the market for similar securities. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the U.S. Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the U.S. Securities Act or in transactions not subject to or exempt from registration under the U.S. Securities Act. See "Notice to Investors." We cannot predict whether an active trading market for the Notes will develop or be sustained.

The ratings assigned to the Notes may be lowered or withdrawn.

The Notes are expected to be assigned a rating of "BB-" by Standard and Poor's and "BB-" by Fitch. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. A rating might not remain for any given period of time and could be lowered or withdrawn entirely by the relevant rating agency. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the ratings assigned to the Notes may adversely affect the market price of the Notes.

The liquidity and price of the Notes following this offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals for new investments, strategic alliances and acquisitions, interest rates and fluctuations in price for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes.

There may be less publicly available information about us than is available in certain other jurisdictions.

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, the financial information in this offering memorandum has been prepared in accordance with IFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions, or other GAAPs, which might be material to the financial information contained in this offering memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between IFRS and other GAAPs. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between IFRS and other GAAPs and how those differences might affect the financial information contained in this offering memorandum.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Notes will initially only be issued in global certificated form and held through the facilities of DTC. Interests in the global notes representing the Notes will trade in book-entry form only, and notes in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of notes for purposes of the indenture. A nominee for DTC will be the sole registered holder of the global notes. Accordingly, you must rely on the procedures of DTC, and if you are not a participant in DTC, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of notes under the indenture.

Upon the occurrence of an event of default under the indenture, unless and until definitive registered notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through. The procedures to be implemented through DTC may not be adequate to ensure the timely exercise of rights under the Notes. See "Description of the Notes – Book-Entry; Delivery and Form."

Risks Relating to the Guarantees

The guarantees of the Notes may be challenged under applicable financial assistance, insolvency or fraudulent transfer laws, which could impair the enforceability of the guarantees.

Under bankruptcy laws, fraudulent transfer laws, financial assistance, insolvency or unfair preference or similar laws in the British Virgin Islands, Hong Kong or other jurisdictions where future guarantors may be established or where insolvency proceedings may be commenced with respect to any such guarantor, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;

- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;

- received no commercial benefit;

- was insolvent or rendered insolvent by reason of such incurrence;

- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or

- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the law of the jurisdiction that applies. Under the laws of the British Virgin Islands, it would also be necessary for the directors to ensure that the guarantor is solvent immediately after entry into, and performance of any obligation under, the transaction, that is:

- it will be able to satisfy its liabilities as they become due in the ordinary course of its business; and

- the realizable value of the assets of the guarantor will not be less than the sum of its total liabilities other than deferred taxes, as shown in the books of account, and its capital.

The directors should also ensure that the issued capital of the guarantor is maintained and that, after this transaction, the guarantor would have sufficient net assets to cover the nominal value of its issued share capital.

In addition, a guarantee may be subject to review under applicable financial assistance, insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder was incurred for less than reasonably equivalent value or fair consideration.

In an attempt to limit the applicability of financial assistance, insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the guarantors under the guarantees of the Notes will be limited to the maximum amount that can be guaranteed by the applicable guarantor without rendering the guarantee, as it relates to such guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voided a subsidiary guarantee, subordinated such guarantee to other indebtedness of a guarantor, or held the guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against that guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) and any preferred stock of such guarantor and would solely be creditors of our company and any guarantor whose guarantee was not voided or held unenforceable. There can be no assurance that, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

The Notes will not be guaranteed by existing or future PRC subsidiaries.

None of our current or future PRC subsidiaries, which are our operating subsidiaries, will provide a guarantee for the Notes either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of the PRC will provide a guarantee for the Notes at any time in the future. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries and such non-guarantor subsidiaries.

We cannot assure you that the initial guarantors or any subsidiaries that may become guarantors in the future will have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, will be approximately US$392 million, which we presently plan to use as follows:

- approximately US$150 million to refinance our existing borrowings;
- approximately US$200 million to expand our production capacity through construction of additional production lines at our existing production facilities or acquisitions of other production facilities if and when opportunities that we consider appropriate arise; and
- the remaining balance for general corporate purposes.

We expect that the timing and final amount of disbursement to be made for the foregoing purposes will be determined by our directors with a view to obtaining the optimal benefit for us. However, depending on future events or developments, such as general market conditions, the level of demand for our products and the outlook for our industry, changes in social, political and economic conditions and the regulatory environment in the cities in which we conduct our business and changes in our need for capital and the availability of financing and capital to fund these needs, we may use the net proceeds differently than as described above.

EXCHANGE RATE INFORMATION

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. On May 18, 2007, the PBOC enlarged the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. From July 21, 2005 to April 29, 2011, the value of the Renminbi appreciated by approximately 21.8% against the U.S. dollar. The PBOC authorized the China Foreign Exchange Trading Centre, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi on each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over-the-counter exchange rate for the business day.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated.

	Noon buying rate			
	Period end	**Average[1]**	**Low**	**High**
	(RMB per US$1.00)			
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
November	6.6670	6.6538	6.6892	6.6330
December	6.6000	6.6497	6.6745	6.6000
2011				
January	6.6017	6.5843	6.6017	6.5809
February	6.5713	6.5761	6.5965	6.5520
March	6.5483	6.5645	6.5743	6.5483
April	6.4900	6.5267	6.5477	6.4900
May (through May 13)	6.4977	6.4939	6.4986	6.4915

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

On May 13, 2011, the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi was RMB6.4977 to US$1.00 as certified for customs purposes by the Federal Reserve Bank of New York.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth on an actual basis our consolidated capitalization and indebtedness as of December 31, 2010, and as adjusted to give effect to the issuance of the Notes.

You should read this information together with "Use of Proceeds," "Selected Financial Information and Other Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes included elsewhere in this offering memorandum.

	As of December 31, 2010			
	Actual		As Adjusted	
	RMB	US$	RMB	US$
	(in thousands)			
Short-term debt:				
Interest-bearing borrowings and loans from equity shareholders	1,790,634	271,308	1,790,634	271,308
Long-term debt:				
Interest-bearing borrowings, loans from equity shareholders and corporate bonds	5,608,114	849,714	5,608,114	849,714
Notes offered hereby	–	–	2,640,000(2)	400,000
Total long-term debt	5,608,114	849,714	8,248,114	1,249,714
Equity:				
Share capital	193,198	29,272	193,198	29,272
Reserves	5,494,327	832,474	5,494,327	832,474
Non-controlling interests	461,480	69,921	461,480	69,921
Total equity	6,149,005	931,667	6,149,005	931,667
Total capitalization(1)	11,757,119	1,781,381	14,397,119	2,181,381

(1) Total capitalization represents total long-term debt and total equity.

(2) Converted into Renminbi based on the exchange rate of US$1.00 to RMB6.60.

We issued domestic corporate bonds in the form of medium term notes in a principal amount of RMB1.0 billion (US$151.5 million) and RMB900 million (US$136.4 million) in October 2010 and March 2011, respectively. As of March 31, 2011, our total debt amounted to RMB8,242.7 million (US$1,248.9 million). Except as disclosed above, there have been no material charges in our capitalization and indebtedness since December 31, 2010.

SELECTED FINANCIAL INFORMATION AND OTHER DATA

You should read the following selected financial information and other data together with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes included elsewhere in this offering memorandum.

We have derived the following selected financial information from our audited consolidated financial statements as of and for the years ended December 31, 2008, 2009 and 2010, which are included elsewhere in this offering memorandum. We prepare and present our consolidated financial statements in accordance with IFRS.

	2008	2009	2010	
	RMB	RMB	RMB	US$
	(in millions, except percentages)			
Consolidated income statement data:				
Revenue	7,500.7	8,727.6	11,854.1	1,796.1
Cost of sales	(5,914.3)	(6,947.2)	(9,304.0)	(1,409.7)
Gross profit	1,586.4	1,780.4	2,550.1	386.4
Other revenue	188.2	138.3	148.5	22.5
Other net (expenses)/income	14.8	(2.3)	(68.3)	(10.3)
Selling and marketing expenses	(175.2)	(196.5)	(214.2)	(32.5)
Administrative expenses	(553.3)	(469.1)	(689.6)	(104.5)
Profit from operations	1,060.9	1,250.8	1,726.5	261.6
Finance costs	(348.0)	(309.6)	(363.1)	(55.0)
Share of profits less losses of an associate	–	–	(0.2)	0
Profit before taxation	712.9	941.2	1,363.2	206.6
Income tax	(163.8)	(227.2)	(358.3)	(54.3)
Profit for the year	549.1	714.0	1,004.9	152.3
Attributable to:				
Equity holders of the company	539.4	701.6	979.1	148.3
Non-controlling interests	9.7	12.4	25.8	4.0
Other financial data:				
EBITDA[(1)]	1,599.6	1,898.8	2,534.0	383.9
EBITDA margin[(2)]	21.3%	21.8%	21.4%	21.4%
EBITDA/gross interest expense[(3)]	4.9	6.2	7.0	7.0
Total debt/EBITDA	3.0	3.0	2.9	2.9

	As of December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US$
		(in millions)		
Consolidated statement of financial position data:				
Non-current assets	9,666.6	11,302.3	14,722.4	2,230.7
Current assets	3,106.1	3,306.9	4,228.0	640.6
Current liabilities	5,185.6	4,969.9	6,481.6	982.1
Net current liabilities	(2,079.5)	(1,663.0)	(2,253.6)	(341.5)
Total assets less current liabilities	7,587.1	9,639.3	12,468.8	1,889.2
Non-current liabilities	2,981.5	4,410.2	6,319.8	957.5
Net assets	4,605.6	5,229.1	6,149.0	931.7
Capital and reserves	4,560.6	5,160.2	5,687.5	861.7
Total equity attributable to equity shareholders of the company	4,560.6	5,160.2	5,687.5	861.7
Non-controlling interest	45.0	68.9	461.5	70.0
Total equity	4,605.6	5,229.1	6,149.0	931.7
Consolidated statement of cash flow data:				
Net cash flows from operating activities	1,037.3	1,025.7	1,789.0	271.1
Net cash flows used in investing activities	(2,404.5)	(2,136.4)	(2,926.8)	(443.5)
Net cash flows generated from financing activities	1,912.8	748.6	1,398.3	211.9
Net increase/(decrease) in cash and cash equivalents	545.6	(362.1)	260.5	39.5
Cash and cash equivalents at the beginning of the year	721.3	1,248.4	886.1	134.3
Cash and cash equivalents at the end of the year	1,248.4	886.1	1,144.8	173.5

The following table sets forth the sales volume and unit selling price for our cement, clinker and concrete products for the periods indicated.

	2008	2009	2010
Sales volume (thousands tons)			
Cement	25,112	29,388	39,318
Clinker	5,466	8,422	9,844
Concrete	513	860	785
Unit selling price			
Cement (RMB per ton)	235.2	224.9	235.9
Clinker (RMB per ton)	213.9	187.5	197.2
Concrete (RMB per cubic meter)	274.0	262.3	237.5

(1) EBITDA consists of profit before income tax expense, depreciation and amortization and finance costs (excluding capitalized interest). EBITDA is not a standard measure under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented above is calculated differently from Consolidated EBITDA as defined and used in the indenture governing the Notes. See "Description of the Notes – Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the indenture governing the Notes. Set forth below is a reconciliation of EBITDA to the most directly comparable IFRS measure, profit for the year.

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB (in millions)	RMB	US$
Profit for the year	549.1	714.0	1,004.9	152.3
Add:				
Amortization	83.8	96.6	114.2	17.3
Depreciation	454.9	551.4	693.3	105.0
Finance costs	348.0	309.6	363.3	55.0
Income tax expense	163.8	227.2	358.3	54.3
EBITDA	1,599.6	1,898.8	2,534.0	383.9

(2) EBITDA margin means EBITDA divided by revenue.

(3) Gross interest expense includes interest expense capitalized in property, plant and equipment. Gross interest expense is not a standard measure under IFRS. Gross interest expense presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our gross interest express to the gross interest expense provided by other companies because not all companies use the same definition. Investors should also note that the gross interest expense presented herein is calculated differently from Consolidated Interest Expense as defined and used in the Indenture governing the Notes. See "Description of the Notes – Definitions" for a description of the manner in which Consolidated Interest Expense is defined for purposes of the indenture governing the Notes.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the financial statements and related notes included elsewhere in this offering memorandum. Those financial statements and related notes have been prepared in accordance with IFRS. This discussion contains forward-looking statements and reflects our current view with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of factors such as those set forth under "Risk Factors" and elsewhere in this offering memorandum.

Overview

We are one of the largest producers of clinker and cement in China, particularly in Shandong and Liaoning provinces, as measured by production volume. Leveraging our leading market position in Shandong and Liaoning provinces, we have taken advantage of the considerable growth opportunities in the construction and infrastructure sectors within Shanxi province and Inner Mongolia, and quickly established our presence in these areas through organic growth and acquisitions. We are also expanding into Xinjiang province by Greenfield development.

We produce and sell a wide variety of cement products using advanced NSP production technology. Our principal products also include clinker, a key intermediary component of cement. We also produce and sell other products, such as concrete. Our sales volume of cement products increased from 25.1 million tons in 2008 to 29.4 million tons in 2009 and 39.3 million tons in 2010. While most of the clinker we produced was used in our cement production, we also sold 5.5 million tons, 8.4 million tons and 9.8 million tons of clinker to external customers in 2008, 2009 and 2010, respectively. The average unit selling price per ton of our cement products was RMB235.2, RMB224.9 and RMB235.9 (US$35.7) in 2008, 2009 and 2010, respectively, and the average unit selling price per ton of our clinker was RMB213.9, RMB187.5 and RMB197.2 (US$29.9), respectively, during the same periods. Our products are primarily provided to our customers under our "Shanshui Dongyue" brand name (山水東岳), which was honored the "Famous Trademark of Shandong Province" in September 2008. In addition, in 2010, we were awarded the "Quality Award by Governor of Shandong" and recognized by the Ministry of Railways as the only construction material company with the award for "Beijing-Shanghai High-Speed Rail Best Supplier."

We manage our business by geographic regions. Accordingly, we have three reportable segments, covering our operations located in Shandong province, Northeastern China (including Liaoning province and Inner Mongolia) and Shanxi province, respectively. In 2010, revenue derived from our operations in Shandong province, Northeastern China and Shanxi province accounted for 82.6%, 17.3% and 0.1%, respectively, of our total revenue for the year. With several new projects commencing operations in Shanxi province, we expect our enterprises in the area to contribute more profits in the future.

We have achieved significant revenue and earnings growth in recent years. Our revenue increased from RMB7,500.7 million in 2008 to RMB8,727.6 million in 2009 and RMB11,854.1 million (US$1,796.1 million) in 2010. Our profit for the year increased from RMB549.1 million in 2008 to RMB714.0 million in 2009 and to RMB1,004.9 million (US$152.3 million) in 2010.

Factors Affecting Our Results of Operations

Growth of Construction Industry in China and in particular Shandong and Liaoning provinces

We derive substantially all of our revenue from sales in China. Accordingly, economic growth in China, particularly in areas in which we operate, has a direct impact on virtually all aspects of our operations, including the level of demand for our products, the availability and prices of raw materials we use, costs of coal and electricity and our other operating expenses. In particular, demand for our cement and clinker products is sensitive to the level of construction activities in China. The growth of FAI led to a significant increase in the demand for building materials, including cement. From 2006 to 2010, China's FAI increased from approximately RMB10,999.8 billion to RMB27,814.0 billion, according to China Statistical Yearbook, representing a CAGR of 79.9%. China's cement consumption during the last decade also experienced a notable expansion driven by building and civil engineering construction activities. As a leading cement producer in China, we believe we are well-positioned to capture growth opportunities in China's construction industry.

Our results of operations are directly affected by the market demand of our products in our primary markets, Shandong and Liaoning provinces. Rapid economic growth in Shandong province and Liaoning province in recent years has created increasing market demand for cement products. As a result, our production and sales volumes of cement products increased significantly during the past three years. We produced 25.1 million tons, 29.4 million tons and 39.3 million tons of cement products, respectively, in 2008, 2009 and 2010 and sold 5.5 million tons, 8.4 million tons and 9.8 million tons of clinker products, respectively, during the same periods. We plan to further expand our production capacity, to the extent necessary, to meet growing market demand.

PRC Government Policies

Changes in PRC government policies regarding the domestic cement industry may also have a direct impact on our business. In recent years, the PRC government has been implementing a series of policies intended to promote the consolidation of the cement industry and the use of more environmentally friendly production techniques, such as rotary kilns using NSP technology. In response to increasing concerns regarding environmental problems in China, the PRC government has implemented various environmental regulations to reduce dust emissions and noise pollution from cement production. These efforts have resulted in the increased use of rotary kilns and NSP technology and decreases in energy consumption, production costs and environmental pollution. Recent improvements in related technologies have increased energy savings and environmentally friendly production process, reducing energy consumption in the cement and clinker production processes. The PRC government also provides tax subsidies for sales of cement products that use recycled materials. We received such tax subsidies in the amounts of RMB144.9 million, RMB80.3 million and RMB104.5 million (US$15.8 million), respectively, in 2008, 2009 and 2010. We also receive local government grants from relevant PRC authorities for fixed asset investment, such as cement and clinker plants and residual heat generation plants. We received such local government grants in the amounts of RMB25.5 million, RMB19.8 million and RMB21.6 million, respectively, in 2008, 2009 and 2010. The PRC authorities adjust the amounts available for such government grants depending on their budgets from time to time.

In addition, PRC government policies in other industries have an indirect impact on our business. The PRC government from time to time issues new industry policies to adjust the level of investment in infrastructure projects and real estate development using both economic incentives and disincentives and administrative means. Policy changes over the industries in which our customers operate may affect our customers and thereby affect our business. As a result of the PRC government's Eleventh Five-year Plan, released in 2006, economic stimulus measures promoted growth in the areas where we have production facilities. The PRC government made a commitment in its Twelfth Five-Year Plan, released in 2011, to build major infrastructure and undertake major development projects. Infrastructure projects are being approved by the government on an expedited basis in order to spur the economy. The significant increase in government investment infrastructure projects has increased demand for cement products, benefiting large cement manufacturers like us.

Pricing of Our Products

Competition and demand in our primary markets significantly affect the pricing of our products. We believe the cement industry in China is localized in nature, with a maximum economically feasible product transportation radius of approximately 300 kilometers. Due to industry recognition of the high quality of our products, our cement and clinker products usually enjoy price premiums over products sold by our competitors in the same geographic region. The average unit selling price per ton of our cement products was RMB235.2, RMB224.9 and RMB235.9 (US$35.7) in 2008, 2009 and 2010, respectively, and the average unit selling price per ton of our clinker was RMB213.9, RMB187.5 and RMB197.2 (US$29.9), respectively, during the same periods. In 2010, the average unit selling price per ton of our cement products in Shandong province, Northeastern China and Shanxi was RMB238.0, RMB226.2 and RMB314.9 (US$47.7), respectively.

Costs of Raw Materials, Coal and Electricity

The costs of raw materials, coal and power accounted for 27.7%, 34.1% and 15.8%, respectively, of our total cost of sales in 2010. We have experienced increases in limestone, coal and electricity prices in recent years. In particular, our cost of sales has been significantly affected by fluctuations in the price of coal. We experienced significant increases in coal prices in 2010 due to a surge in coal demand coupled with transportation bottlenecks. Our unit purchase price per ton of coal was RMB680.1, RMB569.8 and RMB691.8 (US$104.8) in 2008, 2009 and 2010, respectively. The cost of coal accounted for 36.6%, 31.5% and 34.1% of our total cost of sales, respectively, in 2008, 2009 and 2010, respectively. In order to minimize the impact of fluctuations in coal prices on our results of operations, we have long-term relationships with a number of domestic coal suppliers to ensure adequate coal supplies at competitive prices. We also experienced increases in electricity prices in recent years caused by surging coal prices. We have constructed 16 RHR (residual heat recovery) generators with a total installed production capacity of 151,000 KW in 2010 to help us reduce our electricity costs.

Our Business Expansion

We have expanded our business and operations significantly during the past several years through acquisitions of cement producers and construction of production facilities, and plan to continue our expansion in the future. Since 2009, we have expanded our operations to Inner Mongolia and Shanxi provinces by acquiring Chifeng Yuanhang and Yulin Yatai cement companies. See "Business – Recent Acquisitions" in this offering memorandum. In 2008, 2009 and 2010, we also constructed eight clinker production lines and 25 cement grinding lines. Our annual production capacity of cement products was 35.8 million tons, 48.3 million tons and 66.5 million tons as of December 31, 2008, 2009 and 2010, respectively, and our annual capacity of clinker was 20.0 million tons, 25.2 million tons and 31.0 million tons, respectively, as of the same dates. We plan to further expand our annual production capacity of cement products to 80 million tons and our annual production capacity of clinker to 40 million tons by the end of 2011. As a result of such expansion, our capital expenditures, financing needs, depreciation and amortization as well as impairment charges related to our various acquisitions and operating expenses have increased significantly and are expected to continue to increase in the near future. In addition, as we expand into other locations such as Xinjiang, we expect such expenses to increase.

Seasonality

Our operating income and earnings have historically been lower during the first quarter than other quarters. This results from the relatively low level of construction activity during the winter and the Chinese New Year holiday period, which normally falls within the first quarter each year. Therefore, our results of operations and cash flows may fluctuate due to seasonal variations.

Selected Income Statement Line Items

Revenue

We currently generate the majority of our revenue from the production and sale of cement. We also generate revenue from the sale of a small portion of our clinker to third parties, and the production and sale of other products that use cement as raw materials, including bubble bricks, pipes and concrete. In November 2007, we commenced the sale of concrete. In addition, we generate revenue from various services we render. We provide transportation services and equipment installation services to third parties.

The table below sets forth a breakdown of our revenue by product for the periods indicated.

	Year ended December 31,						
	2008		2009		2010		
	Amount (RMB)	% of Revenue	Amount (RMB)	% of Revenue	Amount (RMB)	Amount (US$)	% of Revenue
	(in millions, except percentages)						
Revenue							
Sales of cement	5,906.8	78.7%	6,608.2	75.7%	9,275.1	1,405.3	78.2%
Sales of clinker	1,169.2	15.6%	1,578.9	18.1%	1,941.1	294.1	16.4%
Sales of other products[(1)]	424.7	5.7%	540.5	6.2%	637.9	96.7	5.4%
Total	7,500.7	100.0%	8,727.6	100.0%	11,854.1	1,796.1	100.0%

Note:

(1) Includes concrete, pipes and bubble bricks as well as provision of transportation service and equipment installation service.

Our revenue in a given period is affected primarily by the sales volumes of our products in the period and, to a lesser extent, by fluctuations in the average unit selling prices of our products. From 2008 to 2010, we experienced increased sales volumes for our cement and clinker products. Average unit selling prices of our cement and clinker products decreased from 2008 to 2009 but increased in 2010.

Sales of cement and clinker products are typically made through short-term agreements with pricing terms negotiated based on the prevailing market prices.

Cost of Sales

The table below sets forth a breakdown of our cost of sales and each item expressed as a percentage of our revenue for the periods indicated.

	Year ended December 31,						
	2008		2009		2010		
	Amount (RMB)	% of Revenue	Amount (RMB)	% of Revenue	Amount (RMB)	Amount (US$)	% of Revenue
	(in millions, except percentages)						
Cost of sales							
Raw materials	1,759.8	23.5%	2,085.1	23.9%	2,574.2	390.0	21.7%
Coal	2,165.4	28.9%	2,190.2	25.1%	3,176.6	481.3	26.8%
Power	1,042.2	13.9%	1,124.8	12.9%	1,471.5	223.0	12.4%
Depreciation and amortization	460.3	6.1%	562.3	6.4%	709.0	107.4	6.0%
Others	486.6	6.5%	984.8	11.3%	1,372.7	208.0	11.6%
	5,914.3	78.9%	6,947.2	79.6%	9,304.0	1,409.7	78.5%

Our cost of sales primarily includes the cost of raw materials used for our production, such as limestone, gypsum and clay, and the cost of coal and power. We expect the cost of raw materials, coal and power will continue to constitute a substantial portion of our cost of sales in the future.

Our cost of sales also includes depreciation and amortization of production facilities. Other items contributing to our cost of sales are direct labor, which includes salaries and benefits for personnel directly involved in production activities, resources tax for limestone mining and transportation and logistics expenses.

We expect cost of sales to increase as we increase our production capacity and production volume. Potential increases in purchase prices of raw materials, coal and power may also contribute to higher cost of sales.

Other Revenue

Other revenue mainly consists of interest income on bank deposits, government grants for fixed investment, such as current and clinker plants and residual heat generation plants, and sales of power generation right. The table below sets forth a breakdown of other revenue for the periods indicated.

	Year ended December 31,			
	2008	**2009**	**2010**	
	RMB	**RMB**	**RMB**	**US$**
		(in millions)		
Other revenue				
Interest income on bank deposits	12.8	4.3	6.8	1.0
Dividend income from listed security	0.2	–	–	–
Government grants	170.4	100.1	126.1	19.1
Sales of power generation right	–	21.0	–	–
Amortization of deferred income	4.3	12.9	15.6	2.4
Amortization of financial guarantee issued	32.7	33.5	–	–
Amortization of financial guarantee received	(32.2)	(33.5)	–	–
	188.2	138.3	148.5	22.5

Other revenue decreased from RMB188.2 million in 2008 to RMB138.3 million in 2009, but increased to RMB148.5 million (US$22.5 million) in 2010, primarily reflecting the fluctuations in government grants during these periods. Government grants consist of (1) VAT refunds for sales of certain types of cement products that use recycled materials and (2) local government subsidies that represents various subsidies granted by local governments to newly established enterprises as a means to attract investment. VAT refunds amounted to RMB144.9 million, RMB80.3 million and RMB104.5 million (US$15.8 million) in 2008, 2009 and 2010, respectively, and local government subsidies amounted to RMB25.5 million, RMB19.8 million and RMB21.6 million (US$3.3 million), respectively, during the same periods. There are no unfulfilled conditions and contingencies relating to such local government subsidies. In connection with our business operations in 2008 and 2009, we were an issuer of a financial guarantee in an amount of RMB150 million for the benefit of an unrelated third party, which also issued a financial guarantee in an amount of RMB150 million for our benefit. The financial guarantee we issued required us to make payments to reimburse the beneficiary of the guarantee for a loss the beneficiary incurred if the third party failed to make payment past due in accordance with the terms of a relevant debt instrument. The amounts of the guarantees initially recognized as deferred income was amortized in profit or loss over the term of the guarantee as income from financial guarantee issued.

Other Net (Expenses)/Income

Other net (expenses)/income mainly consists of debt restructuring gain, net foreign exchange gain or loss, net gain or loss from sale of fixed asset and impairment losses on fixed assets, intangible assets and other long-term assets. The table below sets forth a breakdown of other net (expenses)/income for the periods indicated.

	Year ended December 31,			
	2008	**2009**	**2010**	
	RMB	**RMB**	**RMB**	**US$**
		(in millions)		
Other net (expenses)/income				
Debt restructuring gain	82.0	5.6	97.5	14.8
Net foreign exchange gain/(loss)	22.5	(0.4)	6.9	1.0
Net gain/(loss) from sale of fixed assets	(23.0)	(7.1)	1.5	0.2
Impairment losses on fixed assets	(49.2)	–	(106.5)	(16.1)
Impairment of inventories	(4.5)	–	–	–
Compensation to customer	(10.3)	–	–	–
Impairment losses on intangible assets	–	–	(4.3)	(0.7)
Impairment losses on other long-term assets	–	–	(35.1)	(5.3)
Donations	(5.2)	(1.5)	(1.5)	(0.2)
Penalty expenses	(3.4)	(0.5)	(12.9)	(2.0)
Losses incurred on flooding	–	–	(10.2)	(1.5)
Others[1]	5.9	1.6	(3.7)	(0.5)
	14.8	(2.3)	(68.3)	(10.3)

Note:

(1) Mainly included trademark license fee, waived accounts payables and compensation from insurance companies.

We generated other income of RMB14.8 million in 2008, compared to other net expenses that increased from RMB2.3 million in 2009 to RMB68.3 million (US$10.3 million) in 2010. Our other income in 2008 was primarily attributable to our debt restructuring gain of RMB82.0 million and net foreign exchange gain of RMB22.5 million, partially offset by impairment of losses on fixed assets of RMB49.2 million. Debt restructuring gain increased from RMB5.6 million in 2009 to RMB97.5 million (US$14.8 million) in 2010, which increase was offset by impairment losses on fixed assets of RMB106.5 million (US$16.1 million).

Operating Expenses

Our operating expenses consist of selling and marketing expenses and administrative expenses. The table below sets forth a breakdown of our operating expenses and each item expressed as a percentage of our revenue for the periods indicated.

	Year ended December 31,						
	2008		2009		2010		
	Amount (RMB)	% of Revenue	Amount (RMB)	% of Revenue	Amount (RMB)	Amount (US$)	% of Revenue
	(in millions, except percentages)						
Operating expenses							
Selling and marketing expenses	175.2	2.3%	196.5	2.3%	214.2	32.5	1.8%
Administrative expenses	553.3	7.4%	469.1	5.4%	689.6	104.5	5.8%
	728.5	9.7%	665.6	7.7%	903.8	137.0	7.6%

Selling and marketing expenses

Our selling and marketing expenses primarily consist of sales commission paid to our sales personnel and transportation expenses incurred mainly for export sales of our cement and clinker products. The table below sets forth a breakdown of our selling and marketing expenses for the periods indicated.

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US$
	(in millions)			
Selling and marketing expenses:				
Salary and employee benefits	48.2	53.4	75.2	11.4
Transportation expenses	30.6	26.9	21.1	3.2
Others[(1)]	96.4	116.2	117.9	17.9
	175.2	196.5	214.2	32.5

Note:

(1) Mainly included advertising expenses, depreciation and amortization, travelling expenses and water and power expenses relating to our selling and marketing expenses.

As we expand our current operations in existing markets and consolidate our positions in other geographic markets, we expect to strengthen our sales efforts, and thus our selling and marketing expenses may increase.

Administrative Expenses

Our administrative expenses primarily consist of salaries and benefits of our administrative staff, audit and consulting expenses, other taxes and charges mainly including land use rights tax, property tax, mineral resource compensation fee and cement special levies, amortization charges of fixed assets and intangible assets used for administrative purposes, as well as administrative office expenses including, among others, consumables, traveling and entertainment expenses, water and power expenses, property insurance premiums, repair expenses and rental expenses. Other items contributing to our administrative expenses include wastewater treatment costs. The table below sets forth a breakdown of our administrative expenses for the periods indicated.

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US$
	(in millions)			
Administrative expenses:				
Salary and employee benefits	268.7	160.1	241.7	36.6
Audit and consulting expenses	19.9	31.7	43.0	6.5
Other taxes and charges	46.0	55.4	69.3	10.5
Depreciation and amortization	69.9	68.1	85.1	12.9
Office expenses	19.2	25.5	31.0	4.7
Wastewater treatment costs	9.6	18.2	25.0	3.8
Others	120.0	110.1	194.5	29.5
	553.3	469.1	689.6	104.5

Finance Costs

Finance costs primarily consist of interest expenses on borrowings from banks and other financing institutions and bank charges.

Share of Profit less Losses of an associate

Share of profit less losses of an associate is attributable to our investment in 2010 for 49% interests in Dong'e Shanshui Dongchang Cement Co., Ltd., a company incorporated in February 2010 in Shandong and produces and sells cement, clinker and related products.

Income Tax Expenses

Income tax expenses primarily consist of provision for PRC current and deferred income tax expenses. Our Company is incorporated in the Cayman Islands as an exempt company with limited liability under the Companies Law and, accordingly, is exempt from Cayman Islands income tax. Our wholly owned subsidiaries, China Shanshui (Hong Kong) and Pioneer Cement, are subject to Hong Kong profits tax at the rate of 16.5% on profits derived in Hong Kong. In 2008, 2009 and 2010, we did not make any provisions for Hong Kong profits tax as these two subsidiaries did not derive any assessable profits in Hong Kong. Our subsidiaries incorporated in the PRC are subject to PRC enterprise income tax. See "– Taxation."

Taxation

PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles and tax laws and regulations. On March 16, 2007, the National People's Congress ("NPC") promulgated the EIT Law, which became effective on January 1, 2008 and superseded the PRC Foreign Invested Enterprise and Foreign Enterprise Income Tax Law and the Provisional Regulations on Enterprise Income Tax of the PRC. The EIT Law consolidates the previous two separate tax regimes for domestic enterprises and foreign-invested enterprises and imposes a unified enterprise income tax rate of 25% for both types of enterprises. Under the EIT Law, enterprises that previously enjoyed a preferential tax rate prior to January 1, 2008 are gradually transitioning to the new tax rate over five years from January 1, 2008. Enterprises that previously enjoyed a fixed period of tax exemption and reduction have continued to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment had not commenced due to lack of profit, such preferential tax treatment commenced from January 1, 2008.

Under the previous tax regime, Shandong Shanshui, Anqiu Shanshui and Pingyin Shanshui, being foreign-invested enterprises incorporated prior to March 16, 2007, were exempted from enterprise income tax for their first two years of profitable operations (2006 and 2007) and enjoyed a 50% tax reduction for the following three consecutive years (2008-2010). Continental (Shandong) Cement Mining, Continental (Shandong) Cement Products Manufacturing and Continental (Shandong) Cement did not have any taxable profits in 2008, 2009 and 2010 and therefore were not subject to enterprise income tax during these years. Under the EIT Law, these three entities, as foreign-invested enterprises, were exempted from enterprise income tax in 2008 and 2009, and have been and will be subject to a 12.5% tax rate from 2010 to 2012 and will be subject to a 25% tax rate from 2013 onwards. Our other subsidiaries in the PRC have been subject to a 25% tax rate from 2008. Our effective tax rate was 23.0%, 24.1% and 26.3%, respectively, in 2008, 2009 and 2010. Our effective tax rate was more than 25% for the year ended December 31, 2010, primarily because losses of foreign-invested enterprises may not be deducted from the taxable income of domestic enterprises, accordingly, certain expenses were not be deducted from our pre-tax income.

Under the EIT Law, enterprises are classified as either resident enterprises or non-resident enterprises. A resident enterprise refers to an enterprise that is incorporated under the PRC law, or that is incorporated under the law of a jurisdiction outside the PRC with its de facto management organization located within the PRC. Under the Implementation Rules of the EIT Law, "de facto management organization" is defined as the organization of an enterprise through which substantial and comprehensive management and control over the production and business operations, personnel, accounting and properties of the enterprise are exercised. Non-resident enterprise refers to an enterprise that is incorporated under the law of a jurisdiction outside the PRC with its de facto management organization located outside of the PRC, but which has either set up institutions or establishments in the PRC or it has income originating from the PRC without setting up an institution or establishment in the PRC.

According to the EIT Law and its implementation rules, a resident enterprise will be subject to enterprise income tax at a rate of 25% on its global income. Dividend income between qualified resident enterprises is exempt from enterprise income tax. If the relevant government authorities classify our overseas holding companies, namely our Company, China Shanshui (Hong Kong), Pioneer Cement and Continental Cement (BVI), as resident enterprises, these holding companies will be subject to 25% enterprise income tax on their global income. However, their dividend income from other qualified resident enterprises, including dividends payable by our PRC subsidiaries, will be exempt from PRC enterprise income tax. A non-resident enterprise will be subject to enterprise income tax, generally by way of withholding, at a rate of 10% on any income that is regarded as income from "sources within the PRC." Under the Implementation Rules of the EIT Law, whether a dividend payment constitutes income from "sources within the PRC" is determined by the location of the enterprise that declares the dividend. Under the Arrangement between the Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, which became effective on January 1, 2007, income tax on dividends payable to a company resident in Hong Kong that holds more than a 25% equity interest in a PRC resident enterprise may be reduced to a rate of 5%. If the relevant government authorities classify our overseas holding companies as non-resident enterprises, their dividend income from sources within the PRC will be subject to a 10% or 5% enterprise income tax rate, as applicable. Our financial performance will be adversely affected if such dividends are subject to PRC enterprise income tax.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with International Financial Reporting Standards issued by the International Accounting Standards Board, which requires us to make estimates and assumptions that affect the reported amounts of, among other things, assets, liabilities, revenue and expenses. These estimates and assumptions are periodically re-evaluated by management and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Some of our accounting policies require a higher degree of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on our management's judgment.

Property, Plant and Equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and provision for any impairment in value. Historical cost includes its purchase price and any other expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the consolidated statements of comprehensive income during the period in which they are incurred.

Except for mining assets, depreciation on property and plant, motor vehicles, electronic and other equipment and machinery is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values of 3-5% over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, annually. Construction in progress represents buildings, machinery and equipment on which construction work has not been completed. It is carried at cost which includes construction expenditure and other direct costs less any impairment losses. On completion, construction in progress is transferred to the appropriate categories of property, plant and equipment at cost. No depreciation is provided for construction in progress until they are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains/(losses) – net," in the consolidated statements of comprehensive income.

Mining assets include development stripping costs and decommission and restoration provisions.

Stripping costs

Stripping costs incurred as a result of limestone mining are included in the costs of production.

Decommissioning, restoration and similar liabilities

We recognize provision for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and mineral assets under property, plant and equipment, when those obligations result from the acquisition, construction, or normal operation of the assets. Initially, a provision for an asset retirement obligation is recognized at its present value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. The amounts provided in relation to restoration and environmental clean up costs are reviewed periodically based upon the facts and circumstances available at the time, and the provisions are updated accordingly.

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will become bankrupt or financial reorganization, and default of payments is considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statements of comprehensive income.

We perform ongoing credit evaluations of our customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information.

Inventories

Our inventories primarily consist of: (i) raw materials and consumables; (ii) work in progress; and (iii) finished goods. We state our inventories at the lower of cost and net realizable value. Cost is calculated using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses and cost to complete. We write down inventories to net realizable value based on an assessment of the realizability of inventories. The assessment of write-downs requires the management's judgment and estimate. Where the expectation is different from the original estimate, such difference will impact the carrying values of inventories and write-downs of inventories in the period in which such estimates have been changed.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of our share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included as goodwill. Goodwill is tested for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. One of our key assumptions is annual growth rates in revenue which vary among different subsidiaries. The growth rates are calculated 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.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Mining Rights

The cost of acquiring rights for us to excavate a mine over a certain period is capitalized and subsequently stated at cost less accumulated amortization and impairment loss. Amortization of mining rights is calculated to write off the cost less accumulated impairment losses over the useful lives of the mines in accordance with the production plans and reserves of the mines estimated on a unit of production method.

Impairment of customer relationship and trademarks

Impairment from customer relationships and trademarks is assessed at each statement of financial position date. The estimate 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.

Taxation

We assess the tax effect of all transactions and make provision for tax obligations. We reviews the tax treatment of these transactions, considering all amendments of tax laws and regulations. We 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. Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by us and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Going Concern Basis

We make an assessment of our ability to continue as a going concern when preparing our financial information due to our net current liabilities position over the fiscal years ended December 31, 2008, 2009 and 2010. In assessing whether the going concern assumption is appropriate, we take 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.

We depend on future projections of our profits and cash inflows from operations and our ability to obtain continued bank financing to finance our continuing operation to meet our future working capital and financing requirements. We believe we are able to continue as a going concern after taking into account future projections of our profits and cash inflows from operations and our ability to obtain continued bank financing to finance our continuing operation. Accordingly, we have prepared our 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 we 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 our financial information.

Our Results of Operations

The following table sets forth our summary consolidated statement of operations for the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year ended December 31,			
	2008	**2009**	**2010**	
	RMB	**RMB**	**RMB**	**US$**
		(in millions)		
Revenue	7,500.7	8,727.6	11,854.1	1,796.1
Cost of sales	(5,914.3)	(6,947.2)	(9,304.0)	(1,409.7)
Gross profit	1,586.4	1,780.4	2,550.1	386.4
Other revenue	188.2	138.3	148.5	22.5
Other net (expenses)/income	14.8	(2.3)	(68.3)	(10.3)
Selling and marketing expenses	(175.2)	(196.5)	(214.2)	(32.5)
Administrative expenses	(553.3)	(469.1)	(689.6)	(104.5)
Profit from operations	1,060.9	1,250.8	1,726.5	261.6
Finance costs	(348.0)	(309.6)	(363.1)	(55.0)
Share of profits less losses of an associate	–	–	(0.2)	(0)
Profit before taxation	712.9	941.2	1,363.2	206.6
Income tax	(163.8)	(227.2)	(358.3)	(54.3)
Profit for the year	549.1	714.0	1,004.9	152.3
Attributable to:				
Equity holders of the company	539.4	701.6	979.1	148.3
Non-controlling interests	9.7	12.4	25.8	4.0

Segment Information

The following table sets forth certain information regarding our reportable segments for the periods indicated.

	Year ended December 31,						
	2008		2009		2010		
	RMB	%	RMB	%	RMB	US$	%
	(in millions, except percentages)						
Revenue from external customers							
Shandong province	6,599.5	88.0	7,511.2	86.1	9,791.9	1,483.6	82.6
Northeastern China	901.2	12.0	1,216.4	13.9	2,055.9	311.5	17.3
Shanxi province	–	–	–	–	6.3	1.0	0.1
	7,500.7	100.0	8,727.6	100.0	11,854.1	1,796.1	100.0
Inter-segment revenue							
Shandong province	46.5	95.1	56.6	99.2	18.3	2.8	77.9
Northeastern China	2.4	4.9	0.5	0.8	5.2	0.8	22.1
Shanxi province	–	–	–	–	–	–	–
	48.9	100.0	57.1	100.0	23.5	3.6	100.0
Reportable segment revenue							
Shandong province	6,646.0	88.0	7,567.8	86.1	9,810.2	1,486.4	82.6
Northeastern China	903.6	12.0	1,216.9	13.9	2,061.1	312.3	17.4
Shanxi province	–	–	–	–	6.3	1.0	0.1
	7,549.6	100.0	8,784.7	100.0	11,877.6	1,799.7	100.0
Reportable segment profit/(loss) (adjusted profit/(loss) before taxation)							
Shandong province	1,086.7	96.4	1,190.5	94.5	1,827.9	277.0	100.8
Northeastern China	40.1	3.6	69.9	5.5	3.6	0.5	0.2
Shanxi province	–	–	–	–	(17.3)	(2.6)	(1.0)
	1,126.8	100.0	1,260.4	100.0	1,814.2	274.9	100.0

Year Ended December 31, 2010 Compared With Year Ended December 31, 2009

Revenue

Our revenue increased by RMB3,126.5 million, or 35.8%, from RMB8,727.6 million in 2009 to RMB11,854.1 million (US$1,796.1 million) in 2010, primarily due to increases in revenue derived from sales of cement.

Our revenue derived from sales of cement products amounted to RMB9,275.1 million in 2010 (US$1,405.3 million), which represented an increase of RMB2,666.9 million, or 40.4%, from 2009, primarily due to increased cement sales volume and average unit selling price. Our sales volume of cement products increased by 33.8% from 29.4 million tons in 2009 to 39.3 million tons in 2010, primarily due to the phasing-out of obsolete cement capacity and the sustained demand from infrastructure construction projects and the property development industry. The average unit selling price of our cement products increased by 4.9% from RMB224.9 per ton in 2009 to RMB235.9 (US$35.7) per ton in 2010, primarily due to increased demand for our products and decreased supply in the cement market in Shandong resulting from the phasing out of obsolete facilities mandated by the government.

Our revenue derived from sales of clinker totaled RMB1,941.1 million (US$294.1 million) in 2010, representing an increase of RMB362.2 million (US$54.8 million), or 22.9%, from 2009, primarily due to increased sales volume and average unit selling price. Our sales volume of clinker increased by 16.9% from 8.4 million tons in 2009 to 9.8 million tons in 2010, mainly due to the sustained demand from infrastructure construction projects and the property development industry. The average unit selling price of clinker increased by 5.2% from RMB187.5 per ton in 2009 to RMB197.2 (US$29.9) per ton in 2010, primarily due to decreased supply as a result of decreased capacity in the Shandong clinker market.

The revenue derived from the sales of other products and rendering of services, including sales of concrete, pipes and bubble bricks as well as provision of transportation service and equipment installation services, totaled RMB637.9 million (US$96.7 million) in 2010, representing an increase of RMB97.4 million from 2009, primarily reflecting increased sales of pipes, partially offset by decreased sales of concrete.

Cost of sales

Our cost of sales increased by RMB2,356.8 million (US$357.1 million), or 33.9%, from RMB6,947.2 million in 2009 to RMB9,304.0 million (US$1,409.7 million) in 2010, primarily due to increases in costs of raw materials, coal and power as a whole resulting from increases in sales volumes of our cement and clinker products and an increase in the average unit purchase price of coal, partially offset by power cost savings achieved through the installation of RHR generators. Our cost of sales as a percentage of revenue decreased from 79.6% in 2009 to 78.5% in 2010. Our cost of raw materials as a percentage of cost of sales decreased from 30.0% in 2009 to 27.7% in 2010, due to the decrease in the purchase prices of raw materials as a result of future standardized procurement procedure and the use of alternative raw materials such as desulfurization gypsum through technology innovation. Our cost of coal as a percentage of cost of sales increased from 31.5% in 2009 to 34.1% in 2010, primarily due to the increase in the purchase price of coal, partially offset by the increased efficiency of coal consumption in our production process. Our average purchase price of coal increased from RMB569.8 per ton in 2009 to RMB691.8 (US$104.8) per ton in 2010. The average amount of commercial coal used to produce one ton of clinker decreased from 145 kg to 143 kg and the average amount of standard coal used to produce one ton of clinker decreased from 105 kg to 104 kg(1). Our cost of power as a percentage of cost of sales decreased from 16.2% in 2009 to 15.8% in 2010, primarily reflecting power cost savings achieved through our RHR generators. Depreciation and amortization as a percentage of cost of sales decreased from 8.1% in 2009 to 7.6% in 2010, primarily reflecting our increases in costs of sales.

Gross profit

As a result of the foregoing, our gross profit increased by RMB769.7 million, or 43.2%, from RMB1,780.4 million in 2009 to RMB2,550.1 million (US$386.4 million) in 2010. Gross profit margin increased from 20.4% in 2009 to 21.5% in 2010.

Other revenue

Other revenue increased by RMB10.2 million, or 7.4%, from RMB138.3 million in 2009 to RMB148.5 million in 2010, primarily because of increased government grants in 2010 and an increase in interest income, partially offset by sale of electricity generation rights in 2009.

(1) 1 kg of standard coal equals approximately 1.38 kg of commercial coal of 5,500 kcal.

Selling and marketing expenses

Selling and marketing expenses increased by RMB17.7 million, or 9.0%, from RMB196.5 million in 2009 to RMB214.2 million (US$32.5 million) in 2010. Total salary and employee benefits increased by RMB21.8 million from RMB53.4 million in 2009 to RMB75.2 million (US$11.4 million) in 2010, primarily due to increased sales volume of cement. Transportation expenses decreased by RMB5.8 million from RMB26.9 million in 2009 to RMB21.1 million (US$3.2 million) in 2010, primarily due to decreases in our export volume in 2010. The proportion of selling and marketing expenses as a percentage of revenue decreased from 2.3% in 2009 to 1.8% in 2010, primarily due to substantial increase in sales volumes.

Administrative expenses

Administrative expenses increased by RMB220.5 million, or 47.0%, from RMB469.1 million in 2009 to RMB689.6 million in 2010, primarily due to additional training costs attributable to our continuous expansion of operations and the rise in salaries and labor costs. Employees' salaries and benefits increased by RMB81.6 million from RMB160.1 million in 2009 to RMB241.7 million (US$36.6 million) in 2010, primarily due to increases in the number of our employees and training costs for our employees in the new markets we expanded into. The number of our employees increased from 13,190 in 2009 to 14,714 in 2010. Audit and consulting expenses increased by RMB11.3 million from RMB31.7 million in 2009 to RMB43.0 million (US$6.5 million) in 2010, primarily because the increases in acquisitions we undertook required increases in auditing and consulting services. Other taxes and charges increased by RMB13.9 million from RMB55.4 million in 2009 to RMB69.3 million (US$10.5 million) in 2010, primarily due to increases in production volume, property tax and professional fees attributable to our acquisitions. Depreciation and amortization increased by RMB17.0 million (US$2.6 million) from RMB68.1 million in 2009 to RMB85.1 million (US$12.9 million) in 2010, primarily reflecting the increases in amortization charges as a result of the increased number of consolidated companies by our acquisitions. Our administrative expenses accounted for 5.4% and 5.8% of our revenue in 2009 and 2010, respectively.

Profit from operations

As a result of the foregoing, our profit from operations increased by RMB475.7 million, or 38.0%, from RMB1,250.8 million in 2009 to RMB1,726.5 million (US$261.6 million) in 2010.

Finance costs

Finance costs increased by RMB53.5 million, or 17.3%, from RMB309.6 million in 2009 to RMB363.1 million (US$55.0 million) in 2010, primarily due to increases in our borrowings. The proportion of finance costs to revenue declined slightly from 3.5% in 2009 to 3.1% in 2010.

Profit before taxation

As a result of the foregoing, our profit before taxation increased by RMB422.0 million, or 44.8%, from RMB941.2 million in 2009 to RMB1,363.2 million (US$206.6 million) in 2010.

Income tax expenses

Income tax expenses increased by RMB131.1 million, or 57.7%, from RMB227.2 million in 2009 to RMB358.3 million (US$54.3 million) in 2010, primarily due to increased taxable income as a result of increased sales. Our effective tax rate was 24.1% in 2009 and 26.3% in 2010.

Profit for the year

As a result of the foregoing, our profit for the year increased by RMB290.9 million, or 40.7%, from RMB714.0 million in 2009 to RMB1,004.9 million (US$152.3 million) in 2010. Our profit margin increased from 8.2% in 2009 to 8.5% in 2010.

Profit attributable to equity holders of the company

Profit attributable to equity holders of the company increased by RMB277.5 million, or 39.6%, from RMB701.6 million in 2009 to RMB979.1 million (US$148.3 million) in 2010.

Year Ended December 31, 2009 Compared With Year Ended December 31, 2008

Revenue

Our revenue increased by RMB1,226.9 million, or 16.4%, from RMB7,500.7 million in 2008 to RMB8,727.6 million in 2009, primarily due to increases in sales volume of cement, clinker and other products.

Our revenue derived from sales of cement products amounted to RMB6,608.2 million in 2009, representing an increase of RMB701.4 million, or 11.9%, from 2008, primarily due to increases in sales volume of our cement products, partially offset by a decrease in the average selling price of cement. Our sales volume of cement products increased by 17.0% from 25.1 million tons in 2008 to 29.4 million tons in 2009, primarily due to our extensive market presence, the sustained growth in domestic infrastructure and construction projects, the recovery of property industry and the phasing out of obsolete capacity in 2009. The average unit selling price decreased by 4.4% from RMB235.2 per ton in 2008 to RMB224.9 per ton in 2009, mainly due to the decrease in production costs as compared to 2008.

Our revenue derived from sales of clinker totaled RMB1,578.9 million in 2009, representing an increase of RMB409.7 million, or 35.0%, from 2008, primarily due to the increased sales volume of clinker. Our sales volume of clinker increased by 54.1% from 5.5 million tons in 2008 to 8.4 million tons in 2009. The average unit selling price of clinker decreased by 12.3% from RMB213.9 per ton in 2008 to RMB187.5 per ton in 2009, primarily due to the decrease in production costs as compared to 2008.

Revenue derived from the sales of other products and rendering of services, including sales of concrete, pipes and bubble bricks as well as provision of transportation service and equipment installation services, totaled RMB540.5 million in 2009, representing an increase of RMB115.8 million from 2008. The revenue derived from sales of concrete increased from RMB140.7 million in 2008 to RMB225.7 million in 2009, primarily due to increases in sales volume and selling prices. The revenue generated from sales of pipes increased from RMB107.6 million in 2008 to RMB112.1 million in 2009, primarily due to strong market demands. The revenue derived from sales of bubble bricks increased from RMB41.8 million in 2008 to RMB43.7 million in 2009.

Cost of sales

Our cost of sales increased by RMB1,032.9 million, or 17.5%, from RMB5,914.3 million in 2008 to RMB6,947.2 million in 2009, primarily due to increases in costs of raw materials and power resulting from increases in sales volumes of our cement products. Our cost of sales as a percentage of revenue increased from 78.9% in 2008 to 79.6% in 2009, mainly attributable to higher maintenance costs as a result of the extreme weather conditions in Shandong and Liaoning provinces, our two major markets in the fourth quarter of 2009. Cost of coal as a percentage of our cost of sales decreased from 36.6% in 2008 to 31.5% in 2009, primarily due to the decreased coal purchase price level from RMB680.1 per ton in 2008 to RMB569.8 per ton in 2009 and increased efficiency of coal consumption in our production process as a result of the inauguration of our new dry process clinker production lines in Liaoning province. The average amount of commercial coal used to produce one ton of clinker decreased from 156 kg to 145 kg. Cost of power as a percentage of cost of sales decreased from 17.6% in 2008 and 16.2% in 2009.

Gross profit

As a result of the foregoing, our gross profit increased by RMB194.0 million, or 12.2%, from RMB1,586.4 million in 2008 to RMB1,780.4 million in 2009.

Other revenue

Other revenue decreased by RMB49.9 million, or 26.5%, from RMB188.2 million in 2008 to RMB138.3 million in 2009, primarily due to decreases in government grants and interest income in 2009, partially offset by amortization of deferred income and increased sale of electricity generation right in 2009.

Selling and marketing expenses

Selling and marketing expenses increased by RMB21.3 million, or 12.2%, from RMB175.2 million in 2008 to RMB196.5 million in 2009. Primarily due to increased sales volume of cement products from 25.1 million tons to 29.4 million tons, total salary and employee benefits increased by RMB5.2 million from RMB48.2 million in 2008 to RMB53.4 million in 2009, which was offset by a decrease of RMB3.7 million in transportation expenses primarily caused by decreased export sales volume of clinker.

Administrative expenses

Administrative expenses decreased by RMB84.2 million, or 15.2%, from RMB553.3 million in 2008 to RMB469.1 million in 2009, primarily due to increases in expenses attributable to our internal control system and integration of our acquired entities. Employees' salaries and benefits decreased by RMB108.6 million from RMB268.7 million in 2008 to RMB160.1 million in 2009, primarily due to the decreases in salaries and benefits of our senior administrative employees in 2009. The number of our employees increased from 12,388 in 2008 to 13,190 in 2009. Depreciation and amortization charges decreased by RMB1.8 million from RMB69.9 million in 2008 to RMB68.1 million in 2009. Office expenses increased by RMB6.3 million from RMB19.2 million in 2008 to RMB25.5 million in 2009, primarily reflecting administrative expenses incurred in connection with one new subsidiary and one new branch company. The proportion of administrative expenses to revenue decreased from 7.4% in 2008 to 5.4% in 2009, mainly attributed to the systematic consolidation of the acquired businesses and our effective cost control.

Profit from operations

As a result of the foregoing, our profit from operations increased by RMB189.9 million, or 17.9%, from RMB1,060.9 million in 2008 to RMB1,250.8 million in 2009.

Finance costs

Finance costs decreased by RMB38.4 million from RMB348.0 million in 2008 to RMB309.6 million in 2009, primarily due to lower interest rates on our debt.

Profit before taxation

As a result of the foregoing, our profit before taxation increased by RMB228.3 million, or 32.0%, from RMB712.9 million in 2008 to RMB941.2 million in 2009.

Income tax expenses

Income tax expenses increased by RMB63.4 million, or 38.7%, from RMB163.8 million in 2008 to RMB227.2 million in 2009, primarily due to increased profit before taxation as a result of higher revenue in 2009. Our effective tax rate increased from 23.0% in 2008 to 24.1% in 2009, primarily due to expiration of preferential tax treatments for certain subsidiaries.

Profit for the year

As a result of the foregoing, our profit for the year increased by RMB164.9 million, or 30.0%, from RMB549.1 million in 2008 to RMB714.0 million in 2009. Our profit margin increased from 7.3% in 2008 to 8.2% in 2009.

Profit attributable to equity holders of the company

Profit attributable to equity holders of the Company increased by RMB162.2 million, or 30.0%, from RMB539.4 million in 2008 to RMB701.6 million in 2009.

Liquidity and Capital Resources

We fund our working capital needs, including capital expenditures associated with our investments in the construction of and acquisition of cement and clinker production lines, through a variety of sources, including cash inflows from operations and short-term and long-term bank loans. As of December 31, 2008, 2009 and 2010, we had cash and cash equivalents of RMB1,248.4 million, RMB886.1 million and RMB1,144.8 million (US$173.5 million), respectively. Cash and cash equivalents increased by RMB258.7 million, or 29.2%, as of December 31, 2010 compared to December 31, 2009, primarily due to (i) increased net cash generated from operating activities as a result of increased revenue and (ii) increased net cash generated from financing activities as a result of the issuance of corporate bonds in October 2010. There was a decrease in cash and cash equivalents of RMB362.3 million, or 29.0%, as of December 31, 2009 compared to December 31, 2008, primarily due to decreased net cash generated from financing activities because we did not receive any net proceeds from issuance of shares in 2009.

Our capital expenditures primarily comprised expenditures for plants, buildings, equipment, land use rights, construction in progress, intangible assets and acquisition of subsidiaries. Our capital expenditures, as represented by payment for purchase of fixed assets, payment for purchase of intangible assets and acquisitions of subsidiaries, net of cash acquired, were approximately RMB2,394.6 million, RMB2,155.3 million and RMB2,851.9 million (US$432.1 million) in 2008, 2009 and 2010, respectively.

We believe that our current cash and cash equivalents, anticipated cash flow from operations, ability to obtain continued bank financing for our continuing operations and the proceeds from this offering will be sufficient to meet our expected cash requirements, including for working capital and capital expenditure purposes, for at least the next 12 months following the date of this offering memorandum.

The following table sets forth a summary of our net cash flow for the periods indicated.

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US$
	(in millions)			
Net cash generated from operating activities........	1,037.3	1,025.7	1,789.0	271.1
Net cash used in investing activities....................	(2,404.5)	(2,136.4)	(2,926.8)	(443.5)
Net cash from financing activities.......................	1,912.8	748.6	1,398.3	211.9
Cash and cash equivalents at year end................	1,248.4	886.1	1,144.8	173.5

Net cash generated from operating activities

We derive our cash inflow from operations primarily from the receipt of payment for sales of our products and provision of our services. Our cash outflow from operations primarily includes purchases of raw materials, coal and power, production facility construction expenses, selling and marketing expenses, staff costs, income tax payments and interest payments.

Our net cash generated from operating activities was RMB1,789.0 million (US$271.1 million) in 2010, resulting from cash generated from operating activities of RMB2,463.8 million (US$373.3 million), partially offset by interest paid of RMB356.6 million (US$54.0 million) and income tax paid of RMB318.2 million (US$48.2 million). Cash generated from operating activities primarily included profit before taxation of RMB1,363.2 million (US$206.6 million), depreciation of RMB693.3 million, finance costs of RMB363.3 million (US$55.0 million), an increase in trade and bills payable of RMB263.5 million and a decrease of RMB205.9 million (US$31.2 million) in other receivables and prepayments, partially offset by an increase of RMB238.8 million (US$36.2 million) in trade and bills receivables and an increase of RMB220.5 million (US$33.4 million) in inventories. The increase in trade and bills payables was primarily attributable to the increase in the prices of raw materials and the increases of raw materials purchased due to increased sales volume during the second half of 2010. The decrease in other receivables and prepayments was primarily due to the occupational safety fees refunded by the government and income from sales of electricity generation rights. The increase in trade and bills receivables was primarily due to our increased sales in the second half of 2010, and the increase in inventories was primarily because of the increased number of subsidiaries in the end of 2010.

Our net cash generated from operating activities was RMB1,025.7 million in 2009, resulting from cash generated from operating activities of RMB1,586.6 million, partially offset by interest paid of RMB301.9 million and income tax paid of RMB259.0 million. Cash generated from operating activities primarily included profit before taxation of RMB941.2 million, depreciation of RMB551.4 million and finance costs of RMB309.6 million, partially offset by an increase of RMB352.1 million in trade and bills receivables, an increase of RMB113.2 million in other receivables and prepayments and a decrease of inventories of RMB58.4 million. The increase in trade and bills receivables was primarily due to the increased number of government projects undertaken resulting in increases in sales on credits as well as the increases in the sales of concrete products. The increase in other receivables and prepayments was primarily because deferred tax income from purchases of fixed assets in the beginning of the period became due in the end of the period.

Our net cash generated from operating activities was RMB1,037.3 million in 2008, resulting from cash generated from operating activities of RMB1,485.4 million, partially offset by interest paid of RMB335.7 million and income tax paid of RMB112.4 million. Cash generated from operating activities primarily included profit before taxation of RMB712.9 million, depreciation of RMB454.9 million, finance costs of RMB348.0 million and a decrease of RMB101.4 million in other receivables and prepayments, partially offset by an increase in inventories of RMB357.6 million and a decrease of RMB105.4 million in other payables and accrued expenses. The increase in inventories was primarily attributable to the increased number of subsidiaries. The decrease in other receivables and prepayments was primarily because of the refunded payments to us on escrow from our acquisitions in 2007. The decrease in other payables and accrued expenses was primarily due to our refunds on escrow to third parties in our acquisitions in 2007.

Net cash used in investing activities

Our net cash used in investing activities was RMB2,926.8 million (US$443.5 million) in 2010, primarily including RMB2,072.7 million (US$314.0 million) used for purchase of fixed assets and intangible assets and RMB779.2 million (US$118.1 million) for our acquisitions of subsidiaries, net of cash acquired, of RMB41.3 million (US$6.3 million) from sales of property, plant and equipment. Cash outflow for acquisition of fixed assets amounted to RMB2,030.8 million (US$307.7 million), primarily relating to capital expenditures attributable to our construction of new production lines. Cash outflow for acquisition of intangible assets amounted to RMB41.9 million (US$6.3 million), primarily relating to the payments for limestone mining rights by our new subsidiaries.

Our net cash used in investing activities was RMB2,136.4 million in 2009, primarily including RMB1,913.4 million used for the purchase of fixed assets and intangible assets and RMB241.9 million for our acquisitions of subsidiaries, net of cash acquired, of RMB14.4 million from sale of property, plant and equipment. Cash outflow for acquisition of fixed assets amounted to RMB1,828.2 million, primarily relating to capital expenditures attributable to our construction of new production lines. Cash outflow for acquisition of intangible assets amounted to RMB85.2 million, primarily relating to the payments for limestone mining rights by our new subsidiaries.

Our net cash used in investing activities was RMB2,404.5 million in 2008, primarily including RMB2,000.0 million used for the purchase of fixed assets and intangible assets and RMB394.5 million used for our acquisitions of subsidiaries, net of cash acquired, of RMB21.4 million from sales of property, plant and equipment. Cash outflow for acquisition of fixed assets amounted to RMB1,992.8 million, primarily relating to capital expenditures attributable to our construction of new production lines. Cash outflow for the acquisition of intangible assets amounted to RMB7.2 million, primarily relating to the payments for limestone mining rights by our new subsidiaries.

Net cash from (used in) financing activities

Our net cash generated from financing activities was RMB1,398.3 million (US$211.9 million) in 2010, primarily including proceeds of RMB2,846.5 million (US$431.3 million) from new loans and borrowings and proceeds of RMB991.0 million from the issuance of corporate bond, partially offset by the repayment of borrowings of RMB2,225.1 million and dividend distributions of RMB238.3 million (US$36.1 million) to our shareholders.

Our net cash generated from financing activities was RMB748.6 million in 2009, primarily including proceeds of RMB3,675.0 million from new loans and borrowings, partially offset by the repayment of borrowings of RMB2,755.4 million.

Our net cash generated from financing activities was RMB1,912.8 million in 2008, primarily including proceeds from new loans and borrowings of RMB3,446.0 million and proceeds from the issuance of share capital of RMB1,719.0 million, partially offset by the repayment of bank loans of RMB3,040.8 million and dividend distributions of RMB205.8 million to our shareholders.

Commercial Commitments and Contingent Liabilities

Capital commitments

We have entered into production facility construction contracts as well as equipment purchase agreements. The table below sets forth the total amount of our commitments as of the balance sheet dates indicated.

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US$
	(in millions)			
Authorized and contracted for plants and equipments	371.3	374.1	1,877.3	284.4
Authorized but not contracted for plants and equipments	279.9	4,508.6	1,845.9	279.7
Total	651.2	4,882.7	3,723.2	564.1

Operating lease commitments

We lease a number of properties under non-cancellable operating leases. The table below sets forth our payable non-cancellable operating lease rentals as of the balance sheet dates indicated.

	Year ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US$
	(in millions)			
Payable:				
Within 1 year	15.8	15.9	15.6	2.4
After 1 year but within 2 years	15.8	15.9	15.6	2.4
After 2 years but within 5 years	46.6	45.8	46.5	7.0
After 5 years	154.6	133.0	131.5	19.9
Total	232.8	210.6	209.2	31.7

Contingent liabilities

We entered into reciprocal guarantee contracts with a third party to secure certain banking facilities for each other. The maximum exposure relating to financial guarantees issued by us was RMB1,500 million as of December 31, 2008 and 2009. No claims were made against us under any of the guarantee contracts, which expired in January 2010. We had no material contingent liabilities as of December 31, 2010.

Indebtedness

We have financed our operations primarily through cash flows from operations, loans from commercial banks and other financial institutions, related-party advances and proceeds from the issuance of equity and debt securities. The table below sets forth our short-term and long-term borrowings as of the dates indicated.

	As of December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US$
	(in millions)			
Short-term bank loans				
Secured	1,342.0	380.0	180.0	27.3
Unsecured	300.0	330.0	200.0	30.3
Current portion of long-term bank loans	1,071.8	1,437.0	1,304.5	197.7
Current portion of long-term secured loans from equity holders	52.6	58.5	106.1	16.1
Short-term and current portion of interest-bearing borrowing	2,766.4	2,205.5	1,790.6	271.4
Long-term bank loans				
Secured	2,436.6	3,608.0	3,407.5	516.3
Unsecured	300.0	1,180.0	2,147.0	325.3
Current portion of long-term bank loans	(1,071.8)	(1,437.0)	(1,304.5)	(197.7)
Long-term borrowings, less current portion	1,664.8	3,351.0	4,250.0	643.9

	As of December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US$
	(in millions)			
Loans from equity holders				
Long-term secured loans from equity holders.......	289.2	236.4	454.2	68.8
Current portion of loans from equity holders	(52.6)	(58.5)	(106.1)	(16.1)
Loans from equity holders, less current portion....	236.6	177.9	348.1	52.7
Long-term unsecured loans from government.......	10.0	10.0	10.0	1.5
Corporate bond	–	–	1,000.0	151.5
Convertible notes	89.6	10.8	–	–
Total debt	4,767.4	5,755.2	7,398.7	1,121.0

Total debt

The total balance of our short-term and long-term debt was RMB7,398.7 million (US$1,121.0 million) as of December 31, 2010. Long-term debt were RMB4,250.0 million (US$643.9 million) as of December 31, 2010. As of March 31, 2011, the interest rates on the aggregate outstanding amount of our project loans ranged 2.6% to 7.7% per annum.

As of December 31, 2010, our secured loans and borrowings were either pledged by certain items of our property, plant and equipment and land use rights, or pledged by equity interests of certain of our subsidiaries, or guaranteed by third parties and companies within our group. As of the same date, we did not provide any guarantee to any company outside our group.

Convertible Notes

On September 21, 2007, we issued US$20.0 million of unsecured, interest-free convertible notes due in July 2011 to MS Cement Limited, MS Cement II Limited, CDH Cement Limited and IFC. The maturity date of the convertible notes is July 2, 2011. The convertible notes would be converted into a total of 114,964,200 shares at approximately US$0.17 or approximately HK$1.32 per share upon conversion. If we declare any dividends or distribution on our shares before the notes holders elect to exercise the conversion rights, the notes holders are entitled to receive payments equal to the dividend payable for each share multiplied by the total number of shares issuable upon exercise of the conversion rights. On April 30, 2009 MS Cement Limited, MS Cement II Limited and CDH Cement Limited fully converted their convertible notes. On November 29, 2010, IFC fully converted its convertible notes.

In addition, see "Summary – Recent Developments – 2011 Term Loans."

Off-balance Sheet Arrangements

As of the date of this offering memorandum, we do not have any outstanding off-balance sheet arrangements.

Inflation

Inflation in China has not materially impacted our results of operations. According to the PRC National Bureau of Statistics, the change in the consumer price index in China was 5.9%, (0.7)% and 3.3% in 2008, 2009 and 2010 respectively.

Quantitative and Qualitative Disclosures about Market Risk

Foreign Exchange Risk

Our financial statements are expressed in Renminbi and our functional currency for operations in the PRC is the Renminbi. The change in value of the Renminbi against the US dollar, Hong Kong dollar, and other currencies is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the US dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. As of December 31, 2010, this change in policy has resulted in an approximately 25.4% appreciation of the Renminbi against the US dollar since the date of its announcement. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the US dollar.

Because substantially all of our earnings and cash assets are denominated in Renminbi and the net proceeds from this offering will be denominated in US dollars, fluctuations in the exchange rate between the US dollar and the Renminbi will affect the relative purchasing power of these proceeds following this offering. In addition, because our income generated from the export of our products is received in US dollars, appreciation of the Renminbi against the US dollar may adversely affect our results of operations and financial condition. Depreciation of the value of the Renminbi will increase the amount of our non-Renminbi debt service in Renminbi terms since we have to convert Renminbi into non- Renminbi currencies to service our US dollar debt.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk other than by retaining foreign currency denominated earnings and receipts to the extent permitted by the State Administration of Foreign Exchange. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited and we may not be able to successfully hedge our exposure or at all. In addition, our foreign currency exchange losses may be magnified by the PRC government's exchange control regulations that restrict our ability to convert Renminbi into foreign currencies.

Interest Rate Risk

Our exposure to interest rate risk primarily relates to the interest rates for our cash and cash equivalents, pledged deposits and interest-bearing borrowings. Our interest rate risk primarily arises from interest-bearing borrowings and our corporate bonds. Borrowings issued at variable rates and at fixed rates and our corporate bonds issued at a fixed rate expose us to cash flow interest rate risk and fair value interest rate risk, respectively. As of December 31, 2010, we were exposed to interest rate risk relating to our borrowings and corporate bond, which totaled RMB6,398.7 million and RMB1,000.0 million, respectively. We do not intend to engage in the trading of financial derivatives for the sole purpose of profit making in the future. Our future interest income may be lower than expected due to changes in market interest rates.

Credit Risk

Our credit risk is primarily attributable to trade and bills receivables. In respect of trade and bills receivable for sales of cement, clinker and bubble bricks, we generally require full payment upon delivery of goods and perform credit evaluation only when customers require credit. In respect of trade and bills receivables for sales of pipes and concrete, we allow a credit period ranging from 90 days to 180 days and perform credit evaluation on customers requiring credit over a certain amount. However, we generally do not require collateral from customers on credit. Our exposure to credit risk is influenced by the individual characteristics of each customer rather than the industry or country in which the customers operate. Therefore, significant concentrations of credit risk primarily arise when we have significant exposure to individual customers. As of December 31, 2010, 2.7% and 3.0% of the total trade and bills receivable were due from our largest customer and our five largest customers, respectively.

Recent IFRS Pronouncements

The International Accounting Standards Boards ("IASB") has issued a number of new and revised IFRS, amendments and interpretations which are not effective for accounting periods beginning on January 1, 2010, and we have not early adopted.

	Effective for accounting periods beginning on or after
Amendment to IAS 32, *Financial instruments: Presentation – Classification of rights issues*	February 1, 2010
IFRIC 19, *Extinguishing financial liabilities with equity instruments*	July 1, 2010
Improvements to IFRSs 2010	July 1, 2010 or January 1, 2011
Revised IAS 24, Related party disclosures	January 1, 2011
Amendments to IFRIC 14, IAS 19 – *The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement*	January 1, 2011
Amendments to IFRS 7, *Financial Instruments: Disclosures-Transfers of financial assets*	July 1, 2011
Amendments to IAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	January 2, 2012
IFRS 9, *Financial Instruments*	January 1, 2013

We are in the process of making an assessment of the impact of these new and revised IFRS upon initial application. So far, we believe that these new and revised IFRS may result in changes in accounting policies and are unlikely to have a significant impact on our results of operations and financial position.

The information in the section below has been derived, in part, from various government publications unless otherwise indicated. We have endeavored to obtain the most recent sources available. This information has not been independently verified by us, the Initial Purchasers or any of our and their affiliates or advisors. The information may not be consistent with other information compiled within or outside the PRC.

Introduction

Cement is a basic and essential material for building and civil engineering construction. The most important use of cement is the production of mortar and concrete, the bonding of natural or artificial aggregates to form a strong and durable building material.

There are two basic types of cement: non-hydraulic cement that is unstable in wet environments and will not harden in water; and hydraulic cement that is stable in water, and can harden and set in wet environments. Portland cement is the most commonly used type of hydraulic cement for construction.

Various types of Portland cement are produced by blending different proportions of gypsum, blast furnace slag or other additives with clinker, a semi-finished product that determines the ultimate quality of cement. In China, Portland cement is graded and categorized on the basis of its compressive strength as measured in kg/cm^2. Different grades of cement are used in different applications. Large buildings and structures that carry a heavy weight load require cement of higher compressive strength.

The cement industry in China is governed by various laws and regulations promulgated by relevant PRC authorities in connection with cement production, mineral resources, environment protection and safety and labor protection. For a detailed introduction of such laws and regulations, see "Regulation."

Cement Production Process

The principal raw materials used in the production of Portland cement are limestone and clay. Other raw materials include gypsum, blast furnace slag, sand, shale, iron ore and copper slag. Coal is the principal fuel used to provide the necessary heat for the kilns, while electricity is the main source of energy throughout the entire production process. The production process involves the following steps:

Step 1. quarrying of raw materials, including principally limestone and clay;

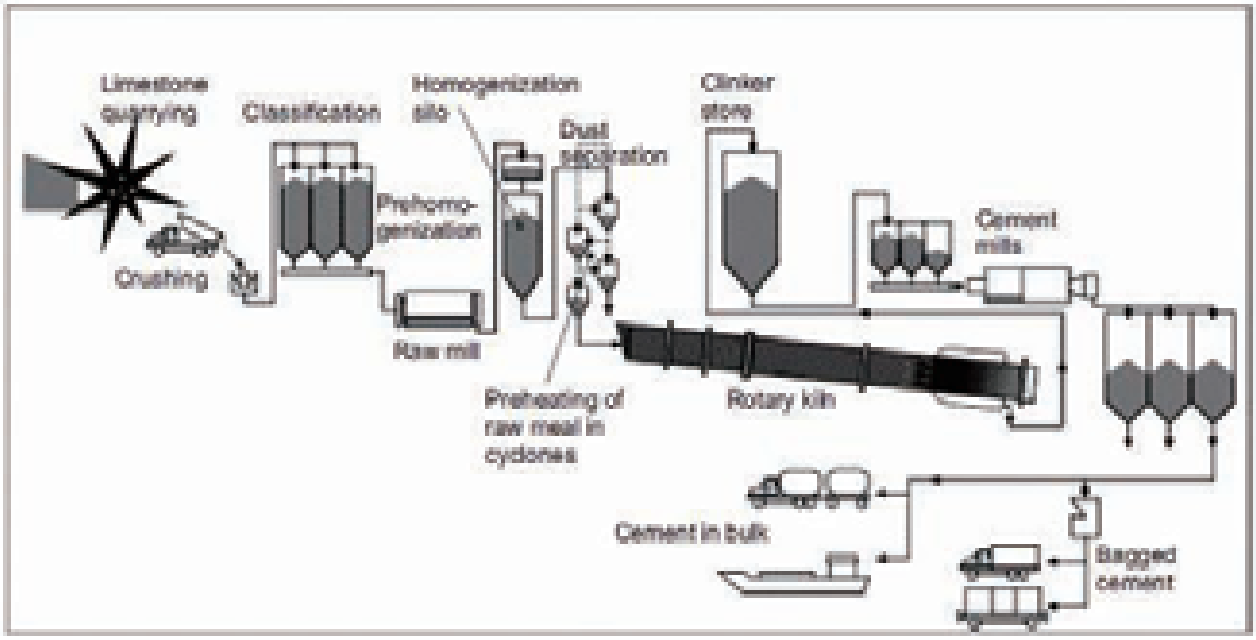
Step 2. crushing of raw materials;

Step 3. calcining and blending of raw materials into either a powder mixture, a raw meal (dry process), a mud-like mixture of slurry (wet process) or a slightly wet mixture (semi-dry process);

Step 4. calcining the raw material mixture at approximately 1,480 degrees Celsius in kilns lined with special firebrick to produce clinker; and

Step 5. grinding and blending of the clinker with gypsum to produce cement.

The diagram below illustrates a rotary kiln cement production process:



Two main types of kilns are used in the cement production process: vertical kilns and rotary kilns. Vertical kilns employ less advanced technology that yields lower quality clinker and is less energy efficient. In comparison, rotary kilns employ more advanced technology with higher productivity that allows for better monitoring of the quality of the clinker produced. Vertical kilns can use only the semi-dry process of cement production, while rotary kilns are able to use the wet, dry or semi-dry process of cement production. Dry process rotary kilns employ more advanced technology than wet and semi-dry process rotary kilns and are more fuel-efficient and produce less pollution. Some more advanced dry process rotary kilns are equipped with NSP technology. A comparison between major types of kilns is as follows:

	Technology	Production Efficiency	Product Quality	Pollution
Vertical Kilns:				
Semi-dry Process	Old	Low	Low	High
Rotary Kilns:				
Semi-dry Process	Old	Average	Average	Low
Wet process	Old	Average	Average	Low
Dry process (NSP)	Latest	Highest	Highest	Lowest

China Cement Market Overview

China's economy has grown rapidly since the "open door" economic reforms initiated by the PRC government in the late 1970s. From 2006 to 2010, China's GDP increased from approximately RMB21,192.4 billion to approximately RMB39,798.3 billion, representing a CAGR of approximately 17.1%. According to the Economist, China is one of the fastest growing economies in the world. This general economic expansion, further spurred by the growth of FAI, led to a significant increase in the demand for building materials.

As a result, China's cement consumption during the last ten years experienced a notable expansion driven by building and civil engineering construction activities. According to the estimated figures contained in the U.S. Geological Survey January 2011,[1] the global cement production output reached 3.3 billion tons in 2010. According to National Bureau of Statistics of China, the total production volume of China alone was approximately 1.88 billions tons in 2010 and China's cement production has experienced a growth over the period from 2006 to 2010, representing a CAGR of 11.0%. The table below sets forth the amounts and growth rates of GDP, FAI, cement consumption and cement production in China for the periods indicated.

	Year ended December 31,					CAGR (%)
	2006	**2007**	**2008**	**2009**	**2010**	**2006-2010**
GDP:						
RMB (in billions)	21,192.4	25,730.6	30,067.0	33,535.3	39,798.3	–
Growth rate (%)	15.7	21.4	16.9	11.5	18.7	17.1
FAI:						
RMB (in billions)	10,999.8	13,732.4	17,282.8	22,484.6	27,814.0	–
Growth rate (%)	23.9	24.8	25.9	30.1	23.7	26.1
Cement Production:						
Tons (in billions)	1.2	1.4	1.4	1.7	1.9	–
Growth rate (%)	15.9	9.7	2.9	17.9	13.9	11.0
Cement Consumption:						
Tons (in billions)	1.20	1.33	1.37	1.63	1.86	–
Growth rate (%)	14.7	10.6	3.0	19.0	14.1	(1.0)

Source: China Statistical Yearbooks and National Bureau of Statistics of China

Note: Growth rates calculated based on annual growth from the previous years.

The table below sets forth the ten largest producers of clinker and cement in terms of cement production volume in 2010:

No.	Company	Production Volume (in millions of tons)
1	Anhui Conch Cement Company Limited (安徽海螺集團有限責任公司)	112.0
2	China National Building Material Company Limited (中國建材股份有限公司)	75.2
3	Jidong Development Group Co., Ltd. (冀東發展集團有限責任公司)	43.3
4	China United Cement Corporation (中國聯合水泥集團有限公司)	43.0
5	China Resources Cement Holdings Limited (華潤水泥控股有限公司)	34.2
6	China Shanshui Cement Group Limited (中國山水水泥集團有限公司)	32.4
7	Huaxin Cement Co., Ltd. (華新水泥股份有限公司)	31.4

(1) U.S. Geological Survey, Mineral Commodity Summaries, January 2011, available at http://minerals.usgs.gov/minerals/pubs/commodity/cement/mcs-2011-cemen.pdf

No.	Company	Production Volume
		(in millions of tons)
8	Sinoma Cement Co., Ltd. (中材水泥有限責任公司)	28.5
9	Jilin Yatai Cement Co., Ltd. (吉林亞泰水泥有限公司)	22.0
10	Lafarge Cement Co., Ltd. (拉法基瑞安水泥有限公司)	22.0

Source: Digital Cement (數字水泥) (Issue One, 2011) published by China Cement Association.

Production and sale of cement is a regionalized business. Cement prices are significantly affected by the transportation costs for both raw materials and finished products due to their low value-to-weight ratio. In order to minimize costs and to offer competitive prices, cement plants are usually situated in close proximity to limestone reserves and to target markets. Therefore, cement products are generally sold within a radius of up to 300 kilometers from the relevant plants depending on transportation costs.

These constraints prevent any one producer from dominating the nationwide cement market and competition is generally confined to various regions. High transportation costs discourage outside competitors from selling into existing markets and competing with local producers. Similarly, it is difficult for overseas cement companies to sell their products made outside of China to China due to high transportation costs. However, since China entered the World Trade Organization, an increasing number of international cement players are moving their production basis into China through establishing joint ventures or acquiring local cement manufacturers, which intensified competition in the cement market in China.

The PRC government has increased the barriers of entry to the cement industry in China. For example, it requires that all newly established clinker production lines must secure sufficient resources to support operations for at least 30 years, and all newly established cement grinding plants should have a minimum annual production capacity of six million tons. In addition, the State Electricity Regulatory Commission and the NDRC have worked together to implement an electricity pricing scheme to discourage the operation of vertical kilns. Furthermore, due to the increasing number of regulations promulgated by relevant government authorities to reduce emissions and pollutions, cement producers, especially small cement plants, will be faced with the challenge to upgrade to more environmentally friendly technologies.

Key Industry Trends in China

Migration Towards Rotary Kilns Using NSP Technology

One key trend of China's cement industry is the shift from traditional vertical kilns to more advanced rotary kilns using NSP technology. In most developed countries, vertical kilns were replaced by rotary kilns in the 1970s. However, vertical kilns are still widely used in China in small-scale plants by rural areas far away from the main transport routes. Coal and energy costs generally account for a significant portion of cement production costs. Since vertical kilns consume significantly more coal than rotary kilns, the current high coal prices have resulted in significantly lower production costs for rotary kilns than for vertical kilns. Vertical kilns are also substantially more pollutive than rotary kilns. As a result, the PRC central government has issued a series of regulations intended to phase out vertical kilns. On October 17, 2006, the NDRC issued the "Policy on Cement Industry Development," which states that no enterprises or areas may establish new production lines using vertical kilns or using other less advanced technologies. In the "Notice Regarding Replacement of Obsolete Cement Production Capability" issued on February 18, 2007, the NDRC noted that in all areas, by the end of 2008, all models of kilns using semi-dry process, wet process and other obsolete technologies should be replaced, and the production quota of vertical kilns should be further reduced. In certain areas, all vertical kilns should be shut down by the end of 2008. There are also various new regulations promoting the usage of higher quality cement, which is mainly used for larger scale infrastructure and high-rise building projects and can only be produced in rotary kilns. Furthermore, the government is currently offering tax rebates to cement producers that are able to demonstrate a 30% recycling rate for raw materials, a level that is difficult for vertical kiln users to reach.

In addition, due to recent rise in the prices of raw materials, coal and electricity, production costs of cement have correspondingly increased and may continue to increase in the near future. Small cement plants may also be gradually driven out of the market due to their vulnerability to price volatility of raw materials, coal and electricity.

According to Cement Intelligence Net, approximately half of the cement produced in China used kilns equipped with non-NSP technology, while the other half is produced by kilns that are equipped with NSP technology in 2007.[(1)] However, according to National Development and Reform Commission, only approximately 20.0% of the cement produced in China used non-NSP technology while the remainder used NSP technology in 2010.[(2)]

Accelerated Consolidation in a Highly Fragmented Industry

China's cement industry is highly fragmented. According to Hexun.com,[(3)] there were 5,114 cement producers as at November 2010. Over the past three years, major PRC cement producers have accelerated their consolidation activities and increased their market shares.

The PRC government has been supporting larger and more efficient cement companies and helping fuel the consolidation trend with the issuance of several recent regulations. In the Specialized Plan for Developing the Cement Industry issued on October 17, 2006, the NDRC noted that "small factories that are overly pollutive and wasteful shall be shut down; successful enterprises should be actively cultivated through mergers and acquisitions and industrial consolidation to enhance competitiveness; and large enterprises are encouraged to acquire small enterprises to accelerate industry consolidation." On the same day, the NDRC also noted in the Policy of Cement Industry Development that the goal with respect to centralization and consolidation of the cement industry is to reduce the number of cement producers from the 5,000 to 2,000 by 2020. On December 31, 2006, the NDRC, the Ministry of Land and Resources and the PBOC jointly issued a notice stating that when seeking project investments or mergers and acquisitions, the twelve national and 48 local cement companies listed in the notice would receive government support in the form of priority with respect to project approvals, land use right grants and credit approvals. Set forth below are the twelve national companies listed in the notice (in the order listed):

Anhui Conch Cement Company Limited	(安徽海螺集團有限責任公司)
Shandong Shanshui Cement Group Company Limited	(山東山水水泥集團有限公司)
Zhejiang Leomax Group	(浙江三獅集團有限公司)
Huaxin Cement Co., Ltd.	(湖北華新水泥股份有限公司)
Tangshan Jidong Cement Company Limited	(河北唐山冀東水泥股份有限公司)
China United Cement Corporation	(中國聯合水泥有限責任公司)
Jilin Yatai (Group) Co., Ltd.	(吉林亞泰(集團)股份有限公司)
China National Materials Group Corporation	(中國材料工業科工集團公司)
BBMG Group Co., Ltd.	(北京金隅集團有限責任公司)
Henan Tianrui Group Corporation	(河南天瑞集團公司)
Hongshi Holding Group Co., Ltd.	(紅獅控股集團有限公司)
Gansu Qilianshan Cement Group Co., Ltd.	(甘肅祁連山水泥集團股份有限公司)

Increasing Emphasis on Environmental Protection

In recent years, in response to increasing concerns regarding environmental problems in China, continuous efforts have been made by the PRC government to find new techniques for cement production

(1) Cement Intelligence Net (available at http://www.snsqw.com/technic/ShowArticle.asp?ArticleID=68288)
(2) National Development and Reform Commission (available at http://www.sdpc.gov.cn/gyfz/zhdt/t20110315_399478.htm)
(3) Hexun.com (available at http://mac.hexun.com/Default.shtml?id=A101M3111)

targeted at reducing dust and decreasing noise pollution. Replacement of vertical kilns and increased usage of NSP technology have resulted from these efforts, allowing cement producers to reduce energy consumption and production costs while at the same time decreasing environmental pollution. According to the Notice Regarding Several Opinions for Accelerating Adjustments of Cement Industrial Structure issued on April 13, 2006 by the NDRC, Ministry of Finance, Ministry of Land and Resources, Ministry of Construction, Ministry of Commerce, PBOC, General Administration of Quality Supervision, Inspection and Quarantine, and State Environmental Protection Administration, by the end of 2010, the heat consumption for producing clinker with NSP should be reduced from 130 kg/ton to 110 kg/ton of coal equivalent, the percentage of production lines with RHR generator should reach 40% and utilization rate of limestone reserves should be increased from 60% to 80%.

In addition, increasing emphasis has been placed on a cement producer's ability to recycle what was formerly treated as waste by-product into reusable raw materials or fuel. In recent years, China's cement research institutions have developed key technologies for decreasing or eliminating toxins from substances that have previously been considered hazardous so that they may be safely disposed of in kilns. Cement producers have implemented these technologies with satisfactory results, which has laid the foundation for further development of recycling techniques in the cement industry.

Shandong Province Cement Market Overview

Shandong province, with a population of over 94 million, is an attractive end market for cement producers. According to China Statistical Yearbooks and National Bureau of Statistics of China, during the period from 2006 to 2010, the GDP in Shandong province increased at a CAGR of 15.8%, lower than the overall growth rate of 17.1% in China. Over the same period, the Shandong provincial government made significant efforts to improve the infrastructure of Shandong province, resulting in growth of its FAI at a CAGR of 20.3%, which was lower than the overall growth rate of 26.1% for China.

The table below sets forth the GDP growth rate, the FAI growth rate and the cement production volume in Shandong province and China for the periods indicated.

	Year ended December 31,					CAGR (%)
	2006	2007	2008	2009	2010	2006-2010
GDP growth rate (%):						
Shandong	19.2	17.7	20.0	9.6	16.3	15.8
China	15.7	21.4	16.9	11.5	18.7	17.1
FAI growth rate (%):						
Shandong	19.4	12.8	23.1	23.3	22.3	20.3
China	23.9	24.8	25.9	30.1	23.7	26.1
Cement production volume (in billions of tons):						
Shandong	0.167	0.150	0.139	0.141	0.147	(3.0)
China	1.2	1.4	1.4	1.7	1.9	11.0

Source: China Statistical Yearbooks and National Bureau of Statistics of China

Note: Growth rates calculated based on annual growths from the previous years.

Shandong is the second largest cement-producing province in China. According to China Cement Association, in 2010, the total cement production volume in Shandong province was 147.49 million tons, accounting for 7.9% of the total production volume in China. The table below sets forth the top ten provinces in China in terms of cement production volume in 2010.

Province	Cement Production Volume	Percentage of Total Production Volume in China
	(in millions of tons)	(%)
Jiangsu	156.47	8.38
Shandong	147.49	7.90
Sichuan	132.28	7.08
Hebei	125.94	6.74
Guangdong	115.37	6.18
Henan	114.80	6.15
Zhejiang	112.75	6.04
Hubei	89.83	4.81
Hunan	87.01	4.66
Anhui	78.74	4.22

Source: Report from China Cement Association 2011 (Volume 84)

The abundant limestone reserves and coal mines significantly reduce cement production and transportation costs in Shandong as compared to other provinces. As a result of its cost advantage and proximity to coastlines, Shandong exports more cement than any other province in China, with sales into neighboring provinces as well as overseas.

Liaoning Province Cement Market Overview

Since the commencement of the central government's "Revitalization of Northeast China" policy during the Tenth Five-year Plan (2001-2005), Liaoning province, a traditional leading province in heavy industry located in China's northeast region, has gradually regained its competitiveness. Under the policy, the PRC government is committed to promoting the development of the northeast China region through, among other things, improving the infrastructure, promoting frontier trade with neighboring countries, attracting foreign investment by lifting regulatory limitations in traditionally restricted sectors such as transportation, education, municipal engineering and construction, and encouraging exploration of energy, raw materials and mineral resources. However, compared with investors concentrating their business in the south and southeast China regions, investors in the northeast region may face risks and challenges such as less sophisticated municipal services, less developed credit system and lack of supporting services from downstream industries. As a result of this policy, FAI in Liaoning province has been growing rapidly in recent years. According to China Statistical Yearbooks and National Bureau of Statistics of China, the FAI in Liaoning province from 2006 to 2010 increased at a CAGR of 29.6%, higher than China's overall growth rate of 26.1%. Rapid growth of FAI has created considerable opportunities for the development of the building materials industry. In 2010, the cement production volume in Liaoning province reached 47.77 million tons, representing an increase of 9.7% compared to 2006, according to China Statistical Yearbooks, 2006-2010.

The table below sets forth the GDP growth rate, the FAI growth rate and the cement production volume in Liaoning province and China for the periods indicated.

	Year ended December 31,					CAGR (%)
	2006	2007	2008	2009	2010	2006-2010
GDP growth rate (%):						
Liaoning	15.6	20.0	22.4	11.3	20.2	18.4
China	15.7	21.4	16.9	11.5	18.7	17.1
FAI growth rate (%):						
Liaoning	35.5	30.7	34.8	22.7	30.5	29.6
China	23.9	24.8	25.9	30.1	23.7	26.1
Cement production volume (in billions of tons):						
Liaoning	0.033	0.039	0.041	0.047	0.048	9.7
China	1.2	1.4	1.4	1.7	1.9	11.0

Source: China Statistical Yearbooks and National Bureau of Statistics of China

Note: Growth rates calculated based on annual growth from the previous years.

Under the Twelfth Five-year Plan (2011-2015), the Liaoning provincial government plans to accelerate the development of NSP production lines and to phase out the obsolete cement production technologies. Under such policies, the market share of cement produced by the NSP production method is expected to increase in the near future.

Shanxi Province Cement Market Overview

Shanxi province is located in Northern China. It is comparatively less developed than Eastern China, primarily due to its landlocked location and relatively adverse climate in this part of China. Its economy has historically relied on coal mining. As a result of the PRC government's economy stimulus measures to develop the Northwestern part of China, Shanxi province has recently caught up with the national economic growth rate. According to China Statistical Yearbooks and National Bureau of Statistics of China, the FAI in Shanxi province increased at a CAGR of 29.5% from 2006 to 2010, higher than China's overall growth rate of 26.1% over the same period. Cement production volume in Shanxi province, on the other hand, only grew at a CAGR of 5.3% from 2006 to 2010, as compared to China's overall growth of 11.0% over the same period.

The table below sets forth the GDP growth rate, the FAI growth rate and the cement production volume in Shanxi province and China for the periods indicated.

	Year ended December 31,					CAGR (%)
	2006	2007	2008	2009	2010	2006-2010
GDP growth rate (%):						
Shanxi	15.3	23.5	21.4	0.6	23.5	16.8
China	15.7	21.4	16.9	11.5	18.7	17.1
FAI growth rate (%):						
Shanxi	23.5	26.9	23.4	40.0	28.5	29.5
China	23.9	24.8	25.9	30.1	23.7	26.1
Cement production volume (in billions of tons):						
Shanxi	0.027	0.028	0.021	0.028	0.033	5.3
China	1.2	1.4	1.4	1.7	1.9	11.0

Source: China Statistical Yearbooks and National Bureau of Statistics of China

Note: Growth rates calculated based on annual growth from the previous years.

Xinjiang Cement Market Overview

Xinjiang is located in the Northwestern part of China, bordering Russia, Mongolia, Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan, Pakistan and India. Xinjiang is proven to have oil reserves. Its economy has historically relied on agricultural production. As a result of the PRC government's economy stimulus measures to develop Northwestern part of China, Xinjiang's economy is fast developing. According to China Statistical Yearbooks and National Bureau of Statistics of China, the FAI in Xinjiang increased at a CAGR of 22.6% from 2006 to 2010. Cement production volume in Shanxi province grew at a CAGR of 18.3% from 2006 to 2010, higher than China's overall growth of 11.0% over the same period.

The table below sets forth the GDP growth rate, the FAI growth rate and the cement production volume in Xinjiang province and China for the periods indicated.

	Year ended December 31,					CAGR (%)
	2006	2007	2008	2009	2010	2006-2010
GDP growth rate (%):						
Xinjiang	16.9	15.7	18.7	2.2	26.7	15.5
China	15.7	21.4	16.9	11.5	18.7	17.1
FAI growth rate (%):						
Xinjiang	17.0	18.1	22.1	20.6	29.9	22.6
China	23.9	24.8	25.9	30.1	23.7	26.1
Cement production volume (in billions of tons):						
Xinjiang	0.012	0.015	0.017	0.020	0.024	18.3
China	1.2	1.4	1.4	1.7	1.9	11.0

Source: China Statistical Yearbooks and National Bureau of Statistics of China

Note: Growth rates calculated based on annual growth from the previous years.

Inner Mongolia Cement Market Overview

Inner Mongolia is located in Northern China, bordering Mongolia and Russia. The economy historically relied on subsistence farming and forestry. Although proven to have coal and natural gas reserves, exploitation of such resources have been limited due to inconvenient transportation to and from Inner Mongolia. Recent industrialization of Inner Mongolia focuses on development of coal mining and power generation as well as farm products processing. According to China Statistical Yearbooks and National Bureau of Statistics of China, the FAI in Inner Mongolia increased at a CAGR of 27.8% from 2006 to 2010, higher than China's overall growth rate of 26.1% over the same period. Cement production volume in Inner Mongolia grew at a CAGR of 24.7% from 2006 to 2010, higher than China's overall growth of 11.0% over the same period.

The table below sets forth the GDP growth rate, the FAI growth rate and the cement production volume in Inner Mongolia and China for the periods indicated.

	Year ended December 31,					CAGR (%)
	2006	**2007**	**2008**	**2009**	**2010**	**2006-2010**
GDP growth rate (%):						
Inner Mongolia	26.6	29.9	32.3	14.6	19.7	23.9
China	15.7	21.4	16.9	11.5	18.7	17.1
FAI growth rate (%):						
Inner Mongolia	27.2	30.0	25.2	34.0	22.3	27.8
China	23.9	24.8	25.9	30.1	23.7	26.1
Cement production volume (in billions of tons):						
Inner Mongolia	0.022	0.029	0.034	0.043	0.054	24.7
China	1.2	1.4	1.4	1.7	1.9	11.0

Source: China Statistical Yearbooks and National Bureau of Statistics of China

Note: Growth rates calculated based on annual growth from the previous years.

Overview

We are one of the largest producers of clinker and cement in China, particularly in Shandong and Liaoning provinces, as measured by production volume. Leveraging our leading market position in Shandong and Liaoning provinces, we have taken advantage of the considerable growth opportunities in the construction and infrastructure sectors within Shanxi province and Inner Mongolia, and quickly established our presence in these areas through organic growth and acquisitions. We are also expanding into Xinjiang by greenfield developments.

We produce and sell various grades of cement products using advanced NSP production technology. Our principal products also include clinker, a key intermediary component of cement. We also produce and sell other products, such as concrete. Our sales volume of cement products increased from 25.1 million tons in 2008 to 29.4 million tons in 2009 and 39.3 million tons in 2010. While most of the clinker we produced was used in our cement production, we also sold 5.5 million tons, 8.4 million tons and 9.8 million tons of clinker to external customers in 2008, 2009 and 2010, respectively. The average unit selling price per ton of our cement products was RMB235.2, RMB224.9 and RMB235.9 (US$35.7) in 2008, 2009 and 2010, respectively, and the average unit selling price per ton of our clinker was RMB213.9, RMB187.5 and RMB197.2 (US$29.9), respectively, during the same periods. Our products are primarily provided to our customers under our "Shanshui Dongyue" brand name (山水東岳), which was honored the "Famous Trademark of Shandong Province" in September 2008. In addition, in 2010, we were awarded the "Quality Award by Governor of Shandong" and recognized by the Ministry of Railways as the only construction material company with the award for "Beijing-Shanghai High-Speed Rail Best Supplier."

Our production facilities are principally located in Shandong province, Liaoning province and the eastern part of Inner Mongolia and Shanxi province, and our clinker production facilities are located near our limestone mines serving cement grinding stations that are strategically located in close proximity to our end-markets and customers. This layout of our production facilities enables us to minimize our logistics and transportation costs, and to broaden our market coverage. As of December 31, 2010, we had a total production capacity (including production lines in test run) of 66.5 million tons of cement and 31.0 million tons of clinker, representing an increase of 18.2 million tons of cement and 5.8 million tons of clinker over the year ended December 31, 2009. Separately, as of December 31, 2010, the total capacity of cement and clinker in Shandong province reached 48.1 million tons and 22.1 million tons, respectively, while the total capacity of cement and clinker in Northeast China, including both Liaoning province and Inner Mongolia, reached 17.4 million tons and 8.9 million tons. As of the same date, the cement capacity in Shanxi province reached 1.0 million tons.

The map below indicates the locations of our primary production facilities in Shandong province, Northeastern China (including Liaoning province and Inner Mongolia) and Shanxi province as of December 31, 2010:

We have achieved significant revenue and earnings growth in recent years. Our revenue increased from RMB7,500.7 million in 2008 to RMB8,727.6 million in 2009 and RMB11,854.1 million (US$1,796.1 million) in 2010. Our profit for the year increased from RMB549.1 million in 2008 to RMB714.0 million in 2009 and to RMB1,004.9 million (US$152.3 million) in 2010.

Competitive Strengths

Dominant market position in Shandong and Liaoning provinces enhances our ability to attract customers.

We are a leading producer of clinker and cement in Shandong and Liaoning provinces, as measured by production volume. We have actively carried out market consolidation primarily through acquisitions in Shandong and Liaoning provinces. In addition, we have established a recognized brand for our products. Our brand name "Shanshui Dongyue" (山水東岳) was honored the "Famous Trademark of Shandong Province" in September 2008. In 2010, we were awarded the "Quality Award by Governor of Shandong" and recognized by the Ministry of Railways as the only construction material company with the award for "Beijing-Shanghai High-Speed Rail Best Supplier." Due to our dominant market position within Shandong and Liaoning provinces as well as industry recognition of the high quality of our products, our cement and clinker products usually enjoy price premiums over products sold by our competitors and we are able to attract key customers in our core markets in Shandong and Liaoning provinces.

We are well positioned to capture attractive growth opportunities in China's infrastructure projects and construction industry, especially in fast growing regions in China.

We are well positioned to take advantage of the PRC government's economic policies which have increased and are expected to continue to increase the demand for building and construction materials, including cement, in each of the markets where we have business operations. One of the objectives of the government's "Twelfth Five-Year Plan," released in 2011, and its economic stimulus package under the plan is to foster growth at an accelerated pace in Northwestern China, which includes our new target markets in Shanxi province and Xinjiang as well as Inner Mongolia. According to the local governments' working reports published in 2011, substantial resources have been pledged to construct affordable housing in each of Shandong, Liaoning and Shanxi provinces, Xinjiang and Inner Mongolia. Plans have also been formulated to improve the transportation network by construction of highways and railroads in these areas, including six railroads and eight highways connecting the harbor, the airport and other major locations in Shandong province, approximately 5,000 kilometers of highways connecting neighboring rural villages and industrial parks and harbors in Liaoning province, over 3,000 kilometers of railroads in Inner Mongolia and over 13,000 kilometers of highways in Xinjiang. All these government stimulus measures are expected to accelerate economic developments in these areas, which are also our target markets, creating high demand of our products for infrastructure and construction projects and presenting ample opportunities for our growth.

Efficient operational management and continuous technological advancement enable us to enjoy sustainable profitability.

We enjoy sustainable profitability with our efficient operational management system to prepare our annual budget and with our advanced technology in our production process. Our head office delivers the annual business goals down to our operating subsidiaries based on our comparisons with similar enterprises within our industry. Our operating subsidiaries submit monthly reports on their respective achievement of our annual goals for publication within our company. In addition, the command delivered down and the reports submitted up from time to time strengthen our budget preparation. The implementation of approved budget is scrutinized quarterly. Furthermore, we employ advanced technology in our production process, which provides us with substantial cost savings. For instance, our output of residual heat power generation increased from 463 KwH in 2008 to 914 million KwH in 2010. As a result of this energy savings technology, we achieved total cost savings of RMB164 million, RMB273 million and RMB347 million (US$52.6 million) in 2008, 2009 and 2010, respectively. Moreover, our use of coal of better quality enabled us to reduce our coal consumption per ton of clinker from 156 kg to 143 kg and avert the worldwide increase in coal price. As a result of our efficient management system and technological advancement, we have been able to achieve substantial cost-savings, allowing us to enjoy sustainable profitability.

We have an extensive sales network to meet demands of our diverse customer base.

Our extensive sales network enables us to optimize regional market penetration. We have an extensive direct sales network that is segmented into two geographical groups, Shandong and Liaoning. The Shandong network covers 140 counties and districts in Shandong province and the Liaoning network covers 95 counties and districts in Liaoning province, 26 counties and districts in Inner Mongolia and Shanxi province. As of December 31, 2010, the two networks combined have 53 regional sales branches, 154 local sales offices and approximately 1,300 third-party sales outlets. All of our regional sales branches and local sales offices are centrally managed by the sales department in our headquarters in Jinan. Our direct sales personnel are divided into teams to cover different customer groups in urban areas. Our sales coverage of rural customers is primarily achieved through our third-party sales outlets at which we sell our products to end-users. We believe our extensive sales network enables us to cover a diverse customer base, including concrete station and infrastructure project management offices, aligned with the government's policy of "Bring building materials to the rural area."

Our production plants are located in proximity to abundant coal reserve and limestone resources, minimizing our transportation costs.

We carefully select the locations of our production facilities. The strategic layout of our production facilities in our key regional markets enables us to minimize transportation costs by being located in proximity to our raw material sources. Our raw materials principally consist of coal and limestone. All of our clinker production facilities are located near coal reserves and our limestone mines, serving a network of cement grinding stations that are strategically located in proximity to our end markets. Coal is used during our clinker production process and constitutes the largest cost component of our production. We also have long-term relationships with coal suppliers. Our top ten coal suppliers who in aggregate provided approximately 40% of our coal supplies in the year ended December 31, 2010 had supplied coal to us for at least two years with some over five years. In addition, we have an investment strategy that acquires limestone resources, which would be sufficient, as required by the PRC government's policy, to provide for at least 30 years for our planned production.

We have an experienced, stable and professional management team with a proven track record.

Our senior management team, most of whom have been working for our company since our establishment, has an average of over 28 years of experience working in the PRC cement industry and considerable financial and business management expertise. For example, Mr. Caikui Zhang, our chairman and executive director, has over 42 years of industry experience as chairperson of several industry committees, such as the Jinan Municipal Bureau of Building Materials. Other members of our senior management team also have significant experience in key aspects of our operations, including production management, sales and distribution, research and development and delivery logistics.

Strategy

Continue to expand production capacity and increase market presence

We devise our strategy to align with the government's policy of phasing out outdated enterprises and encouraging consolidation of the cement industry, while leveraging our own competitive strength in terms of established production systems and processes. Our objective is to double our production capacity within the next three years and increase our market presence with the goal of becoming the largest cement producer north of Yangtze River. By the end of 2011, we plan to increase our cement production capacity to reach 80 million tons from 66.5 million tons for the year ended December 31, 2010. We intend to proactively carry out market research for our strategic target locations, seek opportunities for reorganizations, mergers and acquisitions, and strategically expand our production capacity to improve our presence in key markets. We also plan to establish a strategic development center and integrate our internal organizations and human resources to achieve our goal.

Promote total budget management initiatives to enhance operational management efficiency

We plan to revise and improve the various management systems introduced in 2010, enhance internal control systems, and strengthen various fundamental management functions. The following are our objectives in order of priority: (1) use the established procurement and supply center as the platform for centralized purchase of bulk raw materials, fuel and general equipment, and further regulate tender procedures, reduce procurement costs and enhance cooperation between upstream and downstream industries; (2) optimize the integrated production-sale business model for companies under our supervision, further regulate the management of contracts, prices, transportation and settlement to reduce market and operational risks; (3) continue to implement strict funds approval and granting procedures, and to improve financial management, focusing on funds management and increased efficiency in the use of funds; and (4) enhance internal audit and supervision, and establish and improve various processes, procedures and systems to ensure the effective control of our company to cope with rapid business expansion and enlarged management scope.

Diversify our product offerings such as concrete and aggregate, thereby developing new drivers for profit growth

Leveraging the favorable environment created by government policies supporting the extension of the whole industry chain and comprehensive utilization of resources, and based on prudent investigation and research, we intend to use Shandong province, where our cement business is most concentrated, as the pilot program to vertically integrate the whole cement industry chain and accelerate the preparation work for businesses such as concrete and aggregate. We intend to adopt the same growth strategy for other regional markets we operate in if the pilot program in Shandong is proven successful, developing new drivers for our growth in the future.

Optimize the internal and external sale of clinker

In accordance with the supply and demand condition of clinker in our markets and our operational philosophy of "clinker for profits and cement for market expansion," we expect to further improve both the internal and external sales models for clinker in order to stabilize and increase the price of clinker to ensure reasonable pricing for cement and to maximize our profit. Because clinker is the intermediate product for cement, the pricing of clinker is an indicator for the pricing of cement. For clinker sold within our company, we plan to adopt market pricing mechanisms to determine the agreed price for clinker. For clinker sold externally, we intend to adopt strategic methods, including adjustments of sales volumes between seasons, to manage our pricing in order to avoid benefiting downstream cement competitors. We believe such strategies enable us to narrow the price of clinker sold internally and externally and to achieve our goals of fully utilizing our own cement grinding capacity while increasing the sales volumes of cement and increasing our market share.

Our Products

Our principal products are cement and clinker. The following table sets forth the amount of revenue and percentage of our total revenue by product for the periods indicated.

	Year ended December 31,						
	2008		2009		2010		
	Amount (RMB)	% of Revenue	Amount (RMB)	% of Revenue	Amount (RMB)	Amount (US$)	% of Revenue
	(in millions, except percentages)						
Revenue							
Sales of cement	5,906.8	78.7%	6,608.2	75.7%	9,275.1	1,405.3	78.2%
Sales of clinker prepayments	1,169.2	15.6%	1,578.9	18.1%	1,941.1	294.1	16.4%
Sales of other products[(1)]	424.7	5.7%	540.5	6.2%	637.9	96.7	5.4%
Total	7,500.7	100.0%	8,727.6	100.0%	11,854.1	1,796.1	100.0%

Note:

(1) Includes concrete, pipes and bubble bricks as well as provision of transportation service and equipment installation service.

Our sales volume of clinker was 5.5 million tons, 8.4 million tons and 9.8 million tons in 2008, 2009 and 2010, respectively, and our sales volume of cement products was 25.1 million tons, 29.4 million tons and 39.3 million tons, respectively, during the same periods.

Cement is produced by blending gypsum, blast furnace slag or other additives with clinker. We currently produce and sell a variety of cement products, which are mainly used for real property construction and infrastructure projects. Our cement products are classified into high grade products and low grade products. High grade products are those with compressive strength equal to or higher than 42.5 megapascals (MPa). We also produce clinker, a key intermediary component in the production of cement, from limestone through a rotary kiln process, primarily for use in making our cement products. To fully utilize our clinker production capacity, we also sell a portion of our clinker to external customers.

Driven by the demand for high grade cement as a result of the government's substantial investment in infrastructure projects and our expanded market coverage of other areas of China, the sales volume of high grade cement increased by 47.0% in 2010 as compared to the same period of 2009. The table below sets forth the sales volume of our high grade and low grade cement products for the periods indicated.

	Year ended December 31,		
	2008	**2009**	**2010**
		(in millions of tons)	
High grade cement products	10.0	14.8	21.8
Low grade cement products	15.1	14.5	17.5

High grade cement products, such as PO52.5R, PO42.5R and PO42.5, refer to products with compressive strength greater than or equal to 42.5 megapascals. They are generally applied in major construction projects with special requirements, such as bridges, roads, high-rise buildings and high performance concrete, and projects where a high initial level of strength is required. Low grade cement products, such as PC32.5R and PC32.5, are applied in general industrial construction such as production of surface, underground and underwater concrete as well as reinforced concrete, pre-stressed concrete structures and commercial concrete products. In 2010, sales of high grade cement products accounted for 55.5% of our total sales volume and low grade cement products 44.5%.

Most of our cement products are sold under the "Shanshui Dongyue" brand name (山水東岳), which is widely used in construction works for roads, bridges, housing and various types of landmark construction projects, and has achieved a good reputation among customers. In 2006, we were presented the "AAA Quality Award by Product Quality Association of China." In September 2008, the "Shanshui Dongyue" brand (山水東岳) was honored the "Famous Trademark of Shandong Province." In 2009, we were presented the "30-year Reform Meritorious Enterprise Award" by Shandong provincial government. In 2010, we were awarded and recognized by the Ministry of Railways as the only construction material company with the award for "Beijing-Shanghai High-Speed Rail Best Supplier."

Production

Production Facilities

Our production facilities are principally located in Shandong region, Liaoning region, the eastern part of Inner Mongolia and Shanxi region, and our clinker production facilities are located near our limestone mines serving cement grinding stations that are strategically located in close proximity to our end-markets and customers. This layout of our production facilities enables us to minimize our logistics and transportation costs, and to broaden our market coverage. As of December 31, 2010, we had a total production capacity (including production lines in test run) of 66.5 million tons of cement and 31.0 million tons of clinker, representing an increase of 18.2 million tons of cement and 5.8 million tons of clinker over the year ended December 31, 2009. Separately, as of December 31, 2010, our total production capacity of cement and clinker in Shandong province reached 48.1 million tons and 22.1 million tons, respectively, while our total production capacity of cement and clinker in Liaoning province and Inner Mongolia reached 17.4 million tons and 8.9 million tons, respectively. As of December 31, 2010, our cement production capacity in Shanxi province reached 1.0 million tons. We have 75, 30, seven and one cement grinding production lines in Shandong region, Liaoning region, Inner Mongolia and Shanxi region, respectively.

We carefully select the locations of our production facilities to lower transportation costs. All of our clinker production lines are located near our limestone mines and serve a network of cement grinding stations that are strategically located in proximity to our end markets. Our transportation costs consist of the costs relating to transportation of limestone from limestone mines to clinker production facilities, transportation of clinker from clinker production facilities to cement grinding stations and transportation of cement from cement grinding stations to end markets. Since the input-output ratio for limestone to clinker is approximately 1.3:1 and the input-output ratio for clinker to cement is approximately 1:1.7, the layout of our facilities is designed to minimize the total transportation costs by relying on a more extended transportation radius for clinker rather than for limestone or cement. We believe this "hub and spoke" production facility layout has enabled us to achieve significant cost savings and broaden our market coverage.

The table below sets forth our production capacity and total number of production lines as of December 31, 2008, 2009 and 2010 and production volumes for clinker and cement for the years ended December 31, 2008, 2009 and 2010.

	At and for the year ended December 31,		
	2008	**2009**	**2010**
Clinker			
Total capacity (in thousand of tons)	20,038.4	25,190.4	30,950.4
Total production lines	19	23	28
Total production volumes (in thousand of tons)	21,220.7	25,661.2	32,404.7
Cement			
Total capacity (in thousand of tons)	35,846.6	48,335.4	66,535.4
Total production lines	78	88	96
Total production volumes (in thousand of tons)	25,317.7	29,853.3	39,201.4

The table below sets forth the annual production capacity and production volume of the clinker production lines in each area in which we operate.

Location	**Annual production capacity[(1)] for the year ended December 31,**			**Production volume**		
	2008	**2009**	**2010**	**2008**	**2009**	**2010**
	(in thousands of tons)			**(in thousands of tons)**		
Shandong region	17,216.0	19,488.0	22,048.0	18,927.6	21,619.3	26,275.9
Liaoning region	2,822.4	5,702.4	5,702.4	2,293.1	4,041.9	5,700.2
Inner Mongolia	–	–	3,200.0	–	–	428.6
Shanxi region	–	–	–	–	–	–
Total	20,038.4	25,190.4	30,950.4	21,220.7	25,661.2	32,404.7

Note:

(1) Annual production capacity, including production lines in test run, is calculated based on 320 working days per annum.

The table below sets forth the annual production capacity and production volume of the cement production lines in each area in which we operate.

Location	Annual production capacity(1) for the year ended December 31,			Production volume		
	2008	2009	2010	2008	2009	2010
	(in thousands of tons)			(in thousands of tons)		
Shandong region	31,845.3	37,729.1	48,129.1	21,850.3	25,540.3	32,419.0
Liaoning region	3,540.5	10,145.5	12,145.5	3,053.7	3,852.9	6,144.8
Inner Mongolia region	460.8	460.8	5,260.8	413.7	460.1	637.6
Shanxi region	–	–	1,000.0	–	–	–
Total	35,846.6	48,335.4	66,535.4	25,317.7	29,853.3	39,201.4

Note:

(1) Annual production capacity, including production lines in test run, is calculated based on 320 working days per annum.

All of our automated NSP production lines are equipped with Distributed Control System, an advanced process control system that significantly improves our production efficiency by reducing labor costs associated with our production. In addition, facilities equipped with NSP technology discharge lower levels of harmful emissions than facilities that employ non-NSP technology. As a result, our NSP technology is supported by PRC government policies intended to reduce industrial waste and pollution. In both the Notice Regarding Replacement of Obsolete Cement Production Capability issued on February 18, 2007 and Policies on the Development of the Cement Industry issued on October 17, 2006, the NDRC mandated that all production facilities using less-advanced technologies, including dry hollow kilns and wet kilns, should be replaced. The NDRC also required in these policies that all local governments should phase out cement enterprises with annual production capacities of less than 200,000 tons or which fail to comply with relevant environmental protection requirements or cement product quality standards.

According to Ministry of Industry and Information Technology, a total of 91.6 million tons of obsolete cement production capacity was phased out in 2010. According to Shandong Economic and Information Technology Committee, 20.7 million ton of obsolete cement production capacity was phased out in Shandong in 2010.

Planned Capacity Expansion

In order to meet the growing market demand for cement products, we plan to further expand our production capacity through the construction of new production facilities. For instance, two cement grinding production lines and one clinker production line are in construction in Xinjiang. The following table sets forth our planned number of production lines, production capacity and production commencement date by products for 2011.

Products	Planned Number of Production Lines	Planned Production Capacity	Anticipated Commencement Date
Clinker	8	9,280,000 tons	By the end of 2011
Cement	18	17,000,000 tons	By the end of 2011
Concrete	11	11,000,000 cubic meters	By the end of 2011

Production Process

The chart below illustrates the production process of our cement products.

Step 1: Raw materials quarrying → Step 2: Raw materials crushing → Step 3: Raw meal preparation → Step 4: Clinker calcination → Step 5: Finished cement

At the crushing stage, limestone, shale, sandstone and iron ore are crushed. To prepare for the cement raw meals, the crushed raw materials are mixed according to designated proportions and then fed into the mills for grinding. The resulted cement raw meals are fed into the kiln system for calcination. After a series of complex physical and chemical reactions, the cement raw meals are turned into clinker. Depending on the type of cement products to be manufactured, the clinker and other aggregates are mixed together in various proportions. The resulting mixtures are fed into the cement grinding mill to be ground to required fineness for cement production. Different proportions of the aggregates are added to the mixtures to produce different types of cement products.

Quality Control

We enforce national quality standards, develop quality control standards for all production processes on a unified basis, retain professional technical management talents, implement real-time quality control and have established a sound product quality control system. Most of our production facilities are accredited with ISO-9000 quality control system certification, except for the facilities which have recently commenced production, and are in the process of applying. We have also established a central laboratory for quality sampling inspection of our subsidiaries and new product research and development to ensure our products attain national standards.

Production Management and Inventory Control

We plan our production and manage the inventory level of our finished products on a monthly basis based on projected sales volumes, and make periodic adjustments to the production schedule and volumes based on actual orders received. We closely supervise our daily production and maintain suitable inventory levels of raw materials and finished goods in each production facility through a production management center located at our headquarters in Jinan. This center has a network-based data management system that facilitates the collection, monitoring and analysis of various production and inventory data in each of our production facilities. According to this management system, our headquarters delivers the annual business goals down to our operating subsidiaries based on our comparisons with similar enterprises within our industry and our operating subsidiaries submit monthly reports on their respective achievement of our annual goals for publication within our company. In addition, our operating subsidiaries prepare their respective preliminary budgets, which are gathered, processed, summarized and adjusted by our headquarters. The operating subsidiaries make corresponding adjustments in their respective budgets. The final budget then is submitted to our board of directors for approval. The implementation of the approved budget is monitored quarterly.

We maintain different inventory levels of raw materials and coal depending on the type of product and lead time required to obtain additional supplies. We typically maintain an inventory of 15 to 30 days for limestone and 15 to 20 days for coal. We typically keep an inventory level of cement products to meet anticipated demand for approximately ten days, based on our previous sales experience.

Recent Acquisitions

We acquired the equity interests of the following entities engaged in cement business in Shanxi province, Shaanxi province, Inner-Mongolia and Tianjin city during the year ended December 31, 2010. We expect these acquisitions will enhance our market share in the respective regions. The fair value of net identifiable assets of the acquirees is determined based on the valuation carried out by two qualified independent valuers, Jones Lang LaSalle Sallmanns Limited and Shandong Ruihua Assets Valuation Company Limited. From the date of the relevant acquisitions to December 31, 2010, these acquirees contributed in the aggregate revenue of RMB236.8 million (US$35.9 million) and profit of RMB10.3 million (US$1.6 million).

Name of company	Acquired interest	Acquisition date	Location	Production capacity	Principal activities
AKBB Cement	Note[(1)]	January 7, 2010	Inner Mongolia	2,500 tons of clinker per day	Production and sale of cement and clinker
Shengfeng Cement	Note[(2)]	March 2, 2010	Inner Mongolia	1,000,000 tons of cement per year	Production and sale of cement
Hequ Zhongtianlong	68%	April 9, 2010	Shanxi province	2,500 tons of clinker per day; 1 million tons of ground cement per year	Production and sale of cement and clinker
Tianjin Tianhui	100%	April 10, 2010	Tianjin city	600,000 tons of cement per year	Production and sale of cement
Lvliang Yilong	90%	May 25, 2010	Shanxi province	4,000 tons of clinker per day and 1 million tons of ground cement per year	Production and sale of cement and clinker
Chifeng Yuanhang	50%[(3)]	September 15, 2010	Inner Mongolia	1.6 million tons of clinker per year and 2.6 million cement per year	Production and sale of cement and clinker
Quanxing Cement	90%	September 30, 2010	Inner Mongolia	80,000 tons of clinker per year	Production and sale of clinker
Tianzhu Cement	90%	September 30, 2010	Inner Mongolia	1.2 million cement per year	Production and sale of cement
Yulin Yatai	62%	October 31, 2010	Shanxi province	1 million tons of cement per year	Production and sale of cement and related products
Dongying Dongxing	70%	December 28, 2010	Shandong province	600,000 tons of cement per year	Production and sale of cement and clinker

Name of company	Acquired interest	Acquisition date	Location	Production capacity	Principal activities
Dongying Shenglv	90%	December 28, 2010	Shandong province	700,000 tons of cement per year	Production and sale of cement and clinker
Heju Shanshui	90%	December 31, 2010	Shanxi province	4,500 tons of clinker per day and 2 million tons of ground cement per year	Establishment of cement production line

Notes:

(1) On January 7, 2010, Alu Kerqin Qi Shanshui Cement Co., Ltd. ("Alu Kerqin Cement"), our 85%-owned subsidiary, entered into an agreement with AKBB Cement for the acquisition of a group of net assets in AKBB Cement for an aggregate consideration of RMB73.13 million (US$11.1 million). The group of net assets acquired constituted a business and therefore is accounted for as business combination in accordance with IFRS 3, Business Combination.

(2) On March 2, 2010, Huolin Guole Shanshui Cement Co., Ltd., our 85%-owned subsidiary, signed an agreement to acquire a group of net assets in Shengfeng Cement for a total cash consideration of RMB14.0 million (US$2.1 million). The group of net assets acquired constituted a business and therefore is accounted for as business combination in accordance with IFRS 3, Business Combination.

(3) Pursuant to the relevant agreement, we agreed to acquire an additional 30% equity interest of Chifeng Yuanhang within 13 months after our acquisition of this 50% equity interest at the purchase price calculated based on the then actual value of the assets to be acquired.

Raw Materials, Coal and Electricity

In 2008, 2009 and 2010, purchases of raw materials, coal and electricity from our five largest suppliers accounted for 21.0%, 18.9% and 16.6% of our total cost of sales, respectively, and purchases from our largest supplier accounted for 7.8%, 5.0% and 4.4% of our total cost of sales, respectively.

Raw Materials

The principal raw material for the production of clinker and cement is limestone. Other raw materials include clay, shale, pyrite cinder, sandstone and gypsum. Our raw materials costs accounted for 29.8%, 30.0% and 27.7% of our total cost of sales for the years ended December 31, 2008, 2009 and 2010, respectively.

We seek to diversify the sources of raw materials and have not in the past experienced any disruption of our production process due to insufficient supply of raw materials. We have maintained long term relationships with several suppliers for each type of raw materials. We select our raw materials suppliers based primarily on quality, pricing, delivery time, distance to our facilities, after-sales services and reliability. All of our raw materials are locally sourced, which enables us to shorten our lead time and reduce transportation costs. We are typically required to make full payments for raw materials supplies within three months after delivery.

We conduct a portion of our limestone mining ourselves to utilize our existing mining facilities and outsource the remaining mining activities to third-party contractors, paying them on a per tonnage basis to reduce our production costs.

In order to diversify our limestone supply, capitalize on regional price discrepancies and preserve our own limestone reserves, we source a significant portion of the limestone used for our cement production from outside suppliers and expect to continue to do so in the near future. We sourced approximately 57.0%, 54.6% and 46.6% of our limestone supply from outside suppliers in 2008, 2009 and 2010, respectively. We typically enter into supply contracts whose terms may vary from six months to three years with pricing terms that are negotiated based on market prices.

Coal

Coal is used as fuel in our clinker production process for all of our facilities. We maintain long-term relationships with a number of third-party domestic coal suppliers to secure adequate coal supply at competitive prices. We typically enter into supply contracts with these coal suppliers based on the estimates of our needs and priced with reference to the prevailing market prices. We are typically required to pay in full for these supplies after our receipt of the coal. During periods of supply shortage, we have been required to make partial prepayments for our coal deliveries. As part of our continuing cost control measures, we have centralized the purchase of coal for most of our clinker production lines through our headquarters in Jinan to obtain better pricing terms from our coal suppliers.

Coal constituted approximately 36.6%, 31.5% and 34.1% of our total cost of sales for the years ended December 31, 2008, 2009 and 2010, respectively. Our coal consumption was 156 kg, 145 kg and 143 kg of coal per clinker in 2008, 2009 and 2010, respectively. See "Risk factors – Risks Relating to Our Business – Our profitability and results of operations are subject to fluctuations in the supply and costs of raw materials, coal and electricity, and we may be unable to pass on some or all of any the increases in such costs to our customers."

Electricity

Electricity constituted 17.6%, 16.2% and 15.8% of our total cost of sales for the years ended December 31, 2008, 2009 and 2010, respectively. We have not in the past experienced any disruption of our operations due to insufficient supply of electricity and do not anticipate any significant interruption in electricity supply that would have a material impact on our business. However, we have experienced increases in electricity prices in recent years caused by surging coal prices. We are typically required to prepay for our electricity expenses at the beginning of each month based on estimates and settle the balance at the beginning of the next month based on actual expenses incurred.

We have adopted RHR technology for all of our clinker production facilities. RHR generators collect residual heat from the clinker production process to generate power that can be re-utilized for clinker production. The average costs of electricity produced through these generators ranged from RMB0.15 to RMB0.20 per KWh in 2010, significantly lower than our average electricity purchase price of RMB0.59 per KWh during the same period. Using RHR technology, we increased our output of residual heat power generation, producing 4.6 Gwh, 7.2 Gwh and 9.1 Gwh in 2008, 2009 and 2010, respectively.

Sales and Marketing

Sales Network

In 2008, 2009 and 2010, the substantial majority of our products were sold to customers in Shandong province. We also sold a small portion of our products to customers located in relatively close proximity to our cement production facilities, including those in Henan province, Hebei province, Inner Mongolia and Tianjin city.

We sell our products directly in China to end-users through our extensive sales network that is segmented into two geographical groups, Shandong and Liaoning. As of December 31, 2010, the Shandong network covers 140 counties and districts in Shandong province, certain areas in Hebei and Henan provinces and Tianjin by 40 regional sales branches, 98 local sales offices and approximately 1,200 third-party sales outlets. As of December 31, 2010, the Liaoning network covers 95 counties and districts in Liaoning province, 26 counties and districts in Inner Mongolia, Heilongjiang, Jilin and Shanxi province by 13 regional sales branches, 56 local sales offices and approximately 125 third-party sales outlets. All of our regional sales branches and local sales offices are centrally managed by the sales department in our headquarters in Jinan. Our direct sales personnel are divided into teams to cover different customer groups in urban areas. Our sales coverage of rural customers is primarily achieved through our third-party sales outlets at which we sell our products to end-users. As of December 31, 2010, we had 1,363 direct sales personnel, who are responsible for marketing and selling our products in their assigned areas and providing after-sales support to our customers. They also collect customer feedback and market data by visiting customers on a regular basis. Our direct sales personnel are required to meet monthly and annual sales targets, and we provide sales commission to those who meet or exceed the targets. We closely monitor the sales performance of our sales personnel to avoid the overstating of sales through a network-based data management system that generates and maintains detailed records of each sale upon receipt of payments from our customers. We regularly check the accuracy of the records generated by the data management system based on original documentation for each sale, including the receipts of payments.

Our sales to rural customers are primarily conducted through our sales outlets, most of which are retail shops of construction materials located in rural areas. We commenced establishing our business relationships with these retail outlets since 2005. As of December 31, 2010, we had approximately 1,300 third-party sales outlets and 150 local sales offices. We sell our products directly to these sales outlets, which then resell our products to end-users located in rural areas. These sales outlets are owned and operated by various independent parties. We provide these sales outlets the right to market and sell our cement products in their respective geographic region and forbid them to sell cement products other than ours. Our products are sold to these sales outlets at the same price with products sold through our direct sales channel. We do not provide any credit sales to, nor allow any return of our products from, these sales outlets. We typically enter into sales agreements with these sales outlets on an annual basis. We do not have minimum purchase amount set up for these sales outlets. As an incentive to increase the sales volume of our cement products, we provide sales commission to the sales outlets based on their sales volumes. The sales outlets are typically responsible for taking delivery of our products at our production facilities and the associated delivery costs. We are not responsible for any expenses incurred by these sales outlets. Our direct sales personnel closely supervise and monitor the activities of these sales outlets and their compliance with our guidelines and policies, including requiring them to maintain detailed records of the sales of our cement products on a daily basis, checking the accuracy of such records based on original documentation for each sale on a weekly basis, investigating any non-compliance on a monthly basis and determining appropriate penalties based on our guidelines and policies. We have not discovered in the past any material non-compliance by these sales outlets with our guidelines and policies. We are entitled to impose monetary penalties on these sales outlets for non-compliance, such as selling cement products of our competitors. In the case of serious non-compliance, we are entitled to terminate our sales agreements with the sales outlets.

Customers

Our cement products are primarily sold to contractors or sub-contractors of construction and infrastructure projects, ready-mixed concrete stations, real estate developers and rural customers. Our clinker customers are primarily cement grinding plants. Our products are also used in key national projects such as Beijing-Shanghai high-speed railway, Central Railway and Qingdao Bridge. In 2010, revenue derived from our five and ten largest customers accounted for 4.9% and 7.0% of our total revenue, respectively, and revenue derived from our largest customer accounted for 1.7% of our total revenue during the same period. As of December 31, 2010, 82.6% of our customers are located in Shandong province.

Pricing

The prices of our products vary from region to region, depending on local market conditions. Our central sales department in Jinan sets the prices of our products for a certain region based on our production costs, the prices of competing products, our market position and end-user feedback we collect through our local sales personnel, and reviews and adjusts our product pricing periodically based on these factors. We typically require full payment of the contract price before delivery of products.

Transportation

A majority of our raw materials and coal are delivered directly to us by our suppliers. We outsource the delivery of some of our clinker and limestone to third-party delivery companies. The delivery of our raw materials, coal and clinker is primarily conducted through road and railway transportation. We have maintained long-term relationships with most of these delivery companies. We typically enter into one-year renewable transportation agreements with pricing terms negotiated annually based on prevailing market prices.

Research and Development

Our research and development efforts concentrate on designing production facilities and lowering production costs. Our ability to design production facilities has significantly lowered our production costs. We have a research and development center at our headquarters in Jinan, which employed 57 research and development personnel as of December 31, 2010, the majority of whom have undergraduate or higher degrees.

Intellectual Property

We rely on a combination of patents, trademarks, domain name registrations and contractual restrictions to establish and protect our intellectual property rights. We sell most of our products under the "Shanshui Dongyue" (山水東岳) and "Shanshui Gongyuan" brand names. We have also registered our corporate logo " " in Hong Kong. As of April 13, 2011, we have been granted eleven patents by the State Intellectual Property Office of China. All of our patents relate to process technologies used in our production.

Any unauthorized use of our brand names, trademarks and other intellectual property rights could adversely affect our business, reputation and market position. In an effort to prevent infringements of our intellectual property, we have, among other things, established a committee to focus on intellectual property infringement issues and implemented policies and procedures to address such issues. These policies and procedures include, among other things, using an authenticity code on the package of our products that can be easily identified by our customers. However, any measures we take to protect our intellectual property rights may not be sufficient.

Each of our research and development personnel has entered into a standard annually renewable employment contract with us, which includes confidentiality undertakings and an acknowledgement and agreement that all inventions, designs, trade secrets, works of authorship, developments and other processes developed or generated by them on our behalf are our property, assigning to us any ownership rights that they may claim in those works. Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may materially and adversely affect our business, financial condition, results of operations and prospects. See "Risk factors – Risks relating to our business – Any unauthorized use of our brand names, trademarks and other intellectual property rights may adversely affect our business."

Competition

China's cement industry is highly fragmented and competitive. According to Digital Cement Net, a website maintained by China Cement Association, as of December 31, 2010, there were approximately 331, 193, 141 and 165 cement producers based in Shandong province, Liaoning province, Shanxi province and Shaanxi province, respectively. Due to cement's low value-to-weight ratio, the cement industry is localized in nature, with a maximum economically feasible product transportation radius of 300 kilometers. Therefore, we primarily compete against those companies with a presence in or near Shandong and Liaoning provinces. Our major competitors include China United Cement Company Limited in Shandong province and Jidong Cement Company Limited in Liaoning province. We also compete with a large number of small-scale regional cement producers in the low-grade cement product markets in Shandong and Liaoning provinces. We compete primarily on the basis of product quality, variety of product offerings, technology, location of production facilities, access to resources, sales and marketing network and brand image.

In such new markets we are developing as Inner Mongolia and Xingjiang, we believe we are the pioneer and are subject to less intense competition as opposed to Shandong and Liaoning provinces. Moreover, in line with the state policy of phasing out outdated enterprises and encouraging industry consolidation initiated by large enterprises, the entry barrier has grown higher for new market entrants.

Employees

As of December 31, 2008, 2009 and 2010, we had 12,388, 13,190 and 14,714 employees, respectively. The following table sets forth the number of our full-time employees by function as of December 31, 2010.

Employee Type	Number of Employees
Production	9,506
Sales	1,363
Technical	589
Finance	495
Administrative and management	1,365
Others(1)	1,396
Total	14,714

(1) Other mainly include security guards, drivers, gardeners and interns.

Occupational Health and Safety

The Production Safety Law of the PRC is the fundamental law to strengthen the supervision and administration of production safety and labor protection. See "Regulation – Safety and Labor Protection" in this offering memorandum. To ensure compliance with relevant PRC regulatory requirements, we have implemented a number of safety measures and established a safety supervision department that is responsible for formulation and implementation of such safety measures. Our safety supervision department conducts inspections of our production facilities on a monthly basis to ensure that all of our operations are in compliance with existing laws and regulations. Our safety supervision department also conducts regular training sessions for employees on accident prevention and management. The safety measures we adopted include measures for personnel safety protection, vehicle operation safety and reward and penalty system for safe production. Such safety measures lay out the potential safety hazards, responsible personnel for safety matters, emergency reaction plans and periodic inspection procedures. We also conduct investigations should accidents occur during our production process, studying the reasons of the accidents, recommending remedial measures and analyzing methods to avoid similar incidents in the future.

We are committed to further reducing our fatality or personal injury rates and maintaining high safety standards at our production facilities in the future by enhancing the implementation of various safety measures, inspecting production facilities for potential problems and increasing the safety awareness of the employees by providing trainings on a regular basis. We also provide various healthcare benefits to our employees in accordance with applicable laws and regulations. To prevent potential future risks, we have also adopted various emergency action plans for limestone mining accidents, special equipment failure accidents, coal storage facility fire accidents and other accidents. Such plans set forth the responsible personnel and procedures to control and minimize the damages under emergency situations.

Social Insurance

As required by applicable PRC laws and regulations, we participate in various employee benefit plans, such as pension contribution plans, medical insurance plans, work-related injury insurance plans, unemployment insurance plans and housing funds for our employees. We are required under PRC laws to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. Members of the retirement plan are entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date.

Insurance

We maintain an all-risks property insurance policy covering our equipment and facilities for loss due to fire or natural disasters, excluding earthquakes and floods. As of December 31, 2010, the aggregate amount covered by this policy was RMB9,972.3 million (US$1,511.0 million). We also maintain public liability insurance, profit loss insurance, machinery break-down insurance and product liability insurance. We do not maintain key employee insurance. We believe our insurance coverage is customary and standard with respect to type and scope of coverage for companies of comparable size in comparable industries in China.

Environmental Compliance

The cement industry is categorized as a polluting industry under PRC laws. Our production processes generate noise, waste water, gaseous wastes and other industrial wastes. Our production facilities are subject to various environmental laws and regulations promulgated by national and local governments with respect to noise and air pollution and the disposal of waste and hazardous materials. The State Environmental Protection Administration sets national discharge standards for various pollutants and local environmental protection bureaus may set stricter local standards. Enterprises are required to comply with the stricter of the two applicable standards. The central and local governments provide schedules of base-level discharge fees for various polluting substances and if such levels are exceeded, the polluting entity will be required to pay excess discharge fees. Local governments are also authorized to issue orders to stop or reduce discharges in excess of the base levels. Each of our production plants, prior to its construction, is required to be evaluated for its environmental impact and when constructed, is required to be tested and approved by local environmental agencies, and is subject to continuous government monitoring thereafter. See "Regulations – Environmental Protection."

We have established a pollution control system and installed various equipment to process and dispose of our industrial waste and hazardous materials to minimize the impact on the environment. We also plan to actively rehabilitate the mining areas where the environment is affected by the mining activities and install more RHR generators to save energy. Most of our subsidiaries have met the ISO 14001 environmental management standards, except for the subsidiaries that we recently acquired and they are in the process of applying for such certification. Our personnel in charge of environmental compliance all have bachelor's degrees in environmental engineering and are experienced in this area.

Based on the legal opinion of our PRC legal advisers, we have fully complied with the relevant environmental rules and regulations and have, except for the production facilities that we have recently acquired, which are in the process of obtaining relevant environmental permits and approvals. We have not encountered material environmental claims or been subject to any material sanctions or fines for environmental violations in the past. In 2008, 2009 and 2010, our annual expenses for complying with applicable environmental laws and regulations, including water treatment costs, amounted to RMB9.6 million, RMB18.2 million and RMB25.0 million (US$3.8 million), respectively. As the PRC environmental protection regulations continue to evolve, we may be required to make significant expenditures to upgrade our production facilities to comply with environmental regulations that may be adopted or imposed in the future.

Mining Rights

We have obtained limestone mining rights from the relevant land bureaus. These mining rights are valid for a period of 2 to 13 years and generally renewable upon expiration. The limestone mines are located in Shandong, Liaoning and Shanxi provinces and Inner Mongolia. As of December 31, 2010, the ownership certificates for certain limestone mining rights with a carrying amount of RMB123.5 million (US$18.7 million) have not been obtained. To the extent we are ordered by the relevant authorities to cease excavation of the mines pending ownership certificates, we may be subject to fines and disgorge profits obtained from the relevant mines.

Property

Our headquarters are located in Jinan, Shandong province. We own approximately 980 buildings and units in Shandong and Liaoning provinces and Inner Mongolia, with an aggregate area of approximately 716,000,000 square meters and lease approximately 950 square meters for use as production facilities, offices, warehouses and other business purposes. We have not obtained certain land use rights and building ownership certificates in relation to approximately 360,000 square meters of land, which relate to land for certain production facilities we recently acquired. We are in the process of obtaining title certificates for such properties.

Legal and Administrative Proceedings

From time to time, we may be involved in legal proceedings, investigations and claims, both as plaintiff and as defendant, that arise in the ordinary course of our business. We are currently not a party to, and we are not aware of any threat of, any legal, arbitral or administrative proceedings, which, in the opinion of our management, is likely to have a material and adverse effect on our business, financial condition or results of operations.

REGULATION

This section summarizes the principal PRC laws and regulations that are relevant to our operations and business. These include laws and regulations relating to the cement industry, mineral resources, environmental protection and labor issues as relevant to our business in China.

Cement

Cement Production License

Pursuant to the "Regulations of the PRC on the Administration of Production License for Industrial Products" or the "Production License Regulations," which were promulgated by the State Council and came into effect on September 1, 2005, and the "Measures for the Implementation of the Regulation of the PRC on the Administration of Production License for Industrial Products," which were promulgated by the GAQSIQ and came into effect on November 1, 2005 and amended on April 21, 2010, the GAQSIQ is responsible for the centralized administration of the production licenses for national industrial products, whereas the competent authorities of the county level or above for industrial production licenses are responsible for the administration of production licenses for industrial products within their own jurisdictions and the imposition of penalties on acts that violate the production licenses pursuant to the relevant requirements.

Pursuant to the Production License Regulations, enterprises producing industrial products that may affect production safety and public safety are subject to the requirements of production licenses. The categories of industrial products that are included in the Production License Regulations are determined jointly by the General Administration of Quality Supervision, Inspection and Quarantine and other relevant authorities of the State Council and are subject to approval by the State Council. Any enterprise that has not obtained the production license shall not produce the products within these categories, and any unit or individual shall not sell or use in operating activities such products that are within these categories for which the production permits were not obtained. Pursuant to the prevailing "Catalogue of Production Licenses for Industrial Products," cement is one of the industrial products for which a production license is required to be obtained.

Pursuant to the "Administration Regulation of Bulk Cement" jointly promulgated by the MOFCOM, Ministry of Finance, Ministry of Construction, Ministry of Railways, Ministry of Transportation GAQSIQ, and State Administration of Environmental Protection on March 29, 2004, the administrative authority at the county level or above is responsible for the administration and supervision of bulk cement production. Cement production enterprises may produce bulk cement after obtaining relevant production permits. Entities and individuals engaged in the production, operation and utilization of bulk cement shall adopt measures to ensure that the facilities and sites for production, loading and unloading, delivery, storage and utilization are in compliance with safety and environmental protection requirements.

Entry Criteria for the Cement Industry

Pursuant to the "Criteria for Entry to the Cement Industry," which was promulgated by the Ministry of Industry and Information Technology on November 16, 2010 and became effective on January 1, 2011, the access thresholds for cement industry have been further raised. Among many others, for provinces with more than 900 kilogram per capita of cement (clinker) produced using new dry process technology, it will, in principle, not be allowed to set up any new cement project or expand the production capacity of existing projects. And all the newly-built cement (clinker) lines are required to adopt the new dry process technology. The daily production capacity of each single line must be at least 4,000 tons, or no less than 2,000 tons in remote areas with underdeveloped economics, inconvenient transportation facility, and limited market capacity, except for cement clinker production with carbide slag or in the case of special cement production. In addition, the investor's capital contribution in any project of building, modifying, expanding or relocating cement clinker production lines must be at least 35% of the total investment amount for such project. For any newly-built, modified or expanded cement (clinker) production project that fails to meet the relevant requirements, the Ministry of Industry and Information Technology and the authorities in charge of land resources, environmental protection, quality inspection, and power supply cannot issue relevant governmental approvals or permits, and financial organizations shall not provide financial support either.

Quality Control for Cement Companies

Pursuant to the "Quality Control Procedures for Cement Companies (2010)" ("Quality Control Procedures"), which was promulgated by the Ministry of Industry and Information Technology on December 28, 2010 and became effective on January 1, 2011, each cement producer shall establish implementation rules for quality controls in light of its own situation and with the quality control guidance for raw materials, semi-finished products, final products and etc. stipulated in the Quality Control Procedures. The cement producers are also required to strictly comply with the implementation rules adopted pursuant to the Quality Control Procedures.

Cement Production Using NSP Technology

Pursuant to the "Guiding Catalogue of Industrial Structure Adjustment (2005)," which was promulgated by the NDRC and became effective on December 2, 2005, the production of cement and clinker with a daily production capacity of 4,000 tons or more using the New Dry Process (daily production capacity of 2,000 tons in the western part of the PRC) and the construction of cement grinding stations with annual production capacity of 1 million tons or more belong to the "encouraged" category of industries.

Pursuant to the "Policies on the Development of the Cement Industry," which was promulgated by NDRC and came into effect on October 17, 2006, the PRC central government encourages local governments and enterprises to eliminate technology that has low production capacity and promote the development of cement production using NSP technology. The government supports the construction of cement production plants with a daily production capacity of 4,000 tons using the New Dry Process in areas with appropriate resources, the construction of large-scale clinker production plants and the construction of large-scale cement grinding stations at locations near the relevant markets.

Restriction and Elimination of Vertical Kilns

Pursuant to the Guiding Catalogue of Industry Structural Adjustments (2005), vertical kilns, dry hollow kilns and wet process kilns belong to the "restricted" category of industries. Mechanical vertical kiln production lines of 2.2 meters in diameter or less and other outdated vertical kilns belong to the "prohibited" category. For items that belong to the prohibited category, strong measures should be taken to prohibit investment. Also, such items should be eliminated within a prescribed period pursuant to the requirements. For enterprises that do not eliminate the prescribed technology, facilities and products within the prescribed period, local PRC governments of all levels and the relevant competent authorities shall order suspension and closure. If the relevant requirement is breached, the direct persons in charge will be held liable.

Pursuant to the Policies on Cement Industry Development, by the end of 2008, every producer shall stop using production technology and equipment that have low production capacity, such as the dry hollow kilns and wet kilns, further reduce the production capacity of vertical kilns, and where possible, eliminate all vertical kilns.

Residual Heat Power Generation

Pursuant to the Guiding Catalogue of Industrial Structure Adjustment (2005), the production of clinker with a daily production capacity of 2,000 tons or above using the New Dry Process employing residual heat recovery technology belongs to the "encouraged" category of industries.

Mineral Resources

Mining Rights

Mineral resource exploration and mining activities in China are highly regulated by the PRC government. In accordance with the "Mineral Resources Law of the PRC" promulgated on March 19, 1986 and amended on August 29, 1996 and August 27, 2009 by the Standing Committee of the National People's Congress and the "Implementation Rules of the Mineral Resources Law of the PRC" promulgated on March 26, 1994 by the State Council, mineral resources in the PRC are owned by the State and a licensing system is adopted for the exploration and development of mineral resources. An entity engaging in the exploration and exploitation of mineral resources must meet certain qualifications and acquire the rights for exploration and mining from the relevant authorities by way of application, registration and payment of use fees.

A system whereby the exploration rights and mining rights shall be obtained with compensation has been adopted; however, the State may, in light of specific conditions, prescribe reduction of or exemption from the compensation for acquiring the exploration right and mining right. Any party that mines mineral resources must pay resource taxes and resource compensation in accordance with relevant regulations of the State.

The Ministry of Land and Resources is responsible for supervision and administration of the exploration and development of mineral resources throughout China. The department of land and resources at the provincial level is in charge of supervising and administering the exploration and exploitation of mineral resources in its relevant jurisdiction. The PRC government has adopted a unified registration system for mineral exploration areas. The Ministry of Land and Resources is responsible for the registration of mineral resources exploration. The State Council may authorize relevant departments to be responsible for the registration of the exploration of special types of mineral resources.

An applicant seeking to establish a new mining enterprise must meet certain qualification requirements as set forth by the PRC government and is subject to government approval. An applicant must provide detailed descriptions regarding the limits of the mining area, mine design or mining plan, production technique, safety and environmental protection measures as well as other items and supporting documents.

Transfer of Mining Rights

Pursuant to the "Administration Measures of the Transfer of Exploration and Exploitation Rights" promulgated by the State Council on February 12, 1998 and the "Interim Provisions on the Administration of the Transfer of Mineral Property Rights" promulgated by the Ministry of Land and Resources on November 1, 2000, exploration right and exploitation rights are property rights. The entity with exploration rights has priority in obtaining exploitation rights in the area it explores and may transfer its exploitation rights upon approval by relevant authorities in the event of merger or separation, joint venture or co-operation, sale of assets, or other circumstances leading to the change of ownership of real property. The entity with exploration rights, after minimum amount of investment in the exploration, may transfer its exploration rights upon approval by relevant authorities. Except for the above restrictions, the owner of mining rights may transfer its rights through sale, contribution as capital, establishment of a joint exploration or exploitation arrangement, and other means as permitted by the regulations. Geologic and mineral administrative authorities under the State Council and at the provincial level are the approving authorities with respect to transfer of mining rights.

Taxation Relating to the Mining Industry

Pursuant to the "Interim Provisions of Resource Tax of the PRC" promulgated by the State Council on December 25, 1993, enterprises and individuals producing mineral products shall pay resource tax. According to the "Notification on the Adjustment of Applicable Resource Tax Rate of Limestone, Marble and Granite" promulgated by the Ministry of Finance and the SAT that became effective on July 1, 2003, the applicable rate of limestone resource tax has been adjusted from RMB2.0 per ton to RMB0.5 to RMB3.0 per ton.

Mining Safety

Pursuant to the "Mining Safety Law of the PRC," which was promulgated on November 7, 1992 and became effective on May 1, 1993, mining enterprises shall install facilities to ensure safe production, establish and enhance safety management systems, and take effective measures to improve workplace conditions. Administrative authorities at the county level or above are responsible for the administration of safety measures in mines. Exploitation permits or business licenses of mining enterprises engaged in exploitation without adequate safety measures will be revoked by the administrative authorities if the aforesaid enterprises fail to install facilities for safe production within the prescribed time. See also "Safety and Labor Protection" below.

Environmental Protection

General Regulations

The PRC government has adopted extensive environmental laws and regulations. There are national and local standards applicable to land rehabilitation, reforestation, emission control, discharge to surface and subsurface water and the generation, handling, storage, transportation, treatment and disposal of waste materials. Pursuant to the "PRC Environmental Protection Law," the State Environmental Protection Administration is empowered to formulate national environmental quality and discharge standards and monitor China's environmental system at the national level. The environmental protection bureau at the county level and above is responsible for environmental protection within its jurisdiction. Local environmental protection bureaus may set local standards that are stricter than the national standards, in which case enterprises are required to comply with the stricter of the two sets of standards.

Environmental Impact Appraisal

Pursuant to the "Environmental Impact Appraisal Law of the PRC" promulgated on October 28, 2002, the "Administration Rules on Environmental Protection of Construction Project" promulgated on November 29, 1998, and "Administration Measures for Examination and Approval of Environmental Protection Facilities of Construction Projects" promulgated on December 27, 2001 and amended on December 22, 2010, enterprises are required to engage qualified and certified institutes to provide environmental impact evaluations on construction projects and to prepare environmental impact assessments. Construction of any new production facilities or major expansion or renovation of an existing production facility of cement production may only be launched after such an assessment is submitted to and approved by the environmental protection administrative authority.

Construction of cement production projects is prohibited where environmental impact assessment documents have not been examined and approved by relevant authorities as prescribed. Where the cement production projects fail to be evaluated, or construction is launched where environmental impact assessment documents fail to be approved, the enterprises will be ordered to cease construction and go through formalities within the prescribed time with the environmental protection administrative authorities. Enterprises that fail to go through the formalities within the prescribed time may be fined, and their management as well as other personnel with direct responsibilities are subject to administrative penalties. According to the "Classification of Construction Project Lists of Environment Impact Assessment" promulgated by the Ministry of Environmental Protection on September 2, 2008, cement production falls into the first catalogue, stipulating that environmental impact assessment reports of the construction projects are required to comprehensively evaluate the pollution and environmental impact generated by the projects.

Pollutant Discharge

The PRC Environmental Protection Law requires any entity operating a facility that produces pollutants or other hazardous materials to adopt environmental protection measures in its operations and to establish an environmental protection responsibility system. Effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials must be adopted. Any entity operating a facility that discharges pollutants must submit a pollutant discharge declaration statement to the competent authority pursuant to the applicable regulations. The local environmental protection bureau will determine the amount of discharge allowable under the law and will issue a pollutant discharge license for that amount of discharge subject to the payment of discharge fees. If an entity discharges more than what is permitted by the pollutant discharge license, it shall pay a fee for excessive discharge according to government's provisions and shall assume responsibility for eliminating and controlling the pollution. If an enterprise has caused severe environmental pollution and has failed to eliminate or control the pollution within a required period of time, a fine may be imposed, or the enterprise may be ordered to suspend or close down its operations.

According to the "Opinion on the Enforcement of the Environmental Protection Laws and Prevention of Credit Risk" promulgated by the State Environmental Protection Administration, PBOC and the China Banking Regulatory Commission on July 12, 2007, the following irregularities will be addressed as stipulated by the laws: commencement of construction without approval or without appropriate approval, failure to complete the environmental protection facilities at the same time as the production facility and commencement of operations prior to the environmental examination and approval. The above breaches will be reported to the local people's bank, banking regulatory department and financial institutes. The financial institutes shall, based on the applicable regulations on environmental protection and information disclosed by the environmental protection authority, strictly review and supervise the application of loans, loan grants and their use. For applicants who have not passed the environmental assessment examination or environmental examination and approval, there will not be additional credit granted. Environmental departments at all levels shall sanction enterprises if they have conducted any of the following: excessive discharge of pollutants, excessive total discharge level, discharge of pollutants without obtaining the necessary permits, discharges in breach of the levels allowed by the permit, or failure to restore the damaged environment within a prescribed period. These breaches will be reported to the local people's bank, banking regulatory department and financial institutes. The financial institutes at all levels, when reviewing enterprises' application of loans, shall act on the information provided by the environmental protection departments and strengthen the management of loans granted to enterprises which are in violation of the environmental laws.

Land Rehabilitation and Reforestation

Under the "PRC Land Administration Law" promulgated on June 25, 1986 and amended on December 29, 1988, August 29, 1998 and August 28, 2004, and the "Land Rehabilitation Regulations" issued by the State Council on March 5, 2011, if mining activities result in damage to arable land, grassland or forest, the mining operator must take measures to return the land to a usable status within a prescribed time frame. The rehabilitated land must meet the rehabilitation standards as required by law, and may only be used upon examination and approval by the land authority and the relevant industry administration authority. Any entity or individual that fails to fulfill its rehabilitation obligations may be required to adopt correction measures within a prescribed time frame or pay rehabilitation fees and/or fines to the local bureau of land and resources.

In addition, mining enterprises using forest areas in their operations are required to pay reforestation fees to relevant authorities pursuant to the "PRC Forest Law," the "Implementation Measures of the Forest Law" and the "Interim Measures Regarding Payment of Reforestation Fees."

Safety and Labor Protection

The "Production Safety Law of the PRC" promulgated on June 29, 2002 and amended on August 27, 2009, is the principal law governing the supervision and administration of production safety and labor protection. The law requires that all mining enterprises and production or operation entities with more than 300 workers shall establish an administrative department for production safety or be staffed with full-time personnel for the administration of production safety, and that entities with workers less than 300 shall be staffed with full-time or part-time personnel for the administration of production safety. Safety facilities of new construction, re-construction or expansion projects shall be designed, constructed, and put into production and used simultaneously with main construction area of the projects. Safety condition demonstrations and safety evaluations should be made for the construction of mining projects. Safety facilities of mining projects should be tested and approved in accordance with relevant laws and regulations prior to the commencement of production or use of the mining projects, and the projects may only be put into production or used after the safety facilities have passed the tests. Mining entities should establish emergency rescue organizations.

The "Employment Contract Law of the PRC" was promulgated on June 29, 2007 and became effective on January 1, 2008 and the "Implementing Regulation of the Employment Contract Law of the PRC" was promulgated and became effective on September 18, 2008. These laws govern the establishment of employment relationships between employers and employees, and the conclusion, performance, termination of, and the amendment to, employment contracts. To establish an employment relationship, a written employment contract shall be signed. In the event that no written employment contract was signed at the time of establishment of an employment relationship, a written employment contract shall be signed within one month after the date on which the employer first engages the employee.

MANAGEMENT

Our articles of association provide that each of our directors serves three years for each term they are elected. The chairman is elected by and from our board. Our board is responsible for the management of our business. The following table sets forth certain information with respect to our directors and executive officers as of the date of this offering memorandum.

Name	Age	Position
Caikui Zhang (張才奎)	60	Chairman and Executive Director
Bin Zhang (張斌)..............	32	Vice Chairman, Executive Director and General Manager
Chengtian Dong (董承田) ...	53	Executive Director, Deputy General Manager
Yuchuan Yu (于玉川).........	52	Executive Director, Deputy General Manager and Chief Engineer
Homer Sun (孫弘).............	39	Non-Executive Director
Shuge Jiao (焦樹閣)	45	Non-Executive Director
Jianguo Sun (孫建國)	56	Independent Non-Executive Director
Yanmou Wang (王燕謀)......	78	Independent Non-Executive Director
Jian Wang (王堅)	55	Independent Non-Executive Director
Bin Zhang (張斌)..............	32	Joint Company Secretary
Cheung Hung Li (李長虹)...	60	Joint Company Secretary, Qualified Accountant

Directors

Executive Directors

Caikui Zhang (張才奎) is our founder and has served as our chairman and executive director since September 2007, primarily responsible for our overall strategic planning and management. Mr. Zhang has 42 years of experience in the cement industry, and was appointed as the head of Shandong Cement Plant (the predecessor of Shandong Cement Factory Co., Ltd.) in 1990. He has been the executive director and general manager of Shandong Shanshui, our subsidiary, since August 2001. Mr. Zhang has won numerous honorary titles, including head of the Jinan Municipal Bureau (Association) of Building Materials ("Jinan Building Materials Bureau") from November 1995 to August 2004; deputy head of the China Cement Association since October 2002 and vice president of China Building Material Industry Association since June 2007. He was a deputy to the Tenth and Eleventh National People's Congress and a member of the Jinan Municipal Party Committee. He graduated from the Nankai University with a master's degree in business administration in December 2005. Mr. Zhang was also our General Manager from our inception until October 2010, which position has been assumed by Mr. Bin Zhang. Mr. Caikui Zhang is the father of Mr. Bin Zhang, our vice chairman, executive director and general manager.

Bin Zhang (張斌) has served as our vice chairman and executive director since September 2010 and as our general manager since October 2010. He is in charge of the management of our daily production and operation as well as our operation in capital market. Mr. Zhang joined us in March 2006. He worked at Sinoma International Engineering Company Limited from December 2004 to March 2006. After joining us, Mr. Zhang was responsible for the preparatory work for our listing on the Hong Kong Stock Exchange in 2008, establishing our sourcing and supply center, overseeing our department of securities affairs and the sourcing and supply center, and concurrently held the position as the general manager of Pingyin Branch Corporation Pingyin Shanshui Cement Co., Ltd., our subsidiary. Mr. Zhang graduated from Shandong University of Science and Technology in July 2003 with a bachelor's degree. He graduated from Nankai University in September 2008 with a master's degree in business administration.

Chengtian Dong (董承田) has served as our executive director and deputy general manager since July 2008, primarily responsible for our strategic planning and management of our business in Northeast China. Mr. Dong has nearly 30 years of experience in the cement industry, and joined Shandong Cement Plant in 1982. Mr. Dong was appointed as the chief engineer and deputy head of Shandong Cement Plant in 1996, and also served as head of its research and development department in 1997. He has been the deputy general manager of Shandong Shanshui since 2001 and is primarily responsible for our production management. In September 2007, Mr. Dong was designated to oversee our strategic planning and management in Liaoning province. In addition, Mr. Dong served as the honorary deputy head of the Jinan Building Materials Bureau from March 2000 to August 2004. Mr. Dong graduated from Shanghai Tongji University in January 1982 with a bachelor's degree in cement technologies.

Yuchuan Yu (于玉川) has served as our executive director, deputy general manager and chief engineer since July 2008, primarily responsible for production management. He has nearly 30 years of experience in cement technology and engineering. Mr. Yu joined Shandong Cement Plant in 1983, and was appointed as its chief engineer in 1995. He has been the deputy general manager and chief engineer of Shandong Shanshui since August 2001. Mr. Yu is currently the vice president of the New Type Dry-Process Cement Association (a division under the Chinese Cement Association) and a visiting professor of the University of Jinan.

Non-Executive Directors

Homer Sun (孫弘) has served as our non-executive director since July 2008. He is currently a managing director of the private equity division of Morgan Stanley Asia Limited and commands the private equity division of Morgan Stanley Asia Limited for its investment in China. He is currently a non-executive director of Sihuan Pharmaceutical Holdings Group Ltd., a Hong Kong Stock Exchange-listed company, and China Flooring Holding Co. Ltd. Mr. Sun has held office in Morgan Stanley Asia Limited since April 2000, and worked on various mergers and acquisitions in Greater China in the investment banking division prior to joining the private equity division of Morgan Stanley Asia Limited. From September 1996 to March 2000, he was a corporate attorney with Simpson Thacher & Bartlett in New York and Hong Kong, specializing in mergers and acquisitions. Mr. Sun received a bachelor's degree in chemical engineering with honors from the University of Michigan in 1993 and a J.D with honors from the University of Michigan Law School in 1996.

Shu Ge Jiao, aka Zhen Jiao, (焦樹閣) has served as our non-executive director since July 2008. He joined us in November 2005. He is currently a managing director of CDH China Fund L.P., and is also a non-executive director of China Yurun Food Group Company Limited and China Mengniu Dairy Company Limited, both being Hong Kong Stock Exchange-listed companies. From December 1995 to August 2002, Mr. Jiao was a deputy general manager of the direct investment department of China International Capital Corporation Limited, a Chinese investment bank. From September 1989 to January 1995, he was a researcher with the Beijing Information and Control Research Institute. In addition to his directorships in listed companies, Mr. Jiao has also been a director of various private companies. Mr. Jiao received a bachelor's degree in mathematics from Shandong University in 1986 and a master's degree in engineering from the Ministry of Space Industry Institute in 1989.

Independent Non-Executive Directors

Jianguo Sun (孫建國) has served as our independent non-executive director since June 2008. In 1987, he was elected as a member of the standing committee of the district committee and deputy district head of Lixia District, Jinan City. In 1996, Mr. Sun was the deputy head of Jinan Municipal Construction Committee and the general manager of Jinan Urban Construction, Investment and Development Corporation and the director of Jinan Urban Construction Fund Administration Office. He was also appointed as the general manager of Shandong Shengli Company Limited in 1998, the chairman of Shandong Shengli Company Limited in 2000, and the chairman of Shandong Construction and Real Estate Development Co., Ltd. and Shandong Borun Chemical Co., Ltd. in 2005.

Yanmou Wang (王燕謀) has served as our independent non-executive director since June 2008. Mr. Wang currently serves on the supervisory board of Anhui Conch Cement Company Limited, Hong Kong Stock Exchange-listed company, and the Shanghai Stock Exchange, which is listed on the Shanghai Stock Exchange itself. Mr. Wang is an advisor to the expert committee of China International Construction Consulting Company, a special advisor to China Investment Association and a senior advisor to China

Cement Association. From November 1981 to April 1982, Mr. Wang was the deputy head and head of Chinese Building Materials Science Research Institute, and head of National Building Materials Industry Bureau from February 1982 to May 1994. Mr. Wang graduated from Nanjing Polytechnic Institute in 1956 with a bachelor's degree. He began his overseas study at Leningrad Architectural Engineering Institute of the former Soviet Union in 1958 and obtained an associate doctoral degree in science and technology of U.S.S.R. in 1962.

Jian Wang (王堅) has served as our independent non-executive director since June 2008. Mr. Wang is a senior accountant and a certified public accountant in China. From 1996 to 2000, he was the chief accountant of Shandong Shengli Company Limited, a company listed on the Shenzhen Stock Exchange. From 2000 to 2003, he was the deputy general manager of Shandong Shengli. In May 2003, Mr. Wang resigned from Shandong Shengli and joined Qilu Real Estate Company Limited, a private company, and was appointed as its general manager.

Executive Officers

Yongkui Zhao (趙永魁) has served as our deputy general manager and chief financial officer since November 2005, primarily responsible for overseeing the accounting and finance aspects of our operations and is in charge of our finance department. Mr. Zhao has over 29 years of experience in accounting and gained his experience from working in the cement industry and managing the finance of cement companies. Mr. Zhao joined Shandong Cement Plant as an accountant in July 1984. He was the deputy chief accountant and assistant to the head of the Shandong Cement Plant in December 1990. In December 2001, he was appointed as the assistant to our general manager and the head of our finance department. In November 2005, Mr. Zhao was appointed as our deputy general manager. Mr. Zhao became qualified as a senior accountant in 2003. Mr. Zhao graduated from the Shanghai Institute of Building Materials in July 1984.

Liping Zhao (趙利平) has served as our deputy general manager since July 2004, primarily responsible for the strategic planning and management of our businesses in Shaanxi province. He has 30 years of experience in the cement industry and gained his experience from working in the industry and managing cement companies. He joined Shandong Cement Plant as an engineer in July 1980. He was appointed as the deputy head and the assistant to the head of Shandong Cement Plant in June 1990. In December 2001, he was appointed as the assistant to the general manager and the general manager of the sales department of Shandong Shanshui. In July 2004, Mr. Zhao was appointed as the deputy general manager of Shandong Shanshui. He graduated from Shandong Construction Industry College in July 1980.

Jingtian Mi (宓敬田) has served as our deputy general manager since August 2007, primarily responsible for assisting Mr. Chengtian Dong in managing the cement business in Northeastern China. Mr. Mi has 30 years of experience in the building materials industry and gained his experience from managing several companies in the industry. Mr. Mi joined Shandong Shanshui as the assistant to the general manager in December 2001. In February 2004, he was appointed as the assistant to the general manager, the deputy secretary and the deputy manager of the party branch of the sales department. In August 2007, he was appointed as the deputy general manager and the deputy general manager of the sales department of Shandong Shanshui. Mr. Mi graduated from the Jinan Provincial Party School with a vocational diploma in June 1994.

Zhongsheng Chen (陳仲聖) has served as our deputy general manager since November 2007, primarily responsible for the engineering technology aspects of our operations. Mr. Chen has 16 years of experience in the cement industry and gained his experience from working in and managing several cement companies. Mr. Chen joined Shandong Cement Plant in August 1994 and has been responsible for the engineering technology aspects of our operations as the deputy chief engineer and the deputy head of our technology center. He was appointed as the deputy general manager of Shandong Shanshui in November 2007. Mr. Chen has published a number of academic essays in national journals such as the Cement Engineering Journal since 2000. He was also appointed as the vice president of the Professional Cement and Concrete Division of the Shandong Silicate Association in March 2007. Mr. Chen graduated from the Shandong Building Materials Technical School with a bachelor's degree in silicate engineering in July 1994.

Joint Company Secretaries and Qualified Accountant

Cheung Hung Li (李長虹) has served as one of our joint secretaries and our qualified accountant since June 2008. He is responsible for overseeing the information disclosure of our company due to our listing on the Hong Kong Stock Exchange, the management of investor relationship and our operation in capital markets. Mr. Li is ordinarily resident in Hong Kong and joined us in January 2006. Mr. Li has over 20 years of experience in accounting and finance. Prior to joining us, Mr. Li held various positions with a number of companies, including listed companies in Hong Kong such as the subsidiaries of Royal Dutch Shell Group in China and Hong Kong, Neo-Neon Holdings Limited and Top Form International Limited. Mr. Li holds a master's degree in business administration jointly granted by the Business School of the University of Manchester and the University of Wales. Mr. Li is a fellow member of both The Hong Kong Institute of Certified Public Accountants and the Association of International Accountants in England. He is also an associate of both the Institute of Chartered Secretaries & Administrators and The Hong Kong Institute of Chartered Secretaries.

Bin Zhang (張斌) is one of our joint secretaries. See "– Directors – Executive Directors" above for his biographical details.

Board Committees

Audit Committee

We have established the audit committee under our board of directors. The audit committee's primary duty is to monitor the independence and work efficiency of external auditors, the financial reporting procedures and the efficiency of our internal control system, in order to assist our board of directors in its work. It reviews the external auditor's management letter and any questions raised by the auditor to the management and the management's response. The audit committee is a standing committee under our board and accountable to our board. Our audit committee consists of Mr. Yanmou Wang, Mr. Jianguo Sun and Mr. Jian Wang. Mr. Yanmou Wang is the chairman of our audit committee.

Remuneration Committee

We have established the remuneration committee under our board of directors. The remuneration committee is principally responsible for formulating the remuneration policy for our executive directors and senior management and determining the remuneration proposal for the above people. The remuneration committee is a standing committee under our board and accountable to our board. The remuneration committee consists of Mr. Jianguo Sun, Mr. Yanmou Wang and Mr. Jian Wang. Mr. Sun is the chairman of our remuneration committee.

Execution Committee

We have established an execution committee in August 2010 in order to enhance our corporate governance structure. The execution committee is charged with power granted by our board of directors to manage and develop our overall business and to assist our board of directors in performing its duties. The execution committee is a standing committee under our board of directors and accountable to our board. The execution committee consists of Mr. Caikui Zhang, Mr. Bin Zhang, Mr. Chengtian Dong and Mr. Yuchuan Yu. Mr. Caikui Zhang is the chairman of the execution committee.

Nomination Committee

We have established a nomination committee in August 2010 in order to enhance our corporate governance structure. The nomination committee's principal duties include (i) reviewing the structure, size and composition of our board of directors on a regular basis; (ii) considering the succession arrangement of our Directors and other senior management members; (iii) where necessary, identifying suitable candidates to fill the vacancy of our board of directors and recommend such candidates to our board for approval; (iv) reviewing the length of time that non-executive directors are required to contribute and the independence of each independent non-executive director; and (v) making recommendations to our board in respect of the appointment and re-appointment of directors. The nomination committee is a standing committee under our board of directors and is accountable to our board. The nomination committee consists of Mr. Caikui Zhang, Mr. Yanmou Wang and Mr. Jianguo Sun. Mr. Caikui Zhang is the chairman of the nomination committee.

Service Contracts of Directors

Each of Mr. Caikui Zhang, Mr. Chengtian Dong and Mr. Yuchuan Yu, our executive directors, has entered into a service contract with us on June 14, 2008 for a term of three years commencing on July 1, 2008, subject to termination before expiry by either party by giving not less than three months' notice in writing to the other, provided that such termination shall not occur during the first 12 months of the relevant contract. Under these service contracts, each of Mr. Caikui Zhang, Mr. Chengtian Zhang and Mr. Yuchuan Yu will receive an annual salary (including any director's fees) of RMB5 million (US$0.8 million), RMB3 million (US$0.5 million) and RMB2.8 million (US$0.4 million), respectively. Such annual salary is subject to annual review by our board of directors and our remuneration committee. In the case of Mr. Caikui Zhang, the amount of his management bonus is calculated with reference to the pre-set performance target of our company, calculated based on our audited consolidated profits after taxation and non-controlling interests but before extraordinary items) as our board may approve and shall be equal to 10% of the excess of our audited consolidated profits over the pre-set performance target of our company in any given year.

Mr. Bin Zhang, our executive director, has entered into a service contract with us for an initial term of three years commencing on September 10, 2010, subject to retirement by rotation and reelection in accordance with our articles of association. Under the service contract, Mr. Zhang will be entitled to receive an annual salary (including any director's fees) of RMB1,500,000 (US$22,727). Mr. Zhang's remuneration (including any bonus) is determined by our board with reference to his performance, position and duties with our company and its subsidiaries.

With respect to the service contracts above, the relevant executive director must abstain from voting, and not be counted in the quorum, in respect of any resolution of our board approving the determination of the salary, bonus and other benefits payable to him.

Each of Mr. Homer Sun and Mr. Shuge Jiao, our non-executive directors, has entered into a letter of appointment with us on June 14, 2008. Each letter of appointment is for an initial term of one year commencing from July 1, 2008, and thereafter shall be renewed for a maximum of three years provided it can be terminated by either party by giving at least one month's notice in writing. Non-executive directors will not receive any remuneration from our company.

Each of Mr. Jianguo Sun, Mr. Yanmou Wang and Mr. Jian Wang, our independent non-executive directors, has entered into a letter of appointment with us on June 14, 2008. Each letter of appointment is for an initial term of one year commencing from July 1, 2008, and thereafter shall be renewed for a maximum of three years provided it can be terminated by either party by giving at least one month's notice in writing. The annual fee for each Independent Non-executive Director is RMB100,000 (US$15,152).

Except as disclosed above, none of our directors has or is proposed to enter into any service contract with our company, including our subsidiaries.

Compensation of Directors and Senior Management

Our chairman, executive directors, non-executive directors and independent non-executive directors received aggregate remuneration and benefits in kind from us of approximately RMB37.0 million (US$5.6 million), nil and RMB300,000 (US$45,455) for the year ended December 31, 2010, respectively.

Employees

See "Business – Employees." The aggregate remuneration of our employees for year ended December 31, 2010 amounted to RMB571.7 million (US$86.6 million).

For the year ended December 31, 2010, we made pension payments for our employees in the amount of RMB62.7 million (US$9.5 million).

We are required to make contributions to the housing provident fund for employees based on a certain percentage of their salaries pursuant to the relevant regulations of the PRC government. Except for this, we have no other obligation nor any plan for providing housing benefits to the staff. For the year ended December 31, 2010, we made total contributions of approximately RMB16.8 million (US$2.5 million) to the housing provident fund.

SUBSTANTIAL SHAREHOLDERS

As of April 30, 2011, the interests and short positions of 5% or more of our issued share capital and share options as recorded in the register required to be kept by us under Section 336 of the Securities and Futures Ordinance of Hong Kong (the "SFO") are as follows:

Name	Capacity	Number of shares held	Percentage of our company's Issued share capital	Long/Short position
China Shanshui Investment Company Limited (1)(2)	Beneficial Owner	859,736,400	30.53	Long
Hillhouse Capital Management, Ltd.(3)	Investment manager	242,759,000	8.62	Long
Gaoling Fund, L.P. (3)	Beneficial owner	242,305,000	8.60	Long
CCBI Cement Private Equity Limited(2)(4)	Nominee for another person	217,828,084	7.74	Long
CCB International Asset Management Limited(2)(4)	Investment manager	217,828,084	7.74	Long
CCB International Assets Management (Cayman) Limited(2)(4)	Interest in controlled corporations	217,828,084	7.74	Long
CCB International (Holdings) Limited(2)(4)	Beneficial owner	217,828,084	7.74	Long
CCB Financial Holdings Limited(2)(4)	Interest in controlled corporations	217,828,084	7.74	Long
CCB International Group Holdings Limited(2)(4)	Interest in controlled corporations	217,828,084	7.74	Long
China Construction Bank Corporation(2)(4)	Interest in controlled corporations	217,828,084	7.74	Long
Central Huijin Investment Limited(2)(4)	Interest in controlled corporations	217,828,084	7.74	Long

(1) China Shanshui Investment is held by the management shareholders. Approximately 65.55% of China Shanshui Investment's entire issued share capital is held by Mr. Caikui Zhang as the trustee of the Zhang trust, a discretionary trust established in April 2005 and formally recorded in writing in November 2005 by Mr. Caikui Zhang as the settlor. The beneficiaries of the Zhang trust include Mr. Caikui Zhang himself and employees of our company as the beneficiaries. Approximately 16.19% of China Shanshui Investment's entire issued share capital is held by Mr. Caikui Zhang, as the trustee of the Li Trust, a discretionary trust established in April 2005 and formally recorded in writing in November 2005 by Mr. Yanmin Li, one of our former executive directors, as the settlor. The beneficiaries of the Li trust include Mr. Yanmin Li himself and employees of our company as the beneficiaries. Since Mr. Li's retirement from our company in January 2010, Mr. Caikui Zhang succeeded Mr. Li as the trustee of the Li trust. Pursuant to the trust deeds and the letters of wishes relating to the Zhang trust and the Li trust, Mr. Caikui Zhang, as the trustee of these trusts, have the absolute discretion to manage, administer the shares of China Shanshui Investment, for the benefit of the beneficiaries of these trusts. The remaining entire issued share capital of China Shanshui Investment is held by Mr. Chengtian Dong as to 4.18%, Mr. Maohuan Li as to 1.53%, Mr. Yuchuan Yu as to 4.35%, Mr. Liping Zhao as to 3.05%, Mr. Yongkui Zhao as to 2.77%, Mr. Jingtian Mi as to 1.56% and Mr. Yongping Wang as to 0.82%. These eight individuals are currently or formerly directors or executive officers of our company. Mr. Zhang himself beneficially owns 13.18% and the other beneficiaries of the Zhang trust beneficially owns 52.37% of China Shanshui Investment.

(2) On September 28, 2010, China Shanshui Investment Company Limited ("Shanshui Investment") and Wing Lung Bank Limited ("Wing Lung Bank") entered into a new two-year-term loan agreement, pursuant to which, Shanshui Investment pledged 169,000,000 of our shares to Wing Lung Bank. In compliance with all terms of the loan agreement, Shanshui Investment is still entitled to all rights attaching to such shares. On September 28, 2009, Shanshui Investment and UOB Kay Hian Finance Limited ("UOB Kay Hian") entered into a one-year-term loan agreement, The loan were repaid in full on September 28, 2010. On September 30, 2009, Shanshui Investment and CCBI Cement Private Equity Limited ("CCBI Cement") entered into a two-year-term loan agreement, pursuant to which, Shanshui Investment pledged 194,000,000 of our shares to CCBI Cement. In compliance with all terms of the loan agreement, Shanshui Investment is still entitled to all rights attaching to such shares. In addition, CCBI has an option to purchase 23,828,084 of our shares from Shanshui Investments. CCBI Cement exercised the option to purchase 12,000,000 shares on March 30, 2010. CCBI also exercised the option to purchase 11,828,084 shares, which transfer was completed on May 6, 2011.

(3) Hillhouse Capital Management, Ltd., is a limited liability company incorporated in the Cayman Islands, controlling Gaoling Fund, L.P., a fund whose controlling shareholder is Hillhouse Capital Management, Ltd. Hillhouse Capital Management, Ltd. is also a shareholder of YHG Investment, L.P., which owned 454,000 of our shares.

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

RELATED PARTY TRANSACTIONS

The following is a summary of material transactions we have engaged in with our direct and indirect shareholders, affiliates of our shareholders and other related parties, including those in which we or our management has a significant equity interest. We believe each of these arrangements as described below have been entered into on arm's length terms or on terms that we believe have been at least as favorable to us as similar transactions with non-related parties. For a further discussion of related party transactions, see note 37 to our audited consolidated financial statements for the year ended December 31, 2010, note 36 to our audited consolidated financial statements for the year ended December 31, 2009, each of which is included elsewhere in this offering memorandum.

Sales and Purchase of Goods and Services with Related Parties

From time to time, we engage in the sale and purchase of goods and services with certain related parties of our company and the following sets forth the material related party transactions with these related parties:

For the years ended December 31, 2008, 2009 and 2010, we had sales of clinkers to Tianjin Tianhui Cement Co. Ltd. ("Tianjin Tianhui"), a company under common control of one of our ultimate shareholders, amounting to approximately RMB55.4 million, RMB39.3 million and RMB11.5 million (US$1.7 million), respectively. On April 10, 2010, Tianjin Tianhui became our wholly owned subsidiary and its transactions with our company since April 10, 2010 had been eliminated. For the years ended December 31, 2008, 2009 and 2010, we had sales of clinkers to Shanshui Stanford New Building Materials ("Stanford"), a company under common control of one of our ultimate shareholders, amounting to approximately nil, RMB0.7 million and nil.

We signed a tenancy agreement with Stanford for a term of eighteen years commencing on January 14, 2008 and expiring on December 31, 2022 for an annual rent of RMB558,500. For the years ended December 31, 2008, 2009 and 2010, we had income of RMB558,500, RMB558,500 and RMB279,250 (US$42,311), respectively, from Stanford. Since the transfer of all interests of Jinan Shanshui Group Co. Ltd. ("Jinan Shanshui") to US Stanford Capital Limited ("USA Stanford") pursuant to the equity transfer agreement between Jinan Shanshui and USA Shanshui dated July 12, 2010, Stanford has ceased to be our related party. In addition, for the years ended December 31, 2008, 2009 and 2010, we had rental income of RMB135,000, RMB135,000 and RMB135,000 (US$20,455), respectively, from Shanshui Jinzhu Powder Co. Ltd, a company under common control of one of our ultimate shareholders pursuant to a tenancy agreement executed in June 2008.

For the years ended December 31, 2008, 2009 and 2010, we had brand royalty income, amounting to approximately RMB418,000, RMB379,000 and RMB49,000 (US$7,424), respectively, from Tianjin Tianhui pursuant to our trademark agreement that allows Tianjin Tianhui to use the "Shanshui Dongyue" brand (山水東岳) for a trademark fee of RMB1 yuan per ton of cement it produced. For the same periods, Tianjin Tiahui produced 417,648 tons, 378,568 tons and 48,977 tons of cement, respectively.

For the years ended December 31, 2008, 2009 and 2010, we had management fee income, amounting to approximately RMB218,000, RMB384,000 and RMB25,000 (US$3,788), respectively, from Tianjin Tianhui pursuant to a management agreement between Tianjin Tianhui and Shandong Shanshui, who is entitled to an annual management fee of RMB100,000 plus 5% share of the annual gross profits of Tianjin Tianhui.

For the years ended December 31, 2008, 2009 and 2010, we had management fee income, amounting to approximately nil, RMB610,000 and RMB610,000 (US$92,424), respectively, from Shandong Jinzhu Powder Co. Ltd., a company under common control of one of our ultimate shareholders, for our provision of property management services at our property which Shandong Jinzhu Powder rented from us.

For the years ended December 31, 2008, we paid loan service fees, amounting to approximately RMB4.6 million, to International Finance Corporation ("IFC"), one of our shareholders, pursuant to loan agreements between Anqiu Shanshui and Pinyin Shanshui one part and IFC on the other. Pursuant to these loan agreements, the total principal is US$50 million, bearing interest at LIBOR plus 2% per annum and repayable biannually from 2008 to 2014.

Other Transactions with Related Parties

For the year ended December 31, 2008, we had advances of approximately RMB36.8 million to China Shanshui Investment Company ("China Shanshui Investment"), our shareholder, in connection with our loan to China Shanshui Investment which carried interest at 2.7% per annum, RMB36.1 million of principal and interests had been fully repaid in June 2008. For the year ended December 31, 2009, we had advances of approximately RMB26,000 to China Shanshui Investment, which had been fully repaid.

For the year ended December 31, 2008, we had made loans of RMB3 million to Stanford, which had been fully repaid.

For the year ended December 31, 2009, we made advances of approximately RMB1.3 million to a third party, who was our customer, for Jinan Shanshui Group Property Development Co. Ltd.

For the year ended December 31, 2010, we made loans and relevant interests receivable from Dong'e Shanshui Dongchang Cement Co. Ltd. ("Dong'e Shanshui"), an associate company, amounting to RMB74.7 million (US$11.3 million). These loans with a total principal amount of RMB74 million bear interest at one-year PRC bank loan interest rate, which was 5.31% in 2010, and the related interests receivables as of December 31, 2010 was RMB680,000 (US$103,030).

Certain of subsidiaries entered into loan agreements with IFC with a total facility available in an amount of US$50 million. For the year ended December 31, 2010, total principal and relevant interests amounted to RMB343.8 million (US$52.1 million). These loans bear LIBOR plus 2.75% per annum and are repayable bi-annually from 2010 to 2015. For year ended December 31, 2008, 2009 and 2010, RMB88.4 million, RMB61.8 million and RMB125.5 million (US$19.0 million), respectively, was repaid under these loans.

We borrowed loans from Jinan Shanshui which principal and relevant interests amounted to RMB1.2 million (US$0.2 million) as of December 31, 2010.

Key Management Compensation

See "Management – Compensation of Directors and Senior Management."

Amounts Due from/to Related Parties

As of December 31, 2008, 2009 and 2010, other receivables due from related parties were approximately RMB5.9 million, RMB8.1 million and RMB2.8 million (US$0.4 million), respectively.

As of December 31, 2008, 2009 and 2010, customer deposits and receipts in advance from Tianjin Tiahui were approximately RMB46,000, RMB51,000 and nil, respectively.

As of December 31, 2008, 2009 and 2010, other payable due to related parties in respect of interests payable in connection with our loans from IFC and a loan from Jinan Shanshui in 2010 from them were approximately RMB5.1 million, RMB258,000 and RMB1.8 million (US$0.3 million), respectively.

As of December 31, 2008, 2009 and 2010, loans due to IFC were approximately RMB289.2 million, RMB236.4 million and RMB454.2 million (US$68.8 million), respectively.

As of December 31, 2008, 2009 and 2010, liability portion of convertible notes due to related parties were approximately RMB89.6 million, RMB10.9 million and nil, respectively.

As of December 31, 2008, outstanding bank loans secured by Jinan Shanshui were approximately RMB44.5 million.

As of December 31, 2010, other financial assets due from Dong'e Shanshui were approximately RMB74.0 million (US$11.2 million).

DESCRIPTION OF THE NOTES

For purposes of this "Description of the Notes," the term "Company" refers only to China Shanshui Cement Group Limited, and any successor obligor on the Notes, and not to any of its Subsidiaries. Each Subsidiary of the Company that guarantees the Notes is referred to as a "Subsidiary Guarantor," and each such guarantee is referred to as a "Subsidiary Guarantee."

The Notes are to be issued under an indenture (the "Indenture"), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, and Citicorp International Limited, as trustee (the "Trustee").

The following is a summary of certain provisions of the Indenture, the Notes and the Subsidiary Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes and the Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the registered office of the Trustee at Citicorp International Limited, 50th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under "– The Subsidiary Guarantees" and in "Risk Factors – Risks Relating to the Guarantees";
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (defined below); and
- effectively subordinated to all existing and future secured obligations of the Company to the extent of the collateral securing such obligations.

The Notes will mature on May 25, 2016, unless redeemed earlier pursuant to the terms thereof and the Indenture. The Indenture allows additional Notes to be issued from time to time (the "Additional Notes"), subject to certain limitations described under "– Further Issues." Unless the context requires otherwise, references to the "Notes" for all purposes of the Indenture and this "Description of the Notes" include any Additional Notes that are actually issued. The Notes will bear interest at 8.50% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semiannually in arrears on May 25 and November 25 of each year (each an "Interest Payment Date"), commencing November 25, 2011.

Interest on the Notes will be paid to Holders of record at the close of business on May 10 or November 10 immediately preceding an Interest Payment Date (each, a "Record Date"), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal of, or premium (if any) or interest on, the Notes is not a Business Day in the relevant place of payment or in the place of business of the Trustee, then payment of principal, premium (if any) or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The Notes will be issued only in fully registered form, without coupons, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of the Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose in London (which initially will be the office of the paying agent, currently located at Citibank, N.A., London Branch at Citigroup Centre, Canada Square, London E14 5LB, United Kingdom), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, at the option of the Company, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register maintained by the Note Registrar or by wire transfer. Interest payable on the Notes held through DTC will be available to DTC participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees

On the Original Issue Date, the initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries (other than the Restricted Subsidiaries organized under the laws of the PRC). The initial Subsidiary Guarantors do not have significant operations or assets. The initial Subsidiary Guarantors will be China Shanshui Cement Group (Hong Kong) Company Limited, China Pioneer Cement (Hong Kong) Company Limited and Continental Cement Corporation. All of the Restricted Subsidiaries that are not Subsidiary Guarantors are collectively referred to herein as the "Non-Guarantor Subsidiaries."

None of the existing or future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that the Restricted Subsidiaries organized under the laws of the PRC may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company. See "Risk Factors – Risks Relating to the Notes – We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries that do not guarantee the Notes."

The Company will cause each of its future Subsidiaries (other than Subsidiaries organized under the laws of the PRC), as soon as practicable and in any event within 30 days after it becomes a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will guarantee the payment of the Notes. Each Subsidiary of the Company that guarantees the Notes after the Original Issue Date is referred to as a "Future Subsidiary Guarantor" and, upon execution of the applicable supplemental indenture to the Indenture, will be a "Subsidiary Guarantor."

As of December 31, 2010,

- the Company and its consolidated Subsidiaries (including the Non-Guarantor Subsidiaries) had total consolidated indebtedness of approximately RMB7,399 million (US$1,121 million); and

- the Non-Guarantor Subsidiaries had total indebtedness of approximately RMB7,399 million (US$1,121 million).

In addition, as of December 31, 2010, the Company and its consolidated subsidiaries had capital commitments of approximately RMB3,723 million (US$564 million), all of which were capital commitments of the Non-Guarantor Subsidiaries, and no material contingent liabilities.

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;

- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the assets serving as security therefor;

- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;

- ranks at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law); and

- is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors will jointly and severally Guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The Subsidiary Guarantors will (1) agree that their obligations under the Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees are required to be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each Subsidiary Guarantee will be limited in an amount not to exceed the maximum amount that can be Guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer, unfair preference, financial assistance, absence or inadequacy of corporate benefit, insolvency or similar laws affecting the rights of creditors generally. If a Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including Guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor, and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "Risk Factors – Risks Relating to the Guarantees – The guarantees of the Notes may be challenged under applicable financial assistance, insolvency or fraudulent transfer laws, which could impair the enforceability of the guarantees."

Release of the Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;

- upon a defeasance as described under "– Defeasance";

- upon the designation by the Company of a Subsidiary Guarantor as an Unrestricted Subsidiary in compliance with the terms of the Indenture; or

- upon the sale, voluntary liquidation or merger of a Subsidiary Guarantor in compliance with the terms of the Indenture (including the covenants under "– Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "– Certain Covenants – Limitation on Asset Sales" and "– Consolidation, Merger and Sale of Assets") resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee shall be effective against the Trustee or the Holders until the Company has delivered to the Trustee an Officers' Certificate stating that all requirements relating to such release have been complied with and that such release is authorized and permitted by the terms of the Indenture.

Under the circumstances described below under "– Certain Covenants – Designation of Restricted and Unrestricted Subsidiaries," the Company will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries." The Company's Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture and will not Guarantee the Notes.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first interest period and, to the extent necessary, certain temporary securities law transfer restrictions) (a "Further Issue") so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes will then be permitted under the "Limitation on Indebtedness" covenant described below and the other provisions of the Indenture; and, *provided further* that if Additional Notes that are consolidated and form a single series with previously outstanding Notes are not fungible with the previously outstanding Notes for U.S. federal income tax purposes, a separate CUSIP, ISIN or other identifying number must be used for such Additional Notes.

Optional Redemption

On or after May 25, 2014, the Company may on any one or more occasions redeem all or any part of the Notes, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the Notes redeemed, to (but not including) the applicable date of redemption, if redeemed during the twelve-month period beginning on May 25 of the years indicated below, subject to the rights of holders of Notes on the relevant Record Date to receive interest on the relevant Interest Payment Date:

Year	Redemption Price
2014	104.25%
2015 and thereafter	102.125%

The Company may at its option redeem the Notes, in whole but not in part, at any time prior to May 25, 2014, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time and from time to time prior to May 25, 2014, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 108.50% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption as follows:

(1) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed; or

(2) if the Notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such other method as the Trustee in its sole discretion shall deem to be fair and appropriate.

However, no Note of US$200,000 in principal amount or less shall be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

Repurchase of Notes Upon a Change of Control

Not later than 30 days following a Change of Control, the Company will make an Offer to Purchase all outstanding Notes (a "Change of Control Offer") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date (as defined in clause (2) of the definition of "Offer to Purchase").

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the

Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company's failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control under the Notes will also constitute an event of default under certain other debt instruments. Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control; (2) provide that a Change of Control is a default; or (3) require repurchase of such debt upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control itself does not, due to the financial effect of the purchase on the Company. The Company's ability to pay cash to the Holders following the occurrence of a Change of Control may be limited by the Company's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors – Risks Relating to the Notes – We may not be able to repurchase the Notes upon a change of control."

The definition of Change of Control includes a phrase "all or substantially all" as used with respect to the assets of the Company. No precise definition of the phrase has been established under applicable law, and the phrase will likely be interpreted under applicable law of the relevant jurisdictions based on particular facts and circumstances. Accordingly, there may be a degree of uncertainty as to the ability of a Holder of Notes to require the Company to repurchase such Holder's Notes as a result of a sale of less than all the assets of the Company to another person or group. Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the same manner, at the same times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control or any event which could lead to the occurrence of a Change of Control has occurred and will not be responsible or liable to any person for any loss arising from any failure by it to do so.

Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under "– Consolidation, Merger and Sale of Assets") or an applicable Subsidiary Guarantor is organized or resident for tax purposes or any political subdivision or taxing authority thereof or therein (each, as applicable, a "Relevant Taxing Jurisdiction") or any jurisdiction through which payment is made or any political subdivision or taxing authority thereof or therein (together with the Relevant Taxing Jurisdictions, the "Relevant Jurisdictions"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as will result in receipt by the Holder of each Note of such amounts payable under the Notes or the Subsidiary Guarantees, as the case may be, as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

(1) for or on account of:

(a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:

(i) the existence of any present or former connection between the Holder or beneficial owner of such Note or Subsidiary Guarantee, as the case may be, and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

(ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period; or

(iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor addressed to the Holder or beneficial owner, as the case may be, to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder;

(b) any taxes payable other than by deduction or withholding from payments under, or with respect to, a Note or under a Subsidiary Guarantee;

(c) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

(d) any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives;

(e) any tax, duty, assessment or other governmental charge to the extent such tax, duty, assessment or other governmental charge results from the presentation of the Note (where presentation is required) for payment and the payment can be made without such withholding or deduction by the presentation of the Note for payment elsewhere; or

(f) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b), (c), (d) and (e); or

(2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

As a result of these provisions, there are circumstances in which taxes could be withheld or deducted but Additional Amounts would not be payable to some or all beneficial owners of Notes.

The Company will (i) make such withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law. The Company will make reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any taxes so deducted or withheld from the Relevant Jurisdiction imposing such taxes. The Company will furnish to the Holders, within 60 days after the date the payment of any taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment or, if such receipts are not obtainable, other evidence of such payments.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable, if the Company will be obligated to pay Additional Amounts with respect to such payment, the Company will deliver to the Trustee an Officers' Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Paying Agent to pay such Additional Amounts to the Holders on such payment date.

In addition, the Company will pay any stamp, issue, registration, documentary, value added or other similar taxes and other duties (including interest and penalties) payable in any Relevant Jurisdiction in respect of the creation, issue, offering, execution or enforcement of the Notes, or any documentation with respect thereto.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

(1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction affecting taxation; or

(2) any change in the existing official position or the stating of an official position regarding the application, administration or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective or, in the case of an official position, is announced (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor or Surviving Person, as the case may be, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Notwithstanding anything to the contrary herein, the Company or a Surviving Person may not redeem the Notes in the case that Additional Amounts are payable in respect of PRC withholding tax at a rate of 10% or less solely as a result of the Company or a Surviving Person being considered a PRC tax resident under the Enterprise Income Tax Law.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

(1) an Officers' Certificate acceptable to the Trustee stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, taking reasonable measures; and

(2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture. The Indenture will provide that the Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any of such covenants.

Limitation on Indebtedness

(1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), *provided* that the Company may Incur Indebtedness (including Acquired Indebtedness) and any Restricted Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness or Permitted Subsidiary Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 3.5 to 1.0.

Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).

(2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur, each and all of the following ("Permitted Indebtedness"):

(a) Indebtedness under the Notes (excluding any Additional Notes) and each Subsidiary Guarantee;

(b) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (c); *provided* that such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness;

(c) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided* that (i) any event which results in (x) any Restricted Subsidiary to which such Indebtedness is owed ceasing to be a Restricted Subsidiary or (y) any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (c), (ii) if the Company or any Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must be unsecured and expressly be subordinated in right of payment to the Notes, in the case of Indebtedness owed by the Company, or to the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of Indebtedness owed by a Subsidiary Guarantor and (iii) if the Indebtedness is owed to the Company or any Subsidiary Guarantor, such Indebtedness must be evidenced by an unsubordinated loan agreement or a similar instrument under applicable law;

(d) Indebtedness ("Permitted Refinancing Indebtedness") of the Company or any Restricted Subsidiary issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, redeem, defease, discharge or extend (collectively, "refinance" and "refinances" and "refinanced" shall have a correlative meaning), then outstanding Indebtedness Incurred under the proviso in paragraph (1) above or clauses (a), (b), (f), (k) or (o) of paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or any Subsidiary Guarantee shall only be permitted under this clause (d) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or any Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is *pari passu* with, or expressly made subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or any Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee, as the case may be, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the earlier of the Stated Maturity of the Notes and the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of the portion, if any, of such new Indebtedness that is scheduled to mature on or prior to the Stated Maturity of the Notes is at least equal to the remaining Average Life of the portion, if any, of the Indebtedness to be refinanced or refunded that is scheduled to mature on or prior to the Stated Maturity of the Notes, and (iii) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;

(e) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business designed solely to protect the Company or any Restricted Subsidiary from fluctuations in interest rates, currencies or the price of commodities and not for speculation;

(f) any Pari Passu Subsidiary Guarantee by any Subsidiary Guarantor;

(g) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently, except in the case of daylight overdrafts, drawn against insufficient funds in the ordinary course of business; *provided, however,* that this Indebtedness is extinguished within five Business Days of Incurrence;

(h) Indebtedness of the Company or any Restricted Subsidiary in respect of workers' compensation claims and claims arising under similar legislation, or in connection with self-insurance or similar requirements, in each case in the ordinary course of business;

(i) Indebtedness arising from agreements of the Company or a Restricted Subsidiary of the Company providing for indemnification, adjustment of purchase price, earn-out or other similar obligations, in each case Incurred or assumed in connection with the disposition of any business, assets of the Company or of a Restricted Subsidiary of the Company, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of any of the Company's or a Restricted Subsidiary's business or assets for the purpose of financing an acquisition; *provided, however,* that the maximum assumable liability in respect of all this Indebtedness shall at no time exceed the gross proceeds actually received by the Company and/or the relevant Restricted Subsidiary in connection with the disposition;

(j) obligations with respect to trade letters of credit, bid, performance and surety bonds and completion guarantees provided by the Company or any of its Restricted Subsidiaries securing obligations, entered into in the ordinary course of business, to the extent the letters of credit, bonds or guarantees are not drawn upon or, if and to the extent drawn upon is honored in accordance with its terms and, if to be reimbursed, is reimbursed no later than 30 days following receipt of a demand for reimbursement following payment on the letter of credit, bond or guarantee;

(k) Indebtedness of the Company or any Restricted Subsidiary:

  (i) representing Capitalized Lease Obligations incurred in the ordinary course of business; or

  (ii) constituting purchase money Indebtedness incurred to finance all or any part of the purchase price of equipment, property or assets (including Capital Stock of Persons holding such equipment, property or assets that become Restricted Subsidiaries upon such purchase) to be used in the ordinary course of business by the Company or a Restricted Subsidiary; *provided, however,* that (A) such purchase money Indebtedness shall not exceed the purchase price of such property or assets so acquired, (B) such purchase money Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or assets and (C) on the date of the Incurrence of any Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (k) (together with any refinancings thereof), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clause (n) below does not exceed an amount equal to 15% of Total Assets;

(l) Guarantees by any Non-Guarantor Subsidiary of Indebtedness of any other Non-Guarantor Subsidiary, *provided, however,* that Indebtedness guaranteed is permitted to be incurred under the Indenture;

(m) Guarantees by the Company and any Subsidiary Guarantor of any Indebtedness of the Company or any Subsidiary Guarantor, *provided, however,* that Indebtedness guaranteed is permitted to be incurred under the Indenture;

(n) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; *provided* that on the date of the Incurrence of any Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (n), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clause (k) above (together with any refinancings thereof) at any time outstanding does not exceed an amount equal to 15% of Total Assets;

(o) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with any refinancings thereof) not to exceed US$10.0 million (or the Dollar Equivalent thereof); and

(p) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price in the form of installment payments pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement.

(3) For purposes of determining compliance with this "Limitation on Indebtedness" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Permitted Indebtedness, or of Indebtedness described in the proviso in paragraph (1) of this covenant and one or more types of Permitted Indebtedness, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness in one or more types of Indebtedness described above. Indebtedness permitted by the "Limitation of Indebtedness" covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of the covenant permitting such Indebtedness.

(4) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies. For purposes of determining compliance with any U.S. dollar denominated restriction on the Incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; *provided* that if such Indebtedness is Incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-dominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-dominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currency in which such refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as "Restricted Payments"):

(1) declare or pay any dividend or make any distribution on or with respect to the Company's or any of the Restricted Subsidiaries' Capital Stock (other than dividends or distributions payable solely in shares of the Company's or any Restricted Subsidiary's Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;

(2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary or any direct or indirect parent of the Company (including options, warrants or other rights to acquire such shares of Capital Stock) held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary;

(3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Subordinated Indebtedness (excluding any intercompany Indebtedness between or among the Company and any Wholly Owned Restricted Subsidiary); or

(4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

(a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;

(b) the Company could not Incur at least US$1.00 of Indebtedness under the proviso in paragraph (1) of the covenant described under "– Limitation on Indebtedness"; or

(c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and the Restricted Subsidiaries after the Original Issue Date (excluding Restricted Payments permitted by clauses (2), (3), (4), (5) (to the extent such Restricted Payment is made to the Company or a Wholly Owned Restricted Subsidiary), (6), (7) and (8) of the immediately following paragraph), shall exceed the sum of:

(i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the semi-annual fiscal period during which the Original Issue Date occurs and ending on the last day of the Company's most recently ended semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available and have been provided to the Trustee at the time of such Restricted Payment; plus

(ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Original Issue Date as a capital contribution to its common equity by, or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to, a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock), after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company or any Restricted Subsidiary; plus

(iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Original Issue Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); *provided, however,* that the foregoing amount shall not exceed the Net Cash Proceeds received by the Company or any of its Restricted Subsidiaries from the Incurrence of such Indebtedness; plus

(iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Original Issue Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), or (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Original Issue Date of an obligation of another Person, (C) to the extent that an Investment made after the Original Issue Date is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person.

The foregoing provision shall not be violated by reason of:

(1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;

(2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;

(3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;

(4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of the Capital Stock (other than Disqualified Stock) of the Company (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;

(5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary, at least a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company;

(6) the repurchase of Capital Stock deemed to occur upon the exercise of stock options to the extent such Capital Stock represents a portion of the exercise price of those stock options in an aggregate amount not to exceed US$1.0 million (or the Dollar Equivalent thereof);

(7) payments of cash, dividends, distributions, advances or other Restricted Payments by the Company or any of its Restricted Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (i) the exercise of options or warrants or (ii) the conversion or exchange of Capital Stock of any such Person;

(8) the declaration and payment of dividends by the Company with respect to the fiscal year ended December 31, 2010 in an aggregate amount not to exceed HK$408,312,779, to be approved by the Company's annual general meeting of shareholders on May 20, 2011; or

(9) other Restricted Payments in an aggregate amount not to exceed US$10 million (or the Dollar Equivalent thereof) since the Original Issue Date.

provided that, in the case of clauses (2), (3), (4) and (9) of this paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein. Each Restricted Payment made pursuant to clause (1) of this paragraph shall be included in calculating whether the conditions of clause (c) of the first paragraph of this "– Limitation on Restricted Payments" covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or an appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US$10.0 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers' Certificate acceptable to the Trustee stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "– Limitation on Restricted Payments" covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture (and the Trustee shall have no obligation to review or distribute such computation, opinion or approval).

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

(1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:

(a) pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;

(b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;

(c) make loans or advances to the Company or any other Restricted Subsidiary; or

(d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.

(2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:

(a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the Indenture or Pari Passu Subsidiary Guarantee of any Subsidiary Guarantor, or any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(b) existing under or by reason of applicable law, rule, regulation or order;

(c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;

(e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the "– Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "– Limitation on Indebtedness" and "– Limitation on Asset Sales" covenants; or

(f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness permitted under clauses (2)(d) or (k) of the "– Limitation on Indebtedness" covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such type of agreement and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell, any shares of Capital Stock of a Restricted Subsidiary (including in each case options, warrants or other rights to purchase shares of such Capital Stock) except:

(1) to the Company or a Wholly Owned Restricted Subsidiary;

(2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;

(3) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "– Limitation on Asset Sales" covenant; and

(4) the issuance or sale of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer be a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the "Limitation on Restricted Payments" covenant if made on the date of such issuance or sale and *provided* that the Company complies with the "– Limitation on Asset Sales" covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary that is not a Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any Subsidiary Guarantor, unless (a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture acceptable to the Trustee providing for an unsubordinated Subsidiary Guarantee of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee until the Notes have been paid in full.

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness will rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or (2) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness will be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an "Affiliate Transaction"), unless:

(1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary, as the case may be, than those that would have been obtained in a comparable arm's length transaction by the Company or the relevant Restricted Subsidiary with a Person that is not such a holder or an Affiliate of the Company; and

(2) the Company delivers to the Trustee (in each case in form and substance acceptable to the Trustee):

(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion issued by an accounting, appraisal or investment banking firm of recognized international standing as to the fairness to the Company or such Restricted Subsidiary, as the case may be, of such Affiliate Transaction from a financial point of view.

The foregoing limitation does not limit, and shall not apply to:

(1) the payment of reasonable and customary regular fees to directors of the Company who are not employees of the Company;

(2) any employment agreement, employee benefit plan, officer or director indemnification agreement or any similar arrangement entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business and payments pursuant thereto;

(3) transactions with a Person (other than an Unrestricted Subsidiary of the Company) that is an Affiliate of the Company solely because the Company owns, directly or through a Restricted Subsidiary, Capital Stock in, or controls, such Person;

(4) loans or advances to employees in the ordinary course of business not to exceed US$1.0 million in the aggregate at any one time outstanding;

(5) transactions between or among the Company and any Wholly Owned Restricted Subsidiary or between or among Wholly Owned Restricted Subsidiaries;

(6) any Restricted Payment of the type described in clause (1) or (2) of the first paragraph of the covenant described above under "– Limitation on Restricted Payments" if permitted by that covenant;

(7) any sale of Capital Stock (other than Disqualified Stock) of the Company; and

(8) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the "Limitation on Restricted Payments" covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this Offering Memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date and (iii) any transaction between or among the Company, any Wholly Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary; *provided* that in the case of clause (iii), (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or in such Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary).

Limitation on Liens

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are (or, in respect of any Lien on any Subsidiary Guarantor's property or assets, any Subsidiary Guarantee of such Restricted Subsidiary is) secured equally and ratably with (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) the obligation or liability secured by such Lien, for so long as such obligation or liability is secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

(1) the Company or such Restricted Subsidiary, as the case may be, could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described under "– Limitation on Indebtedness" and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under "– Limitation on Liens," in which case, the corresponding Indebtedness will be deemed Incurred and the corresponding Lien will be deemed incurred pursuant to those provisions;

(2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and

(3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or such Restricted Subsidiary, as the case may be, applies the proceeds of such transaction in compliance with, the covenant described below under "– Limitation on Asset Sales."

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

(1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;

(2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;

(3) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur at least US$1.00 of Indebtedness under the proviso in paragraph (1) of the covenant described under "– Limitation on Indebtedness" after giving *pro forma* effect to such Asset Disposition; and

(4) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets (as defined below); *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US$10.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing. For purposes of this provision, each of the following will be deemed to be cash:

(a) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary, as the case may be, from further liability; and

(b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary, as the case may be, into cash, to the extent of the cash received in that conversion.

(5) Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or the applicable Restricted Subsidiary, as the case may be may apply such Net Cash Proceeds to:

(a) permanently repay unsubordinated Indebtedness of the Company or any Restricted Subsidiary (and, if such unsubordinated Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or

(b) acquire properties and assets (other than current assets) that will be used in the Permitted Businesses ("Replacement Assets");

provided that, pending the application of Net Cash Proceeds in accordance with clauses (a) or (b) of this paragraph, such Net Cash Proceeds may be temporarily invested only in cash or Temporary Cash Investments.

(6) Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clause (5) will constitute "Excess Proceeds." Excess Proceeds of less than US$10.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds equals to or exceeds US$10.0 million (or the Dollar Equivalent thereof), within ten days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

(a) accumulated Excess Proceeds, multiplied by

(b) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale, rounded down to the nearest US$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company or any Restricted Subsidiary may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes to be purchased on a pro rata basis or such other method as the Trustee shall deem to be fair and appropriate. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided, however,* that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was not prohibited under the "– Limitation on Restricted Payments" covenant.

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes issued and sold on the Original Issue Date, in any amount, for any purpose other than (1) as specified under "Use of Proceeds" in this Offering Memorandum and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in cash or Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) such Restricted Subsidiary does not own any Disqualified Stock of the Company or any Subsidiary Guarantor or Disqualified or Preferred Stock of a Restricted Subsidiary that is not a Subsidiary Guarantor or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under "– Limitation on Indebtedness" or such Lien would violate the covenant described under "– Limitation on Liens"; (3) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; (4) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company or any other Restricted Subsidiary and none of the Company or any Restricted Subsidiary Guarantees or provides credit support for the Indebtedness of such Restricted Subsidiary; (5) the Investment deemed to have been made thereby in such newly designated Unrestricted Subsidiary and each other newly designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under "– Limitation on Restricted Payments"; and (6) such Restricted Subsidiary does not own or operate or possess any material license, franchise or right used in connection with the ownership or operation of any part of the Company's or its Restricted Subsidiaries' business.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under "– Limitation on Indebtedness"; (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under "– Limitation on Liens"; (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); and (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary will upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture acceptable to the Trustee by which such Restricted Subsidiary will become a Subsidiary Guarantor.

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company or any Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes and the Subsidiary Guarantees on substantially identical terms; *provided* that this requirement does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Maintenance of Insurance

The Company will, and will cause its Restricted Subsidiaries to, maintain insurance with reputable and financially sound carriers against such risks and in such amounts as is customarily carried by similarly situated businesses, including, without limitation, property and casualty insurance.

Suspension of Certain Covenants

If on any date following the date of the Indenture, the Notes have a rating of Investment Grade from two of the three Rating Agencies and no Default or Event of Default has occurred and is continuing (a "Suspension Event"), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from at least two of the three Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

(1) "– Certain Covenants – Limitation on Indebtedness";

(2) "– Certain Covenants – Limitation on Restricted Payments";

(3) "– Certain Covenants – Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries";

(4) "– Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries";

(5) "– Certain Covenants – Limitation on Issuances of Guarantees by Restricted Subsidiaries";

(6) "– Certain Covenants – Limitation on Sale and Leaseback Transactions";

(7) "– Certain Covenants – Limitation on Asset Sales"; and

(8) the conditions in the covenant described below under the caption "– Consolidation, Merger and Sale of Assets" relating to Consolidated Net Worth or the ability to incur US$1.00 of Indebtedness under the first paragraph of the "Limitation of Indebtedness" covenant.

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under "– Certain Covenants – Designation of Restricted and Unrestricted Subsidiaries" or the definition of "Unrestricted Subsidiary."

Such covenants will be reinstituted and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under "– Certain Covenants – Limitation on Restricted Payments" will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended.

There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

(1) So long as any of the Notes remain outstanding, the Company will file with to the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company's common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the common shares of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:

(a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such financial year (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and audited by a member firm of an internationally recognized firm of independent accountants;

(b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Company, copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and reviewed by a member firm of an internationally recognized firm of independent accountants; and

(c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarters of the Company, copies of the unaudited financial statements (on a consolidated basis and in the English language) of the Company, including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company, together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.

(2) In addition, so long as any Note remains outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year, an Officers' Certificate acceptable to the Trustee stating the Fixed Charge Coverage Ratio with respect to the two most recent semi-annual fiscal periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, together with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; and (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate acceptable to the Trustee setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

Further, the Company and each Subsidiary Guarantor have agreed that, for as long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which the Company or such Subsidiary Guarantor is neither subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company or such Subsidiary Guarantor, as the case may be, shall supply to (i) any Holder or beneficial owner of a Note or (ii) a prospective purchaser of a Note or a beneficial interest therein designated by such Holder or beneficial owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act upon the request of any Holder or beneficial owner of a Note.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

(1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(2) default in the payment of interest or Additional Amounts on any Note when the same becomes due and payable, and such default continues for a period of 30 days;

(3) default in the performance or breach of the provisions of the covenant described under "– Consolidation, Merger and Sale of Assets," the failure by the Company to make or consummate an Offer to Purchase in the manner described under "– Repurchase of Notes upon a Change of Control," "– Certain Covenants – Limitation on Asset Sales" or "– Certain Covenants – Limitation on Liens";

(4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;

(5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US$10.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) a failure to pay principal of, or interest or premium (subject to the applicable grace period in the relevant documents) on, such Indebtedness when the same becomes due;

(6) one or more final judgments or orders for the payment of money are rendered against the Company or any Restricted Subsidiary and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US$10.0 million (or the Dollar Equivalent thereof) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(7) an involuntary case or other proceeding is commenced against the Company or any Restricted Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;

(8) the Company or any Restricted Subsidiary, (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary or (c) effects any general assignment for the benefit of creditors; or

(9) any Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or will for any reason cease to be in full force and effect.

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written direction of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of all the Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

(1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived; and

(2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders.

A Holder may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

(1) the Holder has previously given the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer the Trustee indemnity or security satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;

(4) the Trustee does not comply with the request within (x) 60 days after receipt of the written request pursuant to clause (2) above or (y) 60 days after the receipt of the offer of indemnity pursuant to clause (3) above, whichever occurs later; and

(5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder of a Note to receive payment of the principal of, premium, if any, or interest on, such Note or any payment under any Subsidiary Guarantee, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Two Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and the Restricted Subsidiaries and the Company's and the Restricted Subsidiaries' performance under the Indenture and that the Company and each Restricted Subsidiary have fulfilled all of their respective obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See "– Provision of Financial Statements and Reports."

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the properties and assets of the Company and the Restricted Subsidiaries (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) unless each of the following conditions is satisfied:

(1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Company consolidated or merged, or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the British Virgin Islands, the Cayman Islands or Hong Kong and shall expressly assume, by a supplemental indenture to the Indenture acceptable to the Trustee, executed and delivered to the Trustee, all the obligations of the Company under the Indenture and the Notes, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes, or from or through which payment is made, and the Indenture and the Notes, as the case may be, shall remain in full force and effect;

(2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(4) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, could Incur at least US$1.00 of Indebtedness under the proviso of paragraph (1) of the covenant described under "– Certain Covenants – Limitation on Indebtedness";

(5) the Company shall deliver to the Trustee in form and substance acceptable to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;

(6) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under "– Consolidation, Merger and Sale of Assets," shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee shall apply to the obligations of the Company or the Surviving Person, as the case may be, in accordance with the Notes and the Indenture; and

(7) no Rating Decline shall have occurred.

No Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the properties and assets of the Subsidiary Guarantor and its Restricted Subsidiaries (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor), unless each of the following conditions is met:

(1) such Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Subsidiary Guarantor consolidated or merged, or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction in accordance with the Indenture;

(2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction on a *pro forma* basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(4) immediately after giving effect to such transaction on a *pro forma* basis, the Company could Incur at least US$1.00 of Indebtedness under the proviso of paragraph (1) of the covenant described under "– Certain Covenants – Limitation on Indebtedness";

(5) the Company shall deliver to the Trustee in form and substance acceptable to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and

(6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the "Limitation on Asset Sales" covenant or any Subsidiary Guarantor whose Subsidiary Guarantee is unconditionally released in accordance with the provisions described under "– The Subsidiary Guarantees – Release of the Subsidiary Guarantees."

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor survives such consolidation or merger. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person. The foregoing provisions would not necessarily afford Holders protection in the event of highly leveraged or other transactions involving the Company or the Subsidiary Guarantors that may adversely affect Holders.

No Payments for Consents

The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture, the Notes or any Subsidiary Guarantees unless such consideration (1) is offered to be paid and (2) is paid to all Holders that consent, waive or agree to amend such term or provision on the same terms and within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

(1) the Company (a) has deposited with the Trustee, in trust, cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture and an Opinion of Counsel to the effect that the Holders have a valid, perfected, exclusive Lien over such trust;

(2) the Company has delivered to the Trustee (a) either (i) an Opinion of Counsel of recognized international standing with respect to U.S. federal income tax matters that is based on a change in applicable U.S. federal income tax law occurring after the Original Issue Date to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Company's exercise of its option under this "Defeasance and Discharge" provision and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would have been the case if such deposit, defeasance and discharge had not occurred or (ii) a ruling directed to the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel and (b) an Opinion of Counsel to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law;

(3) the Company shall have delivered to the Trustee an Officers' Certificate acceptable to the Trustee stating that the deposit was not made by it with the intent of preferring the Holders over any other of its creditors or with the intent of defeating, hindering, delaying or defrauding any other of its creditors or others;

(4) immediately after giving effect to such deposit on a *pro forma* basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of the Restricted Subsidiaries is a party or by which the Company or any of the Restricted Subsidiaries is bound; and

(5) the Company must deliver to the Trustee an Officers' Certificate acceptable to the Trustee and an Opinion of Counsel, each stating that all conditions precedent relating to such defeasance have been complied with.

In the case of either discharge or defeasance of the Notes, each of the Subsidiary Guarantees will terminate.

Defeasance of Certain Covenants

The Indenture will further provide that the provisions of the Indenture will no longer be in effect with respect to clauses (3), (4), 5(x) and (6) under the first paragraph and the entire second paragraphs under "– Consolidation, Merger and Sale of Assets" and all the covenants described herein under "– Certain Covenants," other than as described under "– Certain Covenants – Government Approvals and Licenses; Compliance with Law," clause (3) under "Events of Default" with respect to such clauses (3), (4), 5(x) and (6) under the first paragraph and the entire second paragraphs under "– Consolidation, Merger and Sale of Assets" and with respect to the other events set forth in such clause, clause (4) under "– Events of Default" with respect to such other covenants and clauses (5) and (6) under "– Events of Default" shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee, in trust, of cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clauses (2)(b), (3), (4) and (5) of the preceding paragraph and the delivery by the Company to the Trustee of an Opinion of Counsel of recognized international standing with respect to U.S. federal income tax matters to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would have been the case if such deposit and defeasance had not occurred.

Defeasance and Certain Other Events of Default

In the event the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of cash in U.S. dollars and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company and the Subsidiary Guarantors will remain liable for such payments.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture may be amended, without the consent of any Holder:

(1) to cure any ambiguity, defect, omission or inconsistency in the Indenture or the Notes;

(2) to comply with the provisions described under "– Consolidation, Merger and Sale of Assets";

(3) to evidence and provide for the acceptance of appointment by a successor Trustee;

(4) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;

(5) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;

(6) to effect any changes to the Indenture in a manner necessary to comply with the procedures of the relevant clearing system;

(7) to add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;

(8) to conform the text of the Indenture, the Notes or the Subsidiary Guarantees to any provision of this "Description of the Notes" to the extent that such provision in this "Description of the Notes" was intended to be a verbatim recitation of a provision of the Indenture, the Notes or the Subsidiary Guarantees, which intent may be evidenced by an Officers' Certificate to that effect; or

(9) to make any change that would provide any additional right or benefit to Holders or that does not adversely affect the rights of any Holder.

Amendments With Consent of Holders

Amendments of the Indenture may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the Holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company with any provision of the Indenture or the Notes, *provided, however,* that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;

(2) reduce the principal amount of, or premium, if any, or interest on, any Note;

(3) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;

(4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note or any Subsidiary Guarantee;

(5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;

(6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;

(7) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

(8) release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture;

(9) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders;

(10) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale or change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale;

(11) change the redemption date or the redemption price of the Notes from that stated under "– Optional Redemption" or "– Redemption for Taxation Reasons";

(12) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or

(13) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee in a manner which adversely affects the Holders.

The Trustee may rely without liability to any person on an Officers' Certificate and/or an Opinion of Counsel pursuant to the above terms, whether or not addressed to the Trustee and whether or not the legal counsel's liability in respect thereof is limited by a monetary cap or otherwise limited or excluded.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any Subsidiary Guarantor in the Indenture, or in any of the Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company or any Subsidiary Guarantor or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Trustee and the Paying Agent

Citicorp International Limited is to be appointed as Trustee under the Indenture and Citibank, N.A., London Branch is to be appointed as registrar and paying agent (the "Paying Agent") with regard to the Notes. Except during the continuance of a Default, the Trustee (in its capacity as registrar and Paying Agent, as the case may be) undertakes to perform such duties and only such duties as are specifically set forth in the Indenture or the Notes, as the case may be, and no implied covenant or obligation shall be read into the Indenture, the Notes (as the case may be) against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture or the Notes (as the case may be) as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

Pursuant to the terms of the Indenture or the Notes (as the case may be), the Company and the Subsidiary Guarantors will reimburse the Trustee for all reasonable expenses.

If the Company maintains a paying agent in a European Union member state, then it will ensure that it maintains a paying agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 (each, a "Directive") or any law implementing or complying with, or introduced in order to conform to, such Directive.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, if a Global Note is exchanged for Certificated Notes, we will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, and make an announcement of such exchange through the SGX-ST that will include all material information with respect to the delivery of the Certificated Notes, including details of the paying agent in Singapore.

The Trustee is entitled to rely on all certifications received pursuant to the Indenture without investigating the accuracy, authenticity and validity of those certifications.

Book-Entry; Delivery and Form

The certificates representing the Notes will be issued in fully registered form without interest coupons. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will initially be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Regulation S Global Note") and will be deposited with Citibank, N.A., London Branch as custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream.

Notes sold in reliance on Rule 144A will be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Restricted Global Note"; and together with the Regulation S Global Notes, the "Global Notes") and will be deposited with Citibank, N.A., London Branch as custodian for, and registered in the name of a nominee of, DTC.

Each Global Note (and any Notes issued for exchange therefor) will be subject to certain restrictions on transfer set forth therein as described under "Transfer Restrictions."

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Beneficial owners may hold their interests in a Global Note directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system.

Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such system. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through DTC.

So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Indenture and the Notes. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Indenture and, if applicable, those of Euroclear and Clearstream.

Payments of the principal of, and interest on, a Global Note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Company, nor any of the Subsidiary Guarantors, the Trustee nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. The Company also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

The Company expects that DTC will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a Global Note is credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC will exchange the applicable Global Note for Certificated Notes, which it will distribute to its participants and which may be legended as set forth under the heading "Transfer Restrictions."

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, any of the Subsidiary Guarantors, the Trustee or any Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depositary for the Global Notes and a successor depositary is not appointed by the Company within 90 days, the Company will issue Certificated Notes in registered form, which may bear the legend referred to under "Transfer Restrictions," in exchange for the Global Notes. Holders of an interest in a Global Note may receive Certificated Notes, which may bear the legend referred to under "Transfer Restrictions," in accordance with the DTC's rules and procedures in addition to those provided for under the Indenture.

The Clearing Systems

General

DTC, Euroclear and Clearstream have advised the Company as follows:

DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the Initial Purchasers. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Transfers of ownership or other interests in Notes in DTC may be made only through DTC participants. In addition, beneficial owners of Notes in DTC will receive all distributions of principal of and interest on the Notes from the Trustee through such DTC participant.

Euroclear and Clearstream. Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Initial Settlement

Initial settlement for the Notes will be made in immediately available funds. All Notes issued in the form of global notes will be deposited with Citibank, N.A., London Branch, as custodian for DTC. Investors' interests in Notes held in book-entry form by DTC will be represented through financial institutions acting on their behalf as direct and indirect participants in DTC. As a result, Euroclear and Clearstream will initially hold positions on behalf of their participants through DTC.

Investors electing to hold their Notes through DTC (other than through accounts at Euroclear or Clearstream) must follow the settlement practices applicable to United States corporate debt obligations. The securities custody accounts of investors will be credited with their holdings against payment in same day funds on the settlement date.

Investors electing to hold their Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear Holders and of Clearstream Holders on the Business Day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading between DTC Participants. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in same-day funds using DTC's Same Day Funds Settlement System.

Trading between Euroclear and Clearstream Participants. Secondary market trading between Euroclear participants and Clearstream participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

Trading between DTC Seller and Euroclear or Clearstream Purchaser. When Notes are to be transferred from the account of a DTC participant to the account of a Euroclear participant or a Clearstream participant, the purchaser must send instructions to Euroclear or Clearstream through a participant at least one Business Day prior to settlement. Euroclear or Clearstream, as the case may be, will receive the Notes against payment. Payment will then be made to the DTC participant's account against delivery of the Notes. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to and excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. After settlement has been completed, the Notes will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participant's or Clearstream participant's account. Credit for the Notes will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Notes will accrue from, the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade date fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date. Euroclear participants or Clearstream participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the Notes are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream participants purchasing Notes would incur overdraft charges for one day, assuming they cleared the overdraft when the Notes were credited to their accounts. However, interest on the Notes would accrue from the value date. Therefore, in many cases, the investment income on Notes earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC participant, a cross-market transaction will settle no differently than a trade between two DTC participants.

Finally, day traders that use Euroclear or Clearstream and that purchase Notes from DTC participants for credit to Euroclear participants or Clearstream participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

(1) borrowing through Euroclear or Clearstream for one day (until the purchase side of the day trade is reflected in their Euroclear account or Clearstream account) in accordance with the clearing system's customary procedures;

(2) borrowing the Notes in the United States from a DTC participant no later than one day prior to settlement, which would give the Notes sufficient time to be reflected in the borrower's Euroclear account or Clearstream account in order to settle the sale side of the trade; or

(3) staggering the value dates for the buy and sell sides of the trade so that the value date for the purchase from the DTC participant is at least one day prior to the value date for the sale to the Euroclear participants or Clearstream participants.

Trading between Euroclear or Clearstream Seller and DTC Purchaser. Due to the time zone differences in their favor, Euroclear participants or Clearstream participants may employ their customary procedures for transactions in which Notes are to be transferred by the respective clearing system to another DTC participant. The seller must send instructions to Euroclear or Clearstream through a participant at least one Business Day prior to settlement. In these cases, Euroclear or Clearstream will credit the Notes to the DTC participant's account against payment. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to the Notes excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. The payment will then be reflected in the account of the Euroclear participant or Clearstream participant the following day, and receipt of the cash proceeds in the Euroclear or Clearstream participant's account will be back-valued to the value date (which would be the preceding day when settlement occurs in New York). If the Euroclear participant or Clearstream participant has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over the one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream participant's account would instead be valued as of the actual settlement date.

As in the case with respect to sales by a DTC participant to a Euroclear or Clearstream participant, participants in Euroclear and Clearstream will have their accounts credited the day after their settlement date. See " – The Clearings Systems – Secondary Market Trading – Trading between DTC Seller and Euroclear or Clearstream Purchaser" above.

None of the Company, the Trustee or any Paying and Transfer Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the United States mails (if intended for the Company, any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee and, if intended for any Holder, addressed to such Holder at such Holder's last address as it appears in the Note register (or otherwise delivered to such Holders in accordance with applicable DTC, Euroclear or Clearstream procedures).

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of the relevant clearing system. Any such notice shall be deemed to have been delivered on the day such notice is delivered to the relevant clearing system or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each Subsidiary Guarantor will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint Corporation Service Company for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the Notes" for which no definition is provided.

"Acquired Indebtedness" means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

"Adjusted Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Affiliate" means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child, parent, brother, sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew or niece of a Person described in clause (1) or (2). For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Applicable Premium" means, with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the redemption price of such Note on May 25, 2014 (such redemption price being described in the first paragraph in the "Optional Redemption" section exclusive of any accrued interest), plus all required remaining scheduled interest payments due on such Note through May 25, 2014 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 50 basis points, over (B) the principal amount of such Note on such redemption date.

"Asset Acquisition" means (1) an Investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any Restricted Subsidiary; or (2) an acquisition by the Company or any Restricted Subsidiary of the property and assets of any Person other than the Company or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

"Asset Disposition" means the sale or other disposition by the Company or any Restricted Subsidiary (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any Restricted Subsidiary.

"Asset Sale" means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any issuance or sale of Capital Stock of Subsidiary or issuance of Capital Stock of a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any Restricted Subsidiary to any Person; *provided* that "Asset Sale" shall not include:

(1) sales, transfers or other dispositions of inventory, receivables and other current assets in the ordinary course of business;

(2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made by the covenant described under "– Certain Covenants – Limitation on Restricted Payments";

(3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US$1 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;

(4) any sale, transfer, assignment or other disposition of any property or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or the Restricted Subsidiaries;

(5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;

(6) a transaction covered by the first paragraph of the covenant described under "– Consolidation, Merger and Sale of Assets";

(7) a sale, transfer or other disposition to the Company or a Restricted Subsidiary, including, without limitation, an issuance of Capital Stock by a Restricted Subsidiary to the Company or to another Restricted Subsidiary; and

(8) dispositions of receivables, contractual rights, tort claims or similar rights in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings (excluding factoring or similar arrangements).

"Attributable Indebtedness" means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended.

"Average Life" means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

"Board of Directors" means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

"Board Resolution" means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

"Business Day" means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York or in Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized or required by law or governmental regulation to close.

"Capital Stock" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock.

"Capitalized Lease" means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

"Capitalized Lease Obligations" means the discounted present value of the rental obligations under a Capitalized Lease.

"Change of Control" means the occurrence of one or more of the following events:

(1) the merger, amalgamation or consolidation of the Company with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Company, or the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transaction, of all or substantially all the consolidated assets of the Company to another Person (other than one or more Permitted Holders);

(2) the Permitted Holders cease to be the beneficial owners (as such term is used in Rule 13d-3 of the Exchange Act) of more than 25.0% of the total voting power of the Voting Stock of the Company;

(3) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined above), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;

(4) individuals who on the Original Issue Date constituted the Board of Directors, together with any new directors whose election or nomination to the Board of Directors was approved by a vote of at least a majority of the directors then still in office who were either directors on the Original Issue Date or whose election or nomination was previously so approved, cease for any reason to constitute a majority of the Board of Directors then in office; or

(5) the adoption of a plan relating to the liquidation or dissolution of the Company.

"Clearstream" means Clearstream Banking, *société anonyme*, Luxembourg.

"Commodity Hedging Agreement" means any commodities swap agreement, commodities cap agreement, commodities floor agreement, commodities futures agreement, commodities option agreement or any other similar agreement or arrangement which may consist of one or more of the foregoing agreements, designed to protect against fluctuations in commodities prices.

"Common Stock" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and includes, without limitation, all series and classes of such common stock or ordinary shares.

"Comparable Treasury Issue" means the U.S. Treasury security having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity comparable to the remaining term of the Notes from the redemption date to May 25, 2014.

"Comparable Treasury Price" means, with respect to any redemption date (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities"; or (2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

"Consolidated EBITDA" means, with respect to any Person for any period, Consolidated Net Income of such Person for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

(1) Consolidated Interest Expense;

(2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets); and

(3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income;

all as determined on a consolidated basis for such Person and its Restricted Subsidiaries in conformity with GAAP; *provided* that (i) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of the Restricted Subsidiaries; (ii) in the case of any PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV; and (iii) notwithstanding the preceding, the provision for taxes based on the income or profits of, and the depreciation and amortization and other non-cash expenses of, a Restricted Subsidiary of a Person will be added to the Consolidated Net Income to compute Consolidated EBITDA of such Person only to the extent that a corresponding amount of the income or profit of the Restricted Subsidiary would be permitted at the date of determination to be dividended to such person by such Restricted Subsidiary without prior governmental approval (that has not been obtained), and without direct or indirect restriction pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable that Restricted Subsidiary or its stockholders.

"Consolidated Fixed Charges" means, with respect to any Person for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of such Person or any of its Subsidiaries (other than Unrestricted Subsidiaries), except for dividends payable in the Company's Capital Stock (other than Disqualified Stock) or dividends paid to the Company or to a Wholly-Owned Restricted Subsidiary.

"Consolidated Interest Expense" means, with respect to any Person for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of such Person and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by such Person and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is Guaranteed by, or secured by a Lien on any asset of, such Person or any of its Restricted Subsidiaries and (7) any capitalized interest; *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a *pro forma* basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

"Consolidated Net Income" means, with respect to any Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

(1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:

(a) subject to the exclusion contained in clause (5) below, the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and

(b) the Company's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;

(2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of the Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of the Restricted Subsidiaries;

(3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other constitutive document or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

(4) the cumulative effect of a change in accounting principles;

(5) any net after tax gains realized on the sale or other disposition of (a) any property or asset of the Company or any Restricted Subsidiary that is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company or a Restricted Subsidiary realized on sales of Capital Stock of the Company or of any Restricted Subsidiary);

(6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and

(7) any net after-tax extraordinary or non-recurring gains.

"Consolidated Net Worth" means, at any date of determination, stockholders' equity as set forth on the most recently available, semi-annual or annual consolidated balance sheet of the Company and the Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of the Restricted Subsidiaries, each item to be determined in conformity with GAAP.

"continuing" means, with respect to any Default or Event of Default, that such Default or Event of Default has not been cured or waived.

"Currency Hedging Agreement" means any currency swap agreement, currency cap agreement, currency floor agreement, currency futures agreement, commodity option agreement or any other similar agreement or arrangement which may consist of one or more of the foregoing agreements, designed to protect against fluctuations in foreign exchange rates.

"Default" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"Disqualified Stock" means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 183 days after the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 183 days after the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the date that is 183 days after the Stated Maturity of the Notes shall not constitute Disqualified Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the "– Limitation on Asset Sales" and "– Repurchase of Notes upon a Change of Control" covenants and such

Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company's repurchase of such Notes as are required to be repurchased pursuant to the covenants described under "– Certain Covenants – Limitation on Asset Sales" and "– Repurchase of Notes upon a Change of Control."

"Dollar Equivalent" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the noon buying rate for U.S. dollars in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on the date of determination.

"DTC" means The Depository Trust Company and its successors.

"Equity Offering" means (i) any bona fide public or private offering of Capital Stock (other than Disqualified Stock) of the Company other than to Affiliates of the Company after the Original Issue Date or (ii) any bona fide underwritten secondary public offering or secondary private placement of Capital Stock (other than Disqualified Stock) of the Company beneficially owned by the Permitted Holders, after the Original Issue Date, to the extent that the Permitted Holders or a company controlled by such Person concurrently with such public offering or private placement purchases in cash an equal amount of Capital Stock (other than Disqualified Stock) from the Company at the same price as the public offering or private placing price; *provided* that (i) the aggregate gross cash proceeds received by the Company as a result of such offering described in clause (i) or (ii) or a combination thereof (excluding gross cash proceeds received from the Company or any of its Subsidiaries) shall be no less than US$25 million (or the Dollar Equivalent thereof) and (ii) any such offering shall result in such Capital Stock being listed and eligible for dealing on the Stock Exchange of Hong Kong Limited.

"Euroclear" means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

"Fair Market Value" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

"Fitch" mean Fitch Inc., a subsidiary of Fimalac, S.A., and its successors.

"Fixed Charge Coverage Ratio" means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent two semi-annual fiscal periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available and have been provided to the Trustee (the "Two Semi-annual Period") to (2) the aggregate Consolidated Fixed Charges during such Two Semi-annual Period. In making the foregoing calculation:

(a) *pro forma* effect shall be given to any Indebtedness Incurred, repaid or redeemed during the period (the "Reference Period") commencing on and including the first day of the Two Semi-annual Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Two Semi-annual Period), in each case as if such Indebtedness had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem such Indebtedness;

(b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate will be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Hedging Agreement applicable to such Indebtedness if such Interest Rate Hedging Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

(c) *pro forma* effect will be given to the creation, designation or redesignation of Restricted Subsidiaries and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;

(d) *pro forma* effect will be given to Asset Dispositions and Asset Acquisitions (including giving *pro forma* effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and

(e) *pro forma* effect will be given to asset dispositions and asset acquisitions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that *pro forma* effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such *pro forma* calculation will be based upon the two full semi-annual fiscal periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

"GAAP" means International Financial Reporting Standards as in effect from time to time.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Hedging Obligation" of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Hedging Agreement.

"Holder" means the Person in whose name a Note is registered in the Note register.

"Incur" means, with respect to any Indebtedness or Disqualified Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Disqualified Stock; *provided* that (1) any Indebtedness and Disqualified Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms "Incurrence," "Incurred" and "Incurring" have meanings correlative with the foregoing.

"Indebtedness" means, with respect to any Person at any date of determination (without duplication):

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;

(5) all Capitalized Lease Obligations and Attributable Indebtedness;

(6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;

(7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;

(8) to the extent not otherwise included in this definition, Hedging Obligations;

(9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends; and

(10) any Preferred Stock issued by (a) such Person, if such Person is a Restricted Subsidiary or (b) any Restricted Subsidiary of such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided* that:

(1) the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;

(2) money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest; and

(3) the amount of Indebtedness with respect to any Hedging Obligation shall be equal to the net amount payable if the Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Hedging Agreement giving rise to such Hedging Obligation terminated at that time due to default by such Person if not Incurred pursuant to such paragraph.

"Interest Rate Hedging Agreement" means any interest rate swap agreement, interest rate cap agreement, interest rate floor agreement, interest rate future contract, interest rate option agreement or any other similar agreement or arrangement which may consist of one or more of any of the foregoing agreements, designed to protect against fluctuations in interest rates.

"Investment" means:

(1) any direct or indirect advance, loan or other extension of credit to another Person;

(2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);

(3) any purchase or acquisition of Capital Stock (or options, warrants or other rights to acquire such Capital Stock), Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or

(4) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the covenants described under "– Certain Covenants – Designation of Restricted and Unrestricted Subsidiaries" and "– Certain Covenants – Limitation on Restricted Payments": (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the Company's proportionate interest in the assets (net of the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary calculated as of the time of such designation, and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

"Investment Grade" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "–" indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns, or a rating of "Aaa," or "Aa," "A" or "Baa," as modified by a "1," "2" or "3" indication, or an equivalent rating representing one of the four highest rating categories, by Moody's or any of its successors or assigns, or a rating of "AAA," "AA," "A," "BBB," as modified by a "+" or "–" indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P, Moody's or Fitch or two or three of them, as the case may be.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

"Moody's" means Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors.

"Net Cash Proceeds" means:

(1) with respect to any Asset Sale (other than the issuance or sale of Capital Stock), the proceeds of such Asset Sale in the form of cash or Temporary Cash Investments, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or Temporary Cash Investments and proceeds from the conversion of other property received when converted to cash or Temporary Cash Investments, net of:

(a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bank) related to such Asset Sale;

(b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and the Restricted Subsidiaries, taken as a whole;

(c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale; and

(d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP and reflected in an Officers' Certificate delivered to the Trustee; and

(2) with respect to any Asset Sale consisting of the issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or Temporary Cash Investments, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or Temporary Cash Investments and proceeds from the conversion of other property received when converted to cash or Temporary Cash Investments, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Offer to Purchase" means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

(1) the provision in the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;

(2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "Offer to Purchase Payment Date");

(3) that any Note not tendered will continue to accrue interest pursuant to its terms;

(4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;

(5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;

(6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and

(7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or any amount in excess thereof which is an integral multiple of US$1,000.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof to be accepted by the Company for payment on the Offer to Purchase Payment Date. On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; and (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and upon receipt of written order of the Company signed by an Officer the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or any amount in excess thereof which is an integral multiple of US$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date.

The Company will comply with Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The materials used in connection with an Offer to Purchase are required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"Officer" means one of the executive officers of the Company or, in the case of a Restricted Subsidiary, one of the directors or officers of such Restricted Subsidiary. "Officers' Certificate" means a certificate signed by two Officers.

"Opinion of Counsel" means a written opinion from legal counsel who is acceptable to the Trustee.

"Original Issue Date" means the date on which the Notes are originally issued under the Indenture.

"Pari Passu Subsidiary Guarantee" means a Guarantee by any Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes); *provided* that (1) the Company and such Subsidiary Guarantor were permitted to Incur such Indebtedness by the covenant described under "– Limitation on Indebtedness" and (2) such Guarantee ranks *pari passu* with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor.

"Permitted Businesses" means any business which is the same as or reasonably ancillary or complementary to any of the businesses of the Company and the Restricted Subsidiaries on the Original Issue Date.

"Permitted Holders" means any or all of the following:

(1) Mr. Zhang Caikui;

(2) the estate and spouse or immediate family member of the Person specified in clause (1);

(3) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) of the Person specified in clause (1) of this definition; and

(3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by one or more of the Persons specified in clauses (1), (2) and (3) of this definition.

"Permitted Investment" means:

(1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or will be merged or consolidated with or into, or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;

(2) cash or Temporary Cash Investments;

(3) payroll, travel and similar advances made in the ordinary course of business to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;

(4) stock, obligations or securities received in satisfaction of judgments;

(5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;

(6) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates and not for speculation;

(7) receivables, trade credits or other current assets owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

(8) Investments consisting of consideration received in connection with an Asset Sale under clause 4(b) of, and made in compliance with, the covenant described under "– Certain Covenants – Limitation on Asset Sales";

(9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of "Permitted Liens";

(10) loans or advances to vendors, contractors, suppliers or distributors, including advance payments for equipment and machinery made to the manufacturer thereof, of the Company or any Restricted Subsidiary in the ordinary course of business and dischargeable in accordance with customary trade terms within 90 days;

(11) Investments in existence on the Original Issue Date;

(12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Company's consolidated balance sheet; and

(13) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers' compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business.

"Permitted Liens" means:

(1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);

(4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and the Restricted Subsidiaries, taken as a whole;

(5) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person (i) becomes a Restricted Subsidiary or (ii) is merged with or into or consolidated with the Company or any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets of such Person (if such Person becomes a Restricted Subsidiary) or the property or assets acquired by the Company or such Restricted Subsidiary (if such Person is merged with or into or consolidated with the Company or such Restricted Subsidiary); *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;

(6) Liens in favor of the Company or any Restricted Subsidiary;

(7) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that do not give rise to an Event of Default;

(8) Liens securing reimbursement obligations with respect to letters of credit, performance and surety bonds and completion guarantees that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;

(9) Liens existing on the Original Issue Date;

(10) Liens securing Indebtedness which is Incurred to refinance Secured Indebtedness which is permitted to be Incurred under clause (2)(d) of the covenant described under "– Certain Covenants – Limitation on Indebtedness," *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;

(11) Liens securing Hedging Obligations permitted to be Incurred under clause (2)(e) of the covenant described under "– Certain Covenants – Limitation on Indebtedness," *provided* that (i) Indebtedness relating to any such Hedging Obligation is, and is permitted under the covenant described under "– Certain Covenants – Limitation on Liens" to be, secured by a Lien on the same property securing such Hedging Obligation or (ii) such Liens are encumbering customary initial deposits or margin deposits or are otherwise within the general parameters customary in the industry and incurred in the ordinary course of business;

(12) any interest or title of a lessor in the property subject to any operating lease;

(13) Liens on deposits securing trade letters of credit (and reimbursement obligations relating thereto) incurred in the ordinary course;

(14) Liens securing Indebtedness permitted under clause (2)(k) of the covenant described under "– Certain Covenants – Limitation on Indebtedness"; *provided* that such Lien (i) covers only the equipment, property or assets acquired with such Indebtedness (but not any Capital Stock of Persons holding such equipment, property or assets) and (ii) is created within 180 days of such acquisition;

(15) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers' compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary; and

(16) Liens incurred pursuant to the loan agreements existing on the Original Issue Date between International Finance Corporation and Weihai Sunny Cement Company Limited, Qingdao Shanshui Chuangxin Cement Company Limited, Zaozhuang Chuangxin Shanshui Cement Company Limited and Linqu Shanshui Cement Company Limited, respectively.

"Permitted Subsidiary Indebtedness" means Indebtedness of, and all Preferred Stock issued by, the Restricted Subsidiaries, taken as a whole; *provided* that, on the date of Incurrence of such Indebtedness, and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness and all Preferred Stock issued by the Restricted Subsidiaries (excluding any Indebtedness of any Restricted Subsidiary permitted under clause (2)(a), (c), (e), (f), (h) or (i) of the covenant described under "– Certain Covenants – Limitation on Indebtedness") does not exceed an amount equal to 15% of Total Assets (or the Dollar Equivalent thereof).

"Person" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"PRC" means the People's Republic of China.

"PRC CJV" means any future Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws and regulations may be amended from time to time.

"PRC CJV Partner" means with respect to a PRC CJV, the other party or parties to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

"Preferred Stock" as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over any other class of Capital Stock of such Person.

"Rating Agencies" means (1) S&P, (2) Moody's and (3) Fitch; *provided* that if S&P, Moody's or Fitch shall not make a rating of the Notes publicly available, one or more nationally recognized statistical rating organizations (as defined in Rule 436 under the Securities Act), as the case may be, selected by the Company, which shall be substituted for S&P, Moody's or Fitch as the case may be.

"Rating Category" means (1) with respect to S&P, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); (2) with respect to Moody's, any of the following categories: "Ba," "B," "Caa," "Ca," "C" and "D" (or equivalent successor categories); (3) with respect to Fitch, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); and (4) the equivalent of any such category of S&P, Moody's or Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories ("+" and "–" for S&P; "1," "2" and "3" for Moody's and "+" and "–" for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from "BB+" to "BB," as well as from "BB-" to "B+," will constitute a decrease of one gradation).

"Rating Date" means in connection with actions contemplated under "– Consolidation, Merger and Sale of Assets," that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

"Rating Decline" means in connection with actions contemplated under "– Consolidation, Merger and Sale of Assets," the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

(a) in the event the Notes are rated by all three of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any two of the three Rating Agencies shall be below Investment Grade;

(b) in the event the Notes are rated by any two, but not all three, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any of such two Rating Agencies shall be below Investment Grade;

(c) in the event the Notes are rated by one, and only one, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or

(d) in the event the Notes are rated below Investment Grade by all three of the Rating Agencies on the Rating Date, the rating of the Notes by any Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer at 5:00 p.m. (New York City Time) on the third Business Day preceding such redemption date.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“Secured Indebtedness” means any Indebtedness of the Company or a Restricted Subsidiary secured by a Lien.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Stated Maturity” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (1) pursuant to which the Company or such Restricted Subsidiary agrees to acquire not less than a majority of the Capital Stock of a Person for a consideration that is not more than the appraised value of such Capital Stock on the date of such agreement (as determined by an independent accounting, appraisal or investment banking firm of recognized standing appointed by the Company) and (2) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Subordinated Indebtedness” means any Indebtedness of the Company or any Subsidiary Guarantor that is contractually subordinated or junior in right of payment to the Notes or to any Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means the initial Subsidiary Guarantors named herein and any other Restricted Subsidiary that Guarantees the obligations of the Company under the Indenture and the Notes; *provided* that “Subsidiary Guarantor” does not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

"Temporary Cash Investment" means any of the following:

(1) direct obligations of the United States of America, Hong Kong or any agency of either of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, Hong Kong or any agency of either of the foregoing, in each case maturing within one year;

(2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company that is organized under the laws of the United States of America, any state thereof or Hong Kong and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act);

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;

(4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P or Fitch;

(5) securities maturing within 180 days of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or Moody's or Fitch;

(6) any money market fund that has at least 95.0% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and

(7) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with (i) Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communications, China Merchants Bank, Hua Xia Bank, Pudong Development Bank, China Citic Bank, China Everbright Bank, Shenzhen Development Bank, China Minsheng Banking Corporation, Industrial Bank Co., Ltd., China Bohai Bank, OCBC Bank, Nanyang Commercial Bank, JPMorgan Chase, Wing Lung Bank, Yantai Bank, Postal Savings Bank of China and Agricultural Development Bank of China, (ii) any other bank or trust company organized under the laws of the PRC whose long-term debt rating by Moody's or S&P is rated as high or higher than any of those banks listed in clause (i) of this paragraph or (iii) any other bank organized under the laws of the PRC; *provided* that, in the case of clause (iii), such deposits do not exceed US$10.0 million (or the Dollar Equivalent thereof) with any single bank or US$30.0 million (or the Dollar Equivalent thereof) in the aggregate, at any date of determination thereafter.

"Total Assets" means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last date of the most recent semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available and have been provided to the Trustee; *provided* that Total Assets shall be calculated after giving *pro forma* effect to include the cumulative value of all the equipment, property or assets the acquisition, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder in each case of as of such date, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness.

"Trade Payables" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services and payable within 90 days.

"Transaction Date" means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

"Unrestricted Subsidiary" means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture and (2) any Subsidiary of an Unrestricted Subsidiary.

"U.S. Government Obligations" means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the Company thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"Voting Stock" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

"Wholly Owned" means, with respect to any Restricted Subsidiary, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law) by the Company or one or more Wholly Owned Subsidiaries of the Company; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

Term Loan Agreements

As of December 31, 2010, we had bank facilities of approximately and RMB7,777.5 million (US$1,178.4 million), for short-term and long-term bank loans, of which RMB3,944.5 million (US$597.7 million) was drawn.

Certain of our PRC subsidiaries have entered into term loan agreements with various PRC financial institutions, including Industrial and Commercial Bank of China, Bank of China, China Merchants Bank, China Everbright Bank, Industrial Bank Co. Ltd., China Construction Bank, OCBC Bank, Agricultural Bank of China, Shanghai Pudong Development Bank, Nanyang Commercial Bank, Communication Bank of China, Evergrowing Bank, Minsheng Bank, Qilu Bank, Huaxia Bank, Qingdao Bank, Shenzhen Development Bank and China Bohai Bank, to finance our construction of production facilities, acquisitions and working capital requirements. These loans have terms ranging from one year to six years. As of March 31, 2011, the aggregate outstanding amount under these loans, loans from equity shareholders and corporate bonds total approximately RMB8,242.7 million (US$1,248.9 million), of which RMB1,287.1 million (US$195.0 million) was due within one year or on demand, and RMB6,955.6 million (US$1,053.9 million) was due in greater than one year.

Interest

The principal amounts outstanding under the term loans generally bear interest at floating rates calculated by reference to the relevant bank's benchmark interest rate per annum, which in turn is generally linked to the PBOC-published rates. Floating interest rates are generally subject to review by the banks monthly, quarterly or annually, or simultaneously with the adjustment of the PBOC-published rate. Interest payments are generally payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of March 31, 2011, the interest rates on the aggregate outstanding amount of our project loans ranged 2.6% to 7.7% per annum.

Covenants

Under these term loans, many of our PRC subsidiary borrowers have agreed, among other things, not to take the following actions without first notifying the lender or obtaining the lenders' prior consent:

- issue any bonds;
- create encumbrances on all or substantially all of their property or assets;
- grant guarantees to any third parties or pledge or mortgage their material assets that may adversely affect their ability to repay their loans;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions and reorganizations; or
- reduce their registered capital.

Under several term loans, certain of our PRC subsidiaries have agreed not to distribute dividends to their shareholders or repay shareholder loans without written consent of the lenders or before having fully repaid the term loans.

Financial Covenants

Under some of our term loans, certain of our PRC subsidiaries have agreed to comply with financial covenants, including in connection with the ratio of total liabilities to total assets, the contingent liability ratio and the liquidity ratio. Certain subsidiaries did not meet their respective covenants in the relevant long-term loan agreements with Weihai City Commercial Bank, Shanghai Pudong Development Bank and Qiulu Bank, the latter two of which provided confirmations to us that the noncompliance would not accelerate repayment of these loans. We had repaid in full the loan from Weihai City Commercial Bank. As of December 31, 2010, RMB160.0 million (US$24.2 million) was outstanding under these loan agreements.

Events of Default

The term loans contain certain customary events of default, including cross-default, insolvency and breaches of the terms of the loan agreements. The lenders are entitled to terminate their respective agreements or demand immediate repayment of loans upon the occurrence of an event of default.

Guarantee and Security

We and certain of our PRC subsidiaries have entered into guarantee agreements with lenders in connection with certain loans pursuant to which we and our subsidiaries have agreed to guarantee liabilities in the subsidiary borrowers under these loans. In addition, certain of our PRC subsidiaries agreed to lenders to provide security interests over their assets in connection with their loans. These assets include properties, plant and equipments.

Corporate bonds issued by Shandong Shanshui

Shandong Shanshui issued domestic corporate bonds in the form of medium term notes in a principal amount of RMB1 billion (US$151.5 million) and RMB900 million (US$136.4 million) in October 2010 and March 2011, respectively. The tenor of the notes is three years, bearing a fixed interest rate of 4.2% per annum with the interests payable annually. The domestic corporate bonds have been rated “AA” by Chengxin, a domestic rating agency.

IFC Loan Agreements and Guarantee

Weihai Shanshui, Qingdao Chuangxin, Linqu Shanshui and Zaozhuang Chuangxin entered into loan agreements with IFC, one of our principal shareholders, totaling US$50 million in 2009. Under the loan agreements, as amended, the loans bear interest at LIBOR plus 4.75% per annum and are repayable bi-annually from 2010 to 2015. Weihai Shanshui’s loans are secured by certain property, plant and equipment, and additional security over its property is being processed. Qingdao Chuanxin, Linqu Shanshui and Zaozhuang Chuangxin have agreed to provide their respective property, assets and equipment as collateral for their respective loans. In addition, Anqiu Shanshui and Pinyin Shanshui entered into loan agreements with IFC, totaling US$50 million in 2006. Under the loan agreements, as amended, the loans bear interest at LIBOR plus 4.0% per annum and are repayable biannually from 2008 to 2014 and are secured by certain properties, plant and equipment of the subsidiaries. These loans are guaranteed by China Shanshui Cement Group Limited. Pursuant to the guarantees, we may not incur additional debt or permit creation of any lien on our properties unless we meet certain financial covenants. As of March 31, 2011, the aggregate outstanding amount under these loan agreements was RMB449.7 million (US$68.1 million).

See “Summary – Recent Developments – 2011 Term Loans.”

TAXATION

The discussion below is not intended to constitute a complete analysis of all tax consequences relating to ownership of the Notes. Prospective purchasers of the Notes should consult their own tax advisors concerning the tax consequences of their particular situations. This description is based on current laws, regulations and interpretations. These laws, regulations and interpretations, however, may change at any time, and any change could be retroactive to the date of issuance of the Notes. These laws and regulations are also subject to various interpretations and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below.

Cayman Islands

So long as the holders of the Notes are not residents of the Cayman Islands, payments of interest, principal and premium, if any, on the Notes will not be subject to taxation and no withholding will be required on the payment of interest and principal or premium to any holder of the Notes, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. The Cayman Islands are not party to any double taxation treaties that are applicable to any payments to be made to or by us.

No stamp duty is payable in respect of the issue of the Notes. An instrument of transfer in respect of a Note is stampable if executed in or brought into the Cayman Islands.

We are incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, have obtained an undertaking from the Governor in Cabinet of the Cayman Islands as to tax concessions under the Tax Concessions Law (1999 Revision). In accordance with the provision of section 6 of The Tax Concessions Law (1999 Revision), the Governor in Cabinet undertakes with us:

- that no law which is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to us or our operations; and

- in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable, on or in respect of the shares, debentures or other obligations of us, or by way of the withholding, in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of 20 years from May 9, 2006.

British Virgin Islands

There is no income or other tax of the British Virgin Islands imposed by withholding or otherwise on any payment to be made to or by the guarantors pursuant to the guarantees.

Hong Kong

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes or payments made by a guarantor pursuant to its guarantee of the Notes.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance"), as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

In the case of a financial institution (as defined in the Inland Revenue Ordinance), interest on the Notes will be subject to Hong Kong profits tax where such interest arises through or from the carrying on by the financial institution of its business in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Notes is maintained outside Hong Kong).

PRC

Taxation of Interest

The EIT Law and its implementation rules, effective January 1, 2008, impose a withholding tax at the rate of 10% on interest paid by PRC resident enterprises to a holder of notes that is a "non-resident enterprise" so long as such "non-resident enterprise" holder does not have an establishment or place of business in China or, despite the existence of establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China, to the extent such interests are sourced within China. Pursuant to these provisions of the EIT Law, if we are considered a PRC resident enterprise, interest payable to non-resident enterprise holders on the Notes may be treated as income derived from sources within China and be subject to PRC withholding tax. It is unclear whether the PRC tax authorities would treat us as a PRC resident enterprise. Although we believe we should not be considered a PRC resident enterprise and do not intend to withhold PRC tax on interest payable to "non-resident enterprises," if we are required under the EIT Law to withhold PRC tax on our interest payable to our non-resident noteholders who are "non-resident enterprises," we will be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to holders of Notes who qualify for such treaty benefits.

Taxation On Capital Gains

The EIT Law and its implementation rules, effective January 1, 2008, impose a tax at the rate of 10% on capital gains realized by a holder of Notes that is a "non-resident enterprise" so long as any such "non-resident enterprise" holder does not have an establishment or place of business in China or, despite the existence of establishment or place of business in China, the relevant gain is not effectively connected with such establishment or place of business in China, to the extent such capital gains are sourced within China. Pursuant to these provisions of the EIT Law, although we believe we should not be considered a PRC resident enterprise if we are considered a PRC resident enterprise, capital gains realized by holders of Notes may be treated as income derived from sources within China and be subject to PRC tax. The application of this provision to holders of Notes is uncertain. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong and the United States, that allow a lower rate of tax, such lower rate may apply to qualified investors in the Notes.

Stamp Duty

No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside Mainland China) of a Note.

Certain U.S. Federal Income Tax Considerations for U.S. Holders

TO COMPLY WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY PROSPECTIVE INVESTORS, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"); (B) ANY SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion is a summary of certain material U.S. federal income tax considerations relating to the purchase, ownership and disposition of the Notes by a U.S. holder (as defined below), but does not purport to be a complete analysis of all potential tax effects and does not address the effects of the U.S. federal estate or gift tax laws, any state, local or non-U.S. tax laws or provisions of any applicable tax treaties. This discussion is based upon the Code, U.S. Treasury regulations issued thereunder, and judicial and administrative interpretations thereof, each as publicly available and in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. No rulings from the U.S. Internal Revenue Service (the "IRS") have been or are expected to be sought with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning the tax consequences of the purchase, ownership or disposition of the Notes or that any such position would not be sustained.

This discussion does not address all of the U.S. federal income tax consequences that might be relevant to a holder in light of such holder's particular circumstances or to holders subject to special tax rules, such as:

- banks, insurance companies or other financial institutions;
- broker-dealers;
- traders that elect to use a mark-to-market method of accounting;
- partnerships or other pass-through entities, or persons holding the Notes through such entities;
- real estate investment trusts or regulated investment companies;
- persons liable for the alternative minimum tax;
- tax-exempt organizations;
- U.S. expatriates;

- U.S. holders whose functional currency is not the U.S. dollar; or
- persons holding the Notes as part of a straddle, hedge, conversion or integrated transaction.

In addition, this discussion is limited to persons that purchase the Notes for cash on original issuance at the "issue price" within the meaning of Section 1273 of the Code (generally, the first price at which a substantial amount of the Notes is sold to the public for cash, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) and that hold the Notes as capital assets (generally, property held for investment).

For purposes of this discussion, a "U.S. holder" is a beneficial owner of a Note that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or if a valid election is in place to treat the trust as a U.S. person.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Holders that are partnerships, and partners in such partnerships, should consult their tax advisors regarding the tax consequences of the purchase, ownership and disposition of the Notes.

This discussion of certain U.S. federal income tax considerations is for general information only and is not tax advice. Prospective investors should consult their tax advisors concerning the tax consequences of holding Notes in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed below, as well as the application of the U.S. federal estate or gift tax laws, any state, local or non-U.S. tax laws, or provisions of any applicable tax treaties.

Payments of Interest

Payments of stated interest (including any PRC taxes withheld therefrom) and any Additional Amounts on the Notes will be taxable to a U.S. holder as ordinary income at the time that such payments are received or accrued, in accordance with such U.S. holder's method of accounting for U.S. federal income tax purposes.

Interest income (including any Additional Amounts) on a Note will constitute foreign source, "passive category" income (but could, in the case of certain U.S. holders, constitute "general category" income) for purposes of computing the foreign tax credit allowable to U.S. holders under U.S. federal income tax laws. Subject to certain limitations and conditions, any PRC taxes withheld from interest income on a Note will be treated as foreign income tax eligible for credit against the U.S. holder's U.S. federal income tax liability or, at the holder's election, eligible for deduction in computing the holder's U.S. federal taxable income. U.S. holders should consult their tax advisors regarding the creditability or deductibility of any withholding taxes.

Payments in Excess of Stated Interest or Principal

In certain circumstances (see "Description of the Notes – Optional Redemption," "Description of the Notes – Repurchase of Notes Upon a Change of Control" and "Description of the Notes – Additional Amounts"), we may be obligated to make payments in excess of stated interest and the principal amount of the Notes. We believe the Notes should not be treated as contingent payment debt instruments because of these additional payments. This position is based in part on assumptions regarding the likelihood, as of the date of issuance of the Notes, that such additional payments will be made. Our position is binding on a holder, unless the holder discloses in the proper manner to the IRS that it is taking a different position. However, our position is not binding on the IRS. If the IRS successfully challenges this position, and the Notes are treated as contingent payment debt instruments, the timing, amount and character of a U.S. holder's income with respect to the Notes could be materially different from the consequences described herein. This discussion assumes the Notes will not be treated as contingent payment debt instruments.

Sale, Exchange, Redemption or Other Taxable Disposition of Notes

Upon the sale, exchange, redemption or other taxable disposition of a Note, a U.S. holder will generally recognize gain or loss equal to the difference between the amount realized upon the disposition and the U.S. holder's adjusted tax basis in the Note. For this purpose, the amount realized upon the disposition will not include any amount attributable to accrued but unpaid stated interest, which will be taxable as interest income to the extent not previously included in the U.S. holder's income. The U.S. holder's adjusted tax basis in the Note will generally be the cost of the Note to the U.S. holder, increased by any accrued OID and decreased by any payment on the Note other than qualified stated interest.

Any gain or loss will be capital gain or loss, and if the U.S. holder has held the Note for more than one year at the time of disposition, long-term capital gain or loss. Long-term capital gain recognized by certain non-corporate U.S. holders, including individuals, will generally be subject to reduced tax rates. The deductibility of capital losses is subject to limitations.

Any gain or loss will generally be U.S.-source income for purposes of computing a U.S. holder's foreign tax credit limitation. As described in "Taxation – PRC," we may be treated as a PRC resident enterprise for PRC tax purposes. If we are deemed to be a PRC resident enterprise for PRC tax purposes, any gain from a sale or other disposition of Notes may be subject to PRC income taxes. In that case, a U.S. holder's amount realized would include the gross amount of the proceeds of the disposition. In addition, a U.S. holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may be able to treat any gain as foreign source income for foreign tax credit limitation purposes. U.S. holders should consult their tax advisors regarding their eligibility for benefits under the income tax treaty between the United States and the PRC and the creditability of any PRC tax on gain from a disposition of Notes.

Information Reporting and Backup Withholding

A U.S. holder may be subject to information reporting and backup withholding when such holder receives payments of interest (including any OID) and principal on the Notes or proceeds from a sale or other disposition of Notes, unless (i) the holder is an exempt recipient or (ii) in the case of backup withholding, the holder provides a correct taxpayer identification number and complies with applicable certification requirements. U.S. holders should consult their tax advisors regarding the application of the information reporting and backup withholding rules.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a U.S. holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

In addition, certain U.S. holders who are individuals are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions).

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement between us, the subsidiary guarantors and Barclays Bank PLC, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, Singapore Branch and Standard Chartered Bank as the Initial Purchasers (the "Initial Purchasers"), we have agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase from us, the principal amount of the Notes set forth opposite its name below.

Initial Purchaser	Principal Amount of Notes
Barclays Bank PLC	US$122,666,667
Credit Suisse Securities (Europe) Limited	US$122,666,667
Deutsche Bank AG, Singapore Branch	US$ 32,000,000
Standard Chartered Bank	US$122,666,666
Total	US$400,000,000

Subject to the terms and conditions set forth in the purchase agreement, the Initial Purchasers have agreed, severally and not jointly, to purchase all of the Notes sold under the purchase agreement if any of these Notes are purchased. If an Initial Purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting Initial Purchaser may be increased or the purchase agreement may be terminated. The purchase agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The issue of the Notes may be cancelled by the Initial Purchasers in certain circumstances at any time up to the time when the proceeds of the issue have been received and the Notes issued. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part. The Initial Purchasers may offer and sell the Notes in various jurisdictions through certain of their affiliates.

We and the subsidiary guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

In connection with the offering, each of the Initial Purchasers or any of their respective affiliates acting as an investor for its own account may take up the Notes in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer and may offer or sell such securities otherwise than in connection with the offering. Accordingly, references in this offering memorandum to the Notes being offered or placed should not be read as including any offering or placement of securities to the Initial Purchasers or any of their respective affiliates acting in such capacity. The Initial Purchasers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Initial Purchasers propose initially to offer the Notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed from time to time without notice by the Initial Purchasers.

Notes Are Not Being Registered

The Notes have not been registered under the U.S. Securities Act or any state securities laws. The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the U.S. Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S. The Initial Purchasers will not offer or sell the Notes within the United States except to persons they reasonably believe to be qualified institutional buyers. Each of the Initial Purchasers has acknowledged and agreed that, except as permitted by the preceding sentence, it will not offer or sell Notes as part of its distribution at any time within the United States. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions."

New Issue of Notes

The Notes are a new issue of securities with no established trading market. Approval-in-principle has been received from the SGX-ST for the listing of the Notes on the Official List. The Initial Purchasers have advised us that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities in their sole discretion at any time without any notice. We cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

Settlement

We expect that delivery of the Notes will be made to investors on or about the closing date specified on the cover page of this offering memorandum, which will be the fifth business day following the date of this offering memorandum (such settlement being referred to as "T+5"). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes prior to the delivery of the Notes hereunder will be required, by virtue of the fact that the Notes initially settle in T+5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their advisers.

No Sales of Similar Securities

We and the subsidiary guarantors have agreed that, for a period of 30 days after the date of this offering memorandum, we and the subsidiary guarantors will not, without first obtaining the prior written consent of the Initial Purchasers, directly or indirectly, issue, sell, offer to contract or grant any option to sell, pledge, transfer or otherwise dispose of, any debt securities (including guarantees), or any securities that are convertible into, exchangeable for or exercisable for any debt securities, issued or guaranteed by us or the subsidiary guarantors (other than the Notes sold to the Initial Purchasers pursuant to the purchase agreement or the subsidiary guarantees) and having a tenor of more than one year. The Initial Purchasers in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

Short Positions and Stabilizing Transactions

In connection with the offering, the Stabilizing Manager, or any person acting for it, may purchase and sell the Notes in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing purchases. Short sales involve the sale by the Stabilizing Manager, or any person acting for it, of a greater principal amount of the Notes than they are required to purchase in the offering. The Stabilizing Manager, or any person acting for it, must close out any short position by purchasing the Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions involve bids to purchase the Notes so long as the stabilizing bids do not exceed a specified maximum.

Similar to other purchase transactions, the purchases to cover the syndicate short sales and stabilizing purchasers may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither we nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the Initial Purchasers make any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice at any time. No assurance can be given as to the liquidity of, or the trading market for, the Notes.

Notice to Prospective Investors in the United States

The Notes and the subsidiary guarantees have not been and will not be registered under the U.S. Securities Act or any state securities laws and, unless so registered, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. See “Transfer Restrictions” for a description of other restrictions on the transfer of Notes. Accordingly, the Notes are being offered and sold only (1) in the United States to “qualified institutional buyers” in reliance on Rule 144A and (2) outside the United States in offshore transactions in reliance on Regulation S. Resales of the Notes are restricted as described under “Transfer Restrictions.”

As used herein, the term “United States” has the meaning given to it in Regulation S.

Notice to Prospective Investors in the United Kingdom

This offering memorandum is for distribution only to persons who (i) fall within Article 43(2)(b) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Financial Promotion Order”); (ii) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Promotion Order, (iii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc”) of the Financial Promotion Order, (iv) are outside the United Kingdom, or (v) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

Each of the Initial Purchasers has represented, warranted and agreed that:

(1) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and

(2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in the EEA

Selling restrictions under the Prospectus Directive do not apply to offers of Notes to the public in Relevant Member States that have not implemented the 2010 PD Amending Directive because the minimum denomination of the Notes exceeds €50,000 (or equivalent). This provision should be read accordingly.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Initial Purchaser has represented and agreed that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than:

(a) to investors with a minimum total consideration per investor of €50,000 (or equivalent) or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, €100,000 (or equivalent);

(b) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) to fewer than 100, or if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Initial Purchasers; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (d) above shall require the publication by the Issuer or any Initial Purchaser of a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe to the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and the amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Notice to Prospective Investors in Hong Kong

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Japan

The Notes offered in this offering memorandum have not been registered under the Financial and Exchange Law of Japan. The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Financial and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

Notice to Prospective Investors in the PRC

This offering memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC. Other than to qualified domestic institutional investors in the PRC, the Notes are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements of the PRC, with the exception of qualified domestic institutional investors in the PRC, the Notes may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to non-PRC natural or legal persons in any country other than the PRC.

Notice to Prospective Investors in Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor;

securities (as defined in Section 239(a) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

- where no consideration is or will be given for the transfer;

- where the transfer is by operation of law; or

- as specified in Section 276(7) of the SFA.

Notice to Prospective Investors in the British Virgin Islands

No invitation will be made directly or indirectly to any person resident in the British Virgin Islands to subscribe for any of the Notes but the Notes may be acquired by British Virgin Islands persons who receive the offer outside of the British Virgin Islands and in a manner which does not contravene the laws of the jurisdictions in which such offer is received.

Notice to Prospective Investors in the Cayman Islands

No Notes will be offered or sold to the public in the Cayman Islands.

General

No action is being taken or is contemplated by us or the Initial Purchasers that would permit a public offering of the Notes or the subsidiary guarantees or possession or distribution of any preliminary offering memorandum or offering memorandum or any amendment thereof, any supplement thereto or any other offering material relating to the Notes or the subsidiary guarantees in any jurisdiction where, or in any other circumstance in which, action for those purposes is required.

Other Relationships

The Initial Purchasers and their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including financial advisory, commercial banking and investment banking services, for us and our affiliates in the ordinary course of business, for which they received or will receive customary fees and commissions. For example, in May 2011, we accepted an offer by Standard Chartered Bank (Hong Kong) Limited, an affiliate of one of the Initial Purchasers, of a banking facility in an amount of HK$200 million. See "Summary – Recent Developments – 2011 Term Loans."

We and our affiliates may enter into hedging or other derivative transactions as part of our risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

The Notes and the guarantees of the Notes have not been registered under the U.S. Securities Act and may not be offered or sold (a) within the United States except to qualified institutional buyers in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A and (b) to persons in offshore transactions in reliance on Regulation S.

Each purchaser of the Notes offered otherwise than in reliance on Regulation S (the "Restricted Notes") will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

(1) The purchaser (A) (i) is a qualified institutional buyer, (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Notes for its own account or for the account of a qualified institutional buyer or (B) is purchasing such Notes in an offshore transaction pursuant to Regulation S.

(2) The purchaser understands that the Restricted Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act, that such Notes and the guarantees of the Notes have not been and will not be registered under the U.S. Securities Act and that (A) if in the future it decides to offer, resell, pledge or otherwise transfer any of the Notes within the applicable time periods referred to in Rule 144(d) under the U.S. Securities Act, such Notes may be offered, resold, pledged or otherwise transferred only (i) to our company or any of our subsidiaries; (ii) in the United States to a person whom the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in a transaction complying with the provisions of Rule 904 under the U.S. Securities Act, (iv) pursuant to an exemption from registration under the U.S. Securities Act provided by Rule 144 (if available), or (v) pursuant to an effective registration statement under the U.S. Securities Act, in each of cases (i) through (iv) in accordance with any applicable securities laws of any State of the United States, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the Notes from it of the resale restrictions referred to in (A) above.

(3) The purchaser understands that the Restricted Notes will, unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect (the "Restricted Note Legend"):

THIS NOTE AND THE GUARANTEES IN RESPECT HEREOF (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS NOTE AND THE GUARANTEES IN RESPECT HEREOF MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF

RULE 144A, (II) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (IV) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

Each purchaser of the Notes offered in reliance on Regulation S (the “Regulation S Notes”) will be deemed to have represented and agreed that it is purchasing such Notes in an offshore transaction (as such term is defined in Regulation S) pursuant to Regulation S and understands that such Notes will, unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect (the “Regulation S Legend”):

THIS NOTE AND THE GUARANTEES IN RESPECT HEREOF (OR ITS PREDECESSOR) WERE ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY NOT BE TRANSFERRED IN THE UNITED STATES EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATION S UNDER THE SECURITIES ACT.

Restricted Notes may be exchanged for Notes not bearing the Restricted Note Legend but bearing the Regulation S Legend upon certification by the transferor in the form set forth in the indenture that the transfer of any such Restricted Note has been made in accordance with Rule 904 under the U.S. Securities Act.

(4) The purchaser acknowledges that we, the guarantors, the paying and transfer agent, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agree that if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify us, the guarantors, the paying and transfer agent and the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

(5) The purchaser will not transfer the Note to any person or entity, unless such person or entity could itself truthfully make the foregoing representations and covenants.

RATINGS

The Notes are expected to be rated "BB-" by Standard & Poor's and "BB-" by Fitch. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any grossed up payments for withholding taxes and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised, suspended or withdrawn by such rating agencies in the future if in their judgment circumstances so warrant. Each such rating should be evaluated independently of any other rating on the Notes, on any other of our securities, or on us.

LEGAL MATTERS

Certain legal matters in connection with this offering will be passed upon for us by Latham & Watkins as to matters of U.S. federal and New York law, by Commerce & Finance Law Offices as to matters of PRC law, by Norton Rose Hong Kong as to matters of Hong Kong law, Maples & Calder as to matters of the Cayman Islands and British Virgin Islands law. Certain legal matters in connection with this offering will be passed upon for the Initial Purchasers by Shearman & Sterling as to matters of U.S. federal and New York law and Jingtian & Gongcheng, as to matters of PRC law.

INDEPENDENT PUBLIC ACCOUNTANTS

Our consolidated financial statements as of and for the years ended December 31, 2010 and 2009 appearing in this offering memorandum, including our consolidated financial statements as of and for the year ended December 31, 2008 included in such consolidated financial statements as of and for the year ended December 31, 2009, have been audited by KPMG, certified public accountants. The auditor's reports of KPMG for our consolidated financial statements as of and for the years ended December 31, 2010 and 2009 have been include in this offering memorandum.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

KPMG

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

We have audited the consolidated financial statements of China Shanshui Cement Group Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") set out on pages 65 to 176, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

25 March 2011

(XI) Financial Statements
Consolidated income statement

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Revenue	3 & 12	**11,854,068**	8,727,626
Cost of sales		**(9,303,966)**	(6,947,151)
Gross profit		**2,550,102**	1,780,475
Other revenue	4	**148,455**	138,346
Other net expenses	4	**(68,278)**	(2,282)
Selling and marketing expenses		**(214,165)**	(196,535)
Administrative expenses		**(689,621)**	(469,138)
Profit from operations		**1,726,493**	1,250,866
Finance costs		**(363,070)**	(309,585)
Share of profits less losses of an associate		**(218)**	–
Profit before taxation	5	**1,363,205**	941,281
Income tax	6	**(358,288)**	(227,237)
Profit for the year		**1,004,917**	714,044
Attributable to:			
Equity shareholders of the Company		**979,128**	701,557
Non-controlling interests		**25,789**	12,487
Profit for the year		**1,004,917**	714,044
Earnings per share	11		
Basic (RMB)		**0.35**	0.25
Diluted (RMB)		**0.35**	0.25

The notes on pages 72 to 176 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 33(b).

(XI) Financial Statements
Consolidated statement of comprehensive income

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Profit for the year		**1,004,917**	714,044
Other comprehensive income for the year (after tax adjustments)	10		
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**(6,092)**	223
Available-for-sale securities: net movement in the fair value reserve		**(3,385)**	4,033
		(9,477)	4,256
Total comprehensive income for the year		**995,440**	718,300
Attributable to:			
Equity shareholders of the Company		**969,651**	705,813
Non-controlling interests		**25,789**	12,487
Total comprehensive income for the year		**995,440**	718,300

The notes on pages 72 to 176 form part of these financial statements.

Consolidated statement of financial position

At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Fixed assets	13		
– Property, plant and equipment		**11,280,448**	8,695,576
– Interests in leasehold land held for own use under operating leases		**1,734,794**	1,451,568
		13,015,242	10,147,144
Intangible assets	14	**373,715**	333,165
Goodwill	15	**991,328**	595,498
Other financial assets	16	**81,652**	12,166
Investment in an associate	17	**48,782**	–
Other long-term assets	19	**79,535**	119,759
Deferred tax assets	32(b)	**132,112**	94,550
		14,722,366	11,302,282
Current assets			
Inventories	20	**1,137,756**	840,345
Trade and bills receivable	21	**963,850**	703,877
Other receivables and prepayments	22	**916,149**	834,615
Pledged bank deposits	23	**65,365**	41,914
Cash and cash equivalents	23	**1,144,840**	886,130
		4,227,960	3,306,881
Current liabilities			
Short-term and current portion of interest-bearing borrowings	24(a)	**1,684,500**	2,147,000
Current portion of loans from equity shareholders	24(b)	**106,134**	58,527
Trade and bills payable	25	**1,953,935**	1,345,619
Other payables and accrued expenses	26	**2,471,491**	1,309,017
Obligation under finance lease	28	**1,133**	1,733
Current taxation	32(a)	**264,448**	108,038
		6,481,641	4,969,934
Net current liabilities		**(2,253,681)**	(1,663,053)
Total assets less current liabilities		**12,468,685**	9,639,229

The notes on pages 72 to 176 form part of these financial statements.

(XI) Financial Statements
Consolidated statement of financial position

At 31 December 2010
(Expressed in Renminbi)

	Note	**2010**	2009
		RMB'000	RMB'000
Non-current liabilities			
Interest-bearing borrowings, less current portion	24(a)	**4,260,000**	3,361,000
Loans from equity shareholders, less current portion	24(b)	**348,114**	177,832
Convertible notes	24(c)	**–**	10,859
Corporate bond	27	**1,000,000**	–
Obligation under finance lease	28	**5,580**	6,337
Defined benefit obligations	29(c)	**171,430**	184,564
Deferred income	30	**337,095**	311,195
Long-term payables	31	**103,902**	274,738
Deferred tax liabilities	32(b)	**93,559**	83,576
		6,319,680	4,410,101
NET ASSETS		**6,149,005**	5,229,128
CAPITAL AND RESERVES			
Share capital	33	**193,198**	192,355
Reserves	33	**5,494,327**	4,967,838
Total equity attributable to equity shareholders of the Company		**5,687,525**	5,160,193
Non-controlling interests		**461,480**	68,935
TOTAL EQUITY		**6,149,005**	5,229,128

Approved and authorised for issue by the board of directors on 25 March 2011.

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

The notes on pages 72 to 176 form part of these financial statements.

Statement of financial position

At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Investments in subsidiaries	18	**413,248**	413,248
Current assets			
Amount due from subsidiaries	38	**2,724,396**	3,033,137
Cash and cash equivalents	23(a)	**38,307**	64,895
		2,762,703	3,098,032
Current liabilities			
Amount due to subsidiaries	38	**19,374**	22,365
Other payables and accrued expenses	26	**18,472**	19,035
		37,846	41,400
Net current assets		**2,724,857**	3,056,632
Total assets less current liabilities		**3,138,105**	3,469,880
Non-current liabilities			
Convertible notes	24(c)	**–**	10,859
NET ASSETS		**3,138,105**	3,459,021
CAPITAL AND RESERVES			
Share capital	33	**193,198**	192,355
Reserves	33	**2,944,907**	3,266,666
Total Equity		**3,138,105**	3,459,021

Approved and authorised for issue by the board of directors on 25 March 2011.

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

The notes on pages 72 to 176 form part of these financial statements.

(XI) Financial Statements
Consolidated statement of changes in equity

For the year ended 31 December 2010
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Other reserves RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2009	185,372	3,299,353	232,788	404,244	(24,824)	3,396	460,242	4,560,571	44,978	4,605,549
Changes in equity for 2009:										
Profit for the year	–	–	–	–	–	–	701,557	701,557	12,487	714,044
Other comprehensive income	–	–	–	–	223	4,033	–	4,256	–	4,256
Total comprehensive income	–	–	–	–	223	4,033	701,557	705,813	12,487	718,300
Dividends approved in respect of the previous year	–	–	–	–	–	–	(188,652)	(188,652)	–	(188,652)
Conversion of convertible notes	6,983	133,669	–	(57,787)	–	–	–	82,865	–	82,865
Use of reserves	–	–	(404)	–	–	–	–	(404)	–	(404)
Increase in non-controlling interests attributable to subsidiaries	–	–	–	–	–	–	–	–	11,470	11,470
Transfer between reserves	–	–	109,446	–	–	–	(109,446)	–	–	–
Balance at 31 December 2009 and 1 January 2010	**192,355**	**3,433,022**	**341,830**	**346,457**	**(24,601)**	**7,429**	**863,701**	**5,160,193**	**68,935**	**5,229,128**
Changes in equity for 2010:										
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**979,128**	**979,128**	**25,789**	**1,004,917**
Other comprehensive income	**–**	**–**	**–**	**–**	**(6,092)**	**(3,385)**	**–**	**(9,477)**	**–**	**(9,477)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(6,092)**	**(3,385)**	**979,128**	**969,651**	**25,789**	**995,440**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**–**	**–**	**(238,294)**	**(238,294)**	**–**	**(238,294)**
Conversion of convertible notes	**843**	**18,063**	**–**	**(7,125)**	**–**	**–**	**–**	**11,781**	**–**	**11,781**
Use of reserves	**–**	**–**	**(526)**	**–**	**–**	**–**	**–**	**(526)**	**–**	**(526)**
Purchase option in minority interests (Note)	**–**	**–**	**–**	**(215,280)**	**–**	**–**	**–**	**(215,280)**	**–**	**(215,280)**
Increase in non-controlling interests attributable to acquisition of subsidiaries and contribution to subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**366,756**	**366,756**
Transfer between reserves	**–**	**–**	**157,032**	**–**	**–**	**–**	**(157,032)**	**–**	**–**	**–**
Balance at 31 December 2010	**193,198**	**3,451,085**	**498,336**	**124,052**	**(30,693)**	**4,044**	**1,447,503**	**5,687,525**	**461,480**	**6,149,005**

Note: Pursuant to the Cooperation Framework Agreement entered between Shandong Shanshui Cement Group Co., Ltd. ("Shandong Shanshui") and Chifeng Yuanhang Cement Co., Ltd. ("Chifeng Yuanhang") dated 18 August 2010, Shandong Shanshui acquired 50% equity interests in Chifeng Yuanhang in September 2010 and promises to acquire 30% additional equity interests in Chifeng Yuanhang from non-controlling shareholders in 2011. The balance represents the discounted value of the forward purchase option of Shandong Shanshui for acquiring 30% additional equity interests in Chifeng Yuanhang.

The notes on pages 72 to 176 form part of these financial statements.

(XI) Financial Statements
Consolidated cash flow statement

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Cash generated from operations	23(b)	**2,463,833**	1,586,642
Interest paid		**(356,506)**	(301,897)
Income tax paid		**(318,200)**	(259,048)
Net cash generated from operating activities		**1,789,127**	1,025,697
Investing activities			
Payment for purchase of fixed assets		**(2,030,840)**	(1,828,173)
Payment for purchase of intangible assets		**(41,884)**	(85,172)
Acquisition of subsidiaries, net of cash acquired		**(779,197)**	(241,905)
Payment for investment in an associate		**(49,000)**	–
New loans to an associate		**(74,000)**	–
Proceeds from sale of property, plant and equipment		**41,337**	14,438
Interest received		**6,769**	4,411
Net cash used in investing activities		**(2,926,815)**	(2,136,401)
Financing activities			
Capital element of finance lease rentals paid		**(1,800)**	(600)
Proceeds from new loans and borrowings		**2,846,477**	3,675,000
Proceeds from issue of corporate bond		**991,000**	–
Proceeds from capital injection in subsidiaries by non-controlling interests		**26,450**	–
Repayment of loans and borrowings		**(2,225,127)**	(2,755,375)
Interest element of finance lease rentals paid		**(443)**	(487)
Dividends paid to equity shareholders of the Company	33(b)	**(238,294)**	(169,907)
Net cash generated from financing activities		**1,398,263**	748,631
Net increase/(decrease) in cash and cash equivalents		**260,575**	(362,073)
Cash and cash equivalents at 1 January	23(a)	**886,130**	1,248,414
Effect of foreign exchange rate changes		**(1,865)**	(211)
Cash and cash equivalents at 31 December	23(a)	**1,144,840**	886,130

The notes on pages 72 to 176 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in an associate.

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

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

(b) Basis of preparation of the financial statements

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

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

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

The financial statements have been prepared on the basis that the Group will continue to operate throughout the next twelve months as a going concern. The Group's current liabilities exceeded its current assets by RMB2,253,681,000 as at 31 December 2010. Based on future projections of the Group's profits and cash inflows from operations and the ability of the Group to obtain continued bank financing to finance its continuing operation, the Company's directors have prepared the financial statements on a going concern basis.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

(c) Subsidiaries and non-controlling interests

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1 (q), (r) or (s) depending on the nature of the liability.

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

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

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

(d) Associates

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Associates *(continued)*

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

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

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

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

(e) Goodwill

Goodwill represents the excess of

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Other investments in debt and equity securities

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

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

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

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

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

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1 (x)(iv) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1 (x)(v). When these investments are derecognised or impaired (see note 1 (n)), the cumulative gain or loss is reclassified from equity to profit or loss.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Derivative financial instruments

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

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

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

(i) Property, plant and equipment

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Construction in progress

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

(k) 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.

(l) Intangible assets (other than goodwill)

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

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

The estimated useful lives are as follows:

Limestone mining rights	2 – 13 years
Customer relationships	5 years
Trademarks	10 years
Software and others	3 – 10 years

Both the period and method of amortisation are reviewed annually.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment of assets

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

Investments in equity securities (other than investment in subsidiaries (see note 1(n)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

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

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

– For investment in an associate recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(n)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(n)(ii).

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment of assets *(continued)*

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment of assets *(continued)*

(ii) Impairment of other assets

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

– property, plant and equipment;

– leasehold land held for own use under operating leases;

– intangible assets other than goodwill;

– other long-term assets;

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

– Recognition of impairment losses

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

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

(o) Inventories

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Trade and other receivables

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

(q) Convertible notes

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

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

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

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

(r) Interest-bearing borrowings

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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(w)(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) Cash and cash equivalents

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

(u) Employee benefits

(i) Short-term benefits

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

(ii) Defined contribution retirement plans

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

(iii) Defined benefit retirement plan obligations

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Employee benefits *(continued)*

(iii) Defined benefit retirement plan obligations *(continued)*

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

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

(v) Income tax

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Income tax *(continued)*

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

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

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(w)(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.

(ii) Provisions and contingent liabilities

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Revenue recognition

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

(i) Sales of goods

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

(ii) Services rendered

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

(iii) Government grants

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

(iv) Dividends

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

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

(v) Interest income

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

(y) Translation of foreign currencies

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

(z) Borrowing costs

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

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

(aa) 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;

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(aa) Related parties *(continued)*

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

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

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

(bb) Segment reporting

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

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

2 CHANGES IN ACCOUNTING POLICIES

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

- IFRS 3 (revised 2008), *Business combinations*
- Amendments to IAS 27, *Consolidated and separate financial statements*
- Improvements to IFRSs (2009)

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

The Improvements to IFRSs (2009) has had no material impact on the Group's financial statements as the amendment was consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

- The impact of the majority of the revisions to IFRS 3 and IAS 27 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:

  – Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  – Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

  – In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

In accordance with the transitional provisions in IFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of IAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

  – If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

  – If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to IFRS 5, if at the end of reporting period the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in IFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

  In accordance with the transitional provisions in IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to IFRS 3 and IAS 27, and as a result of amendments to IAS 28, Investments in associates, the following policies will be applied as from 1 January 2010:

  – If the Group holds interests in the acquiree immediately prior to obtaining significant influence, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

– If the Group loses significant influence, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in IFRS 3 and IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to IAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in IAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

3 REVENUE

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

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

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

	2010	2009
	RMB'000	RMB'000
Sales of cement and clinker	**11,216,134**	8,187,087
Sales of other products and rendering of services	**637,934**	540,539
	11,854,068	8,727,626

4 OTHER REVENUE AND OTHER NET EXPENSES

	Note	**2010 RMB'000**	2009 RMB'000
Other revenue			
Interest income on bank deposits		**6,769**	4,411
Government grants		**126,101**	100,073
Sales of power generation right		**–**	21,000
Amortisation of deferred income		**15,585**	12,862
Amortisation of financial guarantee issued		**–**	33,450
Amortisation of financial guarantee received		**–**	(33,450)
		148,455	138,346
Other net expenses			
Debt restructuring gain	(i)	**97,500**	5,586
Net foreign exchange gain/(loss)		**6,878**	(374)
Net gain/(loss) from sale of fixed assets		**1,518**	(7,130)
Impairment losses on fixed assets	13	**(106,533)**	–
Impairment losses on intangible assets	14	**(4,270)**	–
Impairment losses on other long-term assets	19	**(35,067)**	–
Donations		**(1,482)**	(1,466)
Penalty expenses		**(12,868)**	(476)
Losses incurred on flooding	(ii)	**(10,163)**	–
Others		**(3,791)**	1,578
		(68,278)	(2,282)

Notes:

(i) Liaoyang Qianshan Cement Co., Ltd. ("Qianshan Cement") had past due bank loans of RMB140,000,000 with the Industrial and Commercial Bank of China Limited, Liaoyang Branch ("ICBC") with accumulated overdue interests of RMB14,765,000 at the acquisition date as of 28 December 2007. As at 31 December 2010, the loan has passed the two years statutory claim period. Based on the legal advice from the legal consultant of the Group, claims are no longer enforceable by the applicable PRC laws and regulations after the two years statutory claim period. As the management considered the risk of payment for such loans are remote, thus, the Group has written back the relevant net balance in 2010.

(ii) Dandong city of Liaoning Province suffered from a serious flood in August 2010. Certain inventories of Dandong Shanshui Gongyuan Cement Co., Ltd were damaged and the Company incurred a loss as a result.

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Note	**2010** **RMB'000**	2009 RMB'000
Interest on borrowings and corporate bond		**360,531**	304,092
Less: interest capitalised	(i)	**(40,374)**	(35,967)
Net interest expense		**320,157**	268,125
Unwinding of discount	(ii)	**35,552**	42,681
Finance charges on obligations under finance lease	28	**443**	487
Bank charges		**6,918**	1,241
Gain on termination of interest rate swap contracts		**–**	(2,949)
		363,070	309,585

Notes:

(i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant is 5.45% (2009: 5.73%) for the year ended 31 December 2010.

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

	Note	**2010** **RMB'000**	2009 RMB'000
Convertible notes	24(c)	**1,193**	4,273
Defined benefit obligations	29(c)	**7,030**	6,710
Acquisition consideration payable	31	**27,329**	31,698
		35,552	42,681

5 PROFIT BEFORE TAXATION *(continued)*

(b) Personnel expenses

	2010	2009
	RMB'000	RMB'000
Salaries, wages and other benefits	**571,722**	408,341
Contributions to defined contribution retirement plans	**62,676**	44,765
	634,398	453,106

(c) Other items

	2010	2009
	RMB'000	RMB'000
Amortisation		
– land lease premium	**35,672**	29,222
– intangible assets	**64,361**	53,846
– other long-term assets	**14,157**	13,407
	114,190	96,475
Depreciation	**693,276**	551,434
Impairment losses		
– trade receivables (note 21(b))	**32,520**	15,296
– inventory (note 20(b))	**13,675**	11,709
	46,195	27,005
Operating lease charges	**8,179**	16,395
Auditors' remuneration		
– audit services	**7,701**	6,835
– other services	**3,710**	76
	11,411	6,911
Cost of inventories (note 20(b))	**9,303,966**	6,947,151

Note: Cost of inventories includes RMB1,021,154,000 (2009: RMB807,811,000) relating to personnel expenses, depreciation and amortisation expenses and provision of inventories for the year ended 31 December 2010, which are also included in the respective amounts disclosed separately above or in note 5(b) for each type of expenses.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2010 RMB'000	2009 RMB'000
Current tax		
Provision for the PRC income tax	**411,292**	215,506
Deferred tax		
Origination and reversal of temporary differences	**(53,004)**	11,731
	358,288	227,237

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

(ii) No provision for Hong Kong Profits Tax has been made as the subsidiaries incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax during the year ended 31 December 2010 (2009: Nil).

(iii) Pursuant to the currently applicable income tax rules, the PRC regulations and local income tax concessions granted, the companies comprising the Group in the PRC are liable to the PRC enterprise income tax at a rate of 25% during the year ended 31 December 2010 (2009: 25%), except for the following:

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

The year 2010 is the fifth profit-making year of Kangda Products, Kangda Mining, Shandong Shanshui, Pingyin Shanshui and Anqiu Shanshui, therefore, the applicable enterprise income tax rate for the year ended 31 December 2010 is 12.5% (2009: 12.5%). The year 2010 is the third profit-making year of Kangda Cement, therefore, the applicable enterprise income tax rate for the year ended 31 December 2010 is 12.5% (2009: 12.5%).

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

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

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

	Note	**2010** **RMB'000**	2009 RMB'000
Profit before taxation		**1,363,205**	941,281
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	(i)	**340,801**	235,320
Effect of tax rates in foreign jurisdictions		**24,536**	6,120
Tax holiday	6(a)(iii)	**(54,894)**	(35,617)
Tax effect of non-deductible expenses	(ii)	**49,104**	24,612
Tax effect of non-taxable income	(iii)	**(3,198)**	(6,748)
Tax effect of unused tax losses not recognised		**11,322**	6,608
Tax credit	(iv)	**(9,383)**	(3,058)
Actual income tax expense		**358,288**	227,237
Effective tax rate		**26.3%**	24.1%

Notes:

(i) The provision for current income tax is based on the PRC statutory rate of 25% (2009: 25%) of the taxable profit of the companies comprising the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries of the Company, which are tax-exempted.

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

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

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

7 DIRECTORS' REMUNERATION

Details of the directors' remuneration for the year ended 31 December 2010 are as follows:

	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Bonuses RMB'000	Contributions to defined contribution retirement plans RMB'000	Total RMB'000
Chairman					
Zhang Caikui	**2,573**	**234**	**30,589**	**22**	**33,418**
Executive directors					
Li Yanmin*	–	–	–	–	–
Zhang Bin**	**1,101**	**106**	–	**28**	**1,235**
Dong Chengtian	**1,046**	**158**	–	**18**	**1,222**
Yu Yuchuan#	**950**	**157**	–	**17**	**1,124**
Non-executive directors					
Homer Sun#	–	–	–	–	–
Jiao Shuge	–	–	–	–	–
Independent non-executive directors					
Sun Jianguo#	**100**	–	–	–	**100**
Wang Yanmou	**100**	–	–	–	**100**
Wang Jian	**100**	–	–	–	**100**
	5,970	**655**	**30,589**	**85**	**37,299**

* Resigned on 5 March 2010.

\# Reappointed on 19 May 2010.

** Appointed on 10 September 2010.

7 DIRECTORS' REMUNERATION *(continued)*

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

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

* Reappointed on 5 June 2009.

** Resigned on 5 March 2010.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 4 were also directors whose remuneration is disclosed in note 7 for the year ended 31 December 2010 (2009: Four).

The aggregate of the remuneration in respect of the remaining individual (2009: One) is as follows:

	2010	2009
	RMB'000	RMB'000
Salaries, allowances and other benefits	**157**	153
Bonuses	**1,000**	1,382
Contributions to defined contribution retirement plans	**28**	17
	1,185	1,552

The remuneration of the remaining individual with the highest remuneration (2009: One) is within the following band:

	2010	2009
	Number of individuals	Number of individuals
HKD1,000,000 to HKD1,500,000	**1**	–
HKD1,500,001 to HKD2,500,000	**–**	1
	1	1

9 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The loss attributable to equity shareholders of the Company includes a loss of RMB8,131,000 in 2010 (2009: RMB10,742,000) (See note 33(a))) which has been dealt with in the financial statements of the Company.

10 OTHER COMPREHENSIVE INCOME

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

	2010			2009		
	Before-tax amount RMB'000	**Tax expense RMB'000**	**Net-of-tax amount RMB'000**	Before-tax amount RMB'000	Tax benefit RMB'000	Net-of-tax amount RMB'000
Exchange differences on translation of:						
– financial statement of overseas subsidiaries	**(6,092)**	**–**	**(6,092)**	223	–	223
Available-for-sale securities: net movement in fair value reserve	**(4,514)**	**1,129**	**(3,385)**	5,377	(1,344)	4,033
Other comprehensive income	**(10,606)**	**1,129**	**(9,477)**	5,600	(1,344)	4,256

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

	2010 RMB'000	2009 RMB'000
Available-for-sale securities:		
Changes in fair value recognised during the year	**(4,514)**	5,377
Net deferred tax credited/(debited) to other comprehensive income	**1,129**	(1,344)
Net movement in the fair value reserve during the year recognised in other comprehensive income	**(3,385)**	4,033

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2010 is based on the profit attributable to ordinary equity shareholders of the Company of RMB979,128,000, and the weighted average number of ordinary shares of 2,804,357,850 shares in issue during the year.

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

(i) Weighted average number of ordinary shares

	2010	2009
Issued and issuable ordinary shares at 1 January	**2,803,304,000**	2,700,986,000
Effect of the conversion of the convertible notes	**1,053,850**	68,212,000
Weighted average number of ordinary shares at 31 December	**2,804,357,850**	2,769,198,000

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2010 is based on the profit attributable to ordinary equity shareholders of the Company of RMB980,321,000 (2009: RMB705,830,000) and the weighted average number of 2,804,357,850 ordinary shares (2009: 2,781,844,200 shares), calculated as follows:

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

	2010 RMB'000	2009 RMB'000
Profit attributable to equity shareholders of the Company (basic)	**979,128**	701,557
Unwinding of discount on convertible notes	**1,193**	4,273
Profit attributable to equity shareholders of the Company (diluted)	**980,321**	705,830

11 EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share *(continued)*

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

	2010	2009
Weighted average number of ordinary shares (basic)	**2,804,357,850**	2,769,198,000
Effect of conversion of shares for convertible notes	**–**	12,646,200
Weighted average number of ordinary shares (diluted)	**2,804,357,850**	2,781,844,200

12 SEGMENT REPORTING

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

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

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

(a) Segment results, assets and liabilities

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

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

12 SEGMENT REPORTING *(continued)*

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out below.

	Year ended 31 December 2010				Year ended 31 December 2009		
	Shandong Province RMB'000	**Northeastern China RMB'000**	**Shanxi Province RMB'000**	**Total RMB'000**	Shandong Province RMB'000	Northeastern China RMB'000	Total RMB'000
Revenue from external customers	**9,791,940**	**2,055,898**	**6,230**	**11,854,068**	7,511,209	1,216,417	8,727,626
Inter-segment revenue	**18,298**	**5,189**	**–**	**23,487**	56,642	484	57,126
Reportable segment revenue	**9,810,238**	**2,061,087**	**6,230**	**11,877,555**	7,567,851	1,216,901	8,784,752
Reportable segment profit/(loss) (adjusted profit/(loss) before taxation)	**1,827,945**	**3,635**	**(17,313)**	**1,814,267**	1,190,514	69,932	1,260,446
Interest income from bank deposits	**4,565**	**1,478**	**726**	**6,769**	3,407	1,004	4,411
Interest expense	**71,871**	**25,118**	**21**	**97,010**	69,333	24,774	94,107
Depreciation and amortisation for the year	**564,662**	**228,583**	**1,137**	**794,382**	481,065	153,437	634,502
Impairment of plant and machinery	**34,723**	**71,810**	**–**	**106,533**	–	–	–
Impairment of intangible assets	**–**	**4,270**	**–**	**4,270**	–	–	–

12 SEGMENT REPORTING *(continued)*

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

	2010	2009
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	**11,877,555**	8,784,752
Elimination of inter-segment revenue	**(23,487)**	(57,126)
Consolidated turnover	**11,854,068**	8,727,626
Profit		
Reportable segment profit	**1,814,267**	1,260,446
Elimination of inter-segment profits	**(7,373)**	(23,821)
Reportable segment profit derived from group's external customers	**1,806,894**	1,236,625
Share of profits less losses of an associate	**(218)**	–
Unallocated finance costs	**(266,060)**	(215,478)
Unallocated head office and corporate expenses	**(177,411)**	(79,866)
Consolidated profit before taxation	**1,363,205**	941,281

13 FIXED ASSETS

	Plants and buildings RMB'000	Equipment RMB'000	Motor vehicles and others RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total fixed assets RMB'000
Cost:							
At 1 January 2009	2,295,608	4,853,891	168,136	1,579,025	8,896,660	1,321,106	10,217,766
Additions	12,757	69,023	36,941	1,553,388	1,672,109	145,862	1,817,971
Transfers	78,035	2,213,388	2,110	(2,293,533)	–	–	–
Additions through business combinations	73,837	153,340	1,042	–	228,219	67,421	295,640
Disposals	(10,435)	(25,311)	(8,160)	–	(43,906)	(2,248)	(46,154)
Reclassification	216,301	(238,089)	21,788	–	–	–	–
At 31 December 2009	2,666,103	7,026,242	221,857	838,880	10,753,082	1,532,141	12,285,223
At 1 January 2010	**2,666,103**	**7,026,242**	**221,857**	**838,880**	**10,753,082**	**1,532,141**	**12,285,223**
Additions	**17,113**	**62,285**	**46,304**	**2,059,888**	**2,185,590**	**128,140**	**2,313,730**
Transfers	**587,540**	**1,212,200**	**93,054**	**(1,892,794)**	**–**	**–**	**–**
Additions through business combinations	**288,587**	**385,232**	**7,507**	**563,753**	**1,245,079**	**190,758**	**1,435,837**
Disposals	**(27,331)**	**(69,956)**	**(26,983)**	**–**	**(124,270)**	**–**	**(124,270)**
Reclassification	**363,628**	**(361,720)**	**(1,908)**	**–**	**–**	**–**	**–**
At 31 December 2010	**3,895,640**	**8,254,283**	**339,831**	**1,569,727**	**14,059,481**	**1,851,039**	**15,910,520**
Accumulated depreciation, amortisation and impairment:							
At 1 January 2009	(233,631)	(1,243,074)	(51,705)	–	(1,528,410)	(51,573)	(1,579,983)
Charge for the year	(66,179)	(463,407)	(21,848)	–	(551,434)	(29,222)	(580,656)
Written back on disposals	6,459	11,860	4,019	–	22,338	222	22,560
Reclassification	(58,242)	78,326	(20,084)	–	–	–	–
At 31 December 2009	(351,593)	(1,616,295)	(89,618)	–	(2,057,506)	(80,573)	(2,138,079)
At 1 January 2010	**(351,593)**	**(1,616,295)**	**(89,618)**	**–**	**(2,057,506)**	**(80,573)**	**(2,138,079)**
Charge for the year	**(80,113)**	**(585,761)**	**(27,402)**	**–**	**(693,276)**	**(35,672)**	**(728,948)**
Impairment loss for the year	**(35,428)**	**(70,838)**	**(267)**	**–**	**(106,533)**	**–**	**(106,533)**
Written back on disposals	**13,127**	**46,445**	**18,710**	**–**	**78,282**	**–**	**78,282**
Reclassification	**(4,192)**	**1,160**	**3,032**	**–**	**–**	**–**	**–**
At 31 December 2010	**(458,199)**	**(2,225,289)**	**(95,545)**	**–**	**(2,779,033)**	**(116,245)**	**(2,895,278)**
Net book value:							
At 31 December 2010	**3,437,441**	**6,028,994**	**244,286**	**1,569,727**	**11,280,448**	**1,734,794**	**13,015,242**
At 31 December 2009	2,314,510	5,409,947	132,239	838,880	8,695,576	1,451,568	10,147,144

13 FIXED ASSETS *(continued)*

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

(b) Certain properties, equipment and interests in leasehold land held for own use under operating leases with an aggregate carrying amount of RMB676,978,000 (2009: RMB1,338,873,000) for the year ended 31 December 2010, are pledged to secure bank loans (see note 24) granted to the Group.

(c) As at the date of this report, the ownership certificates for certain plants and buildings with a carrying amount of RMB316,160,000 have not been obtained (2009: RMB29,228,000).

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

(e) As at the date of this report, the Group is in the process of obtaining construction permits for certain clinker and cement production lines. The carrying amount for these clinker and cement production lines as at 31 December 2010 was RMB1,679,443,000 (2009: RMB1,816,445,000).

(f) Certain property, plant and equipment which were obsolete, damaged or that could not generate future economic benefits were provided against for impairment for the year ended 31 December 2010 was RMB106,533,000 (2009: Nil).

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

The Group leases a concrete mixer truck under finance lease expiring in 2017 (See note 28). The lease did not include contingent rentals. The carrying amount for the equipment held under finance lease was RMB1,553,000 (2009: RMB1,759,000).

(h) As at 31 December 2010, application for the registration of interests in leasehold land acquired during the year for own use under operating leases with cost of approximately RMB205,305,000 (2009: RMB90,718,000) was still in progress.

14 INTANGIBLE ASSETS

	Limestone mining rights RMB'000	Customer relationships RMB'000	Supplier relationship RMB'000	Trademarks RMB'000	Software and others RMB'000	Total RMB'000
Cost:						
At 1 January 2009	250,947	25,291	5,897	63,100	14,443	359,678
Additions	93,954	–	–	–	5,745	99,699
Additions through business combinations	1,850	–	–	–	–	1,850
At 31 December 2009	346,751	25,291	5,897	63,100	20,188	461,227
At 1 January 2010	**346,751**	**25,291**	**5,897**	**63,100**	**20,188**	**461,227**
Additions	**54,597**	**–**	**–**	**–**	**3,754**	**58,351**
Additions through business combinations	**5,200**	**22,890**	**–**	**22,230**	**510**	**50,830**
Disposal	**–**	**–**	**(5,897)**	**–**	**–**	**(5,897)**
At 31 December 2010	**406,548**	**48,181**	**–**	**85,330**	**24,452**	**564,511**
Accumulated amortisation and impairment:						
At 1 January 2009	(50,076)	(6,114)	(5,523)	(6,310)	(6,193)	(74,216)
Amortisation for the year	(38,428)	(5,058)	(374)	(6,310)	(3,676)	(53,846)
At 31 December 2009	(88,504)	(11,172)	(5,897)	(12,620)	(9,869)	(128,062)
At 1 January 2010	**(88,504)**	**(11,172)**	**(5,897)**	**(12,620)**	**(9,869)**	**(128,062)**
Amortisation for the year	**(49,067)**	**(6,331)**	**–**	**(6,310)**	**(2,653)**	**(64,361)**
Impairment for the year	**–**	**–**	**–**	**(4,270)**	**–**	**(4,270)**
Disposal	**–**	**–**	**5,897**	**–**	**–**	**5,897**
At 31 December 2010	**(137,571)**	**(17,503)**	**–**	**(23,200)**	**(12,522)**	**(190,796)**
Net book value:						
At 31 December 2010	**268,977**	**30,678**	**–**	**62,130**	**11,930**	**373,715**
At 31 December 2009	258,247	14,119	–	50,480	10,319	333,165

14 INTANGIBLE ASSETS *(continued)*

(a) The limestone mining rights which are granted from the respective land bureaux are valid for a period of 2 to 13 years. The limestone mines are located in Shandong, Liaoning and Shanxi provinces and Inner Mongolia.

As at the date of this report, the ownership certificates for certain limestone mining rights with a carrying amount of RMB123,528,000 have not been obtained (2009: RMB57,877,000).

(b) The customer relationships amounting to RMB48,181,000 are non-contractual customer relationships acquired through acquisitions of Yantai Shanshui Cement Co., Ltd. ("Yantai Shanshui") and Zaozhuang Shanshui Cement Co., Ltd. ("Zaozhuang Shanshui") in September 2007 and Chifeng Yuanhang Cement Co., Ltd. ("Chifeng Yuanhang") in September 2010. They are amortised over five years based on the Group's estimate on how long the Group could retain the customers.

(c) Trademarks represent valuation of "千山", "工源", "長白山", and "遠航" brands acquired through acquisitions of Qianshan Cement and Gongyuan Cement in December 2007 and Chifeng Yuanhang in September 2010.

According to the resolution of the Board of Directors of the Group, trademarks of "千山", "工源" and "長白山" would be phased out in ten years. Management considers the estimated useful lives of trademarks are ten years though their legal rights are renewable. In order to enhance the reputation of the Shanshui Dongyue brand, the management determine to cease the use of "長白山" brand from 2011, as such, an impairment provision of RMB4,270,000 was made against such trademark.

Due to the good reputation of "遠航" brand in the local area, the management of the Group assesses that the useful life of "遠航" brand is indefinite. The carrying amount of "遠航" brand as at 31 December 2010 is RMB22,230,000.

15 GOODWILL

	2010	2009
	RMB'000	RMB'000
Cost		
At 1 January	**595,498**	500,746
Additions	**395,830**	94,752
At 31 December	**991,328**	595,498

15 GOODWILL *(continued)*

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

	2010	2009
	RMB'000	RMB'000
Continental Cement Corporation, Kangda Cement, Kangda Products and Kangda Mining (the "Kangda Cement Group")	**2,078**	2,078
Yantai Shanshui	**240,075**	240,075
Zaozhuang Shanshui	**65,169**	65,169
Qianshan Cement	**99,568**	99,568
Gongyuan Cement and its subsidiaries (the "Gongyuan Cement Group")	**93,856**	93,856
Qingdao Hengtai Cement Co., Ltd. ("Hengtai Cement")	**7,259**	7,259
Jining Shanshui Cement Co., Ltd. ("Jining Shanshui")	**78,261**	78,261
Yingkou Shanshui Cement Co., Ltd. ("Yingkou Shanshui")	**9,232**	9,232
A group of net assets of Alu Kerqin Bayan Baote Cement Co., Ltd. ("AKBB Cement")	**18,693**	–
Tianjin Tianhui Cement Co., Ltd. ("Tianjin Tianhui")	**4,543**	–
A group of net assets of Shengfeng Cement Manufacturing Co., Ltd. ("Shengfeng Cement")	**6,627**	–
Lvliang Yilong Cement Co., Ltd.	**12,522**	–
Hequ Zhongtianlong Cement Co., Ltd.	**2,762**	–
Chifeng Yuanhang Cement Co., Ltd.	**140,780**	–
Dongying Dongxing Cement Co., Ltd.	**15,058**	–
Dongying Shenglv Cement Co., Ltd.	**27,516**	–
Yulin Yatai Chemical Technology Co., Ltd.	**28,984**	–
Jincheng Shanshui Heju Cement Co., Ltd.	**48,915**	–
Xing'an Meng Quanxing Cement Co., Ltd.	**76,791**	–
Wulanhaote Tianzhu Cement Co., Ltd.	**12,639**	–
	991,328	595,498

The recoverable amounts of the cash-generating unit are determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 15.09%. One major assumption is annual growth rates in revenue which vary among different subsidiaries. The growth rates are based on the subsidiaries' growth forecasts and the average long-term growth rate for the relevant industry. Another key assumption for the value-in-use calculations is the stable budgeted gross margin, which is determined based on the subsidiaries' past performance and its expectation for market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of each subsidiary to exceed its recoverable amount. The discount rates used are pre-tax and reflect specific risks relating to the Group.

16 OTHER FINANCIAL ASSETS

	Note	2010 RMB'000	2009 RMB'000
Available-for-sale securities, at fair value	(a)	**6,392**	10,906
Unquoted equity investments in non-listed companies	(b)	**1,260**	1,260
Loans to an associate	(c)	**74,000**	–
		81,652	12,166

Notes:

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

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

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

17 INVESTMENT IN AN ASSOCIATE

	2010 RMB'000	2009 RMB'000
Share of net assets	**48,782**	–

As at 31 December 2010, the Group held an investment in the following associate:

Name of associate	Place and date of incorporation	Principal activities	Registered capital	Paid-in capital	Proportion of ownership interest Direct	Proportion of ownership interest Indirect
Dong'e Shanshui Dongchang Cement Co., Ltd. ("Dong'e Shanshui")	Shandong, PRC 2 February 2010	Production and sales of cement, clinker and related products	RMB100,000,000	RMB79,600,000	–	49%

Summary of financial information on the associate is as follows:

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenue RMB'000	Loss for the year RMB'000
2010					
100 percent	**181,049**	**101,894**	**79,155**	**–**	**445**
Group's effective interest	**111,578**	**62,796**	**48,782**	**–**	**218**

18 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	**413,248**	413,248

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

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Indirect %	Principal activities
(a) Enterprise established in Hong Kong					
China Shanshui Cement Group (Hong Kong) Company Limited ("Shanshui Cement Hong Kong")	Hong Kong, PRC 25 January 2005	HKD10,000	100.00	–	Investment holding
China Pioneer Cement (Hong Kong) Company Limited ("Pioneer Cement")	Hong Kong, PRC 25 January 2005	HKD0.01	–	100.00	Investment holding
(b) Enterprise established outside the PRC					
Continental Cement Corporation ("Continental Cement")	British Virgin Islands 30 May 2000	USD100	–	100.00	Investment holding
(c) Wholly foreign owned enterprises established in the PRC					
Shandong Shanshui	Shandong, PRC 10 August 2001	RMB2,342,000,000	–	100.00	Investment holding
Kangda Cement	Shandong, PRC 6 April 2002	USD11,980,000	–	100.00	Production and sales of clinker
Kangda Products	Shandong, PRC 6 April 2002	USD20,484,500	–	100.00	Production and sales of cement
Kangda Mining	Shandong, PRC 6 April 2002	USD7,101,000	–	100.00	Mining, storage and sales of limestone

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Indirect %	Principal activities
(d) Sino-foreign equity joint venture enterprises established in the PRC					
Pingyin Shanshui	Shandong, PRC 1 August 2003	RMB178,000,000	–	98.97	Production and sales of cement and clinker
Anqiu Shanshui	Shandong, PRC 4 August 2003	RMB152,000,000	–	99.06	Production and sales of cement and clinker
Weihai Shanshui Cement Co., Ltd. ("Weihai Shanshui")	Shandong, PRC 25 March 2008	USD24,000,000	–	100.00	Manufacturing and selling of cement
Dandong Shanshui Gongyuan Cement Co., Ltd.	Liaoning, PRC 31 March 2008	USD12,000,000	–	100.00	Production and sales of cement
Qingdao Shanshui Chuang-xin Cement Co., Ltd. ("Qingdao Chuangxin")	Shandong, PRC 25 April 2008	USD20,000,000	–	100.00	Production and sales of cement
Shenyang Shanshui Gongyuan Cement Co., Ltd.	Liaoning, PRC 9 July 2008	USD12,000,000	–	100.00	Production and sales of cement
Linqu Shanshui Cement Co., Ltd. ("Linqu Shanshui")	Shandong, PRC 18 July 2008	Registered capital of USD25,000,000 and paid-in capital USD24,990,700	–	100.00	Production and sales of cement and clinker
Zaozhuang Chuang-xin Shanshui Cement Co., Ltd. ("Zaozhuang Chuangxin")	Shandong, PRC 5 September 2008	USD30,000,000	–	100.00	Production and sales of cement
(e) Domestic companies established in the PRC					
Qianshan Cement	Liaoning, PRC 5 June 1989	RMB98,840,700	–	73.00	Production and sales of cement and concrete
Shandong Cement Factory Co., Ltd. ("Shandong Cement Factory")	Shandong, PRC 3 April 1990	RMB182,000,000	–	99.00	Production and sales of cement; production of limestone
Dongying Dongxing Cement Co., Ltd. ("Dongying Dongxing")	Shandong, PRC 8 May 1998	RMB18,760,000	–	70.00	Production and sales of cement

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Gongyuan Cement	Liaoning, PRC 13 July 1998	RMB280,000,000	–	100.00	Production and sales of cement
Chifeng Yuanhang Cement Co., Ltd. ("Chifeng Yuanhang")	Inner Mongolia, PRC 5 August 2000	RMB66,150,000	–	50.00 (Note#)	Production and sales of cement and related products
Jinan Shi-ji Chuang-xin Cement Co., Ltd.	Shandong, PRC 17 January 2002	RMB41,460,000	–	95.18	Production and sales of cement and related products
Weifang Shanshui Packaging Products Co., Ltd.	Shandong, PRC 22 January 2002	RMB500,000	–	99.90	Production and sales of cement packaging materials
Jinan Shanshui Cement Mechanics Co., Ltd.	Shandong, PRC 12 March 2002	RMB1,500,000	–	99.00	Installation of equipment and spare parts of cement machines
Tianjin Tianhui Cement Co., Ltd. ("Tianjin Tianhui")	Tianjin, PRC 22 July 2002	RMB16,000,000	–	100.00	Production and sales of cement and related products
Changle Shanshui Cement Co., Ltd. ("Changle Shanshui")	Shandong, PRC 30 July 2002	RMB24,700,000	–	99.00	Production and sales of cement; Production of limestone
Yantai Shanshui	Shandong, PRC 22 November 2002	RMB155,500,000	–	100.00	Production and sales of cement
Jinan Shanshui Wuliugang Co., Ltd. ("Wuliugang")	Shandong, PRC 28 March 2003	RMB10,000,000	–	99.00	Logistic service and sales of coal
Binzhou Shanshui Cement Co., Ltd.	Shandong, PRC 30 July 2003	RMB5,000,000	–	99.00	Production and sales of cement

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Shandong Shanshui Cement Industrial Design Development Co., Ltd.	Shandong, PRC 1 August 2003	RMB6,000,000	–	90.00	Development, manufacture, sales and technical support of cement related equipments, and consultation service
Liaocheng Shanshui Cement Co., Ltd.	Shandong, PRC 1 August 2003	RMB5,000,000	–	99.00	Production and sales of cement
Gucheng Shanshui Cement Co., Ltd.	Hebei, PRC 4 August 2003	RMB5,000,000	–	99.00	Production and sales of cement
Dongying Shanshui Cement Co., Ltd.	Shandong, PRC 4 August 2003	RMB5,000,000	–	99.00	Production and sales of cement
Zibo Shanshui Cement Co., Ltd.	Shandong, PRC 5 August 2003	RMB60,000,000	–	99.00	Production and sales of cement, clinker and limestone
Weifang Shanshui Cement Co., Ltd. ("Weifang Shanshui")	Shandong, PRC 29 December 2003	RMB50,000,000	–	100.00	Production and sales of cement and limestone
Tongliao Gongyuan Cement Co., Ltd.	Inner Mongolia, PRC 2 April 2004	RMB5,000,000	–	100.00	Production and sales of cement
Qingdao Hengtai	Shandong, PRC 10 June 2004	RMB3,000,000	–	100.00	Production and sales of cement and related products
Zibo Shuangfeng Shanshui Cement Co., Ltd.	Shandong, PRC 1 July 2004	RMB10,000,000	–	99.00	Production and sales of cement
Zaozhuang Shanshui	Shandong, PRC 28 July 2004	RMB70,000,000	–	100.00	Production and sales of cement

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Attributable equity interest Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Jining Shanshui	Shandong, PRC 21 January 2005	RMB100,000,000	–	100.00	Production and sales of cement, clinker, limestone and related products
Xing'an Meng Quanxing Cement Co., Ltd. ("Quanxing Cement")	Inner Mongolia, PRC 17 January 2006	RMB20,000,000	–	90.00	Production and sales of cement and limestone
Juye Shanshui Cement Co., Ltd.	Shandong, PRC 17 May 2006	RMB10,000,000	–	99.96	Production and sales of cement
Jincheng Shanshui Heju Cement Co., Ltd. ("Heju Shanshui")	Shanxi, PRC 25 July 2006	RMB120,000,000	–	90.00	Establishment of cement production line
Yingkou Shanshui Cement Co., Ltd. ("Yingkou Shanshui")	Liaoning, PRC 5 December 2006	RMB30,000,000	–	100.00	Production and sales of cement
Dalian Shanshui Cement Co., Ltd. ("Dalian Shanshui")	Liaoning, PRC 17 August 2007	RMB180,000,000	–	100.00	Production and sales of cement clinker and related products
Yishui Shanshui Cement Co., Ltd. ("Yishui Shanshui")	Shandong, PRC 28 September 2007	RMB128,700,000	–	99.38	Production and sales of clinker and limestone
Lvliang Yilong Cement Co., Ltd. ("Lvliang Yilong")	Shanxi, PRC 16 November 2007	RMB10,000,000	–	90.00	Establishment of cement and clinker
Dongying Shenglv Cement Co., Ltd. ("Dongying Shenglv")	Shandong, PRC 21 December 2007	RMB12,000,000	–	90.00	Production and sales of cement
Benxi Shanshui Gongyuan Transportation Co., Ltd.	Liaoning, PRC 26 February 2008	RMB360,000	–	100.00	Transportation services

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Benxi Shanshui Gongyuan Mechanics and Electric Engineering Co., Ltd.	Liaoning, PRC 10 March 2008	RMB500,000	–	100.00	Installation and maintenance of equipment and spare parts of cement machines
Yulin Yatai Chemical Technology Co., Ltd. ("Yulin Yatai")	Shaanxi, PRC 7 August 2008	RMB60,000,000	–	62.00	Establishment of cement production line
Benxi Shanshui Gongyuan Packaging Products Co., Ltd.	Liaoning, PRC 11 November 2008	RMB500,000	–	100.00	Production and sales of cement packaging materials
Benxi Shanshui Mining Co., Ltd.	Liaoning, PRC 18 February 2009	RMB500, 000	–	100.00	Mining and sales of limestone
Yishui Chuang-xin Shanshui Cement Co., Ltd. ("Yishui Chuang-xin")	Shandong, PRC 2 June 2009	RMB10,000,000	–	100.00	Production and sales of cement
Qingdao Shanshui Jianxin Cement Co., Ltd. ("Qingdao Jianxin")	Shangdong, PRC 18 June 2009	RMB20,000,000	–	100.00	Production and sales of cement
Weifang Binhai Shanshui Cement Co., Ltd. ("Weifang Binhai")	Shandong, PRC 4 August 2009	RMB42,000,000	–	100.00	Production and sales of cement
Tianjin Shanshui Cement Co., Ltd. ("Tianjin Shanshui")	Tianjin, PRC 26 August 2009	RMB20,000,000	–	100.00	Production and sales of cement
Shanxian Shanshui Cement Co., Ltd. ("Shanxian Shanshui")	Shandong, PRC 27 August 2009	RMB60,000,000	–	100.00	Production and sales of cement
Caoxian Shanshui Cement Co., Ltd. ("Caoxian Shanshui")	Shandong, PRC 28 August 2009	RMB22,000,000	–	100.00	Production and sales of cement
Hequ Zhongtianlong Cement Co., Ltd. ("Hequ Zhongtianlong")	Shanxi, PRC 31 August 2009	RMB80,000,000	–	68.00	Establishment of cement production line

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Panjin Shanshui Cement Co., Ltd. ("Panjin Shanshui")	Liaoning, PRC 1 September 2009	RMB20,000,000	–	100.00	Production and sales of cement
Bozhou Shanshui Cement Co., Ltd. ("Bozhou Shanshui")	Anhui, PRC 3 September 2009	RMB40,000,000	–	100.00	Production and sales of cement
Bengbu Shanshui Cement Co., Ltd. ("Bengbu Shanshui")	Anhui, PRC 4 September 2009	RMB30,000,000	–	100.00	Establishment of cement production line
Weishan Shanshui Cement Co., Ltd. ("Weishan Shanshui")	Shandong, PRC 28 September 2009	RMB100,000,000	–	100.00	Establishment of cement and clinker production line
Wulanhaote Tianzhu Cement Co., Ltd. ("Tianzhu Cement")	Inner Mongolia, PRC 13 November 2009	RMB5,000,000	–	90.00	Production and sales of cement
Alu Kerqin Qi Shanshui Cement Co., Ltd. ("Alu Kerqin Cement")	Inner Mongolia, PRC 23 December 2009	RMB76,470,000	–	85.00	Production and sales of clinker
Shanxi Shanshui Cement Co., Ltd.	Shanxi, PRC 25 December 2009	RMB500,000,000	–	100.00	Sales of cement and cement related products
Jincheng Shanshui Cement Co., Ltd.	Shanxi, PRC 22 January 2010	RMB150,000,000	–	85.00	Establishment of cement production line
Laoling Shanshui Cement Co., Ltd.	Shandong, PRC 9 February 2010	RMB30,000,000	–	100.00	Establishment of cement production line
Balinyouqi Shanshui Cement Co., Ltd.	Inner Mongolia, PRC 19 March 2010	RMB20,000,000	–	100.00	Establishment of cement production line
Huolinguole Shanshui Cement Co., Ltd.	Inner Mongolia, PRC 19 April 2010	RMB20,000,000	–	85.00	Establishment of cement production line

18 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Kashi Shanshui Cement Co., Ltd.	Xinjiang, PRC 17 August 2010	RMB200,000,000	–	100.00	Production and sales of cement and clinker
Shule Shanshui Cement Co., Ltd.	Xinjiang, PRC 24 August 2010	RMB20,000,000	–	100.00	Production and sales of cement
Yingjisha Shanshui Cement Co., Ltd.	Xinjiang, PRC 24 August 2010	RMB120,000,000	–	100.00	Production and sales of cement and clinker
Shache Shanshui Cement Co., Ltd.	Xinjiang, PRC 14 October 2010	RMB20,000,000	–	100.00	Production and sales of cement
Shenxian Shanshui Dongchang Cement Co., Ltd.	Shandong, PRC 22 October 2010	RMB10,000,000	–	55.00	Production and sales of cement and related products

The Group acquired 50% equity interests in Chifeng Yuanhang in September 2010 and promised to acquire 30% additional equity interests in Chifeng Yuanhang from non-controlling shareholders in 2011. Pursuant to the Article of Associates of Chifeng Yuanhang, the Group appointed the majority of the board of directors, which made the Group to obtain the control over Chifeng Yuanhang.

19 OTHER LONG-TERM ASSETS

	2010 **RMB'000**	2009 RMB'000
Cost:		
At 1 January	**138,084**	138,084
Additions	**9,000**	–
At 31 December	**147,084**	138,084
Accumulated amortisation and impairment:		
At 1 January	**(18,325)**	(4,918)
Amortisation for the year	**(14,157)**	(13,407)
Impairment for the year	**(35,067)**	–
At 31 December	**(67,549)**	(18,325)
Net book value:	**79,535**	119,759

19 OTHER LONG-TERM ASSETS *(continued)*

In December 2007, Pioneer Cement entered into a service agreement (the "Service Agreement") with China Northeastern Building Materials Consulting Limited ("Northeastern Consulting") for HKD150,000,000. Under the Service Agreement, Northeastern Consulting will provide the Group with various services from 1 January 2008 to 31 December 2019. The amounts are amortised over the service period as stated in the Service Agreement. The management considered that certain services are no longer required, thus a provision for impairment on such service was made in the sum of RMB35,067,000 as at 31 December 2010.

20 INVENTORIES

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

	2010	2009
	RMB'000	RMB'000
Raw materials	**585,877**	295,805
Semi-finished goods	**157,883**	144,230
Finished goods	**199,696**	225,682
Spare parts	**194,300**	174,628
	1,137,756	840,345

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

	2010	2009
	RMB'000	RMB'000
Carrying amount of inventories sold	**9,301,456**	6,935,639
Write-down of inventories	**13,675**	11,709
Reversal of write-down of inventories	**(11,165)**	(197)
	9,303,966	6,947,151

21 TRADE AND BILLS RECEIVABLE

	Note	2010 RMB'000	2009 RMB'000
Bills receivable		**614,472**	302,440
Trade debtors		**403,550**	435,291
Less: allowance for doubtful debts	21(b)	**(54,172)**	(33,854)
		963,850	703,877

(a) Ageing analysis

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

	2010 RMB'000	2009 RMB'000
Current	**848,214**	630,247
Less than 3 months past due	**24,316**	27,552
3 to 6 months past due	**26,104**	20,287
6 to 12 months past due	**28,256**	7,008
More than 12 months past due	**36,960**	18,783
Amount past due	**115,636**	73,630
	963,850	703,877

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

(b) Impairment of trade and bills receivable

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

21 TRADE AND BILLS RECEIVABLE *(continued)*

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

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

	2010	2009
	RMB'000	RMB'000
At 1 January	**33,854**	22,534
Impairment loss recognised	**32,520**	15,296
Uncollectible amounts written off	**(11,030)**	(3,976)
Reversal of doubtful debt	**(1,172)**	–
At 31 December	**54,172**	33,854

At 31 December 2010, the Group's trade and bills receivable of RMB173,035,000 (2009: RMB132,804,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. The Group does not hold any collateral over these balances.

(c) Trade and bills receivable that are not impaired

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

	2010	2009
	RMB'000	RMB'000
Neither pass due nor impaired	**819,741**	586,052
Less than 3 month past due	**23,452**	10,334
3 to 6 months past due	**175**	6,616
Over 6 months past due	**1,619**	1,925
Past due but not impaired	**25,246**	18,875
	844,987	604,927

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good credit track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

22 OTHER RECEIVABLES AND PREPAYMENTS

	Note	**2010** **RMB'000**	2009 RMB'000
Prepayments for raw materials		**117,841**	106,220
Prepayments for long-lived assets		**349,165**	358,840
VAT recoverable		**225,805**	140,383
Amounts due from related parties	37(c)	**2,760**	8,140
Amounts due from third parties		**198,584**	174,912
Amount due from CPI Northeast Power Company Limited		**–**	21,000
Others		**21,994**	25,120
		916,149	834,615

23 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

		The Group		**The Company**	
	Note	**2010** **RMB'000**	2009 RMB'000	**2010** **RMB'000**	2009 RMB'000
Cash at bank and in hand		**1,144,840**	886,130	**38,307**	64,895
Pledged bank deposits	(i)	**65,365**	41,914	**–**	–
		1,210,205	928,044	**38,307**	64,895
Less: Pledged bank deposits		**(65,365)**	(41,914)	**–**	–
Cash and cash equivalents		**1,144,840**	886,130	**38,307**	64,895

Notes:

(i) Bank deposits of RMB65,365,000 as at 31 December 2010 (2009: RMB41,914,000) were pledged to banks as security for certain of the Group's banking facilities in relation to bills payable (see note 25). The pledged bank deposits will be released upon the expiry of the relevant banking facilities.

23 CASH AND CASH EQUIVALENTS *(continued)*

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

	Note	**2010** **RMB'000**	2009 RMB'000
Profit before taxation		**1,363,205**	941,281
Adjustments for:			
Depreciation	5(c)	**693,276**	551,434
Amortisation of land lease premium for property held for own use	5(c)	**35,672**	29,222
Amortisation of intangible assets	5(c)	**64,361**	53,846
Amortisation of other long-term assets	5(c)	**14,157**	13,407
Impairment losses on fixed assets	5(c)	**106,533**	–
Impairment losses on intangible assets	5(c)	**4,270**	–
Impairment losses on other long-term assets	5(c)	**35,067**	–
Finance costs	5(a)	**363,070**	309,585
Share of profits less losses of an associate	17	**218**	–
Interest income	4	**(6,769)**	(4,411)
(Gain)/loss on sale of property, plant and equipment	4	**(1,518)**	7,130
Foreign exchange (gain)/loss		**(13,459)**	251
		2,658,083	1,901,745
Changes in working capital:			
(Increase)/decrease in inventories		**(220,493)**	58,387
Increase in trade and bills receivable		**(238,805)**	(352,096)
Increase in pledged bank deposits		**(23,451)**	(9,479)
Decrease/(increase) in other receivables and prepayments		**205,946**	(113,197)
Increase in trade and bills payable		**263,473**	48,590
(Decrease)/increase in other payables and accrued expenses		**(186,656)**	54,596
Decrease in defined benefit obligations		**(20,164)**	(16,776)
Increase in deferred income		**25,900**	14,872
Cash generated from operations		**2,463,833**	1,586,642

24 LOANS AND BORROWINGS

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

	Note	**2010** **RMB'000**	2009 RMB'000
Long-term interest-bearing borrowings:			
Bank loans – Secured	(i)	**3,407,500**	3,608,000
Bank loans – Unsecured	(ii)	**2,147,000**	1,180,000
Loan from government – Unsecured	(iii)	**10,000**	10,000
		5,564,500	4,798,000
Less: Current portion of long-term bank loans		**(1,304,500)**	(1,437,000)
Interest-bearing borrowings, less current portion		**4,260,000**	3,361,000

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

	2010 **RMB'000**	2009 RMB'000
After one year but within two years	**3,363,000**	1,313,000
After two years but within five years	**852,000**	2,003,000
After five years	**45,000**	45,000
Total	**4,260,000**	3,361,000

24 LOANS AND BORROWINGS *(continued)*

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

	Note	**2010** **RMB'000**	2009 RMB'000
Short-term interest-bearing borrowings:			
Bank loans – Secured	(iv)	**180,000**	380,000
Bank loans – Unsecured	(ii)	**200,000**	330,000
		380,000	710,000
Add: Current portion of long-term bank loans		**1,304,500**	1,437,000
Short-term and current portion of interest-bearing borrowings:		**1,684,500**	2,147,000

Notes:

(i) Loans of RMB247,500,000 (2009: RMB383,000,000) as at 31 December 2010, were guaranteed by third party. Other balances were either pledged by certain items of property, plant and equipment and interests in leasehold land held for own use under operating leases as disclosed in note 13, or guaranteed by companies within the Group.

(ii) Non-current bank loans with amount of RMB2,147,000,000 (2009: RMB1,180,000,000) and current bank loans with amount of RMB200,000,000 (2009: RMB330,000,000) are unsecured loans.

(iii) The government loan was received by Gongyuan Cement for constructing an environmental friendly production line. The loan is unsecured, bears interest at one-year PRC deposit interest rate plus 0.3% and is repayable in 2012.

(iv) All current secured bank loans as at 31 December 2010 and 2009 were guaranteed by companies within the Group.

(v) Current secured bank loans carried annual interest rates ranging from 4.78% to 5.38% (2009: 5.31% to 7.84%) for the year ended 31 December 2010. Current unsecured bank loans carried annual interest rates at 5.31% (2009: 5.31% to 7.47%) for the year ended 31 December 2010.

24 LOANS AND BORROWINGS *(continued)*

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

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

The statement of financial position ratio of certain subsidiaries and the aggregate external guarantee provided by a subsidiary exceeded certain limits set out in the covenants of long-term loan agreements with the Weihai City Commercial Bank Jinan Branch, Shanghai Pudong Development Bank Jinan Branch and Qilu Bank Jinan Wangguanzhuang Branch. The relevant outstanding loan balances as at 31 December 2010 stood at RMB160,000,000 (2009: RMB285,000,000). The Group obtained confirmations from the relevant banks dated 28 June 2010, in which the relevant banks confirmed such breaches of the ratio and guarantee would not trigger early repayment of these loans.

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

	Note	**2010** **RMB'000**	2009 RMB'000
Long-term loans from equity holders – Secured	(i)	**454,248**	236,359
Less: Current portion of loans from equity holders		**(106,134)**	(58,527)
Loans from equity holders, less current portion		**348,114**	177,832

Notes:

(i) Anqiu Shanshui and Pingyin Shanshui entered into loan agreements with one of the Company's equity shareholders, International Finance Corporation ("IFC"), totalling USD50,000,000 in 2006. The loans bear interest at London Inter Bank Offered Rate ("LIBOR") plus 2% per annum and are repayable bi-annually from 2008 to 2014 and are secured by certain items of property, plant and equipment of the subsidiaries as disclosed in notes 13.

Weihai Shanshui, Qingdao Chuangxin, Linqu Shanshui and Zaozhuang Chuangxin entered into loan agreements with IFC, totalling USD50,000,000 in 2010. The loans bear interest plus 2.75% per annum and are repayable bi-annually from 2010 to 2015. Loans of Weihai Shanshui are secured by certain items of property, plant and equipment of the subsidiaries as disclosed in notes 13. As at the date of this report, the collateral agreements on these loans contracts are in process.

24 LOANS AND BORROWINGS *(continued)*

(c) Convertible notes

	Liability portion RMB'000	Equity portion RMB'000	Total RMB'000
At 1 January 2009	89,577	64,774	154,351
Interest charged	4,273	–	4,273
Foreign exchange gain	(126)	–	(126)
Conversion of convertible notes	(82,865)	82,865	–
At 31 December 2009	10,859	147,639	158,498
At 1 January 2010	**10,859**	**147,639**	**158,498**
Interest charged	**1,193**	**–**	**1,193**
Foreign exchange gain	**(271)**	**–**	**(271)**
Conversion of convertible notes	**(11,781)**	**11,781**	**–**
At 31 December 2010	**–**	**159,420**	**159,420**

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

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

The notes holder, IFC, fully convert notes on 29 November 2010. A total of 12,646,000 ordinary shares of USD0.01 each were allotted and issued to IFC.

25 TRADE AND BILLS PAYABLE

	2010 RMB'000	2009 RMB'000
Trade payables	**1,942,587**	1,335,445
Bills payable	**11,348**	10,174
	1,953,935	1,345,619

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

	2010 RMB'000	2009 RMB'000
Within 3 months	**1,516,724**	1,028,671
Over 3 months but less than 6 months	**202,237**	60,760
Over 6 months but less than 12 months	**97,837**	128,526
Over 12 months	**137,137**	127,662
	1,953,935	1,345,619

26 OTHER PAYABLES AND ACCRUED EXPENSES

		The Group	
	Note	2010 RMB'000	2009 RMB'000
Customer deposits and receipts in advance		**514,883**	390,344
Accrued payroll and welfare		**163,223**	137,620
Taxes payable other than income tax		**109,132**	91,391
Staff compensation and termination provisions	29(b)	**180,397**	175,589
Amounts due to related parties	37(c)	**1,839**	309
Payable to third parties of acquired subsidiaries		**181,271**	128,064
Acquisition consideration payable		**885,423**	10,145
Current portion of long-term payables	31	**216,783**	182,593
Accrued expenses and other payables		**218,540**	192,962
		2,471,491	1,309,017

26 OTHER PAYABLES AND ACCRUED EXPENSES *(continued)*

		The Company	
		2010	2009
	Note	**RMB'000**	RMB'000
Accrued withholding tax for final dividend of year 2008	33(b)	**18,094**	18,744
Other accrued expenses and payables		**378**	291
		18,472	19,035

27 CORPORATE BOND

	2010	2009
	RMB'000	RMB'000
Corporate bond	**1,000,000**	–

Shandong Shanshui issued a three-year corporate bond of RMB1 billion to corporate investors in the PRC debenture market on 11 October 2010. The three year corporate bond bears a fixed interest rate of 4.2% per annum and interest is paid annually. Interest payable for the current period was included in other payables.

28 OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2010, the Group had obligation under finance lease payable as follows:

	2010		2009	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**1,133**	**1,200**	1,733	1,800
After 1 year but within 2 years	**1,069**	**1,200**	1,069	1,200
After 2 years but within 5 years	**2,861**	**3,600**	2,861	3,600
After 5 years	**1,650**	**2,400**	2,407	3,600
	5,580	**7,200**	6,337	8,400
Total	**6,713**	**8,400**	8,070	10,200
Less: total future interest expenses		**1,687**		2,130
Present value of lease obligation		**6,713**		8,070

29 EMPLOYEE BENEFITS

(a) Defined contribution retirement plans

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

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

29 EMPLOYEE BENEFITS *(continued)*

(b) Staff compensation and termination provision

	Note	**2010** **RMB'000**	2009 RMB'000
Staff compensation and termination provision	26	**180,397**	175,589

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

(c) Defined benefit obligations

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

	2010 **RMB'000**	2009 RMB'000
Present value of the obligations	**180,890**	194,814
Unrecognised actuarial losses	**(9,460)**	(10,250)
Recognised liability for defined benefit plans	**171,430**	184,564

The balance represents the provision for the post-employment benefits according to the non-cancellable staff relocation plans agreed in respect of Shandong Shanshui, Weifang Shanshui, Qianshan Cement (excluding the compensation stated in note 29(b)) and Gongyuan Cement. The Group's obligations in respect of the defined benefit obligations at the end of the reporting period were reviewed by an independent actuary, Towers Perrin (Shenzhen) Consulting Co., Ltd. Shanghai Branch, which is a member of the Society of Actuaries of the United States of America, using the projected unit credit actuarial cost method.

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

29 EMPLOYEE BENEFITS *(continued)*

(c) Defined benefit obligations *(continued)*

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

	2010	2009
	RMB'000	RMB'000
At 1 January	**184,564**	194,630
Payments	**(15,994)**	(12,346)
Current service cost	**1,210**	1,360
Interest expense	**7,030**	6,710
Actuarial loss recognised in consolidated income statement	**90**	300
Gain on settlement	**(5,470)**	(6,090)
At 31 December	**171,430**	184,564

Expenses recognised in the consolidated income statement are as follows:

	2010	2009
	RMB'000	RMB'000
Interest expense	**7,030**	6,710
Actuarial loss	**90**	300
Current service cost	**1,210**	1,360
Gain on settlement	**(5,470)**	(6,090)
	2,860	2,280

29 EMPLOYEE BENEFITS *(continued)*

(c) Defined benefit obligations *(continued)*

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

	2010	2009
	RMB'000	RMB'000
Finance expenses	**7,030**	6,710
Administrative expenses	**(4,170)**	(4,430)
	2,860	2,280

Principal actuarial assumptions at each statement of financial position date:

	2010	2009
Discount rate	**4.00%**	3.75%
Annual growth rate of living expenditure	**2.5%-8%**	2.5%-8%
Social average salary increase rate	**10.00%**	10.00%
Average expected remaining working life of eligible employees	**12 years**	13 years

30 DEFERRED INCOME

	2010	2009
	RMB'000	RMB'000
At 1 January	**311,195**	296,323
Additions	**41,485**	27,734
Recognised in consolidated income statement	**(15,585)**	(12,862)
At 31 December	**337,095**	311,195

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

31 LONG-TERM PAYABLES

	2010 RMB'000	2009 RMB'000
Acquisition consideration payable (note)	**33,667**	211,011
Others	**70,235**	63,727
	103,902	274,738

Note: This balance mainly represents the consideration payable for the acquisition of Kangda Cement Group. The nominal value of consideration is RMB225,585,000 and is payable over a period of two years. The amount has been discounted to present value as at 31 December 2010.

32 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position

	2010 RMB'000	2009 RMB'000
Provision for PRC income tax for the year	**411,292**	215,506
Provisional income tax paid	**(146,844)**	(107,468)
	264,448	108,038

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

(b) Deferred tax assets and liabilities recognised

Movements in deferred tax assets and liabilities (prior to offsetting of balances) for the year ended 31 December 2010 are as follows:

	At 1 January 2010 RMB'000	Acquisition through business combinations RMB'000	Recognised in profit or loss RMB'000	Recognised in equity RMB'000	At 31 December 2010 RMB'000
Deferred tax assets					
Unrealised profits resulted from intra-group transactions	20,122	–	6,613	–	26,735
Depreciation of property, plant and equipment	4,315	–	1,969	–	6,284
Intangible assets amortisation	987	–	(414)	–	573
Tax loss carry-forwards	20,179	230	20,298	–	40,707
Impairment losses for property, plant and equipment	17,251	–	10,296	–	27,547
Write down of inventory	3,596	–	(1,263)	–	2,333
Impairment losses for trade and other receivables	2,685	–	(2,685)	–	–
Deferred income	29,450	–	1,611	–	31,061
Accrued bonus	3,670	–	1,747	–	5,417
Accrued auditor's remuneration	250	–	83	–	333
Deferred expenses	–	1,547	2,116	–	3,663
Acquisition consideration payable	11,481	–	(450)	–	11,031
	113,986	1,777	39,921	–	155,684
Offset deferred tax liabilities (*)	(19,436)				(23,572)
Deferred tax assets at 1 January/31 December	94,550				132,112
Deferred tax liabilities					
Change of fair value of available-for-sale securities	2,475	–	–	(1,129)	1,346
Revaluation surplus of property, plant and equipment	74,776	16,824	(2,218)	–	89,382
Revaluation surplus of intangible assets	25,761	11,487	(10,559)	–	26,689
Revaluation surplus of inventory	–	20	(306)	–	(286)
	103,012	28,331	(13,083)	(1,129)	117,131
Offset deferred tax assets (*)	(19,436)				(23,572)
Deferred tax liabilities at 1 January/31 December	83,576				93,559

* This represents the offset balances between deferred tax assets and deferred tax liabilities because the Group has the legally enforceable right to set off them.

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

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

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

	At 1 January 2009 RMB'000	Acquisition through business combinations RMB'000	Recognised in profit or loss RMB'000	Recognised in equity RMB'000	At 31 December 2009 RMB'000
Deferred tax assets					
Unrealised profits resulted from intra-group transactions	15,985	–	4,137	–	20,122
Depreciation of property, plant and equipment	3,014	–	1,301	–	4,315
Intangible assets amortisation	1,528	–	(541)	–	987
Tax loss carry-forwards	3,316	8,389	8,474	–	20,179
Impairment losses for property, plant and equipment	13,071	5,301	(1,121)	–	17,251
Write down of inventory	1,115	521	1,960	–	3,596
Impairment losses for trade and other receivables	2,000	–	685	–	2,685
Deferred income	64,636	–	(35,186)	–	29,450
Accrued bonus	9,106	–	(5,436)	–	3,670
Accrued auditor's remuneration	–	–	250	–	250
Change of fair value of interest swap derivatives	532	–	(532)	–	–
Acquisition consideration payable	–	11,930	(449)	–	11,481
	114,303	26,141	(26,458)	–	113,986
Deferred tax liabilities					
Accrued staff welfare	765	–	(765)	–	–
Change of fair value of available-for-sale securities	1,131	–	–	1,344	2,475
Revaluation surplus of property, plant and equipment	99,619	(19,405)	(5,438)	–	74,776
Revaluation surplus of intangible assets	33,823	462	(8,524)	–	25,761
	135,338	(18,943)	(14,727)	1,344	103,012

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

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

As at 31 December 2010, the Group did not recognise deferred tax assets in respect of cumulative tax losses of PRC subsidiaries totalling RMB45,288,000 (2009: RMB63,265,000). It is not probable that future taxable profits generated by these PRC subsidiaries against which the losses can be utilised will be available within five years.

Under the "Corporate Income Tax Law of the People's Republic of China" (the "Corporate Income Tax Law"), the Company's subsidiaries in the PRC are levied a 10% withholding tax on dividends declared to their foreign investment holding companies arising from profits earned subsequent to 1 January 2008. As at 31 December 2010, temporary differences relating to the undistributed profits of these subsidiaries amounted to RMB946,214,000 (2009: RMB655,903,000). Deferred tax liabilities of RMB94,621,400 (2009: RMB65,590,300) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

33 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2009	185,372	3,299,353	477,947	(168,559)	(216,131)	3,577,982
Changes in equity for 2009:						
Conversion of convertible notes	6,983	133,669	(57,787)	–	–	82,865
Dividend approved in respect of the previous year	–	–	–	–	(188,652)	(188,652)
Total comprehensive income for the year	–	–	–	(2,432)	(10,742)	(13,174)
Balance at 31 December 2009 and 1 January 2010	192,355	3,433,022	420,160	(170,991)	(415,525)	3,459,021
Changes in equity for 2010:						
Conversion of convertible notes	**843**	**18,063**	**(7,125)**	**–**	**–**	**11,781**
Dividend approved in respect of the previous year	**–**	**–**	**–**	**–**	**(238,294)**	**(238,294)**
Total comprehensive income for the year	**–**	**–**	**–**	**(86,272)**	**(8,131)**	**(94,403)**
Balance at 31 December 2010	**193,198**	**3,451,085**	**413,035**	**(257,263)**	**(661,950)**	**3,138,105**

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

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

	2010	2009
	RMB'000	RMB'000
Final dividend proposed after the end of the reporting period	**343,799**	240,296

Pursuant to the shareholders' approval at the Annual General Meeting on 19 May 2010, a final dividend of HKD0.097 per share totalling HKD273,147,169.40 in respect of the year ended 31 December 2009 was approved on 19 May 2010.

Pursuant to a resolution passed at the Directors' meeting on 25 March 2011, a final dividend in respect of the year ended 31 December 2010 of HKD0.145 per share totalling HKD408,312,779.00 was proposed for shareholders' approval at the Annual General Meeting. Final dividend of HKD408,312,779.00 proposed after the statement of financial position date has not been recognised as a liability at the end of the reporting period.

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

	2010	2009
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, declared and paid during the year	**238,294**	169,907

Pursuant to the Corporate Income Tax Law and the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China" (the "Implementation Rules"), the Company is likely to be required to withhold and pay corporate income tax for its non-resident enterprise shareholders to whom the Company pays the dividends for the year ended 31 December 2008. The Company withheld 10% corporate income tax of RMB18,744,439 when it distributed the dividends for the year ended 31 December 2008 to its non-resident enterprise shareholders.

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends *(continued)*

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

Till now, the Company is in the process to negotiate with the relevant PRC tax authorities. If the relevant PRC tax authorities finally determined that the Corporate Income Tax Law and the Implementation Rules are not applicable to the Company, and hence no enterprise income tax should have been withheld, the Company will procure such tax, amounting to RMB18,094,000 as at 31 December 2010, to be refunded to the relevant non-resident enterprise shareholders whose tax had been withheld pursuant to the arrangement above.

(c) Share capital

	2010		2009	
	Number of shares	**RMB equivalent RMB'000**	Number of shares	RMB equivalent RMB'000
Authorised:				
Ordinary shares of the Company of USD0.01 each	**10,000,000,000**	**701,472**	10,000,000,000	701,472
Ordinary shares of the Company, issued and fully paid:				
At 1 January	**2,803,304,000**	**192,355**	2,700,986,000	185,372
Issuance of shares:				
– Conversion of the convertible notes (see note 24(c))	**12,646,200**	**843**	102,318,000	6,983
At 31 December	**2,815,950,200**	**193,198**	2,803,304,000	192,355

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital *(continued)*

Notes:

(i) Authorised share capital

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

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

On 4 July 2008, the Company listed its shares on the Main Board of the Stock Exchange of Hong Kong Limited. On 25 July 2008, the Global Coordinator fully exercised the over-allotment option on behalf of the International Underwriters. The notes holders of the Company's convertible notes (see note 24) were fully convert their notes on 30 April 2009 and 29 November 2010 respectively. Except for these, no new shares were issued by the Company.

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Statutory reserves

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

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

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves *(continued)*

(iii) Other reserves

Other reserves include:

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

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

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

(iv) Exchange reserve

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

(v) Fair value reserve

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

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(e) Distributability of reserves

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the contributed surplus account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

At 31 December 2010, the Company had RMB2,531,872,000 available for distribution to equity shareholders of the Company (2009: RMB2,846,506,000).

After the end of the reporting period the directors proposed a final dividend of HKD0.145 per ordinary share (2009: HKD0.097 per share), amounting to HKD408,312,779.00 (2009: HKD273,147,169.40) (note 33(b)). This dividend has not been recognised as a liability at the end of the reporting period.

(f) Capital management

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

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

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

33 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(f) Capital management *(continued)*

The gearing ratio is as follows:

		The Group	
	Note	**2010** **RMB'000**	2009 RMB'000
Current liabilities:			
Short-term and current portion of interest-bearing borrowings	24(a)	**1,684,500**	2,147,000
Current portion of loans from equity shareholders	24(b)	**106,134**	58,527
		1,790,634	2,205,527
Non-Current liabilities:			
Interest-bearing borrowings, less current portion	24(a)	**4,260,000**	3,361,000
Loans from equity shareholders, less current portion	24(b)	**348,114**	177,832
Convertible notes	24(c)	**–**	10,859
Corporate bond	27	**1,000,000**	–
		5,608,114	3,549,691
Total debt		**7,398,748**	5,755,218
Less: Cash and cash equivalents	23(a)	**(1,144,840)**	(886,130)
Net debt		**6,253,908**	4,869,088
Total equity		**6,149,005**	5,229,128
Total capital		**12,402,913**	10,098,216
Gearing ratio		**50.4%**	48.2%

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

(Expressed in Renminbi unless otherwise indicated)

34 ACQUISITIONS

The Group acquired the equity interests of the following entities engaged in cement business in Shanxi Province, Shaanxi Province, Inner-Mongolia Autonomous Region and Tianjin city during the year ended 31 December 2010. The acquisitions are expected to provide the Group with an increased market share in the respective regions. The fair value of net identifiable assets of the acquirees is determined based on the valuation carried out by two qualified independent valuers, Jones Lang LaSalle Sallmanns Limited and Shandong Ruihua Assets Valuation Company Limited (山東瑞華資產評估有限公司).

From the date of relevant acquisitions to 31 December 2010, these acquirees contributed revenue of RMB236,832,000 and net profit of RMB10,272,000. If these acquisitions had occurred on 1 January 2010, management estimates that consolidated revenue would have been RMB12,324,465,000 and consolidated profit for the year would have been RMB1,046,205,000.

Name of company	**Acquired interest**	**Acquisition date**	**Principal activities**
AKBB Cement 阿魯科爾沁巴彥包特 水泥有限公司	Note (a)	7 January 2010	Production and sale of cement and clinker
Shengfeng Cement 聖豐水泥製造有限公司	Note (b)	2 March 2010	Production and sale of cement
Hequ Zhongtianlong 河曲縣中天隆水泥有限公司	68%	9 April 2010	Production and sale of cement and clinker
Tianjin Tianhui 天津天輝水泥有限公司	100%	10 April 2010	Production and sale of cement
Lvliang Yilong 呂梁億龍水泥有限公司	90%	25 May 2010	Production and sale of cement and clinker
Chifeng Yuanhang 赤峰遠航水泥有限責任公司	50%	15 September 2010	Production and sale of cement and clinker
Quanxing Cement 興安盟全興水泥製造 有限責任公司	90%	30 September 2010	Production and sale of clinker
Tianzhu Cement 烏蘭浩特市天柱水泥 有限公司	90%	30 September 2010	Production and sale of cement

(Expressed in Renminbi unless otherwise indicated)

34 ACQUISITIONS *(continued)*

Name of company	Acquired interest	Acquisition date	Principal activities
Yulin Yatai 榆林亞泰化工科技有限公司	62%	31 October 2010	Production and sale of cement and related products
Dongying Dongxing 東營市東興水泥有限公司	70%	28 December 2010	Production and sale of cement
Dongying Shenglv 東營市勝鋁水泥有限公司	90%	28 December 2010	Production and sale of cement and clinker
Heju Shanshui 晉城山水合聚水泥有限公司	90%	31 December 2010	Establishment of cement production line

Notes:

(a) Acquisition of business from AKBB Cement

On 7 January 2010, a 85% owned subsidiary of the Group, Alu Kerqin Qi Shanshui Cement Co., Ltd. ("Alu Kerqin Cement") entered into an agreement with AKBB Cement for the acquisition of a group of net assets in AKBB Cement for an aggregate consideration of RMB73.13 million. The group of net assets acquired constituted a business and therefore is accounted for as business combination in accordance with IFRS 3, *Business Combination.*

(b) Acquisition of business from Shengfeng Cement

On 2 March 2010, a 85% owned subsidiary of the Group, Huolin Guole Shanshui Cement Co., Ltd. signed an agreement to acquire a group of net assets in Shengfeng Cement for a total cash consideration of RMB14,000,000. The group of net assets acquired constituted a business and therefore is accounted for as business combination in accordance with IFRS 3, *Business Combination.*

34 ACQUISITIONS *(continued)*

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

	Pre-acquisition carrying amount	**Fair value adjustment**	**Recognised values on acquisition**
	RMB'000	RMB'000	RMB'000
Fixed assets	1,367,672	68,165	1,435,837
Cash and cash equivalents	98,621	–	98,621
Intangible assets	2,561	48,269	50,830
Trade and other receivables	322,629	–	322,629
Inventories	76,808	110	76,918
Deferred tax assets	1,777	–	1,777
Short-term loans	(40,000)	–	(40,000)
Trade and other payables	(627,824)	–	(627,824)
Long-term payable	(1,000)	–	(1,000)
Deferred tax liabilities	–	(28,331)	(28,331)
Net identifiable assets	1,201,244	88,213	1,289,457
Non-controlling interests arising on business combination			(340,306)
Goodwill arising on acquisition			395,830
Total purchase consideration			1,344,981
Satisfied by:			
Consideration payable			1,189,181
Cash paid			155,800
			1,344,981
Cash flow in respect of the acquisition:			
Cash paid by the Group			155,800
Cash contributed by the non-controlling interests			5,600
Less: Cash acquired			(98,621)
Net cash outflow in respect of the acquisitions			62,779

34 ACQUISITIONS *(continued)*

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

(i) Acquisition of Chifeng Yuanhang

On 16 September 2010, the Group signed an agreement to acquire 50% equity interests in Chifeng Yuanhang from independent third parties for a total cash consideration approximately of RMB375,927,000.

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

	Pre-acquisition carrying amount RMB'000	**Fair value adjustment** RMB'000	**Recognised values on acquisition** RMB'000
Fixed assets	470,491	86,907	557,398
Cash and cash equivalents	30,061	–	30,061
Intangible assets	1,891	45,503	47,394
Trade and other receivables	115,832	–	115,832
Inventories	44,964	1,220	46,184
Deferred tax assets	1,546	–	1,546
Trade and other payables	(294,714)	–	(294,714)
Deferred tax liabilities	–	(33,408)	(33,408)
Net identifiable assets	370,071	100,222	470,293
Non-controlling interests arising on business combination			(235,146)
Goodwill arising on acquisition			140,780
Total purchase consideration			375,927
Satisfied by:			
Consideration payable			345,927
Cash paid			30,000
Net cash outflow in respect of the acquisition			375,927
Cash flow in respect of the acquisition:			
Cash paid by the Group			30,000
Less: Cash acquired			(30,061)
Net cash outflow in respect of the acquisition			(61)

34 ACQUISITIONS *(continued)*

(ii) Acquisition of Quanxing Cement and Tianzhu Cement

On 16 September 2010, the Group signed agreements to acquire 90% equity interests both in Quanxing Cement and Tianzhu Cement, both of which were previously controlled by same independent third parties, for a total cash consideration approximately of RMB414,000,000.

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

	Pre-acquisition carrying amount	**Fair value adjustment**	**Recognised values on acquisition**
	RMB'000	RMB'000	RMB'000
Fixed assets	367,465	(30,181)	337,284
Cash and cash equivalents	1,002	–	1,002
Intangible assets	–	487	487
Trade and other receivables	47,294	–	47,294
Short-term loans	(40,000)	–	(40,000)
Trade and other payables	8,142	–	8,142
Long-term payable	(1,000)	–	(1,000)
Deferred tax liabilities	–	7,424	7,424
Net identifiable assets	382,903	(22,270)	360,633
Non-controlling interests arising on business combination			(36,063)
Goodwill arising on acquisition			89,430
Total purchase consideration			414,000
Satisfied by:			
Consideration payable			414,000
Cash flow in respect of the acquisition:			
Cash acquired			(1,002)
Net cash inflow in respect of the acquisition			(1,002)

34 ACQUISITIONS *(continued)*

(iii) Acquisition of Heju Shanshui

On 31 December 2010, the Group signed an agreement to acquire 90% equity interests in Heju Shanshui from independent third parties for a total cash consideration approximately of RMB216,000,000.

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

	Pre-acquisition carrying amount	**Fair value adjustment**	**Recognised values on acquisition**
	RMB'000	RMB'000	RMB'000
Fixed assets	189,057	87	189,144
Cash and cash equivalents	4	–	4
Trade and other receivables	120,600	–	120,600
Inventories	98	–	98
Trade and other payables	(124,174)	–	(124,174)
Deferred tax liabilities	–	(22)	(22)
Net identifiable assets	185,585	65	185,650
Non-controlling interests arising on business combination			(18,565)
Goodwill arising on acquisition			48,915
Total purchase consideration			216,000
Satisfied by:			
Consideration payable			187,200
Cash paid			28,800
Net cash outflow in respect of the acquisition			216,000
Cash flow in respect of the acquisition:			
Cash paid by the Group			28,800
Less: Cash acquired			(4)
Net cash outflow in respect of the acquisition			28,796

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

(a) Credit risk

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

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

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

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

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 3% (2009: 20%) and 3% (2009: 21%) of the total trade and bills receivable were due from the Group's largest customer and the five largest customers respectively.

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

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

(b) Liquidity risk

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

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

The Group

	2010 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	1-2 years RMB'000	2-5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Short-term bank loans and current portion of long-term bank loans (note 24(a))	1,945,134	–	–	–	1,945,134	1,684,500
Long-term bank loans (note 24(a))	–	3,506,422	913,508	36,735	4,456,665	4,250,000
Loans from government (note 24(a))	1,164	1,141	3,284	5,941	11,530	10,000
Loans from equity shareholders (note 24(b))	120,402	117,584	255,896	–	493,882	454,248
Trade and bills payable (note 25)	1,953,935	–	–	–	1,953,935	1,953,935
Other payables and accrued expense (note 26)	2,482,330	–	–	–	2,482,330	2,471,491
Current tax liabilities (note 32(a))	264,448	–	–	–	264,448	264,448
Corporate bond (note 27)	42,000	42,000	1,042,000	–	1,126,000	1,000,000
Obligation under finance leases (note 28)	1,200	1,200	3,600	2,400	8,400	6,713
Long-term payables (note 31)	–	54,324	35,597	16,375	106,296	103,902
	6,810,613	3,722,671	2,253,885	61,451	12,848,620	12,199,237

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

(b) Liquidity risk *(continued)*

The Group

	2009 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	1-2 years RMB'000	2-5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Short-term bank loans and current portion of long-term bank loans (note 24(a))	2,393,848	–	–	–	2,393,848	2,147,000
Long-term bank loans (note 24(a))	–	1,457,792	2,118,944	36,953	3,613,689	3,351,000
Loans from government (note 24(a))	255	1,164	3,353	7,013	11,785	10,000
Loans from equity shareholders (note 24(b))	56,842	57,040	142,603	–	256,485	236,359
Convertible notes (note 24(c))	–	–	15,022	–	15,022	10,859
Trade and bills payable (note 25)	1,345,619	–	–	–	1,345,619	1,345,619
Other payables and accrued expense (note 26)	1,309,017	–	–	–	1,309,017	1,309,017
Current tax liabilities (note 32(a))	108,038	–	–	–	108,038	108,038
Obligation under finance leases (note 28)	1,800	1,200	3,600	3,600	10,200	8,070
Long-term payables (note 31)	–	207,257	68,171	16,375	291,803	274,738
	5,215,419	1,724,453	2,351,693	63,941	9,355,506	8,800,700

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

(b) Liquidity risk *(continued)*

The Company

	2010 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	**1-2 years RMB'000**	**2-5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**	**Balance sheet carrying amount RMB'000**
Convertible notes (note 24(c))	–	–	–	–	–	–

The Company

	2009 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	1-2 years RMB'000	2-5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Convertible notes (note 24(c))	–	–	15,022	–	15,022	10,859

(c) Interest rate risk

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

The Group's interest rate risk arises primarily from interest-bearing borrowings and corporate bond. Borrowings issued at variable rates and at fixed rates and corporate bond issued at fixed rate expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of the Group's and the Company's borrowings and corporate bond are disclosed in note 24 and 27 respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

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

(c) Interest rate risk *(continued)*

(i) Interest rate profile

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

The Group

	2010		2009	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Short-term Bank loans	**4.78%~5.75%**	**380,000**	5.31%~7.47%	660,000
Long-term Bank loans	**5.40%~5.40%**	**850,000**	5.50%~6.75%	200,000
Corporate bond	**4.2%**	**1,000,000**		–
		2,230,000		860,000
Variable rate borrowings:				
Short-term Bank loans	**N/A**	**N/A**	5.31%~7.84%	50,000
Long-term Bank loans	**4.86%~7.74%**	**4,704,500**	4.86%~8.32%	4,588,000
Loans from equity shareholders	**2.46%~4.21%**	**454,248**	5.13%~6.83%	236,360
Loans from government	**2.55%~4.44%**	**10,000**	2.55%~4.44%	10,000
		5,168,748		4,884,360
Total borrowings		**7,398,748**		5,744,360
Net fixed rate borrowings as a percentage of total borrowings		**30%**		15%

The interest rate of the variable rate borrowing of the Group is based on the base rate announced by the People's Bank of China or applicable market rates.

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

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB63,160,000 (2009: RMB57,707,300). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

(d) Currency risk

(i) Forecast transactions

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

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

(ii) Recognised assets and liabilities

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

Except for the loans due to equity shareholders (see note 24(b)) and convertible notes (see note 24(c)), all the Group's borrowings are denominated in Renminbi. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

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

(d) Currency risk *(continued)*

(iii) Exposure to currency risk

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

The Group

	Exposure to foreign currencies (expressed in Renminbi)			
	2010		2009	
	HKD	**USD**	HKD	USD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and cash equivalents	**21,073**	**41,587**	28,480	38,168
Loans from equity shareholders	**–**	**(454,248)**	–	(236,359)
Convertible notes	**–**	**–**	–	(10,859)
Net exposure arising from recognised assets and liabilities	**21,073**	**(412,661)**	28,480	(209,050)

The Company

	Exposure to foreign currencies (expressed in Renminbi)			
	2010		2009	
	HKD	**USD**	HKD	USD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and cash equivalents	**20,678**	**17,626**	28,411	36,473
Convertible notes	**–**	**–**	–	(10,859)
Net exposure arising from recognised assets and liabilities	**20,678**	**17,626**	28,411	25,614

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

(d) Currency risk *(continued)*

(iv) Sensitivity analysis

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

The Group

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States Dollars	**10%**	**(37,324)**	10%	(17,960)
	(10%)	**37,324**	(10%)	17,960
Hong Kong Dollars	**10%**	**2,107**	10%	2,848
	(10%)	**(2,107)**	(10%)	(2,848)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2009.

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

(e) Equity price risk

The Group is exposed to equity price changes primarily arising from the listed investment classified as available-for-sale equity securities (see note 17).

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

At 31 December 2010, it is estimated that an increase/(decrease) of 50% (2009: 50%) in the relevant stock price (for listed investment), with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) as follows:

The Group

	2010		2009	
	Increase/ (decrease) in the relevant risk variable rates	**Effect on other components of equity RMB'000**	Increase/ (decrease) in the relevant risk variable rates	Effect on other components of equity RMB'000
Change in the stock price of the listed investment	**50%**	**2,397**	50%	4,090
	(50%)	**(2,397)**	(50%)	(4,090)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the changes in the stock price had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock price, that none of the Group's available-for-sale securities would be considered impaired as a result of the decrease in the relevant stock price, and that all other variables remain constant. The analysis is performed on the same basis for 2009.

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

(f) Fair Values

(i) Financial instruments carried at fair value

As a result of the adoption of the amendments to IFRS 7, the fair value measurement of the Group's financial instruments categorises into a three-level fair value hierarchy according to the extent to which they are based on observable market data. As at 31 December 2010, the Group only has available-for-sale securities which was measured at fair value at the end of the reporting period under Level 1 of the fair value hierarchy defined in IFRS 1, Financial Instruments: Disclosures. Level 1 is defined as follows:

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

2010

	The group			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Assets				
Available-for-sale securities:				
– Listed	**6,392**	**–**	**–**	**6,392**

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

The carrying amounts of the Group's and the Company's significant financial assets and liabilities, which are carried at cost or amortised cost, are not materially different from their fair values as at 31 December 2010 and 2009.

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

(g) Estimation of fair values

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

(i) Available-for-sale securities

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

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

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

(iii) Non-derivative financial liabilities

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

(iv) Interest-bearing loans and borrowings, corporate bonds and finance lease liabilities

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

(v) Interest rates used for determining fair value

The Group uses the market rate of interest-bearing borrowings as of 31 December 2010. The interest rates used are disclosed in note 24.

36 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2010 not provided for in the financial statements were as follows:

	2010	2009
	RMB'000	RMB'000
Authorised and contracted for		
– plants and equipments	**1,877,236**	374,148
Authorised but not contracted for		
– plants and equipments	**1,845,926**	4,508,601
	3,723,162	4,882,749

(b) At 31 December 2010, the total future minimum lease payments under non-cancellable operating lease are payable as follows:

	2010	2009
	RMB'000	RMB'000
Within 1 year	**15,639**	15,924
After 1 year but within 2 years	**15,579**	15,864
After 2 years but within 5 years	**46,500**	45,805
After 5 years	**131,492**	133,031
	209,210	210,624

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

37 MATERIAL RELATED PARTY TRANSACTIONS

(a) During the year ended 31 December 2010, transactions with the following parties are considered as related party transaction.

Name of party	Relationship
Mr. Zhang Caikui*	Equity holder of the ultimate holding company and chairman of the Company
Mr. Li Yanmin*	Equity holder of the ultimate holding company and director of the Company for the period from 1 January 2010 to 5 March 2010
Mr. Yu Yuchuan*	Equity holder of the ultimate holding company and director of the Company
Mr. Dong Chengtian*	Equity holder of the ultimate holding company and director of the Company
Mr. Zhao Liping*	Equity holder of the ultimate holding company and key management member of the Company
Mr. Zhao Yongkui*	Equity holder of the ultimate holding company and key management member of the Company
Mr. Mi Jingtian*	Equity holder of the ultimate holding company and key management member of the Company
Mr. Li Maohuan*	Equity holder of the ultimate holding company and key management member of the Company
Mr. Wang Yongping*	Equity holder of the ultimate holding company and key management member of the Company
Mr. Zhang Bin	Director of the Company for the period from 10 September 2010 to 31 December 2010

(* collectively the "Management Shareholders")

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) During the year ended 31 December 2010, transactions with the following parties are considered as related party transaction. *(continued)*

Name of party	Relationship
China Shanshui Investment Company Limited ("China Shanshui Investment")	Ultimate holding company
MS Cement Limited ("MS Cement")	Equity shareholder of the Company
MS Cement II Limited ("MS Cement II")	Equity shareholder of the Company
CDH Cement Limited ("CDH Cement")	Equity shareholder of the Company
International Finance Corporation ("IFC")	Equity shareholder of the Company
Jinan Shanshui	Fellow subsidiary under common ultimate control
Jinan Shanshui Lixin Investment Development Co., Ltd. ("Shanshui Lixin")	Fellow subsidiary under common ultimate control
Jinan Shanshui Jianxin Investment Development Co., Ltd. ("Shanshui Jianxin")	Fellow subsidiary under common ultimate control
Tianjin Tianhui	Fellow subsidiary under common ultimate control for the period from 1 January 2010 to 9 April 2010
Shanshui Stanford New Building Materials Co., Ltd. ("Stanford")	Fellow subsidiary under common ultimate control from 1 January 2010 to 12 July 2010
Shanshui Jinzhu Powder Co., Ltd. ("Jinzhu Powder")	Fellow subsidiary under common ultimate control
Dongyue Packaging Co., Ltd. ("Dongyue")	Fellow subsidiary under common ultimate control
Jinan Cement Product Factory ("Jinan Cement Product")	Fellow subsidiary under common ultimate control
Jinan Cement Factory ("Jinan Cement")	Fellow subsidiary under common ultimate control
Jinan Huanghai Cement Co., Ltd. ("Jinan Huanghai")	Fellow subsidiary under common ultimate control
Jinan Dongfanghong Cement Co., Ltd. ("Jinan Dongfanghong")	Fellow subsidiary under common ultimate control
Jinan Shanshui Group Property Development Co., Ltd. ("Property Development")	Fellow subsidiary under common ultimate control
Jinan Shanshui Commercial City Co., Ltd. ("Commercial City")	Fellow subsidiary under common ultimate control

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties of the Group

	Note	**2010 RMB'000**	2009 RMB'000
Recurring transactions			
Sales:	(i)		
– Tianjin Tianhui		**11,497**	39,285
– Stanford		**–**	734
		11,497	40,019
Rental income:			
– Jinzhu Powder		**135**	135
– Stanford	(ii)	**279**	559
		414	694
Brand royalty income:			
– Tianjin Tianhui	(iii)	**49**	379
Management Fees			
– Tianjin Tianhui	(iv)	**25**	384
– Jinzhu Powder		**610**	610
		635	994
Non-recurring transactions			
Advances to:			
– China Shanshui Investment		**–**	26
– Property Development		**–**	1,341
		–	1,367
Loans to an associate and relevant interest income:			
– Dong'e Shanshui	(v)	**74,680**	–
Loans from related parties and relevant interest expenses:			
– IFC	(vi)	**343,751**	–
– Jinan Shanshui		**1,200**	–
		344,951	–

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

	Note	**2010** **RMB'000**	2009 RMB'000
Repayment of loans from related parties and relevant interests to:			
– IFC	(vi)	**125,482**	61,843

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. On 10 April 2010, Tianjin Tianhui became a wholly-owned subsidiary of the Group and its transactions with the Group since 10 April 2010 were eliminated on consolidation.

(ii) Shanshui Group signed the tenancy agreement with Standford for a term of eighteen years commencing on 14 January 2008 and expiring on 31 December 2022 for an annual rent of RMB558,500. Pursuant to the equity transfer agreement entered between Jinan Shanshui and USA Standford Capital Limited ("USA Standford") dated 12 July 2010, Jinan Shanshui had transferred all its interests in Standford to USA Standford. Since then, Standford was not a related party of the Group.

(iii) The Group entered into a trademark licence agreement with Tianjin Tianhui in 2008. The agreement allows Tianjin Tianhui to use the Shanshui Dongyue brand for a trademark fee of RMB1 per ton of cement produced by Tianjin Tianhui. The latter produced 48,977 tons of cement during the period from 1 January 2010 to 9 April 2010.

(iv) Pursuant to the management agreement between Tianjin Tianhui and Shandong Shanshui, Shandong Shanshui is entitled to an annual management fee of RMB100,000 plus 5% share of the annual gross profits of Tianjin Tianhui. This represents the total management fees of Shandong Shanshui for the period from 1 January 2010 to 9 April 2010.

(v) These relate to loans and related interests to Dong'e Shanshui, the associate of the Group. These loans with total principal of RMB74,000,000 bear interest at one-year PRC bank loan interest rate (2010: 5.31%) and the related interest receivables as at 31 December 2010 was RMB680,000.

(vi) Anqiu Shanshui and Pingyin Shanshui entered into loan agreements with one of the Company's equity shareholders, International Finance Corporation ("IFC"), totalling USD50,000,000 in 2006. The loans bear interest at London Inter Bank Offered Rate ("LIBOR") plus 2% per annum and are repayable bi-annually from 2008 to 2014.

Weihai Shanshui, Qingdao Chuangxin, Linqu Shanshui and Zaozhuang Chuangxin entered into loan agreements with IFC, totalling USD50,000,000 in 2010. The loans bear interest plus 2.75% per annum and are repayable bi-annually from 2010 to 2015.

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties of the Group:

	2010 RMB'000	2009 RMB'000
Other receivables due from:		
– Tianjin Tianhui	–	4,480
– Stanford	–	1,018
– Jinzhu Powder	–	541
– China Shanshui Investment	739	760
– Property Development	1,341	1,341
– Dong'e Shanshui	680	–
	2,760	8,140
Customer deposits and receipts in advance from:		
– Tianjin Tianhui	–	51
Other financial asset due from:		
– Dong'e Shanshui	74,000	–
Other payable due to:		
– IFC	639	258
– Jinan Shanshui	1,200	–
	1,839	258
Loans due to:		
– IFC	454,248	236,359
Liability portion of convertible notes due to:		
– IFC	–	10,859

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(d) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in note 7, is as follows:

	2010	2009
	RMB'000	RMB'000
Salary, allowances and other benefits	**41,781**	30,279
Contributions to defined contribution retirement plans	**188**	146
	41,969	30,425

38 AMOUNTS DUE FROM/TO SUBSIDIARIES

At 31 December 2010, these represent cash advances to Shanshui Cement Hong Kong and cash advances from Shandong Shanshui. These amounts are unsecured, interest-free and repayable on demand.

39 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 33.

(b) On 20 January 2011, Gongyuan Cement entered into an equity transfer agreement with a third party for the acquisition of the entire equity interests in Inner-Mongolia Lande Cement Company Limited ("Lande Cement") for an aggregate consideration of RMB52,000,000. "Lande Cement" is located in Tongliao City, Inner-Mongolia Province and is principally engaged in the production and sales of cement.

40 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The directors consider the ultimate holding company of the Company as at 31 December 2010 to be China Shanshui Investment, which is incorporated in Hong Kong, China. This entity does not produce financial statements available for public use.

41 ACCOUNTING JUDGMENTS AND ESTIMATES

Key sources of estimation uncertainty are as follows:

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

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

(a) Impairments

(i) Property, plant and equipment

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

41 ACCOUNTING JUDGMENTS AND ESTIMATES *(continued)*

(a) Impairments *(continued)*

(ii) Trade and other receivables

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

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

(iii) Inventories

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

(iv) Goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 1(m). The recoverable amounts of cash-generating units have been determined based on the higher of the cash-generating units' fair value less costs to sell and its value in use. These calculations require the use of estimates which are disclosed in note 15.

(v) Impairment of customer relationship and trademarks

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

41 ACCOUNTING JUDGMENTS AND ESTIMATES *(continued)*

(b) Depreciation and amortisation

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

(c) Actuarial determined benefit obligations

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

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

(d) Taxation

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

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

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

41 ACCOUNTING JUDGMENTS AND ESTIMATES *(continued)*

(e) Going concern basis

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

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

(Expressed in Renminbi unless otherwise indicated)

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Amendment to IAS 32, *Financial instruments: Presentation – Classification of rights issues*	1 February 2010
IFRIC 19, *Extinguishing financial liabilities with equity instruments*	1 July 2010
Improvements to IFRSs 2010	1 July 2010 or 1 January 2011
Revised IAS 24, Related party disclosures	1 January 2011
Amendments to IFRIC 14, IAS 19 – *The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement*	1 January 2011
Amendments to IFRS 7, *Financial Instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to IAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
IFRS 9, *Financial Instruments*	1 January 2013

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

(X) Independent Auditor's Report

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

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

9 April 2010

(XI) Financial Statements

Consolidated Income Statement

For the year ended 31 December 2009

(Expressed in Renminbi)

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

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

(Expressed in Renminbi)

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

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

(XI) Financial Statements

Consolidated Balance Sheet

At 31 December 2009

(Expressed in Renminbi)

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

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

Consolidated Balance Sheet (continued)

At 31 December 2009

(Expressed in Renminbi)

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

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

ZHANG Caikui
Director

Yu Yuchuan
Director

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

(XI) Financial Statements

Balance Sheet

At 31 December 2009

(Expressed in Renminbi)

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

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

ZHANG Caikui	**Yu Yuchuan**
Director	Director

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

(XI) Financial Statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Statutory reserves	Other reserves	Exchange reserve	Fair value reserve	Retained profits	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2008	244	1,765,499	145,132	404,244	(9,894)	11,972	214,296	2,531,493	41,485	2,572,978
Changes in equity for 2008:										
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(677)	(677)
Liquidation of a dormant subsidiary	–	–	–	–	–	–	–	–	(6,197)	(6,197)
Dividends approved in respect of the previous year	–	–	–	–	–	–	(205,755)	(205,755)	–	(205,755)
Issue of shares	185,128	1,533,854	–	–	–	–	–	1,718,982	–	1,718,982
Increase in minority interests attributable to subsidiaries	–	–	–	–	–	–	–	–	550	550
Transfer between reserves	–	–	87,656	–	–	–	(87,656)	–	–	–
Total comprehensive income for the year	–	–	–	–	(14,930)	(8,576)	539,357	515,851	9,817	525,668
Balance at 31 December 2008 and 1 January 2009	**185,372**	**3,299,353**	**232,788**	**404,244**	**(24,824)**	**3,396**	**460,242**	**4,560,571**	**44,978**	**4,605,549**
Changes in equity for 2009:										
Conversion of convertible notes	**6,983**	**133,669**	**–**	**(57,787)**	**–**	**–**	**–**	**82,865**	**–**	**82,865**
Use of reserves	**–**	**–**	**(404)**	**–**	**–**	**–**	**–**	**(404)**	**–**	**(404)**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**–**	**–**	**(188,652)**	**(188,652)**	**–**	**(188,652)**
Increase in minority interests attributable to subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,470**	**11,470**
Transfer between reserves	**–**	**–**	**109,446**	**–**	**–**	**–**	**(109,446)**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**223**	**4,033**	**701,557**	**705,813**	**12,487**	**718,300**
Balance at 31 December 2009	**192,355**	**3,433,022**	**341,830**	**346,457**	**(24,601)**	**7,429**	**863,701**	**5,160,193**	**68,935**	**5,229,128**

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

Consolidated Cash Flow Statement

For the year ended 31 December 2009

(Expressed in Renminbi)

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

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

(b) Basis of preparation of the financial statements

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

(c) Subsidiaries and minority interests

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

(d) Goodwill

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

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

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

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

(e) Other investments in debt and equity securities

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

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

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

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

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

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

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1 (w)(iv) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1 (w)(v). When these investments are derecognised or impaired (see note 1 (m)), the cumulative gain or loss is reclassified from equity to profit and loss.

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

(f) Derivative financial instruments

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

(h) Property, plant and equipment

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

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

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

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

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

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

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

(i) Construction in progress

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Long-term consulting service contract

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

(k) Intangible assets (other than goodwill)

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

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

The estimated useful lives are as follows:

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

Both the period and method of amortisation are reviewed annually.

(l) Leased assets

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

(i) Classification of assets leased to the Group

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Leased assets *(continued)*

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

(m) Impairment of assets

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

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

– significant financial difficulty of the debtor;

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment of assets *(continued)*

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

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

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

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

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

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment of assets *(continued)*

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

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

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

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

(ii) Impairment of other assets

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

– property, plant and equipment;

– leasehold land held for own use under operating leases;

– intangible assets other than goodwill;

– other long-term assets;

– investment in subsidiaries; and

– goodwill.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment of assets *(continued)*

(iii) Interim financial reporting and impairment

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

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

(n) Inventories

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

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

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

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

(o) Trade and other receivables

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Convertible notes

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

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

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

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

(q) Interest-bearing borrowings

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

(r) Trade and other payables

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Cash and cash equivalents

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

(t) Employee benefits

(i) Short-term benefits

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

(ii) Defined contribution retirement plans

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

(iii) Defined benefit retirement plan obligations

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Employee benefits *(continued)*

(iii) Defined benefit retirement plan obligations (continued)

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

(u) Income tax

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Income tax *(continued)*

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

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

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

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

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

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

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

  - the same taxable entity; or

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Financial guarantees, provisions and contingent liabilities

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

(i) Financial guarantees issued

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

(ii) Financial guarantees received

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

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

(iii) Provisions and contingent liabilities

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(iii) Provisions and contingent liabilities (continued)

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

(w) Revenue recognition

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

(i) Sales of goods

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

(ii) Services rendered

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

(iii) Government grants

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

(iv) Dividends

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Revenue recognition *(continued)*

(v) Interest income

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

(x) Translation of foreign currencies

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

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

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

(y) Borrowing costs

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Related parties

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

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

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

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

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

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

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

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

(aa) Segment reporting

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

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

2 CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

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

3 REVENUE

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

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

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

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

4 OTHER REVENUE AND NET (EXPENSES)/INCOME

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

Notes:

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

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

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

Notes: (continued)

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

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

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

5 PROFIT BEFORE TAXATION *(continued)*

(a) Finance costs *(continued)*

Notes:

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

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

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

(b) Personnel expenses

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

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(Expressed in Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION *(continued)*

(c) Other items

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

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

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

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

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

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

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

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

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

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(Expressed in Renminbi unless otherwise indicated)

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

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

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

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

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

Notes:

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

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

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

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

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

Notes: (continued)

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

7 DIRECTORS' REMUNERATION

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

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

* Reappointed on 5 June 2009.

** Resigned on 5 Mar 2010.

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7 DIRECTORS' REMUNERATION *(continued)*

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

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

* Appointed on 1 July 2008.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

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

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

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

9 PROFIT/LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

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

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

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

10 OTHER COMPREHENSIVE INCOME

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

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

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

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

11 EARNINGS PER SHARE

(a) Basic earnings per share

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

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

(i) Weighted average number of ordinary shares

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

11 EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share

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

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

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

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

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

12 SEGMENT REPORTING

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

The Group manages its businesses by geographical areas. On first-time adoption of IFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. Each reportable segment has aggregated those operating segments which located in the geography areas.

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

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

(a) Segment results, assets and liabilities

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

Segment assets include all tangible and intangible assets, deferred tax assets, current assets with the exception of investments in financial assets and other corporate assets which are unallocated to an individual reportable segment. Segment liabilities include trade creditors, accruals and bills payable attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments with the exception of certain bank borrowings and other corporate liabilities which are unallocated to an individual reportable segment.

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

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

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(Expressed in Renminbi unless otherwise indicated)

12 SEGMENT REPORTING *(continued)*

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2009 and 2008 is set out below.

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

12 SEGMENT REPORTING *(continued)*

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

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

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

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

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12 SEGMENT REPORTING *(continued)*

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

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

13 FIXED ASSETS

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

13 FIXED ASSETS *(continued)*

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

(b) Certain properties, equipment and interests in leasehold land held for own use under operating leases with an aggregate carrying amount of RMB1,338,873,000 (2008: RMB1,497,647,000) for the year ended 31 December 2009, are pledged to secure bank loans (see note 23) granted to the Group.

(c) As at the date of this report, the ownership certificates for certain plants and buildings with a carrying amount of RMB29,228,000 have not been obtained (2008: RMB21,674,000).

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

(e) As at the date of this report, the Group is in the process of obtaining construction permits for certain clinker and cement production lines and residual heat generation. The carrying amount for these clinker production lines as at 31 December 2009 was RMB1,816,445,000 (2008: RMB883,784,000).

(f) Certain property, plant and equipment which were obsolete, damaged or that could not generate future economic benefits were provided against for impairment for the year ended 31 December 2009 was Nil (2008: RMB49,242,000).

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

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

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

14 INTANGIBLE ASSETS

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

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14 INTANGIBLE ASSETS *(continued)*

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

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

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

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

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

15 GOODWILL

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

15 GOODWILL *(continued)*

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

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

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

16 OTHER FINANCIAL ASSETS

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

16 OTHER FINANCIAL ASSETS *(continued)*

Notes:

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

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

17 INVESTMENTS IN SUBSIDIARIES

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

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

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

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

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

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17 INVESTMENTS IN SUBSIDIARIES *(continued)*

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

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Shandong Shanshui Cement Industrial Design Development Co., Ltd.	Shandong, PRC 1 August 2003	RMB6,000,000	–	90.00	Development, manufacture, sales and technical support of cement related equipments, and consultation service
Liaocheng Shanshui Cement Co., Ltd.	Shandong, PRC 1 August 2003	RMB5,000,000	–	99.00	Production and sales of cement
Gucheng Shanshui Cement Co., Ltd.	Hebei, PRC 4 August 2003	RMB5,000,000	–	99.00	Production and sales of cement
Dongying Shanshui Cement Co., Ltd.	Shandong, PRC 4 August 2003	RMB5,000,000	–	99.00	Production and sales of cement
Zibo Shanshui Cement Co., Ltd.	Shandong, PRC 5 August 2003	RMB60,000,000	–	99.00	Production and sales of cement, clinker and limestone
Weifang Shanshui Cement Co., Ltd. ("Weifang Shanshui")	Shandong, PRC 29 December 2003	RMB50,000,000	–	100.00	Production and sales of cement and limestone
Zibo Shuangfeng Shanshui Cement Co., Ltd.	Shandong, PRC 1 July 2004	RMB10,000,000	–	99.00	Production and sales of cement
Juye Shanshui Cement Co., Ltd.	Shandong, PRC 17 May 2006	RMB10,000,000	–	99.96	Production and sales of cement
Dalian Shanshui Cement Co., Ltd. ("Dalian Shanshui")	Liaoning, PRC 17 August 2007	RMB5,000,000	–	100.00	Production and sales of cement clinker and related products
Yishui Shanshui Cement Co., Ltd. ("Yishui Shanshui")	Shandong, PRC 28 September 2007	RMB128,700,000	–	99.00	Production and sales of clinker and limestone

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17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct %	Indirect %	Principal activities
(e) Domestic companies established in the PRC *(continued)*					
Yantai Shanshui	Shandong, PRC 22 November 2002	RMB155,500,000	–	100.00	Production and sales of cement
Zaozhuang Shanshui	Shandong, PRC 28 July 2004	RMB70,000,000	–	100.00	Production and sales of cement
Qianshan Cement	Liaoning, PRC 5 June 1989	RMB98,840,700	–	73.00	Production and sales of cement and concrete
Gongyuan Cement	Liaoning, PRC 13 July 1998	RMB280,000,000	–	100.00	Production and sales of cement
Tongliao Shanshui Gongyuan Cement Co., Ltd.	Inner Mongolia, PRC 2 April 2004	RMB5,000,000	–	100.00	Production and sales of cement
Benxi Gongyuan Clinker Sales Co., Ltd.	Liaoning, PRC 2 March 2006	RMB500,000	–	100.00	Production and sales of cement
Benxi Shanshui Gongyuan Transportation Co., Ltd.	Liaoning, PRC 26 February 2008	RMB360,000	–	100.00	Transportation services
Benxi Shanshui Mechanics and Electric Engineering Co., Ltd.	Liaoning, PRC 10 March 2008	RMB500,000	–	100.00	Installation and maintenance of equipment and spare parts of cement machines
Benxi Shanshui Gongyuan Packaging Products Co., Ltd.	Liaoning, PRC 11 November 2008	RMB500,000	–	100.00	Production and sales of cement packaging materials
Jining Shanshui	Shandong, PRC 21 January 2005	RMB100,000,000	–	100.00	Production and sales of cement, clinker, limestone and related products
Benxi Shanshui Mining Co., Ltd.	Liaoning, PRC 18 February 2009	RMB500, 000	–	100.00	Mining and sales of limestone

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

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

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

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

18 OTHER LONG-TERM ASSETS

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

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

19 INVENTORIES

(a) Inventories in the balance sheet comprise:

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

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

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

20 TRADE AND BILLS RECEIVABLE

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

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20 TRADE AND BILLS RECEIVABLE *(continued)*

(a) Ageing analysis

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

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

All of the trade and bills receivable (net of impairment losses for bad and doubtful debts) are expected to be recovered within one year. The detailed credit policy of bills receivable and trade debtors are set out in note 33(a).

(b) Impairment of trade and bills receivable

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

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

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

20 TRADE AND BILLS RECEIVABLE *(continued)*

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

At 31 December 2009, the Group's trade and bills receivable of RMB132,804,000 (2008: RMB172,925,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. The Group does not hold any collateral over these balances.

(c) Trade and bills receivable that are not impaired

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

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

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good credit track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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21 OTHER RECEIVABLES AND PREPAYMENTS

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

Notes:

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

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

22 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

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

Note:

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

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22 CASH AND CASH EQUIVALENTS *(continued)*

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

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

23 LOANS AND BORROWINGS

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

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

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23 LOANS AND BORROWINGS *(continued)*

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

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

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

Notes:

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

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

23 LOANS AND BORROWINGS *(continued)*

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

Notes: (continued)

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

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

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

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

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

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

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(Expressed in Renminbi unless otherwise indicated)

23 LOANS AND BORROWINGS *(continued)*

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

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

Note:

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

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

(c) Convertible notes

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

23 LOANS AND BORROWINGS *(continued)*

(c) Convertible notes *(continued)*

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

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

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

24 TRADE AND BILLS PAYABLE

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

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

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

25 OTHER PAYABLES AND ACCRUED EXPENSES

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

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

Notes:

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

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

26 OBLIGATION UNDER FINANCE LEASE

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

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

27 EMPLOYEE BENEFITS

(a) Defined contribution retirement plans

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

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

27 EMPLOYEE BENEFITS *(continued)*

(b) Staff compensation and termination provision

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

Notes:

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

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

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

(c) Defined benefit obligations

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

27 EMPLOYEE BENEFITS *(continued)*

(c) Defined benefit obligations *(continued)*

Net liabilities recognised in the consolidated balance sheet represent:

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

The balance represents the provision for the post-employment benefits according to the non-cancellable staff relocation plans agreed in respect of Shandong Shanshui, Weifang Shanshui, Qianshan Cement (excluding the compensation stated in note 27(b)) and Gongyuan Cement. The Group's obligations in respect of the defined benefit obligations at the balance sheet date were reviewed by an independent actuary, Towers Perrin (Shenzhen) Consulting Co., Ltd. Shanghai Branch, which is a member of the Society of Actuaries of the United States of America, using the projected unit credit actuarial cost method.

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 EMPLOYEE BENEFITS *(continued)*

(c) Defined benefit obligations *(continued)*

Expenses recognised in the consolidated income statement are as follows:

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

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

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

Principal actuarial assumptions at each balance sheet date:

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

28 DEFERRED INCOME

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

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

29 LONG-TERM PAYABLES

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

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

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30 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet

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

(b) Deferred tax assets and liabilities recognised

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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(Expressed in Renminbi unless otherwise indicated)

31 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

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

31 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

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

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

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

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

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

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

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

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

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31 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends *(continued)*

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

Till now, the Company is in the process to negotiate with the relevant PRC tax authorities. If the relevant PRC tax authorities finally determined that the Enterprise Income Tax Law and the Implementation Rules are not applicable to the Company, and hence no enterprise income tax should have been withheld, the Company will procure such tax of RMB18,744,439 to be refunded to the relevant non-resident enterprise shareholders whose tax had been withheld pursuant to the arrangement above.

(c) Share capital

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

31 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital *(continued)*

Notes:

(i) Authorised share capital

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

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

(ii) Capitalisation issue

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

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

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

31 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Statutory reserves

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

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

(iii) Other reserves

Other reserves include:

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

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

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

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

(iv) Exchange reserve

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

(v) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date.

31 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(e) Distributability of reserves

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the contributed surplus account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

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

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

(f) Capital management

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

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

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

31 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(f) Capital management *(continued)*

The net gearing ratio is as follows:

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

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

32 ACQUISITIONS

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

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

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

(a) Acquisition of Qingdao Hengtai

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

32 ACQUISITIONS *(continued)*

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

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

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

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

32 ACQUISITIONS *(continued)*

(b) Acquisition of Jining Shanshui

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

32 ACQUISITIONS *(continued)*

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

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

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

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

32 ACQUISITIONS *(continued)*

(c) Acquisition of Yingkou Shanshui

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

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

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

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

32 ACQUISITIONS *(continued)*

(c) Acquisition of Yingkou Shanshui (continued)

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

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

(a) Credit risk

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

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

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

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

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

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

(a) Credit risk *(continued)*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, 20% (2008: 11%) and 21% (2008: 15%) of the total trade and bills receivable were due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. Except for the financial guarantees given by the Group as set out in note 35, the Group does not provide any other guarantees which would expose the Group to credit risk.

(b) Liquidity risk

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

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

(b) Liquidity risk *(continued)*

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

The Group

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

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

(b) Liquidity risk *(continued)*

The Group (continued)

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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

(b) Liquidity risk *(continued)*

The Company

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

The Company

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

(c) Interest rate risk

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

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

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

(c) Interest rate risk *(continued)*

(i) Interest rate profile

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

The Group

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

The interest rate of the variable rate borrowing of the Group is based on the base rate announced by the People's Bank of China or applicable market rates.

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

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

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

(d) Currency risk

(i) Forecast transactions

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

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

(ii) Recognised assets and liabilities

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

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

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

(d) Currency risk *(continued)*

(iii) Exposure to currency risk

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

The Group

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

The Company

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

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

(d) Currency risk *(continued)*

(iv) Sensitivity analysis

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

The Group

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

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2008.

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

(e) Equity price risk

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

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

At 31 December 2009, it is estimated that an increase/(decrease) of 50% (2008: 10%) in the relevant stock price (for listed investment), with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) as follows:

The Group

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

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the changes in the stock price had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the balance sheet date. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock price, that none of the Group's available-for-sale securities would be considered impaired as a result of the decrease in the relevant stock price, and that all other variables remain constant. The analysis is performed on the same basis for 2008.

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

(f) Fair values

(i) Financial instruments carried at fair value

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

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

2009

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

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

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

(g) Estimation of fair values

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

(i) Available-for-sale securities

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

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

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

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

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

(iii) Non-derivative financial liabilities

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

(iv) Financial guarantees

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

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

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

(vi) Interest rates used for determining fair value

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

34 COMMITMENTS

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

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

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

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

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

35 CONTINGENT LIABILITIES

(a) Financial guarantees issued

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

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

(b) Environmental contingencies

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

36 MATERIAL RELATED PARTY TRANSACTIONS

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

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

(All above collectively the "Management Shareholders")

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties of the Group

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

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

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

Notes:

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

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

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties of the Group:

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

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

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(d) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in note 7, is as follows:

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

37 AMOUNT DUE FROM/TO SUBSIDIARIES

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

38 NON-ADJUSTING POST BALANCE SHEET EVENTS

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

39 COMPARATIVE FIGURES

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

40 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

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

41 ACCOUNTING JUDGMENTS AND ESTIMATES

Key sources of estimation uncertainty are as follows:

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

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

(a) Impairments

(i) Property, plant and equipment

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

41 ACCOUNTING JUDGMENTS AND ESTIMATES *(continued)*

(a) Impairments *(continued)*

(ii) Trade and other receivables

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

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

(iii) Inventories

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

(iv) Goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 1(l). The recoverable amounts of cash-generating units have been determined based on the higher of the cash-generating units' fair value less costs to sell and its value in use. These calculations require the use of estimates which are disclosed in note 16.

(v) Impairment of customer relationship and trademarks

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

41 ACCOUNTING JUDGMENTS AND ESTIMATES *(continued)*

(b) Depreciation and amortisation

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

(c) Actuarial determined benefit obligations

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

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

(d) Taxation

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

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

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

41 ACCOUNTING JUDGMENTS AND ESTIMATES *(continued)*

(e) Going concern basis

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

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

(Expressed in Renminbi unless otherwise indicated)

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

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

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

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

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(incorporated in the Cayman Islands with limited liability)

8.50% Senior Notes due 2016

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May 18, 2011