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的有限公司)

(股份代號：691)

進一步公告
發行優先票據的建議

茲提述本公司於二零一二年四月十日就發行優先票據的建議發出的公告(「**該公告**」)。除文義另有所指外，本公告所用詞彙與該公告所界定者具有相同涵義。

該公告所述有關本集團的近期公司及財務資料摘要因意外技術性錯誤而未隨附於該公告內。該資料摘要現隨附於本公告內。

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，二零一二年四月十日

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)、張斌(副董事長兼總經理)、董承田及于玉川；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。

RISK FACTORS

An investment in the Notes is subject to significant risks. You should carefully consider all of the information in this document 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 document 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 document.

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 economic growth rates of Shandong and Liaoning provinces. Since 2001, the respective GDP and FAI growth rates of Shandong and Liaoning provinces have consistently been above the national averages. For the year ended December 31, 2011, according to the Shandong Provincial Bureau of Statistics, Shandong province's GDP and FAI increased by 16.0% and 15.0%, respectively, compared with 2010, and according to the Liaoning Provincial Bureau of Statistics, Liaoning province's GDP and FAI increased by approximately 20.5% and 10.5%, respectively, compared with 2010, while GDP and FAI for China increased by 17.5% and 23.6%, respectively, during the same period. As a result of the economic growth in Shandong and Liaoning provinces, the demand for construction materials, including cement, grew rapidly. Meanwhile, as a result of the PRC government's mandate to phase out obsolete production facilities, the number of cement products suppliers decreased significantly. The fast growth of the economy and the construction industry, particularly government infrastructure projects, and decreased number of cement products suppliers 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.

The GDP, FAI and demand for cement in Shandong and Liaoning provinces might not 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 adversely 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 may not realize the anticipated benefits from the acquired businesses or our strategic investments.

In 2011, we acquired equity interests in six entities engaged in the cement business in Shanxi province and Inner-Mongolia Autonomous Region, Henan province and Shandong province, 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 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. Failure to realize the anticipated benefits of our acquisitions and strategic investments may materially and 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 and strategic investments. The identification and completion of such acquisitions and 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. We might not be able to identify and acquire appropriate acquisition targets on commercially acceptable terms, or at all, might not 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.

Any substantial or extended decrease in the selling prices of our products would have a material adverse effect on us.

The selling prices of our products have increased significantly in recent years. The average unit selling price per ton of our cement products was RMB224.9, RMB235.9 and RMB294.6 (US$46.8) in 2009, 2010 and 2011, respectively, and the average unit selling price per ton of our clinker products was RMB187.5, RMB197.2 and RMB269.5 (US$42.8), respectively, during the same periods. These increases led to significant increases in our revenue in those years. Many factors, however, could cause these prices to decrease, some of which are beyond our control, including the level of demand and supply in our primary markets, the nature and extent of governmental regulation and taxation, the number and strength of our competitors, the availability, proximity and capacity of transportation facilities, and general economic conditions. Accordingly, the average unit selling prices of our products might not continue to increase and could decrease. Any substantial or prolonged decrease in the selling prices of our products may materially and adversely affect our liquidity, business, results of operations and financial condition.

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

Our revenue and profits have grown significantly during the years ended December 31, 2009, 2010 and 2011. Our revenue was RMB8,727.6 million, RMB11,854.1 million and RMB16,862.0 million (US$2,679.1 million), respectively, representing a compound annual growth rate ("CAGR") of 39.0%, and our profit for the same periods was RMB714.0 million, RMB1,004.9 million and RMB2,311.7 million (US$367.3 million), respectively, representing a CAGR of 79.9%. 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 primarily 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 profit, at rates comparable to our historical growth rates, or at all. Our plan to expand capacity in certain markets involves 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 and have only entered into new markets of Shanxi province, Inner

Mongolia and Xinjiang since 2010. Given suitable business opportunities, we intend to continue to expand our operations into other parts of China, in particular western China, where we believe there are substantial opportunities for growth. If we were to expand into other provinces or regions, might not 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, and we may not be able to manage such growth in a cost effective manner. For instance, our operations in Shanxi province is subject to intense competition and have not established market dominance. 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 cost increases to our customers.

The costs of limestone, coal and electricity account for a substantial portion of our production costs. In 2009, 2010 and 2011, the aggregate costs of raw materials, coal and electricity represented 77.7%, 77.6% and 77.5%, respectively, of our total cost of sales. See "Business – Raw Materials, Coal and Electricity."

We rely on third party suppliers and our own limestone mines for the supply of limestone. In 2009, 2010 and 2011, we sourced 54.5%, 46.6% and 45.1% of our limestone supply from third party suppliers. In recent years, we have experienced a significant increase 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 RMB11.1 per ton in 2009 to RMB14.0 per ton in 2011. As a result, we used a greater amount of our own limestone mine reserves in 2011 than in previous years to support our production. Meanwhile, our mining rights to our limestone mines are subject to various conditions and national and local government regulations. Our mining rights are valid for a period of two to 13 years and generally renewable upon expiration. As of December 31, 2011, the ownership certificates for certain limestone mining rights with a carrying amount of RMB51.8 million (US$8.2 million) have not been obtained. We could be ordered by the relevant authorities to cease excavation of the mines pending obtaining ownership certificates, which could disrupt our operations. We could also be subject to fines and required to disgorge profits obtained from the relevant mines. Our mining rights to our limestone mines could be revoked or not renewed upon expiration, or significant restrictions on the usage of the rights could be imposed on us. In addition, we might not be able to acquire additional 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 RMB569.8 in 2009 to RMB753.5 in 2011. Increases in coal prices may also increase electricity prices. If our raw materials and energy costs continue to increase and if we are 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 not be able to obtain 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. In 2009, 2010 and 2011, 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 RMB2,155.3 million, RMB2,851.9 million and RMB3,409.4 million (US$541.7 million), respectively, accounting for 24.7%, 24.1% and 20.2% of our revenue for the same periods. Such amounts exceeded our net cash generated from operating activities for the same periods. We expect to continue incurring significant capital expenditures which may continue to exceed our net cash from operating activities. For example, we had total capital commitments of RMB3,750.2 million (US$595.8 million) as of December 31, 2011 in connection with our plan to increase production capacity significantly by the end of this year.

If our internally generated capital resources, net proceeds from this offering 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, private equity funds, joint venture partners and other strategic investors. We may also consider raising funds through additional debt or equity offerings. Our ability to obtain external financing 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, 2009 and 2010 of RMB1,663.0 million and RMB2,253.6 million, respectively, while we recorded net current assets of RMB208.3 million (US$33.1 million) as of December 31, 2011. We may record net current liabilities after this offering 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 debt obligations when they become due will depend primarily on our ability to maintain adequate cash inflows from operating activities. External sources of financing might not be available on reasonable terms or at all, to fund our existing operations and business expansion. Failure to obtain such financing may force us to delay our expansion plans, downsize or abandon our expansion plans, which may materially and adversely affect our business, financial condition, results of operations and prospects.

We have high gearing ratios 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. As of December 31, 2009, 2010 and 2011, we had total debt (including loans and borrowings as well as loans from equity shareholders, convertible notes, senior notes and corporate bonds) of RMB5,755.2 million, RMB7,398.7 million and RMB11,465.5 million (US$1,821.7 million), respectively, and we had net current liabilities (total current liabilities minus total current assets) of RMB1,663.0 million and RMB2,253.6 million, respectively, as of December 31, 2009 and 2010. Our gearing ratios (net debt divided by total capital) as of December 31, 2009, 2010 and 2011 were 48.2%, 50.4% and 50.9%, respectively.

Our high 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 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, 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 might not 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 increases in rates of interest that we pay on our debt and legal actions against us by our creditors, as well as trigger cross-defaults under our other debt instruments, including the Notes, and may negatively impact our business operations.

Our bank borrowings from certain PRC banks 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. Certain subsidiaries did not meet covenants in certain long-term loan agreements, which had a total outstanding balance of RMB75.0 million (US$11.9 million) as of December 31, 2011. Their lenders provided certifications that they would not accelerate repayment of these loans due to such non-compliance. We intend to repay these loans upon their maturities in June and November 2012.

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

As of December 31, 2011, we had total debt of RMB11,465.5 million (US$1,821.7 million), a substantial portion of which has floating interest rates linked to, among others, the benchmark rates of the PBOC and the London Interbank Offered Rate ("LIBOR"). A material increase in the reference rates during the term of our relevant loan facilities or when our current loan facilities become due could increase our finance costs and adversely affect our results of operations.

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 or form a competitor, we may lose some of our know-how and customers. These could materially and adversely affect our business and results of operations. We may also need to employ and retain more management personnel to support our expansion into new target markets. If we are unable to hire and retain qualified management personnel, our business and 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 renegotiation of our payment terms for our trade payables, (iii) efficiently utilizing bank facilities, (iv) timely collection of trade receivables and (v) establishing and executing accurate and feasible budgets for our 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 supply shortage or interruption 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 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. We are currently in the process of applying for environmental permits, approvals or acceptance of environmental protection for 17 subsidiaries. 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 operations. In September 2011, one of our recently acquired subsidiaries in Inner Mongolia was fined and ordered to suspend its clinker production for its failure to obtain the requisite environmental compliance certificates. It is applying for such certificates; however, we could be required to cease production by the relevant local authority or subject to fines due to the lack of all environmental compliance certificates. The implementation of more stringent laws and regulations, or stricter interpretation of the existing laws and regulations, may require us to incur additional compliance costs, 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. 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 liabilities that are not covered by our insurance, 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 year. Our sales volume of cement products in the first quarters of 2009, 2010 and 2011 accounted for 15.7%, 13.7% and 15.5%, respectively, of our total sales volume of cement products in 2009, 2010 and 2011. Demand for our products is seasonal because climatic conditions, such as cold weather, snow and heavy or sustained rainfall, adversely affect the amount of activity in the construction industry, which in turn decreases demand for and sales of our products. In addition, there is reduced construction activity during the Chinese New Year holiday period, which normally falls within the first quarter of each year. As a result of the seasonal fluctuations, our interim results may not be indicative of our business and financial performance for a full year.

In addition, due to our operations being subject to seasonal changes in demand, from time to time we may consider various measures to control our inventory levels in accordance with the supply and demand dynamics in the markets, which include shutting down production at kilns which typically run continuously except for scheduled annual maintenance. Such measures can potentially increase our average production costs, which may adversely impact our financial performance.

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 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 2011, VAT refunds from selling cement products produced using recycled materials represented 4.3% of our profit before taxation. We might not be able to continue to enjoy such preferential treatments, incentives and favorable support on the same terms, or at all. Unfavorable changes in such preferential treatments, incentives or support could 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 the 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, established a committee to focus on intellectual property infringement issues and implemented policies and procedures to address such issues. These policies and procedures include, 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, product claims could be brought against us. If such claims are brought against us, they may adversely affect the reputation of our brand 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." In addition, third parties that are found to be liable to us may not have resources to compensate us for the costs and damages we incurred.

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, inclement weather, fires, natural disasters, epidemics, raw material supply shortages, equipment and system failures and labor force shortages. In addition, 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.

Our assets, operations, customers and suppliers are principally located in Shandong and Liaoning provinces. If floods or other natural disasters occur in Shandong province or Liaoning province, 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 their 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. These third-party contractors might not 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.

We may be held liable by the authorities if any of our contractors fail 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 title 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. Four of our subsidiaries have entered into land transfer agreements but have not obtained the land use rights certificates and eleven other subsidiaries are in the process of applying for the land use rights certificates. In addition, Tianjin Tianhui Cement Co. Ltd. ("Tianjin Tianhui") and Zibo Shuangfeng occupy land by leases from the local village committees, pending finalization of official transfer of such land from the local land authorities. Chifeng Yuanhang 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 do not obtain the land use rights certificates for such properties and do 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, we could be subject to claims for compensation with respect to any actual or alleged illegal or unauthorized use of land or buildings owned by third parties.

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

We are in the process of applying for certain licenses and permits for some of our production and construction projects. We are currently applying for eight construction land planning permits, 21 construction project planning permits, 25 construction commencement permits and 13 industrial products production permits for 27 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. In August 2011, one of our subsidiaries in Dandong, Liaoning province, was fined and ordered to suspend operations for its failure to obtain the requisite production permits, project approval and environment impact assessment approvals before its commencement of production. It is applying to obtain such permits. We could be required to cease production at other facilities by the relevant local authority or subject to fines due to the lack of all production 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 IFRS and improve our overall corporate governance. However, we could experience similar or other deficiencies or weaknesses in our internal control over financial reporting. If we fail to maintain effective internal control over financial reporting, 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. In Europe, several countries are facing difficulties in refinancing sovereign debt. In the United States, the unemployment rate remains high, and recovery in the housing market remains subdued. In Asia and other emerging markets, some countries are expecting increasing inflationary pressure as a consequence of liberal monetary policy or excessive foreign fund inflow, or both. In the Middle East, political unrest in various countries has resulted in economic instability and uncertainty. China's economy has also faced challenges, including slower economic growth due to weakened exports. 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. Our business, results of operations and prospects could 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 NDRC, the Ministry of Land and Resources, the State Environmental Protection Administration, the General Administration of Quality Supervision Inspection and Quarantine, (“GAQSIQ”), the Ministry of Commerce of the PRC, (“MOFCOM”), the Ministry of Industry and Information Technology (the “MIIT”) 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 incur additional compliance costs and we might not 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 and 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 through new regulations and policies. For example, according to the Notice Regarding Replacement of Obsolete Cement Production Capability issued by NDRC in 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 in 2009, 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 90 KWh/ton of cement; the limestone reserve life must be more than 30 years; and the density of waste gas and dust content must be lower than 50 mg/m^3.

In addition, according to the Criteria for Entry to the Cement Industry promulgated by the MIIT, 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 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 we believe 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 MIIT 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. 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 compliance costs. We might not be able to comply with any additional regulations, or enhanced implementation of 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, 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 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 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 3,853 cement producers as recorded on December 31, 2011 according to the CEIC. Our major competitors are national players that have a 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 adversely 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 condition 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:

- 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, changes in the PRC's economic, political and social conditions, laws, regulations and government policies could have a 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 corporate 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. 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 U.S. dollars or other foreign currency available for conversion of Renminbi in the PRC, and such shortages could recur, and 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, which 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 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 "resident enterprise" classification, the PRC government could amend or revise the taxation laws, rules and regulations to impose stricter tax requirements or 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 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.

In addition, in February 2012, the SAFE promulgated the Notice on Issues Relating to Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Share Option Plan of Overseas-Listed Company, or the Share Option Rule. Under the Share Option Rule, PRC citizens who are granted stock options by an overseas publicly-listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly-listed company, to register with the SAFE and complete certain other procedures. We and our PRC optionees who have been granted stock options are subject to the Share Option Rule. We are in the process of commencing the registration application. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to fines and legal sanctions.

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, is 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. 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 23.9% from July 21, 2005 to March 30, 2012. Any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenues, earnings and financial condition, and the value of 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 are 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 and 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 have caused 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 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 document 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 document 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 document 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 importance to place on such facts, forecasts or statistics.

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 document.

We have derived the following selected financial information from our audited consolidated financial statements as of and for the years ended December 31, 2009, 2010 and 2011, which are included elsewhere in this document. We prepare and present our consolidated financial statements in accordance with IFRS.

	Year ended December 31,			
	2009	2010	2011	
	RMB	RMB	RMB	US$
	(in millions, except percentages)			
Consolidated income statement data:				
Revenue	8,727.6	11,854.1	16,862.0	2,679.1
Cost of sales	(6,947.2)	(9,304.0)	(11,782.8)	(1,872.1)
Gross profit	1,780.4	2,550.1	5,079.2	807.0
Other revenue	138.3	148.5	225.5	35.8
Other net expenses	(2.3)	(68.3)	(43.1)	(6.8)
Selling and marketing expenses	(196.5)	(214.2)	(309.3)	(49.2)
Administrative expenses	(469.1)	(689.6)	(1,095.8)	(174.1)
Profit from operations	1,250.8	1,726.5	3,856.5	612.7
Finance costs	(309.6)	(363.1)	(619.6)	(98.4)
Share of profits less losses of an associate	–	(0.2)	17.1	2.7
Profit before taxation	941.2	1,363.2	3,254.0	517.0
Income tax	(227.2)	(358.3)	(942.3)	(149.7)
Profit for the year	714.0	1,004.9	2,311.7	367.3
Attributable to:				
Equity shareholders of the company	701.6	979.1	2,225.3	353.6
Non-controlling interests	12.4	25.8	86.4	13.7

	As of December 31,			
	2009	2010	2011	
	RMB	RMB	RMB	US$
	(in millions)			
Consolidated statement of financial position data:				
Non-current assets	11,302.3	14,722.4	16,791.9	2,668.0
Current assets	3,306.9	4,228.0	8,289.8	1,317.1
Current liabilities	4,969.9	6,481.6	8,081.5	1,284.0
Net current (liabilities)/assets	(1,663.0)	(2,253.6)	208.3	33.1
Total assets less current liabilities	9,639.3	12,468.8	17,000.2	2,701.1
Non-current liabilities	4,410.2	6,319.8	8,833.5	1,403.5
Net assets	5,229.1	6,149.0	8,166.7	1,297.6
Capital and reserves	5,160.2	5,687.5	7,709.0	1,224.8
Total equity attributable to equity shareholders of the company	5,160.2	5,687.5	7,709.0	1,224.8
Non-controlling interest	68.9	461.5	457.7	72.8
Total equity	5,229.1	6,149.0	8,166.7	1,297.6

	Year ended December 31,			
	2009	2010	2011	
	RMB	RMB	RMB	US$
	(in millions, except percentages)			
Consolidated statement of cash flow data:				
Net cash flows generated from operating activities	1,025.7	1,789.0	1,549.3	246.2
Net cash flows used in investing activities	(2,136.4)	(2,926.8)	(3,370.7)	(535.6)
Net cash flows generated from financing activities	748.6	1,398.3	3,686.9	585.8
Net increase/(decrease) in cash and cash equivalents	(362.1)	260.5	1,865.5	296.4
Cash and cash equivalents at the beginning of the year	1,248.4	886.1	1,144.8	181.9
Effect of foreign exchange rate changes	(0.2)	(1.8)	(2.0)	(0.3)
Cash and cash equivalents at the end of the year	886.1	1,144.8	3,008.3	478.0

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

	Year ended December 31,		
	2009	2010	2011
Sales volume (thousands tons)			
Cement	29,388	39,318	47,943
Clinker	8,422	9,844	7,000
Concrete	860	785	937
Average unit selling price			
Cement (RMB per ton)	224.9	235.9	294.6
Clinker (RMB per ton)	187.5	197.2	269.5
Concrete (RMB per cubic meter)	262.3	237.5	258.9

The following table sets forth our EBITDA and certain related financial data for the periods indicated.

	Year ended December 31,			
	2009	2010	2011	
	RMB	RMB	RMB	US$
	(in millions, except percentages and ratios)			
Other financial data:				
EBITDA[(1)]	1,898.8	2,533.8	4,801.4	762.8
EBITDA margin[(2)]	21.8%	21.4%	28.5%	28.5%
EBITDA/gross interest expense[(3)]	6.2	7.0	7.7	7.7
Total debt[(4)]/EBITDA	3.0	2.9	2.4	2.4

(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, profit 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,			
	2009	2010	2011	
	RMB	RMB	RMB	US$
	(in millions)			
Profit for the year	714.0	1,004.9	2,311.7	367.3
Add:				
Amortization	96.6	114.2	118.9	18.9
Depreciation	551.4	693.3	808.9	128.5
Finance costs	309.6	363.1	619.6	98.4
Income tax expense	227.2	358.3	942.3	149.7
EBITDA	1,898.8	2,533.8	4,801.4	762.8

(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.

(4) Total debt includes short-term and long-term interest-bearing borrowings, loans from equity shareholders, convertible notes and corporate bonds.

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 document. 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 document.

Overview

We are one of the largest producers of clinker and cement in China, as measured by production volume, and enjoy dominant market positions in our key markets in Shandong and Liaoning provinces. Leveraging our well-established competitive strengths and strong government support, we have taken advantage of the considerable growth opportunities in the infrastructure construction 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 29.4 million tons in 2009 to 39.3 million tons in 2010 and 47.9 million tons in 2011. While most of the clinker we produced was used in our cement production, we also sold 8.4 million tons, 9.8 million tons and 7.0 million tons of clinker to external customers in 2009, 2010 and 2011, respectively. In 2009, 2010 and 2011, we sold approximately 860,000 m^3, 785,000 m^3 and 937,000 m^3 of concrete products, respectively. In 2009, 2010 and 2011, the average unit selling price per ton of our cement products was RMB224.9, RMB235.9 and RMB294.6 (US$46.8), respectively, the average unit selling price per ton of our clinker was RMB187.5, RMB197.2 and RMB269.5 (US$42.8), respectively, and the average unit selling price per cubic meter of our concrete products was RMB262.3, RMB237.5 and RMB258.9 (US$41.1), respectively. Our products are primarily provided to our customers under the "Shanshui Dongyue" brand name (山水東岳), which was honored with the "Famous Trademark of Shandong Province" award in 2008. In addition, in 2010, we were awarded the "Quality Award by the 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, the eastern part of Inner Mongolia and Shanxi province. Our clinker production facilities are located near our limestone mines. Each clinker facility usually supplies several of our 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, 2011, we had a total annual production capacity (including production lines in test run) of 84.2 million tons of cement and 37.4 million tons of clinker, representing an increase of 17.7 million tons of cement and 6.4 million tons of clinker from December 31, 2010. As of December 31, 2011, our total annual production capacity of cement and clinker in Shandong province reached 53.8 million tons and 23.5 million tons, respectively, in Northeastern China, including both Liaoning province and Inner Mongolia, reached 25.9 million tons and 11.0 million tons, respectively, and in Shanxi province reached 4.5 million tons and 2.9 million, respectively. In addition, the total annual production capacity of our concrete products in Shandong province reached 8.6 million m^3.

We have achieved significant revenue and earnings growth in recent years. Our revenue increased from RMB8,727.6 million in 2009 to RMB11,854.1 million in 2010 and to RMB16,862.0 million (US$2,679.1 million) in 2011. Our profit for the year increased from RMB714.0 million in 2009 to RMB1,004.9 million in 2010 and to RMB2,311.7 million (US$367.3 million) in 2011.

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 the 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 has led to a significant increase in the demand for building materials, including cement. From 2006 to 2011, China's FAI increased from RMB11,000 billion to RMB31,102 billion, according to China Statistical Yearbook, representing a CAGR of 23.1%. 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 demand for 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 demand for cement products. As a result, our production and sales volumes of cement products increased significantly during the past three years. We sold 29.4 million tons, 39.3 million tons and 47.9 million tons of cement products, respectively, in 2009, 2010 and 2011 and sold 8.4 million tons, 9.8 million tons, and 7.0 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 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 RMB80.3 million, RMB104.5 million and RMB138.9 million (US$22.1 million), respectively, in 2009, 2010 and 2011. We also receive local government grants from relevant PRC authorities for environmental protecting incentives and subsidies granted by local governments to newly established enterprises as a means to attract investment. We received such local government grants in the amounts of RMB19.8 million, RMB21.6 million and RMB36.3 million (US$5.8 million), respectively, in 2009, 2010 and 2011. 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, we believe that 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 RMB224.9, RMB235.9 and RMB294.6 (US$46.8) in 2009, 2010 and 2011, respectively, and the average unit selling price per ton of our clinker was RMB187.5, RMB197.2 and RMB269.5 (US$42.8), respectively, during the same periods. In 2011, the average unit selling price per ton of our cement products in Shandong province, Northeastern China and Shanxi was RMB299.0 (US$47.5), RMB282.7 (US$44.9) and RMB298.3 (US$47.4), respectively.

Costs of Raw Materials, Coal and Electricity

The costs of raw materials, coal and power accounted for 30.3%, 32.8% and 14.4%, respectively, of our total cost of sales in 2011. 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 RMB569.8, RMB691.8 and RMB753.5 (US$119.7) in 2009, 2010 and 2011, respectively. The cost of coal accounted for 31.5%, 34.1% and 32.8% of our total cost of sales, respectively, in 2009, 2010 and 2011, 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. In 2010 and 2011, we constructed 16 and 20 RHR (residual heat recovery) generators with a total installed production capacity of 151.0 MW and 182.5 MW, respectively, 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, and are expanding into other locations such as Xinjiang. See "Business – Recent Acquisitions." In 2011, we also constructed 36 clinker production lines and 132 cement grinding lines. Our annual production capacity of cement products was 48.3 million tons, 66.5 million tons and 84.2 million tons as of December 31, 2009, 2010 and 2011, respectively, and our annual production capacity of clinker was 25.2 million tons, 31.0 million tons and 37.4 million tons, respectively, as of the same dates. We plan to further expand our annual production capacity of cement products to approximately 95.0 million tons and our annual production capacity of clinker to 43.0 million tons by the end of 2012. In addition, we intend to expand vertically by acquiring projects in the upstream production process, including suppliers of raw materials. As a result of such expansion, our capital expenditures, financing needs, depreciation and amortization costs 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.

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 these seasonal variations.

Selected Income Statement Line Items

Revenue

We 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 concrete, pipes and bubble bricks. In addition, we generate revenue from various services we render, such as transportation services and equipment installation services.

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

	Year ended December 31,						
	2009		2010		2011		
	Amount (RMB)	% of Revenue	Amount (RMB)	% of Revenue	Amount (RMB)	Amount (US$)	% of Revenue
	(in millions, except percentages)						
Revenue							
Sales of cement	6,608.2	75.7%	9,275.1	78.2%	14,123.9	2,244.1	83.8%
Sales of clinker	1,578.9	18.1%	1,941.1	16.4%	1,886.6	299.8	11.2%
Sales of other products and services[1]	540.5	6.2%	637.9	5.4%	851.5	135.2	5.0%
Total	8,727.6	100.0%	11,854.1	100.0%	16,862.0	2,679.1	100.0%

(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 by fluctuations in the average unit selling prices of our products. The sales volume of our cement products increased from 2009 to 2010 and from 2010 to 2011. The sales volume of our clinker products increased from 2009 to 2010 but decreased from 2010 to 2011. Our average unit selling prices of both cement and clinker products increased slightly from 2009 to 2010 and significantly from 2010 to 2011.

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,						
	2009		2010		2011		
	Amount (RMB)	% of Revenue	Amount (RMB)	% of Revenue	Amount (RMB)	Amount (US$)	% of Revenue
	(in millions, except percentages)						
Cost of sales							
Raw materials	2,085.1	23.9%	2,574.2	21.7%	3,572.2	567.6	21.2%
Coal	2,190.2	25.1%	3,176.6	26.8%	3,861.3	613.5	22.9%
Power	1,124.8	12.9%	1,471.5	12.4%	1,699.7	270.1	10.1%
Depreciation and amortization	562.3	6.4%	709.0	6.0%	778.1	123.6	4.6%
Others	984.8	11.3%	1,372.7	11.6%	1,871.5	297.3	11.1%
Total	6,947.2	79.6%	9,304.0	78.5%	11,782.8	1,872.1	69.9%

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. Any increases in purchase prices of raw materials, coal and power would also contribute to higher cost of sales.

Other Revenue

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

	Year ended December 31,			
	2009	2010	2011	
	RMB	RMB	RMB	US$
	(in millions)			
Other revenue				
Interest income on bank deposits	4.3	6.8	33.8	5.4
Government grants	100.1	126.1	175.2	27.8
Sales of power generation rights	21.0	–	–	–
Amortization of deferred income	12.9	15.6	16.5	2.6
Amortization of financial guarantee issued	33.5	–	–	–
Amortization of financial guarantee received	(33.5)	–	–	–
Total	138.3	148.5	225.5	35.8

Other revenue increased from RMB138.3 million in 2009 to RMB148.5 million in 2010 and to 225.5 million (US$35.8 million) in 2011, primarily reflecting the increases in government grants and interest income on bank deposits. 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 represent various subsidies granted by local governments to newly established enterprises as a means to attract investment. VAT refunds amounted to RMB80.3 million, RMB104.5 million and RMB138.9 million (US$22.1 million) in 2009, 2010 and 2011 respectively, and local government subsidies amounted to RMB19.8 million, RMB21.6 million and RMB36.3 million (US$5.8 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 2007, we issued a financial guarantee in an amount of RMB1,500 million for the benefit of an unrelated third party, which also issued a financial guarantee in an amount of RMB1,500 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/(expenses) were amortized in profit or loss over the term of the guarantees as income/(expenses) from financial guarantee issued/(received). The guarantees expired in January 2010.

Other Net Expenses

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

	Year ended December 31,			
	2009	2010	2011	
	RMB	RMB	RMB	US$
		(in millions)		
Other net expenses				
Debt restructuring gain	5.6	97.5	–	–
Net foreign exchange (loss)/gain	(0.4)	6.9	54.2	8.6
Net (loss)/gain from sale of fixed assets	(7.1)	1.5	(13.6)	(2.2)
Impairment losses on fixed assets	–	(106.5)	(7.8)	(1.2)
Impairment losses on intangible assets	–	(4.3)	–	–
Impairment losses on other long-term assets	–	(35.1)	(66.9)	(10.6)
Donations	(1.5)	(1.5)	(11.8)	(1.9)
Penalty expenses	(0.5)	(12.9)	(5.2)	(0.8)
Losses incurred on flooding	–	(10.2)	–	–
Others[(1)]	1.6	(3.7)	8.0	1.3
Total	(2.3)	(68.3)	(43.1)	(6.8)

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

We recorded other net expenses of RMB2.3 million, RMB68.3 million and RMB43.1 million (US$6.8 million) in 2009, 2010 and 2011, respectively. Debt restructuring gain, which resulted from debt restructuring between lenders and the government whereby repayment of certain of our loans was waived, increased from RMB5.6 million in 2009 to RMB97.5 million in 2010. We had impairment losses on fixed assets of RMB106.5 million in 2010, which was primarily attributable to the phasing out of a clinker production line. The impairment losses on other long-term assets of RMB35.1 million in 2010 and RMB66.9 million (US$10.6 million) in 2011 were primarily attributable to a provision for impairment on certain services provided by a third party that were no longer required.

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,						
	2009		2010		2011		
	Amount (RMB)	% of Revenue	Amount (RMB)	% of Revenue	Amount (RMB)	Amount (US$)	% of Revenue
	(in millions, except percentages)						
Operating expenses							
Selling and marketing expenses	196.5	2.3%	214.2	1.8%	309.3	49.2	1.8%
Administrative expenses	469.1	5.4%	689.6	5.8%	1,095.8	174.1	6.5%
Total	665.6	7.7%	903.8	7.6%	1,405.1	223.3	8.3%

Selling and marketing expenses

Our selling and marketing expenses primarily consist of salary and benefits, including sales commission paid to our sales personnel and sales outlets, and transportation expenses incurred mainly for 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,			
	2009	2010	2011	
	RMB	RMB	RMB	US$
	(in millions)			
Selling and marketing expenses				
Salary and employee benefits	53.4	75.2	101.7	16.2
Transportation expenses	26.9	21.1	50.9	8.1
Handling charges	26.3	38.9	42.9	6.8
Entertainment expenses	14.2	17.2	23.8	3.8
Ship docking charges	22.7	(0.4)	23.5	3.8
Materials consumption	14.7	27.7	14.5	2.3
Depreciation and amortization	5.0	6.0	6.6	1.0
Advertising expenses	5.1	4.2	5.1	0.8
Others(1)	28.2	24.3	40.3	6.4
Total	196.5	214.2	309.3	49.2

(1) Mainly includes office expenses, traveling expenses, repair expenses, water and power expenses, rental expenses and railway maintenance expenses relating to our selling and marketing expenses.

As we attempt to expand our operations in existing geographic markets and enter other geographic markets, we expect to strengthen our sales efforts, which may increase our selling and marketing expenses.

Administrative Expenses

Our administrative expenses primarily consist of salaries and benefits of our management and 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, depreciation and amortization charges of fixed assets and intangible assets used for administrative purposes, administrative office expenses including consumables, traveling and entertainment expenses, water and power expenses, property insurance premiums, repair expenses and rental expenses, wastewater treatment costs and provision for impairment losses. The table below sets forth a breakdown of our administrative expenses for the periods indicated.

	Year ended December 31,			
	2009	**2010**	**2011**	
	RMB	**RMB**	**RMB**	**US$**
		(in millions)		
Administrative expenses				
Salary and employee benefits	160.1	241.7	468.2	74.4
Audit and consulting expenses	31.7	43.0	50.2	8.0
Other taxes and charges	55.4	69.3	92.2	14.6
Depreciation and amortization	68.1	85.1	102.1	16.2
Office expenses	25.5	31.0	31.4	5.0
Wastewater treatment costs	18.2	25.0	28.4	4.5
Provision for impairment losses	15.3	58.1	113.7	18.1
Others[(1)]	94.8	136.4	209.6	33.3
	469.1	689.6	1,095.8	174.1

(1) Mainly includes contracting profits, materials consumption, testing expenses and telephone expenses relating to our administrative expenses.

Finance Costs

Finance costs primarily consist of interest expenses on the senior notes we issued in 2011, borrowings from banks and other financial institutions and bank charges.

Share of Profits less Losses of an Associate

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

Income Tax

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 exempted company with limited liability under the Companies Law of the Cayman Islands. The Cayman Islands currently have no form of income, corporate or capital gains 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 2009, 2010 and 2011, 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. The EIT Law, which became effective on January 1, 2008, 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 years (2008 to 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 24.1%, 26.3% and 29.0%, respectively, in 2009, 2010 and 2011. Our effective tax rate was more than 25% in 2011, primarily because losses of our subsidiaries organized in the form of foreign-invested enterprises may not be deducted from the taxable income of our subsidiaries organized in the form of domestic enterprises. Accordingly, certain expenses could 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 PRC law, or under the law of a jurisdiction outside the PRC with its *de facto* management organization located within the PRC. Under 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 either has set up institutions or establishments in the PRC or has income originating from the PRC.

According to the EIT Law, 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 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, 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 IFRS 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 are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, 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 overhead and borrowing costs.

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 recognized 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.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as interest expense capitalized during the periods of construction and installation. Capitalization 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.

Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts, 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.

Interest-bearing borrowings

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

Inventories

Inventories are measured at the lower of cost and net realizable 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 overhead based on normal operating capacity. Net realizable 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 recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

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 our 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 recognized 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. 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.

Intangible assets (other than goodwill)

Intangible assets that we acquire are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses. Expenditure on internally generated goodwill and brands is recognized as an expense in the period in which it is incurred.

Amortization 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 amortized 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 amortization are reviewed annually. Intangible assets are not amortized 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 amortization of intangible assets with finite lives as set out above.

Taxation

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 recognized in profit or loss except to the extent that they relate to business combinations or items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized 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 utilized, are recognized. 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 utilized. 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, we control 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 recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if we have the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met: (1) in the case of current tax assets and liabilities, we intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or (2) in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either (a) the same taxable entity; or (b) 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, we intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

Our Results of Operations

The following table sets forth our summary consolidated statement of operations for the periods indicated.

	Year ended December 31,			
	2009	2010	2011	
	RMB	RMB	RMB	US$
	(in millions)			
Revenue	8,727.6	11,854.1	16,862.0	2,679.1
Cost of sales	(6,947.2)	(9,304.0)	(11,782.8)	(1,872.1)
Gross profit	1,780.4	2,550.1	5,079.2	807.0
Other revenue	138.3	148.5	225.5	35.8
Other net expenses	(2.3)	(68.3)	(43.1)	(6.8)
Selling and marketing expenses	(196.5)	(214.2)	(309.3)	(49.2)
Administrative expenses	(469.1)	(689.6)	(1,095.8)	(174.1)
Profit from operations	1,250.8	1,726.5	3,856.5	612.7
Finance costs	(309.6)	(363.1)	(619.6)	(98.4)
Share of profits less losses of an associate	–	(0.2)	17.1	2.7
Profit before taxation	941.2	1,363.2	3,254.0	517.0
Income tax	(227.2)	(358.3)	(942.3)	(149.7)
Profit for the year	714.0	1,004.9	2,311.7	367.3
Attributable to:				
Equity shareholders of the company	701.6	979.1	2,225.3	353.6
Non-controlling interests	12.4	25.8	86.4	13.7

Segment Information

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

	Year ended December 31,						
	2009		2010		2011		
	RMB	%	RMB	%	RMB	US$	%
	(in millions, except percentages)						
Revenue from external customers							
Shandong province	7,511.2	86.1	9,791.9	82.6	12,844.8	2,040.8	76.2
Northeastern China	1,216.4	13.9	2,055.9	17.3	3,904.6	620.4	23.2
Shanxi province	–	–	6.3	0.1	112.6	17.9	0.6
	8,727.6	100.0	11,854.1	100.0	16,862.0	2,679.1	100.0
Inter-segment revenue							
Shandong province	56.6	99.2	18.3	77.9	23.9	3.8	81.6
Northeastern China	0.5	0.8	5.2	22.1	5.4	0.9	18.4
Shanxi province	–	–	–	–	–	–	–
	57.1	100.0	23.5	100.0	29.3	4.7	100.0
Reportable segment revenue							
Shandong province	7,567.8	86.1	9,810.2	82.6	12,868.7	2,044.6	76.2
Northeastern China	1,216.9	13.9	2,061.1	17.4	3,910.0	621.3	23.1
Shanxi province	–	–	6.3	0.1	112.6	17.9	0.7
	8,784.7	100.0	11,877.6	100.0	16,891.3	2,683.8	100.0
Reportable segment profit/(loss) (adjusted profit/(loss) before taxation)(1)							
Shandong province	1,190.5	94.5	1,827.9	100.8	3,618.6	574.9	87.2
Northeastern China	69.9	5.5	3.6	0.2	550.8	87.5	13.3
Shanxi province	–	–	(17.3)	(1.0)	(19.7)	(3.1)	(0.5)
	1,260.4	100.0	1,814.2	100.0	4,149.7	659.3	100.0

(1) The measure used for reporting segment profit is "adjusted profit before taxation". To arrive at adjusted profit before taxation, the 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 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, amortization and impairment losses and additions to non-current segment assets used by the segments in their operations.

Year Ended December 31, 2011 Compared With Year Ended December 31, 2010

Revenue

Our revenue increased by RMB5,007.9 million, or 42.2%, from RMB11,854.1 million in 2010 to RMB16,862.0 million (US$2,679.1 million) in 2011, primarily due to increases in the average unit selling prices for both clinker and cement as well as an increase in the sales volume of our cement products.

Our revenue from sales of cement products amounted to RMB14,123.9 million (US$2,244.1 million) in 2011, which represented an increase of RMB4,848.8 million, or 52.3%, from 2010, primarily due to increases in both our sales volume and average unit selling price of cement products. Our sales volume of cement products increased by 8.6 million tons from 39.3 million tons in 2010 to 47.9 million tons in 2011, primarily due to our expanded operation and increased demand. The average unit selling price of our cement products increased by 24.9% from RMB235.9 per ton in 2010 to RMB294.6 (US$46.8) per ton in 2011, primarily due to increased demand and the reduced number of cement products suppliers in our markets as a result of industry consolidation and the phasing out of obsolete facilities mandated by the PRC government.

Our revenue from sales of clinker totaled RMB1,886.6 million (US$299.8 million) in 2011, representing a decrease of RMB54.5 million (US$8.7 million), or 2.8%, from 2010, primarily due to a decrease in our sales volume of clinker products to external customers, partially offset by an increase in the average unit selling price of clinker. Our sales volume of clinker decreased by 28.6% from 9.8 million tons in 2010 to 7.0 million tons in 2011, mainly due to our decreased sales volume of clinker products to external customers as a result of our increased internal consumption of clinker. The average unit selling price of clinker increased by 36.7% from RMB197.2 per ton in 2010 to RMB269.5 (US$42.8) per ton in 2011, primarily due to the reduced number of clinker product suppliers in our markets as a result of industry consolidation and the phasing out of obsolete facilities mandated by the PRC government.

Our revenue from 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 RMB851.5 million (US$135.2 million) in 2011, representing an increase of RMB213.6 million from 2010, primarily reflecting increased sales volume and average unit selling price of our concrete products.

Cost of sales

Our cost of sales increased by RMB2,478.8 million (US$393.8 million), or 26.6%, from RMB9,304.0 million in 2010 to RMB11,782.8 million (US$1,872.1 million) in 2011, primarily due to increased sales volumes of our products. Our cost of sales as a percentage of revenue decreased from 78.5% in 2010 to 69.9% in 2011. Our cost of raw materials as a percentage of cost of sales increased from 27.7% in 2010 to 30.3% in 2011, primarily due to a relatively larger increase in raw materials prices than the increase in our costs of sales. Our cost of coal as a percentage of cost of sales decreased from 34.1% in 2010 to 32.8% in 2011, primarily due to a relatively smaller increase in coal prices compared to the increase in our costs of sales. Our average purchase price of coal increased from RMB691.8 per ton in 2010 to RMB753.5 (US$119.7) per ton in 2011. Our cost of power as a percentage of cost of sales decreased from 15.8% in 2010 to 14.4% in 2011, primarily reflecting the increased consumption of power generated internally. Depreciation and amortization as a percentage of cost of sales decreased from 7.6% in 2010 to 6.6% in 2011, primarily reflecting our increased sales.

Gross profit

As a result of the foregoing, our gross profit increased by RMB2,529.1 million, or 99.2%, from RMB2,550.1 million in 2010 to RMB5,079.2 million (US$807.0 million) in 2011. Gross profit margin increased from 21.5% in 2010 to 30.1% in 2011.

Other revenue

Other revenue increased by RMB77.0 million, or 51.9%, from RMB148.5 million in 2010 to RMB225.5 million in 2011, primarily due to increased government grants and interest income on bank deposits.

Selling and marketing expenses

Selling and marketing expenses increased by RMB95.1 million, or 44.4%, from RMB214.2 million in 2010 to RMB309.3 million (US$49.2 million) in 2011. Salary and employee benefits increased by RMB26.5 million from RMB75.2 million in 2010 to RMB101.7 million (US$16.2 million) in 2011, primarily due to the increased number of our employees as a result of our expanded operation and increases in average salaries paid to our employees. Transportation expenses increased by RMB29.8 million from RMB21.1 million in 2010 to RMB50.9 million (US$8.1 million) in 2011, primarily due to increased sales volume of our cement products. Selling and marketing expenses as a percentage of revenue remained stable at 1.8% in 2010 and 2011.

Administrative expenses

Administrative expenses increased by RMB406.2 million, or 58.9%, from RMB689.6 million in 2010 to RMB1,095.8 million (US$174.1 million) in 2011, primarily due to increases in employees' salaries and benefits. Employees' salaries and benefits increased by RMB226.5 million from RMB241.7 million in 2010 to RMB468.2 million (US$74.4 million) in 2011, primarily due to an increase of compensation to senior management and the increased number of our employees as a result of our expanded operations and increases in average salaries paid to our employees. The number of our employees increased from 14,714 as of December 31, 2010 to 16,637 as of December 31, 2011. Audit and consulting expenses increased by RMB7.2 million from RMB43.0 million in 2010 to RMB50.2 million (US$8.0 million) in 2011, primarily because the increases in fees paid in connection with our acquisition activities. Other taxes and charges increased by RMB22.9 million from RMB69.3 million in 2010 to RMB92.2 million (US$14.6 million) in 2011, primarily due to increases in production volume and property tax paid by our acquired subsidiaries. Depreciation and amortization increased by RMB17.0 million (US$2.7 million) from RMB85.1 million in 2010 to RMB102.1 million (US$16.2 million) in 2011, primarily reflecting increased amortization charges as a result of the increased amount of assets due to our acquisitions. Provision for impairment losses increased by RMB55.6 million from RMB58.1 million in 2010 to RMB113.7 million (US$18.1 million) in 2011, primarily due to increases in provision for trade receivables and other receivables. We recorded an increase in "others" of RMB73.2 million from RMB136.4 million in 2010 to RMB209.6 million (US$33.3 million) in 2011. Our administrative expenses accounted for 5.8% and 6.5% of our revenue in 2010 and 2011, respectively.

Profit from operations

As a result of the foregoing, our profit from operations increased by RMB2,130.0 million, or 123.4%, from RMB1,726.5 million in 2010 to RMB3,856.5 million (US$612.7 million) in 2011.

Finance costs

Finance costs increased by RMB256.5 million, or 70.6%, from RMB363.1 million in 2010 to RMB619.6 million (US$98.4 million) in 2011, primarily due to increases in our borrowings in 2011. The proportion of finance costs to revenue increased from 3.1% in 2010 to 3.7% in 2011.

Profit before taxation

As a result of the foregoing, our profit before taxation increased by RMB1,890.8 million, or 138.7%, from RMB1,363.2 million in 2010 to RMB3,254.0 million (US$517.0 million) in 2011.

Income tax

Income tax expenses increased by RMB584.0 million, or 163.0%, from RMB358.3 million in 2010 to RMB942.3 million (US$149.7 million) in 2011, primarily due to the increase in our profits. Our effective tax rate was 26.3% in 2010 and 29.0% in 2011.

Profit for the year

As a result of the foregoing, our profit for the year increased by RMB1,306.8 million, or 130.0%, from RMB1,004.9 million in 2010 to RMB2,311.7 million (US$367.3 million) in 2011. Our profit margin increased from 8.5% in 2010 to 13.7% in 2011.

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 in 2010, primarily due to increases in revenue derived from sales of cement.

Our revenue from sales of cement products amounted to RMB9,275.1 million in 2010, 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 our ability to capitalize on a reduction in the number of cement product suppliers as a result of industry consolidation and phasing-out of obsolete cement capacity, as well as the increased demand from infrastructure construction projects. The average unit selling price of our cement products increased by 4.9% from RMB224.9 per ton in 2009 to RMB235.9 per ton in 2010, primarily due to increased demand for our products and decreased supply in the cement market in Shandong resulting from industry consolidation mandated by the government.

Our revenue from sales of clinker totaled RMB1,941.1 million in 2010, representing an increase of RMB362.2 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 increased demand from infrastructure construction projects. The average unit selling price of clinker increased by 5.2% from RMB187.5 per ton in 2009 to RMB197.2 per ton in 2010, primarily due to decreased supply as a result of decreased capacity in the Shandong clinker market.

Our revenue from 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 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, or 33.9%, from RMB6,947.2 million in 2009 to RMB9,304.0 million in 2010, primarily due to increases in costs of raw materials, coal and power 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 more efficient procurement procedures 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 per ton in 2010. 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 other items within cost 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 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 the absence of any sales of power generation rights in 2010 as compared to sales of such rights of RMB21.0 million in 2009.

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 in 2010. Salary and employee benefits increased by RMB21.8 million from RMB53.4 million in 2009 to RMB75.2 million in 2010, primarily due to increased commissions reflecting higher sales volume of cement. Transportation expenses decreased by RMB5.8 million from RMB26.9 million in 2009 to RMB21.1 million (US$3.4 million) in 2010, primarily due to decreases in our sales volume to customers who were not located in proximity to our production facilities 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 the 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 other labor costs. Salaries and benefits increased by RMB81.6 million from RMB160.1 million in 2009 to RMB241.7 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 as of December 31, 2009 to 14,714 as of December 31, 2010. Audit and consulting expenses increased by RMB11.3 million from RMB31.7 million in 2009 to RMB43.0 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 in 2010, primarily due to increases in production volume and property tax. Depreciation and amortization increased by RMB17.0 million from RMB68.1 million in 2009 to RMB85.1 million in 2010, primarily reflecting the increases in amortization charges as a result of the increased amount of assets due to our acquisitions. Provision for impairment losses increased by RMB42.8 million from RMB15.3 million in 2009 to RMB58.1 million in 2010, primarily due to increases in provision for trade receivables and other receivables. We recorded an increase in "others" of RMB41.6 million from RMB94.8 million in 2009 to RMB136.4 million in 2010. 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 in 2010.

Finance costs

Finance costs increased by RMB53.5 million, or 17.3%, from RMB309.6 million in 2009 to RMB363.1 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 in 2010.

Income tax

Income tax expenses increased by RMB131.1 million, or 57.7%, from RMB227.2 million in 2009 to RMB358.3 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 in 2010. Our profit margin increased from 8.2% in 2009 to 8.5% in 2010.

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, short-term and long-term bank loans, related-party advances and issuances of senior notes and corporate bonds.

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

As of December 31, 2009, 2010 and 2011, we had cash and cash equivalents of RMB886.1 million, RMB1,144.8 million and RMB3,008.3 million (US$478.0 million), respectively. Cash and cash equivalents increased by RMB1,863.5 million, or 162.8%, as of December 31, 2011 compared to December 31, 2010, primarily due to increases in cash generated from our financing activities as a result of the corporate bonds we issued in 2011. There was an increase in cash and cash equivalents of 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.

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

	Year ended December 31,			
	2009	2010	2011	
	RMB	RMB	RMB	US$
		(in millions)		
Net cash generated from operating activities........	1,025.7	1,789.0	1,549.3	246.2
Net cash used in investing activities...................	(2,136.4)	(2,926.8)	(3,370.7)	(535.6)
Net cash generated from financing activities........	748.6	1,398.3	3,686.9	585.8
Cash and cash equivalents at the year end...........	886.1	1,144.8	3,008.3	478.0

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 RMB1,549.3 million (US$246.2 million) in 2011, resulting from cash generated from operating activities of RMB2,853.0 million (US$453.3 million), partially offset by interest paid of RMB489.4 million (US$77.8 million) and income tax paid of RMB814.3 million (US$129.4 million). Cash generated from operating activities primarily included profit before taxation of RMB3,254.0 million (US$517.0 million), depreciation of RMB808.9 million (US$128.5 million), finance costs of RMB619.6 million (US$98.4 million), partially offset by an increase of RMB532.1 million (US$84.5 million) in other receivables and prepayments, an increase of RMB592.2 million (US$94.1 million) in trade and bills receivables and an increase of RMB771.6 million (US$122.6 million) in inventories. The increase in other receivables and prepayments was mainly due to an increase in dues from third parties as deposits to potential acquisition targets. The increase in trade and bills receivables was primarily due to the RMB503.5 million increase in bills receivables, because our customers used bills to pay for our products before delivery. The increase in inventories was mainly attributable to our increased clinker inventory resulting from our change in sales strategy to reduce the external sales of clinker in our key markets during the off-peak season in winter.

Our net cash generated from operating activities was RMB1,789.0 million in 2010, resulting from cash generated from operating activities of RMB2,463.8 million, partially offset by interest paid of RMB356.6 million and income tax paid of RMB318.2 million. Cash generated from operating activities primarily included profit before taxation of RMB1,363.2 million, depreciation of RMB693.3 million, finance costs of RMB363.1 million, an increase in trade and bills payable of RMB263.5 million and a decrease of RMB205.9 million in other receivables and prepayments, partially offset by an increase of RMB238.8 million in trade and bills receivables and an increase of RMB220.5 million in inventories. The increase in trade and bills payables was primarily attributable to the increase in the prices and volume 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 assets due to acquisitions in 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.

Net cash used in investing activities

Our net cash used in investing activities was RMB3,370.7 million (US$535.6 million) in 2011, primarily including RMB2,340.6 million (US$371.9 million) used for purchase of fixed assets and intangible assets and RMB1,068.7 million (US$169.8 million) for our acquisitions of subsidiaries, net of cash acquired. Cash outflow for acquisition of fixed assets amounted to RMB2,275.0 million (US$361.5 million), primarily relating to the construction of new production lines and our acquisitions. Cash outflow for acquisition of intangible assets amounted to RMB65.6 million (US$10.4 million), primarily relating to our purchases of limestone mining rights.

Our net cash used in investing activities was RMB2,926.8 million in 2010, primarily including RMB2,072.7 million used for purchase of fixed assets and intangible assets and RMB779.2 million for our acquisitions of subsidiaries, net of cash acquired. Cash outflow for acquisition of fixed assets amounted to RMB2,030.8 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, 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. 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.

Net cash generated from financing activities

Our net cash generated from financing activities was RMB3,686.9 million (US$585.8 million) in 2011, primarily including proceeds of RMB2,479.0 million (US$393.9 million) from new loans and borrowings and proceeds of RMB4,823.1 million (US$766.3 million) from the issuances of senior notes and corporate bonds, partially offset by the repayment of borrowings of RMB3,314.6 million (US$526.6 million) and dividend distributions of RMB339.7 million (US$54.0 million) to our shareholders.

Our net cash generated from financing activities was RMB1,398.3 million in 2010, primarily including proceeds of RMB2,846.5 million from new loans and borrowings and proceeds of RMB991.0 million from the issuance of corporate bonds, partially offset by the repayment of borrowings of RMB2,225.1 million and dividend distributions of RMB238.3 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.

Capital Expenditures

Our capital expenditures primarily comprised expenditures for plants, buildings, equipment, land use rights, construction in progress, intangible assets (primarily mining rights) 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 RMB2,155.3 million, RMB2,851.9 million and RMB3,409.4 million (US$541.7 million) in 2009, 2010 and 2011, respectively. In 2011, we constructed 36 clinker production lines and 132 cement grinding lines. Our annual production capacity of cement products was 48.3 million tons, 66.5 million tons and 84.2 million tons as of December 31, 2009, 2010 and 2011, respectively, and our annual production capacity of clinker was 25.2 million tons, 31.0 million tons and 37.4 million tons, respectively, as of the same dates. We plan to further expand our annual production capacity of cement products to approximately 95.0 million tons and our annual production capacity of clinker to 43.0 million tons by the end of 2012. In addition, we intend to expand vertically by acquiring projects in the upstream production process, including suppliers of raw materials.

Contractual Commitments and Contingent Liabilities

Capital commitments

We have entered into contracts to acquire fixed assets and subsidiaries as well as equipment purchase agreements. The table below sets forth the total amount of our commitments as of the balance sheet dates indicated.

	As of December 31,			
	2009	2010	2011	
	RMB	RMB (in millions)	RMB	US$
Authorized and contracted for:				
Acquisitions of fixed assets	374.1	1,877.2	1,081.3	171.8
Acquisitions of subsidiaries	–	52.0	221.7	35.2
Authorized but not contracted for:				
Acquisitions of fixed assets	4,508.6	1,845.9	2,447.2	388.8
Total	4,882.7	3,775.1	3,750.2	595.8

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.

	As of December 31,			
	2009	2010	2011	
	RMB	RMB (in millions)	RMB	US$
Payable:				
Within 1 year	15.9	15.6	16.0	2.5
After 1 year but within 2 years	15.9	15.6	15.9	2.5
After 2 years but within 5 years	45.8	46.5	46.9	7.5
After 5 years	133.0	131.5	127.7	20.3
Total	210.6	209.2	206.5	32.8

Contingent liabilities

In the past, we entered into reciprocal guarantee contracts with a third party to secure certain bank facilities for each other. The maximum exposure relating to financial guarantees issued by us was RMB1,500 million as of December 31, 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 and 2011.

Indebtedness

We have financed a significant portion of our operations through loans from commercial banks and other financial institutions, related-party advances and the issuance of debt securities.

The total balance of our short-term and long-term debt was RMB11,465.5 million (US$1,821.7 million) as of December 31, 2011. Long-term debt was RMB8,197.3 million (US$1,302.5 million) as of December 31, 2011. As of December 31, 2011, the interest rates on the aggregate outstanding amount of our term loans ranged from 2.5% to 8.5% per annum.

Our secured loans and borrowings are 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. We do not provide any guarantee to any company outside our group.

The table below sets forth our short-term and long-term borrowings as of the dates indicated.

	As of December 31,			
	2009	2010	2011	
	RMB	RMB (in millions)	RMB	US$
Short-term and current portion of long-term interest-bearing borrowings				
Secured	380.0	180.0	211.0	33.5
Unsecured	330.0	200.0	80.0	12.7
Current portion of long-term bank loans	1,437.0	1,304.5	2,876.2	457.0
Current portion of long-term secured loans from equity shareholders	58.5	106.1	101.0	16.0
Short-term and current portion of long-term interest-bearing borrowings	2,205.5	1,790.6	3,268.2	519.2
Long-term bank loans				
Secured	3,608.0	3,407.5	2,558.0	406.4
Unsecured	1,180.0	2,147.0	2,354.9	374.2
Current portion of long-term bank loans	(1,437.0)	(1,304.5)	(2,876.2)	(457.0)
Long-term bank loans, less current portion	3,351.0	4,250.0	2,036.7	323.6
Loans from equity shareholders				
Long-term secured loans from equity shareholders	236.4	454.2	331.2	52.6
Current portion of loans from equity shareholders	(58.5)	(106.1)	(101.0)	(16.0)
Loans from equity shareholders, less current portion	177.9	348.1	230.2	36.6
Long-term unsecured loan from government	10.0	10.0	10.0	1.6
Corporate bonds[1]	–	1,000.0	5,920.4	940.7
Convertible notes	10.8	–	–	–
Total debt	5,755.2	7,398.7	11,465.5	1,821.7

(1) Comprising two domestic corporate bonds issued by one of our subsidiaries as well as the 2016 Notes and the 2014 Notes.

Convertible Notes

On September 21, 2007, we issued US$20.0 million of convertible notes due in July 2011 to MS Cement Limited, MS Cement II Limited, CDH Cement Limited and IFC. The convertible notes were convertible into a total of 114,964,200 shares at a price of US$0.17 per share upon conversion. 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.

Corporate Bonds

For a discussion of our 2016 Notes and 2014 Notes as well as two series of corporate bonds issued by one of our subsidiaries, see "Description of Other Material Indebtedness."

The table below sets forth our indebtedness repayment obligations as of December 31, 2011.

	Payment due by period									
	Total		Within 1 year		After 1 year but within 2 years		After 2 years but within 5 years		After 5 years	
	RMB	US$	RMB	US$	RMB	US$	RMB	US$	RMB	US$
					(in millions)					
Short-term bank loans	291.0	46.2	291.0	46.2	–	–	–	–	–	–
Long-term bank loans	4,912.9	780.6	2,876.2	457.0	1,517.2	241.1	484.5	77.0	35.0	5.6
Loans from equity shareholders	331.2	52.6	101.0	16.0	101.0	16.0	129.2	20.5	–	–
Long-term unsecured loan from government	10.0	1.6	–	–	–	–	–	–	10.0	1.6
Corporate bonds	5,920.4	940.7	–	–	1,000.0	158.9	4,920.4	781.8	–	–
Total	11,465.5	1,821.7	3,268.2	519.2	2,618.2	416.0	5,534.1	879.3	45.0	7.2

Off-balance Sheet Arrangements

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 (0.7)%, 3.3% and 5.4% in 2009, 2010 and 2011, 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 U.S. 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 U.S. dollar. Under the current policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. As of March 30, 2012, this change in policy has resulted in an approximately 23.9% appreciation of the Renminbi against the U.S. 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 U.S. dollar.

Because the proceeds from this offering will be denominated in U.S. 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. Depreciation of the value of the Renminbi will increase the amount of our U.S. dollar denominated debt service obligations in Renminbi terms since we have to convert Renminbi into U.S. dollars to service such 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 SAFE. 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 arises from our 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. Based on our year-end 2011 variable rate debt levels of bank balances, we estimate that a 100 basis point change in interests rates of our floating rate bank and other borrowings, with all other variables held constant, would have resulted in a decrease or an increase in profit after taxation for 2011 of RMB34.2 million. We do not intend to engage in the trading of financial derivatives for the sole purpose of profit making. 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, 2011, 2.2% and 2.9% 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 has issued the following amendments and new standards which are not yet effective for the year ended December 31, 2011 and which have not been adopted in our financial statements included elsewhere in this document:

	Effective for accounting periods beginning on or after
Amendments to IAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	January 1, 2012
Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	July 1, 2012
IFRS 9, *Financial instruments*	January 1, 2013
IFRS 10, *Consolidated financial statements*	January 1, 2013
IFRS 11, *Joint arrangements*	January 1, 2013
IFRS 12, *Disclosure of interests in other entities*	January 1, 2013
IFRS 13, *Fair value measurement*	January 1, 2013
IAS 27, *Separate financial statements (2011)*	January 1, 2013
IAS 28, *Investments in associates and joint ventures*	January 1, 2013
Revised IAS 19, *Employee benefits*	January 1, 2013
IFRIC 20, *Stripping costs in the production phase of a surface mine*	January 1, 2013
Amendment to IFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	January 1, 2013

We are in the process of making an assessment of the impact of these amendments and new standards in the period of initial application and so far believe that the adoption of them is unlikely to have a significant impact on the results of operations and financial position.

Overview

We are one of the largest producers of clinker and cement in China, as measured by production volume, and enjoy dominant market positions in our key markets in Shandong and Liaoning provinces. Leveraging our well-established competitive strengths and strong government support, we have taken advantage of the considerable growth opportunities in the infrastructure construction 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 29.4 million tons in 2009 to 39.3 million tons in 2010 and 47.9 million tons in 2011. While most of the clinker we produced was used in our cement production, we also sold 8.4 million tons, 9.8 million tons and 7.0 million tons of clinker to external customers in 2009, 2010 and 2011, respectively. In 2009, 2010 and 2011, we sold approximately 860,000 m^3, 785,000 m^3 and 937,000 m^3 of concrete products, respectively. In 2009, 2010 and 2011, the average unit selling price per ton of our cement products was RMB224.9, RMB235.9 and RMB294.6 (US$46.8), respectively, the average unit selling price per ton of our clinker was RMB187.5, RMB197.2 and RMB269.5 (US$42.8), respectively, and the average unit selling price per cubic meter of our concrete products was RMB262.3, RMB237.5 and RMB258.9 (US$41.1), respectively. Our products are primarily provided to our customers under the "Shanshui Dongyue" brand name (山水東岳), which was honored with the "Famous Trademark of Shandong Province" award in 2008. In addition, in 2010, we were awarded the "Quality Award by the 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, the eastern part of Inner Mongolia, Shanxi province and Xinjiang. Our clinker production facilities are located near our limestone mines. Each clinker facility usually supplies several of our 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, 2011, we had a total annual production capacity (including production lines in test run) of 84.2 million tons of cement and 37.4 million tons of clinker, representing an increase of 17.7 million tons of cement and 6.4 million tons of clinker from December 31, 2010. As of December 31, 2011, our total annual production capacity of cement and clinker in Shandong province reached 53.8 million tons and 23.5 million tons, respectively, in Northeastern China, including both Liaoning province and Inner Mongolia, reached 25.9 million tons and 11.0 million tons, respectively, and in Shanxi province reached 4.5 million tons and 2.9 million, respectively. In addition, the total annual production capacity of our concrete products in Shandong province reached 8.6 million m^3.

We have achieved significant revenue and earnings growth in recent years. Our revenue increased from RMB8,727.6 million in 2009 to RMB11,854.1 million in 2010 and to RMB16,862.0 million (US$2,679.1 million) in 2011. Our profit for the year increased from RMB714.0 million in 2009 to RMB1,004.9 million in 2010 and to RMB2,311.7 million (US$367.3 million) in 2011.

Competitive Strengths

Dominant market position in key target markets in Shandong and Liaoning provinces with well-recognized product quality.

We are a leading producer of cement and clinker in Shandong and Liaoning provinces, as measured by production volume. We have actively and successfully carried out market consolidation primarily through acquisitions in Shandong and Liaoning provinces. In addition, we have established a recognized brand for our products by implementing national quality assurance standards, standardizing quality control thresholds at different stages of our production process and managing and implementing our real-time quality control system by our professional technical employees. Our brand name "Shanshui Dongyue" (山水東岳) was honored with 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 in our key markets in Shandong and Liaoning provinces as well as industry recognition for the high quality of our products, we believe that we can generally achieve favorable pricing for our cement and clinker products, which usually enjoy price premiums over products sold by our competitors, and we can attract key customers in our core markets in Shandong and Liaoning provinces.

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

As one of the twelve large-scale enterprises named in the joint notice by the NDRC, the Ministry of Land and Resources and the PBOC to receive government support in the form of priority with respect to project approvals, land use right grants and credit approvals, 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 PRC 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, Xinjiang and 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 in the working reports 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. In addition, the PRC government has pledged to invest RMB4,000 billion for water conservancy from 2011 to 2020, which is expected to increase the demand for cement in China in the near term. All these government measures are expected to stimulate 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.

We have realized significant cost savings with our efficient production layout, centralized procurement strategy and advanced technology.

All our clinker production facilities are located near our limestone mines, serving a network of cement grinding stations that are strategically located in proximity to our target end-markets, thereby minimizing transportation costs. We have abundant limestone reserves which should be sufficient to provide for at least 30 years for our planned production as a result of our stringent investment strategy. We only acquire clinker production capacities that come with or construct green field clinker production capacities after acquiring limestone reserves that fulfill our production needs for at least 30 years, as required by the PRC government's policy. We have also carefully planned our capacity expansion in order to achieve balanced cement and clinker production capacities to maximize our profits. This balance helps us ensure sufficient production of clinker for our internal use to avoid extra costs procuring clinker externally, while having sufficient cement production to absorb our clinker production to avoid excessive external sales of lower-margin clinker products. We have also gradually increased the centralization of procurement of key raw materials, especially coal, to increase our bargaining power with suppliers and enhance our inventory management of the raw materials to take full advantage of low prices during the off-peak demand season. Coal is used during our clinker production process and constitutes the largest cost component of our production. We also maintain long-term relationships with large coal suppliers to ensure a stable supply. Our top ten coal suppliers, who in aggregate provided approximately 35.5% of our coal supplies in 2011, had supplied coal to us for at least two years, with some supplying us for over five years. Furthermore, we employ advanced technology in our production processes which provides us with substantial cost savings. All our clinker production lines are equipped with residual heat recovery systems which has helped reduce external electricity consumption, achieving total electricity costs savings of RMB273 million, RMB347 million and RMB401 million (US$63.7 million) in 2009, 2010 and 2011, respectively.

We have an extensive sales network to cover a broad and 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, 2011, the two networks combined had 63 regional sales branches, 166 local sales offices and approximately 1,345 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, Shandong province, while 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 partnerships with third-party sales outlets at which we sell our products to end-users. We believe our extensive sales network enables us to cover a broad and diverse customer base and our well-established sales network in rural areas, in particular, enables us to benefit from the government's policy of "Bring building materials to the rural area."

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 29 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 43 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. Over the years, our senior management has delivered professional operational performance and helped us to achieve significant growth. Since March 5, 2012, we have been included in the Hang Seng Mainland 100 index by the Hong Kong Stock Exchange, symbolizing the capital market's recognition of our financial strength and market position.

Strategy

Continue to execute our prudent growth strategy by expanding production capacity and increasing market presence.

We have been able to grow our cement and clinker business through organic growth and a series of acquisitions. We expect to continue the expansion of our business by developing our greenfield projects and acquiring new projects as well as increasing our presence in key regional markets, particularly Shanxi province, Inner Mongolia and Xinjiang. In addition, we align our strategy with the government's policy of phasing out outdated production technologies and encouraging consolidation of the cement industry, while leveraging our own competitive strength in terms of established production systems and processes. We intend to proactively identify strategic target locations for greenfield projects and seek acquisition opportunities to strategically expand production capacity to improve our presence in key markets. By the end of 2012, we plan to increase our cement production capacity to approximately 95 million tons per year from 84.2 million tons per year as of December 31, 2011. Our objective is to increase our market presence with the goal of becoming the leading cement producer north of the Yangtze River.

Take advantage of our strong market position to maintain profitability.

With the PRC government's policy of phasing out outdated cement production technologies and encouraging consolidation of the cement industry, China's leading cement players are in a strategic position to help develop healthy supply and demand dynamics in regional markets. With our long-standing and dominant market positions in Shandong and Liaoning provinces and our growing presence in Shanxi province and Xinjiang, we plan to timely guide our regional branches to make proactive adjustments to the production and sales of our products to help balance the supply and demand dynamics so as to stabilize prices and, as a result, maintain our profitability. The fact that we are also one of the major clinker suppliers in these markets provides us additional leverage in responding to the supply and demand dynamics not only at the end product level, but also at the raw materials level. We believe this strategy can help maintain and stabilize our long-term profitability and is also aligned with the PRC government's industry policies.

Promote total budget management initiatives to enhance operational management efficiency.

We plan to revise and improve 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, and 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.

Enhance vertical integration in selected markets in order to improve our competitiveness and diversify our product offerings.

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 launch a pilot program in Shandong province, where our cement business is most concentrated, to enhance our vertical integration by acquiring upstream raw material suppliers in order to accelerate diversifying our product offerings 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.

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,						
	2009		2010		2011		
	Amount (RMB)	% of Revenue	Amount (RMB)	% of Revenue	Amount (RMB)	Amount (US$)	% of Revenue
	(in millions, except percentages)						
Revenue							
Sales of cement	6,608.2	75.7%	9,275.1	78.2%	14,123.9	2,244.1	83.8%
Sales of clinker	1,578.9	18.1%	1,941.1	16.4%	1,886.6	299.8	11.2%
Sales of other products and services[1]	540.5	6.2%	637.9	5.4%	851.5	135.2	5.0%
Total	8,727.6	100.0%	11,854.1	100.0%	16,862.0	2,679.1	100.0%

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

Our sales volume of clinker was 8.4 million tons, 9.8 million tons and 7.0 million tons in 2009, 2010 and 2011, respectively, and our sales volume of cement products was 29.4 million tons, 39.3 million tons and 47.9 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 3% in 2011 as compared to 2010. 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,		
	2009	**2010**	**2011**
	(in millions of tons)		
High grade cement products	14.8	21.8	29.3
Low grade cement products	14.5	17.5	18.6

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 MPa. 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 2011, sales of high grade cement products accounted for 61.2% of our total sales volume and low grade cement products accounted for 38.8%.

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 as the "Famous Trademark of Shandong Province." In 2009, we were presented the "30-year Reform Meritorious Enterprise Award" by the 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. As of December 31, 2011, we had a total production capacity (including production lines in test run) of 84.2 million tons of cement and 37.4 million tons of clinker, representing an increase of 17.7 million tons of cement per year and 6.4 million tons of clinker per year over the year ended December 31, 2010. As of December 31, 2011, our total production capacity of cement and clinker in Shandong province reached 53.8 million tons per year and 23.5 million tons per year, respectively, while our total production capacity of cement and clinker in Liaoning province and Inner Mongolia reached 25.9 million tons per year and 11.0 million tons per year, respectively. As of December 31, 2011, our total production capacity of cement and clinker in Shanxi province reached 4.5 million tons per year and 2.9 million tons per year, respectively. We have 80, 34, 11 and seven 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. Due to the bulky nature of cement, we have established our clinker and cement production facilities based on a "hub-and-spoke" model. Our clinker production facilities are located near our limestone mines, which supply to several of our 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. 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.

The table below sets forth our production capacity and total number of production lines as of December 31, 2009, 2010 and 2011 and production volumes for clinker and cement for the years ended December 31, 2009, 2010 and 2011.

	As of and for the year ended December 31,		
	2009	**2010**	**2011**
Clinker			
Total production capacity (in millions of tons)(1)	25.2	31.0	37.4
Total production lines	23	28	36
Total production volumes (in millions of tons)	25.7	32.4	36.8
Cement			
Total production capacity (in millions of tons)(1)	48.3	66.5	84.2
Total production lines	88	96	132
Total production volumes (in millions of tons)	29.9	39.2	48.1

(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 clinker production lines in each area in which we operate.

Location	Annual clinker production capacity[1] for the year ended December 31,			Production volume for the year ended December 31,		
	2009	2010	2011	2009	2010	2011
	(in millions of tons)			(in millions of tons)		
Shandong region	19.5	22.1	23.5	21.6	26.3	27.7
Liaoning region	5.7	5.7	7.8	4.0	5.7	6.0
Inner Mongolia	–	3.2	3.2	–	0.4	3.0
Shanxi region	–	–	2.9	–	–	0.1
Total	25.2	31.0	37.4	25.7	32.4	36.8

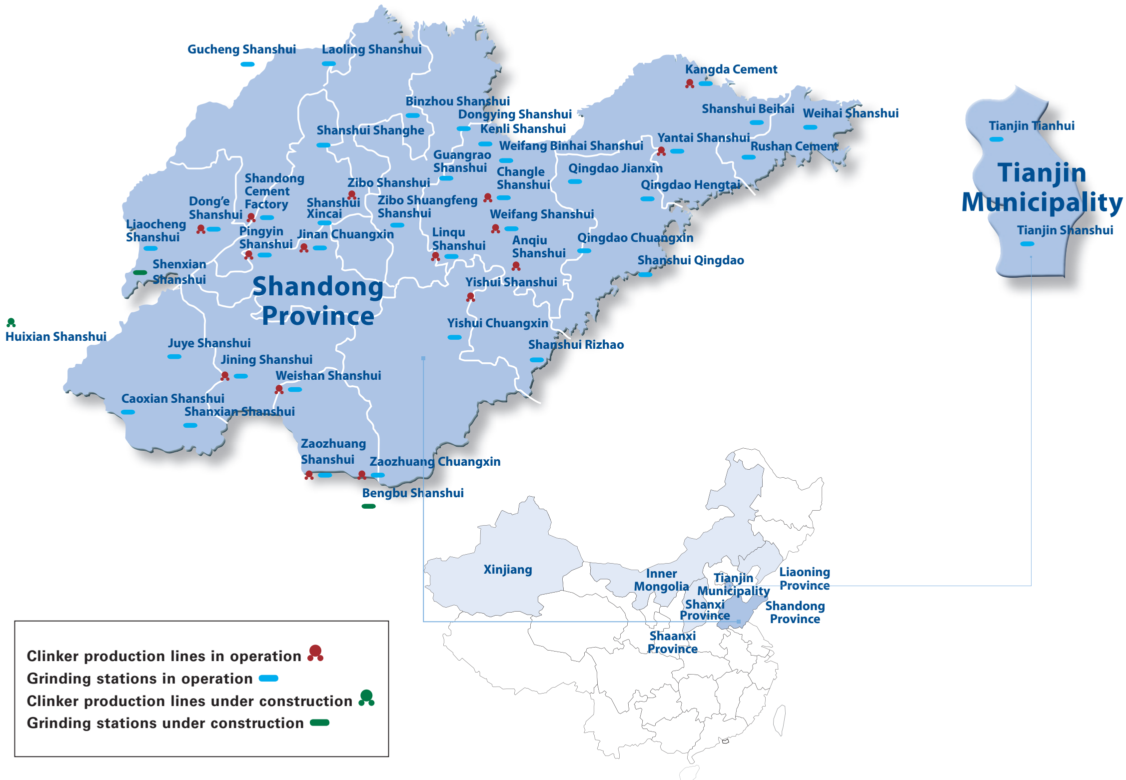
(1) Annual production capacity, including production lines in test run, is calculated based on 320 working days per annum.

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

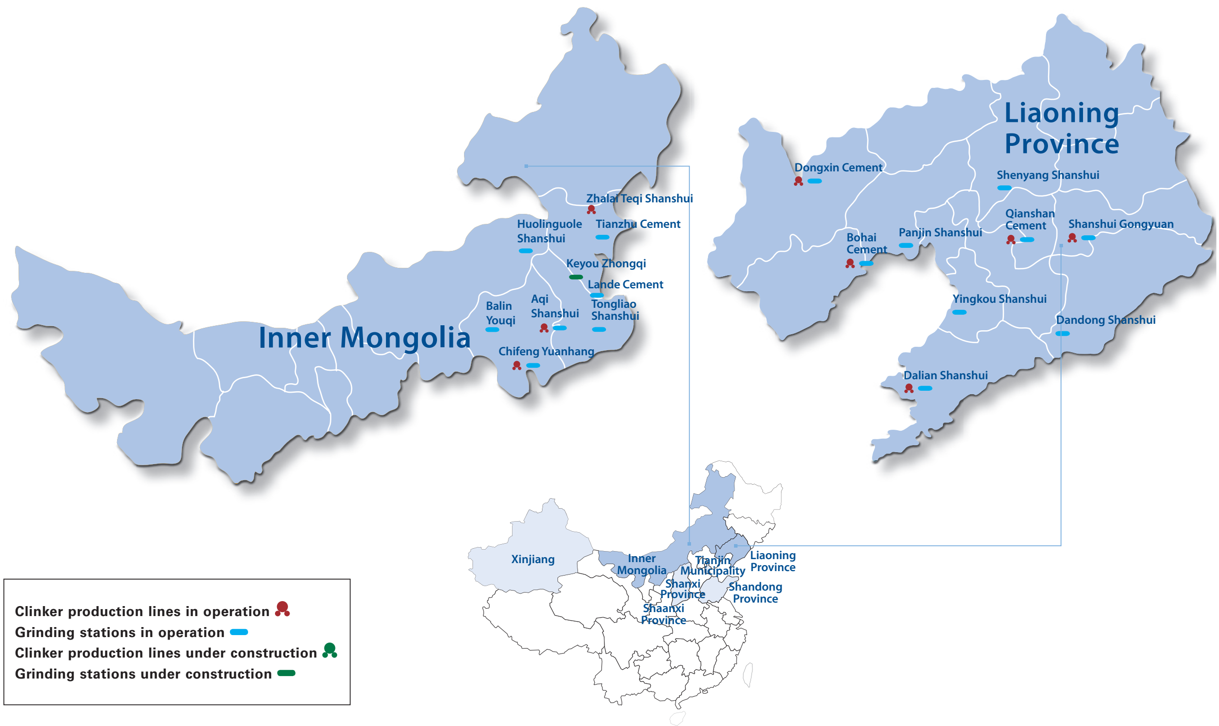
Location	Annual cement production capacity[1] for the year ended December 31,			Production volume for the year ended December 31,		
	2009	2010	2011	2009	2010	2011
	(in millions of tons)			(in millions of tons)		
Shandong region	37.8	48.1	53.8	25.5	32.4	35.1
Liaoning region	10.1	12.1	17.9	3.9	6.1	8.9
Inner Mongolia	0.5	5.3	8.0	0.5	0.6	3.8
Shanxi region	–	1.0	4.5	–	–	0.3
Total	48.3	66.5	84.2	29.9	39.2	48.1

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

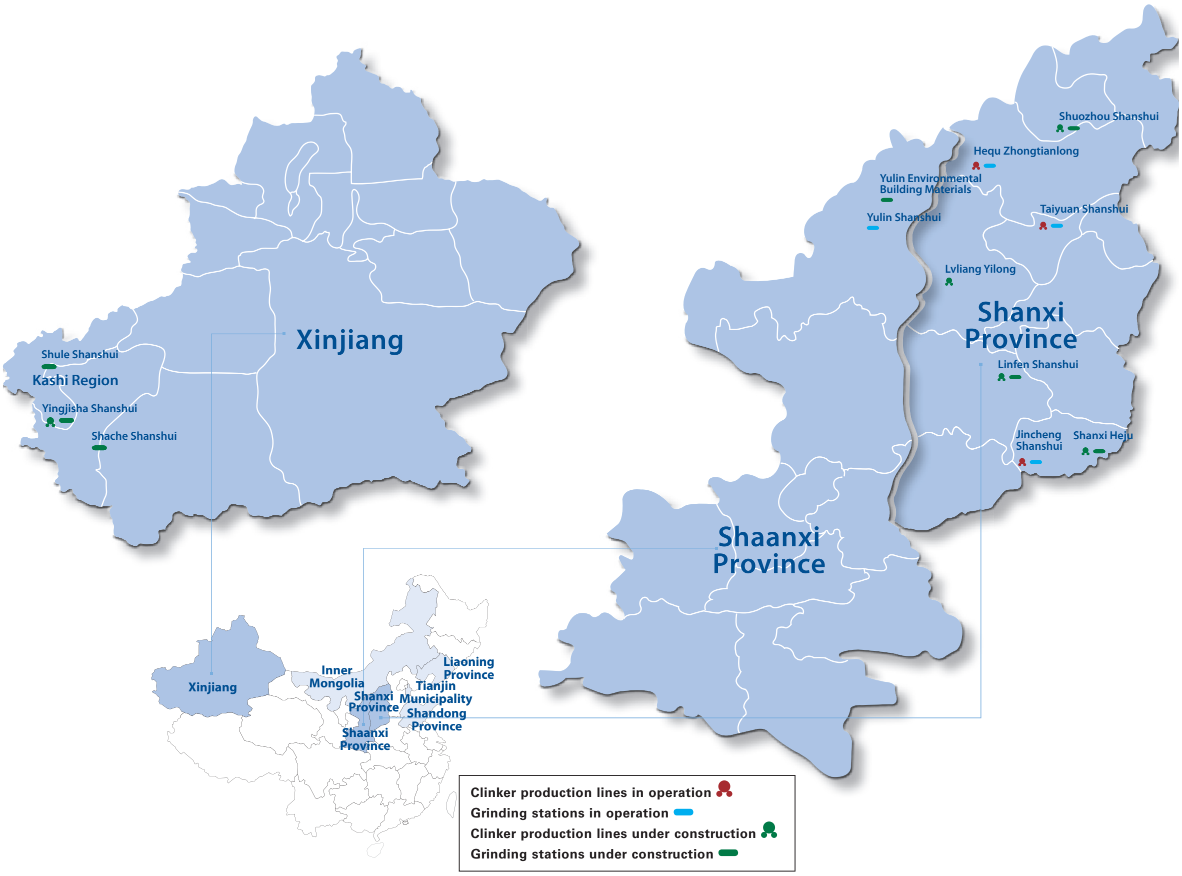
The map below indicates the locations of our major production facilities (including projects under construction) in Shandong region as of December 31, 2011:



The map below indicates the locations of our major production facilities (including projects under construction) in Northeastern region as of December 31, 2011:



The map below indicates the locations of our major production facilities (including projects under construction) in Xinjiang and Shanxi region as of December 31, 2011:



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 the MIIT, a total of 150 million tons of obsolete cement production capacity was phased out in 2011. According to Shandong Economic and Information Technology Committee, approximately 8.7 million ton of obsolete cement production capacity was phased out in Shandong as of December 27, 2011.

Planned Capacity Expansion

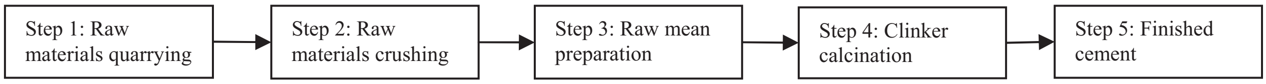
In order to meet the growing market demand for cement products, we plan to further expand our production capacity through the construction of new production facilities. For instance, two cement grinding production lines and one clinker production line are in construction in Xinjiang.

The following table sets forth our planned number of production lines, production capacity and production commencement date by products for 2012.

Products	Planned Number of Production Lines	Planned Production Capacity	Anticipated Commencement Date
Clinker	40	43.2 million tons	By the end of 2012
Cement	138	94.7 million tons	By the end of 2012
Concrete	11	10 million cubic meters	By the end of 2012

Production Process

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



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 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

In 2011, we acquired the equity interests of the following entities engaged in cement business in Shanxi province, Inner-Mongolia Autonomous Region, Henan province and Shandong province. The acquisitions are expected to provide us with an increased market share in the respective regions. The fair value of net identifiable assets of the acquirees is determined based on the valuation carried out by a qualified independent valuer. From the date of the relevant acquisitions to December 31, 2011, these acquirees contributed in the aggregate revenue of RMB62.1 million (US$9.9 million) and profit of RMB2.0 million (US$0.3 million).

Name of company	Acquired interest	Acquisition date	Location	Production capacity per year	Principal activities
Inner Mongolia Lande Cement Co., Ltd.	100%	January 20, 2011	Inner Mongolia	0.6 million tons of cement	Production and sale of cement and concrete
Zhalai Teqi Shangshui Cement Co., Ltd.	Note(1)	August 9, 2011	Inner Mongolia	0.4 million tons of cement	Production and sale of cement
Huixian Luqiao Cement Co., Ltd.	Note(2)	August 13, 2011	Henan province	N/A	Investment in cement processing projects
Dezhou Tianqi Concrete Co., Ltd.	60%	August 25, 2011	Shandong province	1 million m^3 of concrete per year	Production and sale of concrete
Weifang Wanda Building Materials Co., Ltd.	100%	October 14, 2011	Shandong province	0.6 million m^3 of concrete per year	Production and sale of cement and concrete
Taiyuan Shanshui Cement Co., Ltd.	60%	December 7, 2011	Shanxi province	1.5 tons of cement/1.3 million tons of clinker per year	Production and sale of cement

(1) On August 8, 2011, we entered into an agreement to acquire a group of net assets in Quanxing Cement for a total cash consideration of RMB43.2 million (US$6.9 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 June 9, 2011, we signed an agreement to acquire a group of net assets in Luqiao Cement for a total cash consideration of RMB20.0 million (US$3.2 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.

See also "Summary – Recent Developments – Acquisitions" for a discussion of acquisitions completed in 2012 or currently pending.

Raw Materials, Coal and Electricity

In 2009, 2010 and 2011, purchases of raw materials, coal and electricity from our five largest suppliers accounted for 18.9%, 16.6% and 17.3% of our total cost of sales, respectively, and purchases from our largest supplier accounted for 5.0%, 4.4% and 2.9% 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 30.0%, 27.7% and 30.3% of our total cost of sales for the years ended December 31, 2009, 2010 and 2011, 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 54.5%, 46.6% and 45.1% of our limestone supply from outside suppliers in 2009, 2010 and 2011, 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 31.5%, 34.1% and 32.8% of our total cost of sales for the years ended December 31, 2009, 2010 and 2011, respectively. Our coal consumption was 145 kg, 143 kg and 144 kg of coal per ton of clinker in 2009, 2010 and 2011, 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 cost increases to our customers."

Electricity

Electricity constituted 16.2%, 15.8% and 14.4% of our total cost of sales for the years ended December 31, 2009, 2010 and 2011, 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 RMB0.12 to RMB0.28 per KWh in 2011, significantly lower than our average electricity purchase price of RMB0.58 per KWh during the same period. Using RHR technology, we increased our output of residual heat power generation, producing 7.2 Gwh, 9.1 Gwh and 10.3 Gwh in 2009, 2010 and 2011, respectively.

Sales and Marketing

Sales Network

In 2009, 2010 and 2011, 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, 2011, the Shandong network covered 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, 2011, the Liaoning network covered 95 counties and districts in Liaoning province, 26 counties and districts in Inner Mongolia, Heilongjiang, Jilin and Shanxi province by 23 regional sales branches, 68 local sales offices and approximately 145 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, 2011, we had 1,398 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, 2011, we had approximately 1,345 third-party sales outlets and 166 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, or 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 infrastructure 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. In 2011, revenue derived from our five and ten largest customers accounted for 3.3% and 5.5% of our total revenue, respectively, and revenue derived from our largest customer accounted for 1.0% of our total revenue during the same period.

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, which includes fuels used in the production process, 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 and production process have significantly lowered our production costs. We have a research and development center at our headquarters in Jinan, which employed 134 research and development personnel as of December 31, 2011, the majority of whom have undergraduate or higher degrees. We also cooperate with education or research institutions to develop technology in our production process and facilities and recruit talent.

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 November 16, 2011, we have been granted twelve 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. On July 11, 2011, the MIIT announced a list of cement companies to be phased out by the end of 2011. The list includes 27 companies in Shandong province, 72 companies in Liaoning province, 78 companies in Shanxi province and 11 companies in Shaanxi province. 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 Xinjiang, 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, 2009, 2010 and 2011, we had 13,190, 14,714 and 16,637 employees, respectively. The following table sets forth the number of our full-time employees by function as of December 31, 2011.

Employee Type	Number of Employees
Production	10,362
Sales	1,398
Technical	811
Finance	565
Administrative and management	1,833
Others[1]	1,668
Total	16,637

(1) Others mainly includes security guards, drivers, gardeners and interns.

The aggregate remuneration of our employees for year ended December 31, 2011 amounted to RMB897.6 million (US$142.6 million). In 2011, we made social security payments for our employees in the amount of RMB98.4 million (US$15.6 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. In 2011, we made total contributions of RMB23.4 million (US$3.7 million) to the housing provident fund.

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." 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. See "– Employees."

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, 2011, the maximum coverage of this policy was RMB13.4 billion (US$2.1 billion). We also maintain public liability insurance, profit loss insurance, machinery break-down insurance and product liability insurance. In 2011, we paid an aggregate insurance premium of RMB5.1 million (US$0.8 million). 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 complied with the relevant environmental rules and regulations and have, except for 17 subsidiaries, including those we have recently acquired, which are in the process of obtaining relevant environmental permits and approvals. In September 2011, one of our recently acquired subsidiaries in Inner Mongolia was fined and ordered to suspend its clinker production for its failure to obtain the requisite environmental compliance certificates. It is applying for such certificates. In 2009, 2010 and 2011, our annual expenses for complying with applicable environmental laws and regulations, including water treatment costs, amounted to RMB18.2 million, RMB25.0 million and RMB28.4 million (US$4.5 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 two 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, 2011, the ownership certificates for certain limestone mining rights with a carrying amount of RMB51.8 million (US$8.2 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 both own, meaning we own the relevant land use rights, and lease properties for our business operations, with the exception of some properties of our subsidiaries for which land use rights certificates have not been obtained or are in the process of application. See "Risk Factors – Risks Relating to Our Business – We have not obtained legal title to some of the properties we occupy and certain of our leased properties may be subject to title encumbrances."

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.

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.

Name	Age	Position
Caikui Zhang (張才奎)	61	Chairman, Executive Director and General Manager
Bin Zhang (張斌)..............	33	Vice Chairman, Executive Director, General Manager and Joint Company Secretary
Chengtian Dong (董承田) ...	54	Executive Director, Deputy General Manager
Yuchuan Yu (于玉川).........	53	Executive Director, Deputy General Manager and Chief Engineer
Homer Sun (孫弘).............	40	Non-Executive Director
Shuge Jiao (焦樹閣)	46	Non-Executive Director
Jianguo Sun (孫建國)	57	Independent Non-Executive Director
Yanmou Wang (王燕謀)......	79	Independent Non-Executive Director
Jian Wang (王堅)	56	Independent Non-Executive Director
Yongkui Zhao (趙永魁).......	47	Deputy General Manager and Chief Financial Officer
Liping Zhao (趙利平)	51	Deputy General Manager
Jingtian Mi (宓敬田)	50	Deputy General Manager
Zhongsheng Chen (陳仲聖).	41	Deputy General Manager
Guang Tian (田光)	36	Deputy General Manager
Cheung Hung Li (李長虹)...	61	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 43 years of experience in the cement industry, and was appointed as the head of Shandong Cement Plant (the predecessor of Shandong Cement) 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. 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 of 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 Northeastern 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 the chief investment officer of Morgan Stanley Private Equity Asia and leads the China investments for Morgan Stanley Private Equity Asia. Mr. Sun is also a Managing Director of Morgan Stanley Asia Limited and a member of the China management committee which is comprised of Morgan Stanley Asia Limited's most senior business leaders within China. He is currently the non-executive director of Sichuan Pharmaceutical Holdings Group and China Flooring Holding, both being Hong Kong Stock Exchange-listed companies, and China XD Plastics and Yongye International, both being NASDAQ-listed companies. Mr. Sun joined Morgan Stanley Asia Limited in 2000 and worked for six years on various mergers and acquisitions in Greater China in the Investment Banking Division prior to joining Morgan Stanley Private Equity 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, and a director of Joyoung Company Limited, a Shenzhen Stock Exchange-listed company. 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, a Hong Kong Stock Exchange-listed company, and the Shanghai Stock Exchange, which is listed on the Shanghai Stock Exchange itself. Mr. Wang is also an independent non-executive director of China Tianrui Group Cement Company Limited, a Hong Kong Stock Exchange-listed company, and is an advisor to the expert academic 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 over 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 31 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.

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

Joint Company Secretaries and Qualified Accountant

Cheung Hung Li (李長虹) has served as one of our joint company secretaries and our qualified accountant since June 2008. He is committed to managing our investor relationship and overseeing our capital market fundraising activities as well as overseeing the information disclosure of our company due to our listing on the Hong Kong Stock Exchange. Mr. Li is employed by us on a full-time basis and is a member of our senior management in accordance with the Hong Kong Listing Rules and is ordinarily resident in Hong Kong. He 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 a fellow member 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 company secretaries. See "– Directors – Executive Directors" above for his biographical details.

Board Committees

Audit Committee

We have established an 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 a 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.

Executive Committee

We established an executive committee in August 2010 in order to enhance our corporate governance structure. The executive 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 executive 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 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 Caikui Zhang, Chengtian Dong and Yuchuan Yu, all being our executive directors, has entered into a service contract with our company on March 25, 2011 for a term of three years commencing on July 1, 2011, subject to termination before expiry by either party by giving not less than three months' notice in writing to the other. Under these service contracts, each of Caikui Zhang, Chengtian Dong and 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 the Board and the Remuneration Committee). In the case of Caikui Zhang, the amount of his management bonus is calculated with reference to the pre-set performance target as our board of directors may approve and shall be equal to 10% of the excess of our net profits over the pre-set performance target in any given year. Mr. Zhang Bin, being 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 re-election 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 RMB1.5 million (US$0.2 million). Mr. Zhang's remuneration (including any bonus) is determined by our board of directors with reference to his performance, position and duties in our company. Such executive director is required to abstain from voting, and not be counted in the quorum, in respect of any resolution of our board of directors approving the determination of the salary, bonus and other benefits payable to him.

Each of Homer Sun and Shuge Jiao, both being our non-executive directors, has entered into a letter of appointment with us on March 25, 2011. Each letter of appointment is for an initial term of one year commencing from July 1, 2011, and thereafter shall be renewed for a maximum of three years provided it can be terminated by either party by giving at least one month's notice in writing. Non-executive directors does not receive any remuneration from us.

Each of Jianguo Sun, Yanmou Wang and Jian Wang, all being our independent non-executive directors, has entered into a letter of appointment with us on March 25, 2011. Each letter of appointment is for an initial term of one year commencing from July 1, 2011, and thereafter may 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$16,000).

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

Compensation of Directors

Our chairman, executive directors, non-executive directors and independent non-executive directors received aggregate remuneration, comprising directors' fees, salaries, allowances and other benefits, bonuses and contributions to defined contribution retirement plans, from us of approximately RMB148.9 million (US$23.7 million), RMB22.3 million (US$3.5 million), nil and RMB0.3 million (US$0.04 million) for the year ended December 31, 2011, respectively. Our chairman received aggregate remuneration from us of approximately RMB33.4 million and RMB148.9 million (US$23.7 million) in 2010 and 2011, respectively.

Share Option Scheme

We adopted a share option scheme on June 14, 2008 (the "Share Option Scheme"). On May 25, 2011, options to subscribe for 7,300,000 shares were granted at an exercise price of HK$7.9 per share, while the closing price of our shares on the Hong Kong Stock Exchange on that date was HK$7.83 per share. The table below sets forth details of the options granted in 2011:

Type of Grantee	Date of grant	Number of underlying shares	Vesting period	Exercise Price	Exercised during 2011	Lapsed during 2011	Cancelled during 2011	Expired during 2011
Bin Zhang	May 25, 2011	5 million	Nil	HK$7.9	Nil	Nil	Nil	Nil
Employees	May 25, 2011	2.3 million	Nil	HK$7.9	Nil	Nil	Nil	Nil

The purpose of the Share Option Scheme is to provide an incentive for our employees and business partners to commit working towards enhancing the value of our company and our shares for the benefit of our shareholders, and to retain and attract employees of high caliber and working partners whose contributions are or may be beneficial to our growth and development.

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

The maximum number of shares that may be issued pursuant to the exercise of the options granted under the Share Option Scheme on May 25, 2011 is 7,300,000 shares, representing approximately 0.26% of our share capital in issue (2,815,950,200 shares) as of December 31, 2011.

The exercise period of the options granted by our board on May 25, 2011 may not exceed ten years from May 25, 2011.

SUBSTANTIAL SHAREHOLDERS

As of March 31, 2012, the interests and short positions of persons (other than directors and chief executives of our company) in our issued shares and underlying shares, which would be required to be disclosed to us pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance of Hong Kong (the "SFO"), or which were recorded in the register required to be kept by us under Section 336 of the SFO, were as follows:

Name	Capacity	Number of shares held	Percentage of our company's issued share capital[1]	Long/Short position
China Shanshui Investment Company Limited[2][3]	Beneficial Owner	847,908,316	30.11	Long
Hillhouse Capital Management, Ltd.[4]	Investment manager	255,471,000	9.07	Long
Gaoling Fund, L.P.[4]	Interest in controlled corporation	242,305,000	8.60	Long
Deutsche Bank Aktiengesellschaft	Beneficial owner	68,186,075	2.42	Long
		65,686,458	2.33	Short
	Investment manager	2,060,000	0.07	Long
	Person having a security interest in shares	191,836,000	6.81	Long
	Custodian corporation/ approved lending agent	1,478,000	0.05	Lending pool
JPMorgan Chase & Co.	Beneficial owner	3,867,484	0.14	Long
	Investment manager	50,176,560	1.78	Long
	Custodian corporation/ approved lending agent	142,441,325	5.06	Lending pool
T. Rowe Price Associates Inc. and its Affiliates	Investment manager	142,610,000	5.06	Long

(1) Calculated based on 2,815,950,200 shares issued as of March 31, 2012.

(2) China Shanshui Investment Company Limited ("China Shanshui Investment") is held as to approximately 65.55% by the discretionary trustee of the Zhang trust whose beneficiaries include employees of our company, as to approximately 16.19% by the discretionary trustee of the Li Trust whose beneficiaries include employees of our company, as to approximately 4.18% by Mr. Chengtian Dong, as to approximately 1.53% by Mr. Maohuan Li, as to approximately 4.35% by Mr. Yuchuan Yu, as to approximately 3.05% by Mr. Liping Zhao, as to approximately 2.77% by Mr. Yongkui Zhao, as to approximately 1.56% by Mr. Jingtian Mi and as to approximately 0.82% by Mr. Yongping Wang. These individuals are current or former directors or executive officers of our company. Mr. Caikui Zhang as the discretionary trustee may vote and administer the shares of China Shanshui Investment for the benefit of the relevant beneficiaries as mentioned above. As Mr. Caikui Zhang is in control of more than 50% of the shares of China Shanshui Investment as discretionary trustee, he is deemed under the SFO to be interested in all the shares in our company registered in the name of China Shanshui Investment.

(3) On September 28, 2010, China 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.

(4) 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 had an interest in 8,748,000 of our shares as at March 31, 2012.

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 notes 37 to our audited consolidated financial statements for the years ended December 31, 2010 and 2011, each of which is included elsewhere in this document.

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:

In 2009 and 2010, we had sales of clinkers to Tianjin Tianhui, a company under common control of one of our ultimate shareholders, of RMB39.3 million and RMB11.5 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. In 2009, we have sales of clinkers to Shanshui Stanford New Building Materials ("Stanford"), a company under common control of one of our ultimate shareholders, of RMB0.7 million.

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. In 2009 and 2010, we had income of RMB558,500 and RMB279,250, respectively, from Stanford. Since the transfer of all interests of Jinan Shanshui Jinan Shanshui to US Stanford Capital Limited 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, in 2009 and 2010, we had rental income of RMB135,000 and RMB135,000, 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.

In 2009 and 2010, we had brand royalty income of RMB379,000 and RMB49,000, 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 per ton of cement it produced. For the same periods, Tianjin Tiahui produced 378,568 tons and 48,977 tons of cement, respectively.

In 2009 and 2010, we had management fee income of RMB384,000 and RMB25,000, 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.

In 2009 and 2010, we had management fee income of RMB610,000 and RMB610,000, 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.

Other Transactions with Related Parties

In 2009, we made advances of RMB26,000 to China Shanshui Investment, which were fully repaid in that year.

In 2009, we had receivables from Jinan Shanshui Group Property Development Co. Ltd. as a result of advances of RMB1.3 million we made to a third party, who was our customer, for Jinan Shanshui Group Property Development Co. Ltd.

In 2010 and 2011, we made loans to Dong'e Shanshui, an associate company. The loans bear interest at the one-year PBOC benchmark interest rate, which was 5.31% and 6.1% for 2010 and 2011, respectively. As of December 31, 2010 and 2011, these loans had a total principal amount of RMB74.0 million and RMB88.6 million (US$14.1 million), respectively. In 2011, we sold coal to and purchased clinkers from Dong'e Shanshui, which amounted to RMB43.9 million (US$7.0 million) and RMB34.7 million (US$5.5 million), respectively. As of December 31, 2011, we had accounts receivable of RMB3.2 million (US$0.5 million) due from Dong'e Shanshui and advances to suppliers for Dong'e Shanshui in an amount of RMB1.0 million (US$0.2 million).

See "Description of Other Material Indebtedness – IFC Loan Agreements and Guarantee" for a description of loan agreements that certain of our subsidiaries entered into with IFC. As of December 31, 2011, total principal and relevant interests amounted to RMB331.2 million (US$52.6 million). In 2009, 2010 and 2011, RMB61.8 million, RMB125.5 million and RMB141.2 million (US$22.4 million), respectively, was repaid under these loans.

Key Management Compensation

See "Management – Compensation of Directors."

Amounts Due from/to Related Parties

As of December 31, 2009, 2010 and 2011, other receivables due from related parties were RMB8.1 million, RMB2.8 million and RMB2.0 million (US$0.3 million), respectively.

As of December 31, 2009, customer deposits and receipts in advance from Tianjin Tianhui were RMB51,000.

As of December 31, 2009, 2010 and 2011, 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 RMB258,000, RMB1.8 million and RMB696,000 (US$110,583), respectively.

As of December 31, 2009, 2010 and 2011 loans due to IFC were RMB236.4 million, RMB454.2 million and RMB331.2 million (US$52.6 million), respectively.

As of December 31, 2009, liability portion of convertible notes due to related parties were RMB10.9 million.

As of December 31, 2010 and 2011, other financial assets due from Dong'e Shanshui were RMB74.0 million and RMB88.6 million (US$14.1 million), respectively.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

Term Loan Agreements

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, China Bohai Bank, Sino-German Bausparkasse and Liaoyang Bank to finance our construction of production facilities, acquisitions and working capital requirements. These loans have terms ranging from approximately seven months to six years. As of December 31, 2011, RMB5,204.9 million (US$827.0 million) was outstanding under these short-term and long-term bank loans. As of March 31, 2012, RMB5,564.7 million (US$884.1 million) was outstanding under these loans.

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 December 31, 2011, the interest rates on the aggregate outstanding amount of our term loans ranged from 2.5% to 8.5% 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;
- dispose of or 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, transfer of shares and reorganizations;
- make any investment;
- suspend business for rectification or apply for winding-up or insolvency; 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 ratios of total liabilities to total assets, contingent liabilities to total equity attributable to shareholders and current assets to current liabilities. 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 Qilu Bank, the latter two of which provided certifications to us that the noncompliance would not accelerate repayment of these loans. We have repaid in full the loan from Weihai City Commercial Bank. As of December 31, 2011, RMB75.0 million (US$11.9 million) was outstanding under the loan agreements with Shanghai Pudong Development Bank and Qilu Bank. We intend to repay these loans upon their maturities in June and November 2012.

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 equipment.

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$158.9 million) and RMB900 million (US$143.0 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 for the notes issued in October 2010 and 5.78% for the notes issued in March 2011, with interest payable annually.

IFC Loan Agreements and Guarantee

Weihai Shanshui, Qingdao Chuangxin, Linqu Shanshui and Zaozhuang Chuangxin entered into loan agreements with IFC, one of our 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 semi-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 semi-annually 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 any lien on our properties unless we maintain a total liabilities-to-equity ratio not exceeding 3.0 for 2011, 2.5 for 2012 and 2.0 for 2013 onwards. As of December 31, 2011, the aggregate outstanding amount under these loan agreements was RMB331.2 million (US$52.6 million).

8.5% Senior Notes due 2016

Our US$400 million aggregate principal amount of 8.5% Senior Notes due 2016 (the "2016 Notes") are our senior obligations and rank at least equally in right of payment with all our other unsecured, unsubordinated indebtedness, subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law. We have a total of US$400 million principal amount of the 2016 Senior Notes outstanding.

Guarantee

Our obligations under the 2016 Notes are guaranteed by our existing subsidiaries other than those incorporated or organized in the PRC. The guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, we may, subject to certain conditions, incur additional indebtedness that would be incurred on an equal and ratable basis with the 2016 Notes and related guarantees.

Interest

The 2016 Notes bear interest at 8.5% annually, payable semi-annually in arrears.

Covenants, Events of Default and Change of Control

The provisions relating to our covenants, the events of default and change of control in the indenture governing the 2016 Notes are substantially the same as those governing the Notes offered by this document.

Maturity and Redemption

The maturity date of the 2016 Notes is May 25, 2016. At any time on or after May 25, 2014, we may redeem the 2016 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth in the table below if redeemed during each period indicated below, plus any accrued and unpaid interest to the redemption date:

Period	Redemption Price
2014	104.25%
2015 and thereafter	102.125%

Additionally, if we or a guarantor of the 2016 Notes becomes obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the 2016 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2016 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

6.5% Senior Notes due 2014

Our RMB1,500 million aggregate principal amount of 6.5% Senior Notes due 2014 (the "2014 Notes") are our senior obligations and rank at least equally in right of payment with all our other unsecured, unsubordinated indebtedness, subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law. We have a total of RMB1,500 million principal amount of the 2014 Senior Notes outstanding.

Guarantee

Our obligations under the 2014 Notes are guaranteed by our existing subsidiaries other than those incorporated or organized in the PRC. The guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, we may, subject to certain conditions, incur additional indebtedness that would be incurred on an equal and ratable basis with the 2014 Notes and related guarantees.

Interest

The 2014 Notes bear interest at 6.5% annually, payable semi-annually in arrears.

Covenants, Events of Default and Change of Control

The provisions relating to our covenants, the events of default and change of control in the indenture governing the 2014 Notes are substantially the same as those governing the Notes offered by this document.

Maturity and Redemption

The maturity date of the 2014 Notes is July 22, 2014. At any time prior to the final maturity date of the Notes, we may redeem all the 2014 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.

Additionally, if we or a guarantor of the 2014 Notes becomes obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the 2014 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2014 Notes, plus any accrued and unpaid interest, subject to certain exceptions.