Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement does not constitute an offer to sell or the solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No securities may be offered or sold in the United States absent registration or an applicable exemption from registration requirements. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about the company making the offer and its management and financial statements. The Company does not intend to make any public offering of securities in the United States.

WEST CHINA CEMENT LIMITED
中國西部水泥有限公司

(Incorporated in Jersey with limited liability, with registered number 94796)
(Stock Code: 2233)

OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is issued pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

References are made to the announcements of West China Cement Limited (the "**Company**") dated 12 January 2011 and 19 January 2011 in relation to the Notes Issue (the "**Announcements**"). All terms used herein have the same meaning as defined in the Announcements, unless otherwise defined.

Please refer to the attached offering memorandum in relation to the Notes (the "**Offering Memorandum**"), which has been published on the website of Singapore Exchange Securities Trading Limited on 26 January 2011.

The posting of the Offering Memorandum on the website of the Stock Exchange is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and compliance with Rule 13.09(2) of the Listing Rules, and not for any other purposes.

The Offering Memorandum does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities.

The Offering Memorandum must not be regarded as an inducement to subscribe for or purchase any securities of the Company, and no such inducement is intended. No investment decision should be based on the information contained in the Offering Memorandum.

By the order of the Board of Directors
West China Cement Limited
Zhang Jimin
Chairman

Hong Kong, 26 January 2011

As at the date of this announcement, the executive directors of the Company are Mr. Zhang Jimin, Mr. Wang Jianli, Ms. Low Po Ling and Mr. Tian Zhenjun, the non-executive director of the Company is Mr. Ma Zhaoyang, and the independent non-executive directors of the Company are Mr. Lee Kong Wai, Conway, Mr. Wong Kun Kau and Mr. Tam King Ching, Kenny.

STRICTLY CONFIDENTIAL—DO NOT FORWARD

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

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

Confirmation of Your Representation: By accepting the email and accessing the attached document you shall be deemed to have represented to Deutsche Bank AG, Singapore Branch, ICBC International Securities Limited, ICBC International Capital Limited and SinoPac Securities (Asia) Limited that (1) (i) you are not resident in the United States and, to the extent you purchase the securities described in the attached preliminary offering memorandum, you will be doing so pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act") OR (ii) you are acting on behalf of, or you are, a qualified institutional buyer, as defined in Rule 144A under the Securities Act ("QIB"), AND (2) that you consent to delivery of the attached preliminary offering memorandum and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the issuer of the securities or Deutsche Bank AG, Singapore Branch, ICBC International Securities Limited, ICBC International Capital Limited or SinoPac Securities (Asia) Limited or any of their respective directors, employees, representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

Restrictions: The attached document is a preliminary offering memorandum and is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein. You are reminded that the information in the attached document is not complete and may be changed.

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

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

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

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

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

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

OFFERING MEMORANDUM **CONFIDENTIAL**

US$400,000,000

West China Cement Limited

(incorporated in Jersey with limited liability with registered number 94796)

7.50% SENIOR NOTES DUE 2016

Issue Price per Note: 100.00%

plus, in each case, accrued interest, if any, from the issue date

---

The 7.50% Senior Notes due January 25, 2016 (the "Notes") will bear interest from January 25, 2011 at 7.50% per annum payable semi-annually in arrears on January 25 and July 25 of each year, beginning July 25, 2011. The Notes will mature on January 25, 2016.

The Notes are senior obligations of West China Cement Limited (the "Company") guaranteed by our existing subsidiaries (the "Subsidiary Guarantors") (such guarantees provided by the Subsidiary Guarantors, the "Subsidiary Guarantees") other than those organized under the laws of the PRC.

We may at our option redeem the Notes, in whole or in part, at any time on or after January 25, 2014, at redemption prices set forth in this offering memorandum plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time and from time to time prior to January 25, 2014, we may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company at a redemption price of 107.5% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. In addition, we may redeem the Notes, in whole but not in part, at any time prior to January 25, 2014, at a price equal to 100% of the principal amount of the applicable Notes plus a premium as set forth in this offering memorandum. Upon the occurrence of a Change of Control Triggering Event (as defined herein), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

The Notes will (1) rank senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes, (2) at least pari passu in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law), (3) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined herein), and (4) effectively subordinated to all existing and future secured obligations of the Company to the extent of the collateral securing such obligations (other than the collateral securing the Notes). However, applicable law may limit the enforceability of the Subsidiary Guarantees and the pledge of any collateral. See "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral."

For a more detailed description of the Notes, see "Description of the Notes" beginning on page 165.

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

Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained herein. Admission to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the Notes or any other subsidiary or associated company of the Company.

The Notes and the Subsidiary Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold by the Initial Purchasers (as defined herein) only (1) to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A thereunder ("Rule 144A") and (2) outside the United States in compliance with Regulation S under the Securities Act ("Regulation S"). For a description of certain restrictions on resale or transfer, see "Transfer Restrictions" beginning on page 237.

It is expected that the delivery of the Notes will be made through the facilities of The Depository Trust Company on or about January 25, 2011 in New York, New York against payment therefor in immediately available funds.

Joint Bookrunners and Joint Lead Managers

Deutsche Bank **ICBC International**

Co-manager

SinoPac Securities (Asia) Limited

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

TABLE OF CONTENTS

	Page
Certain Definitions, Conventions and Currency Presentation	v
Forward-Looking Statements	viii
Glossary of Technical Terms	xi
Summary	1
The Offering	5
Risk Factors	14
Use of Proceeds	43
Exchange Rate Information	44
Capitalization	47
Selected Consolidated Financial Data	48
Management's Discussion and Analysis of Financial Condition and Results of Operations	51
Industry Overview	89
Corporate Structure	103
Business	104
Regulatory Overview	138
Management	150
Principal Shareholders	158
Related Party Transactions	159
Description of Other Material Indebtedness	160
Description of The Notes	165
Taxation	228
Plan of Distribution	233
Transfer Restrictions	237
Ratings	240
Legal Matters	240
Auditor	240
General Information	241
Index to Consolidated Financial Information	F-1

This offering memorandum does not constitute an offer to sell or a solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this offering memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this offering memorandum or that the information contained in this offering memorandum is correct as of any time after that date.

IN CONNECTION WITH THIS OFFERING, DEUTSCHE BANK AG, SINGAPORE BRANCH, AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. AS A RESULT, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME.

This offering memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes. You should read this offering memorandum before making a decision whether to purchase the Notes. You must not use this offering memorandum for any other purpose, or disclose any information in this offering memorandum to any other person.

Notwithstanding anything to the contrary contained herein, a prospective investor (and each employee, representative, or other agent of a prospective investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this offering memorandum and all materials of any kind that are provided to the

prospective investor relating to such tax treatment and tax structure (as such terms are defined in U.S. Treasury Regulation section 1.6011-4). This authorization of tax disclosure is retroactively effective to the commencement of discussions with prospective investors regarding the transactions contemplated herein.

We have prepared this offering memorandum, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. By purchasing the Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section headed "Transfer Restrictions" below.

No representation or warranty, express or implied, is made by the Initial Purchasers (as defined in "Plan of Distribution") or any of their affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

Each person receiving this offering memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the Notes or the Subsidiary Guarantees (other than as contained herein and information given by our duly authorized officers and employees in connection with investors' examination of our company and the terms of the offering of the Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or the Initial Purchasers.

The Notes and the Subsidiary Guarantees have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

Prospective purchasers are hereby notified that sellers of the securities (the Notes and the Subsidiary Guarantees) may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. We are not, and the Initial Purchasers are not, making an offer to sell the Notes in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering of the Notes may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes and distribution of this offering memorandum, see the sections headed "Transfer Restrictions" and "Plan of Distribution" below.

This offering memorandum summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. None of the Company, the Initial Purchasers or our or their respective directors, officers or advisors are making any

representation to you regarding the legality of an investment in the Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, business adviser and tax adviser for legal, business and tax advice regarding an investment in the Notes.

A copy of this offering memorandum has been delivered to the registrar of companies in the Bailiwick of Jersey in accordance with Article 5 of the Companies (General Provisions) Jersey Order 2002, and the registrar has given, and has not withdrawn, consent to its circulation. The Jersey Financial Services Commission has given, and has not withdrawn, its consent under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue of the Notes. It must be distinctly understood that in giving these consents, neither the registrar of companies nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of the Company or for the correctness of any statements made, or opinions expressed with regard to it. It should also be noted that the price of the Notes and the interest payable on the Notes can go down as well as up.

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Notes to be issued from time to time by the Company may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased in reliance of an exemption under Sections 274 or 275 of the SFA, the Notes shall not be sold within the period of six months from the date of the initial acquisition of the Notes, except to any of the following persons:

(a) an institutional investor (as defined in Section 4A of the SFA);

(b) a relevant person (as defined in Section 275(2) of the SFA); or

(c) any person pursuant to an offer referred to in Section 275(1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six (6) months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or (in the case of a corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA or (in the case of a trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law; or

(4) as specified in Section 276(7) of the SFA.

We reserve the right to withdraw the offering of Notes at any time, and the Initial Purchasers reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of the Notes sought by such purchaser. The Initial Purchasers and certain related entities may acquire for their own account a portion of the Notes.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED 1955, AS AMENDED ("RSA"), WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B OF THE RSA IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms "we," "us," "our," the "Company," the "Group" and words of similar import, we are referring to West China Cement Limited itself, or to West China Cement Limited and its consolidated subsidiaries, as the context requires.

Market data and certain industry forecast and statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or the Initial Purchasers or their respective directors and advisors, and neither us, the Initial Purchasers nor our or their respective directors and advisors make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. This offering memorandum summarizes certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents. In making an investment decision, each investor must rely on its own examination of us and the terms of the offering and the Notes, including the merits and risks involved.

The information and statistics set forth in this offering memorandum relating to the PRC and the cement industry in the PRC were taken or derived from various government and private publications. The Initial Purchasers do not make any representation as to the accuracy of such information and statistics, which may not be consistent with other information or statistics compiled within or outside the PRC. Due to possibly inconsistent collection methods and other problems, the information and statistics herein may be inaccurate and should not be unduly relied upon.

In this offering memorandum, references to "US$" and "U.S. dollars" are to United States dollars, the official currency of the United States of America (the "United States" or "U.S."); references to "HK$" and "H.K. dollars" are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the PRC ("Hong Kong" or "HK"); references to "RMB" or "Renminbi" are to Renminbi, the official currency of the People's Republic of China, or the PRC; and references to "GBP" are to pounds sterling, the official currency of the United Kingdom.

We record and publish our financial information in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB6.6905 to US$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on September 30, 2010, and all translations from H.K. dollars into U.S. dollars were made at the rate of HK$7.7599 to US$1.00, the noon buying rate in New York City for cable transfers payable in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on September 30, 2010. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars or H.K. dollars, or *vice versa*, at any particular rate or at all. For further information relating to the exchange rates, see "Exchange Rate Information."

References to the "PRC" and "China" are to the People's Republic of China and for the purposes of this offering memorandum, do not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region or Taiwan.

"PRC government" means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof.

"Credit Suisse Syndicated Loan" means the loan of RMB330.0 million incurred under an agreement entered into on November 30, 2009 by Shaanxi Yaobai Special Cement Co., Ltd. (堯柏特種水泥集團有限公司) (now known as Yaobai Special Cement Group Co., Ltd. (堯柏特種水泥集團有限公司) ("Shaanxi Yaobai") as the borrower and Xi'an Lantian Yaobai Cement Co., Ltd. (西安藍田堯柏水泥有限公司) ("Lantian Yaobai"), Ankang Yaobai Cement Co., Ltd. (安康市堯柏水泥有限公司) ("Ankang Yaobai"), Hanzhong Yaobai Cement Co., Ltd. (漢中堯柏水泥有限公司) ("Hanzhong Yaobai") and Hanzhong Mianxian Yaobai Cement Co., Ltd. (漢中勉縣堯柏水泥有限公司) ("Mianxian Yaobai") as guarantors with a syndicate of financial institutions led by Credit Suisse, Shanghai Branch, Xi'an City Commercial Bank and Standard Chartered Bank (China) Limited.

"CS Facility Agreement" means the facility agreement dated May 29, 2008 entered into among our Company, Shaanxi Yaobai, West China Cement Company, Ltd. (中國西部水泥有限公司) ("West China BVI") and Credit Suisse, Singapore Branch, acting as facility agent and security agent for the facility lenders.

"ICBC Bridge Loan" means the loan facility of US$85 million under the ICBC Bridge Loan Agreement.

"ICBC Bridge Loan Agreement" means the loan agreement dated December 14, 2010, entered into among the Company, ICBC International Finance Limited as lender and Mr. Zhang Jimin as guarantor.

"ICBC Facility" means the loan facility of US$50 million under the ICBC Facility Agreement, which was repaid in full on December 21, 2010.

"ICBC Facility Agreement" means the facility agreement dated February 26, 2010 entered into among our Company, ICBCI Holdings, ICBC (Asia), acting as a coordinating arranger, the facility agent and security agent for the facility lenders, ICBC Macau, acting as a coordinating arranger, and ICBCI Holdings as guarantor.

"ICBC (Asia)" means Industrial and Commercial Bank of China (Asia) Limited.

"ICBCI Holdings" means ICBC International Holdings Limited.

"ICBC Macau" means Industrial and Commercial Bank of China (Macau) Limited.

"IPO" means our initial public offering on The Stock Exchange of Hong Kong Limited in August 2010.

"Jianghua Yaobai" means Ankang Yaobai Jianghua Cement Co., Ltd. (安康堯柏江華水泥有限公司), a joint venture company formed pursuant to an agreement entered into among us, Shaanxi Ankang Jianghua Group Cement Company, Ltd. (陝西安康江華集團水泥有限公司) ("Jianghua Cement") and Ankang Jianghua Cement Co., Ltd. (安康市江華礦產資源有限責任公司) ("Jianghua Mining") on December 31, 2010 and established on January 6, 2011.

"Warrants" means the warrants which entitled the holders thereof to subscribe the warrant shares pursuant to the warrant instrument entered into between our Company and West China BVI in May 2008, which were subsequently redeemed on October 21, 2009.

In this offering memorandum, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

FORWARD-LOOKING STATEMENTS

This offering memorandum includes "forward-looking statements." All statements other than statements of historical fact contained in this offering memorandum, including, without limitation, those regarding our future financial position and results of operations, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "aim," "intend," "will," "may," "anticipate," "seek," "should," "estimate" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- our business strategies, objectives and plan of operation;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- our dividend policy;
- projects under construction or planning;
- the regulatory environment of our industry in general;
- capital market developments;
- actions and developments of our competitors;
- future developments, trends and conditions in our industry in China; and
- other statements in this offering memorandum that are not historical facts.

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

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with resales of the Notes, we are required to furnish upon request of a holder of the Notes and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) if at the time of such request we are neither a reporting company under Section 13 or Section 15(d) of the United

States Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. So long as any of the Notes remain outstanding, we will provide to the Trustee for forwarding to the holders of the Notes our semi-annual and annual financial statements.

ENFORCEMENT OF CIVIL LIABILITIES

We are a company incorporated in Jersey with limited liability, and each Subsidiary Guarantor is also incorporated outside the United States. Jersey has a different body of securities laws from the United States and protections for investors may differ.

All of our assets and the assets of the Subsidiary Guarantors are located outside the United States. In addition, all of our directors and officers and the Subsidiary Guarantors' directors and officers are nationals or residents of countries other than the United States (principally in the PRC), and all or a substantial portion of such persons' assets are located or may be located, as the case may be, outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us, any of the Subsidiary Guarantors or such persons or to enforce against us or any of the Subsidiary Guarantors or such persons judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

We and each of the Subsidiary Guarantors expect to appoint National Corporate Research, Ltd. as our and their respective agent to receive service of process with respect to any action brought against us or the Subsidiary Guarantors in the United States federal courts located in the Borough of Manhattan, The City of New York under the federal securities laws of the United States or of any state of the United States or any action brought against us or the Subsidiary Guarantors in the courts of the State of New York in the Borough of Manhattan, The City of New York under the securities laws of the State of New York.

We have been advised by our Jersey legal advisor, Carey Olsen, that it is doubtful that an original action based on U.S. federal or state securities laws could be brought before the Jersey Court and that while there is no substantial body of case law in this regard, there is substantial doubt as to the enforceability in Jersey of judgments of U.S. courts obtained against us or our Directors or officers predicated upon the civil liability provisions of a U.S. federal securities laws.

A judgment of a U.S. federal or state court pursuant to personal jurisdiction is not directly enforceable in Jersey, but constitutes a cause of action which will generally be enforced by Jersey courts provided that:

(a) the applicable U.S. court had valid jurisdiction over the defendant, as recognized under Jersey's private international law;

(b) the judgment is final and conclusive (if the judgment is subject to a possible appeal, enforcement may be stayed until any appeal is resolved);

(c) the judgment relates to the payment of a sum of money, not being (i) taxes or similar charges, (ii) fines or similar penalties, or (iii) sums calculated by multiplying a sum assessed as compensation for the loss or damage sustained by the plaintiff (multiple damages);

(d) the defendant is not immune under the principles of public international law;

(e) the same matters at issue in the case were not previously the subject of a judgment or disposition in a separate court;

(f) the judgment was not obtained by fraud or duress and was not based on a clear mistake of fact;

(g) the principles of "natural justice" were observed, which among other things require that the documents in the U.S. proceeding were properly served on the defendant and that the defendant was given the right to be heard and represented by counsel in a free and fair trial before an impartial tribunal; and

(h) the recognition and enforcement of the judgment is not contrary to public policy in Jersey—it is possible that judgments for punitive damages or otherwise for sums considered to be exorbitant, unconscionable or excessive may be deemed as contrary to Jersey's public policy.

Further, we have been advised by our PRC legal advisor, Zong Heng Law Firm, that there is uncertainty as to whether the courts of China would (i) enforce judgments of U.S. courts obtained against us, our directors or officers, any Subsidiary Guarantor or its directors or officers predicated upon the civil liability provisions of the U.S. federal or state securities laws or (ii) entertain original actions brought in China against us, our directors or officers, any Subsidiary Guarantor or its directors or officers predicated upon the U.S. federal or state securities laws. See "Regulator Overview — The PRC Judicial System."

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terms and definitions used in this offering memorandum in connection with our Company and its business. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.

"anhydrite"	anhydrous calcium sulfate, a mineral, which, when exposed to water, becomes gypsum
"annual production capacity"	annual production capacity of cement, which is calculated based on three shifts per day and 310 working days per annum
"average selling price"	average selling price of a category or categories of cement products is calculated by dividing the revenue of such category or categories of cement product by its or their sales volume, which is exclusive of VAT
"CAGR"	compound annual growth rate
"cement"	gray powder, made by calcining lime and clay, which hardens when mixed with water and is generally used in producing mortar and concrete
"cement products"	the various cement products, which include high grade cement, low grade cement and clinker
"clinker"	a major semi-finished product in the cement production process
"cm"	centimeter(s)
"Composite Portland Cement"	a mixture comprising Portland Cement and up to 35% of other single constituents
"concrete"	an artificial, stonelike material used for various structural purposes, made by mixing cement and various aggregates, such as sand, pebbles, gravel or shale, with water and allowing the mixture to harden
"Distributed Control System"	a control system, in which the controller elements are not central in location, but are distributed throughout the system
"flyash"	one of the residues generated in the combustion of coal
"GDP"	gross domestic product
"gypsum"	a mineral composed of calcium sulphate dihydrate
"GWh"	gigawatt-hour, a unit of energy used in the electric power industry. One gigawatt-hour is the amount of energy that would be produced by a generator producing one billion watts for one hour

"high grade cement"............................	a category of cement that generally has a 28-day compressive strength of 42.5 MPa (or 425 kg/cm^2) or above
"installed capacity"	the full-load continuous rating of a generator as designated by the manufacturer
"km"	kilometer(s)
"KW"..	kilowatts, one thousand watts
"KWh"	kilowatt-hour, the standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
"limestone"	a sedimentary rock composed largely of the mineral calcite
"low grade cement".............................	a category of cement that generally has a 28-day compressive strength of 32.5 MPa (or 325 kg/cm^2) or below
"MPa"	Megapascals, a customary unit in the International System of Units for measuring compressive strength
"New Dry Process"	new suspension preheater dry process, during which the raw materials of cement are preheated and disintegrated before being fed into a rotary kiln
"NSP technology"	New Suspension Preheater technology, a highly energy efficient technology, in which raw materials are preheated in conical vessels using high temperature gas from the kiln
"Ordinary Portland Cement"................	a mixture comprising Portland Cement and up to 5% of minor additional constituents
"Portland Cement"	a fine powder produced by grinding Portland cement clinker (more than 90%), a limited amount of calcium sulfate which controls the set time, and up to 5% minor constituents (as allowed by various standards)
"Ready-mix concrete	a type of concrete that is specifically manufactured for delivery to construction sites in a freshly mixed and plastic or unhardened state
"ton(s)"	metric tons
"t/d"..	tons per day

SUMMARY

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

Overview

We are a leading cement producer in Shaanxi province in China as measured by production capacity in 2009, according to Digital Cement Net, a website operated by the China Cement Association. Our cement is sold under the trademarks "堯柏" (Yao Bai) and "堯柏水泥" (Yaobaishuini) and is primarily used in the construction of infrastructure projects such as highways, bridges, railways and roads, as well as residential buildings. Our shares have been listed on The Stock Exchange of Hong Kong Limited since August 2010. Our cement can be categorized into high grade cement and low grade cement. High grade cement is a category of cement that generally has a 28-day compressive strength of 42.5 MPa, or 425 kg/cm^2, or above and is primarily used for government infrastructure projects. Low grade cement is a category of cement that generally has a 28-day compressive strength of 32.5 MPa, or 325 kg/cm^2, or below and is primarily used for residential buildings.

As of September 30, 2010, we had nine cement production lines located in Shaanxi province, with a total annual production capacity of 11.4 million tons. According to Digital Cement Net, we were the second largest cement producer in Shaanxi province by production capacity as of December 31, 2009. All of our production lines employ NSP technology, which requires less energy to produce cement and is more environmentally friendly than non-NSP technologies. For the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our production lines produced 2.4 million, 3.5 million, 5.1 million and 6.7 million tons of cement, respectively. In September 2010, we completed the second production line in our Pucheng production facility with a total annual production capacity of 1.1 million tons. In order to meet the fast-growing market demand for cement products in Shaanxi province, we are constructing a new production line in Xixiang county, Hanzhong region in Shaanxi province with a total annual production capacity of 1.1 million tons, which we expect to complete in the first quarter of 2011. This additional production facility, combined with our acquisition of Jianghua Yaobai, is expected to increase our annual production capacity to 13.6 million tons upon its completion in the first quarter of 2011. Upon the completion of a new production line with an annual production capacity of 1.4 million tons at our Danfeng production facility, we expect to have a total annual production capacity of 15.0 million tons by the end of 2011. We intend to further increase our production capacity through acquisitions of suitable target companies or assets.

Our revenue derived from sales of cement products for the nine months ended September 30, 2010 was RMB2,017.7 million. For the years ended December 31, 2007, 2008 and 2009, our revenues from sales of cement products were RMB525.9 million, RMB866.1 million and RMB1,516.8 million, respectively.

Limestone is the principal raw material used in our production of cement. We have obtained mining rights to a number of limestone quarries, most of which are located near our production facilities. Our mining rights are for periods ranging from one to 15 years, with expiration dates between August 2011 and December 2022. Our convenient access to limestone reserves provides us with a secure and stable supply of limestone at low transportation costs. We have sufficient reserves of limestone to meet the current production requirements of our existing production facilities for at least 30 years, based on government surveyors' reports on the amounts of our limestone reserves, the annual excavation limits specified in our mining licenses and our current

production requirements. We use coal as fuel in our production process, and it represents one of the largest components of our cost of sales. We have convenient access to large coal mines in Shaanxi province, which ensures that we have an abundant supply of coal at low transportation costs. For the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our raw materials, which primarily included limestone, gypsum, clay, flyash, pyrite cinder and slag, represented approximately 34.0%, 26.0%, 32.4% and 32.0% of our cost of sales, respectively; coal represented approximately 21.4%, 36.0%, 31.2% and 33.1% of our cost of sales, respectively; and electricity represented approximately 24.8%, 22.0%, 20.7% and 19.0% of our cost of sales, respectively.

Our advanced technology includes residual heat recovery systems, NSP technology and recycling of industrial by-products, industrial waste and construction waste. Our residual heat recovery system collects residual heat from the cement production process to generate power that can be used in the production process, thereby lowering electricity costs. All of our production lines employ NSP technology, which requires less energy to produce cement and is more environmentally friendly than non-NSP technologies.

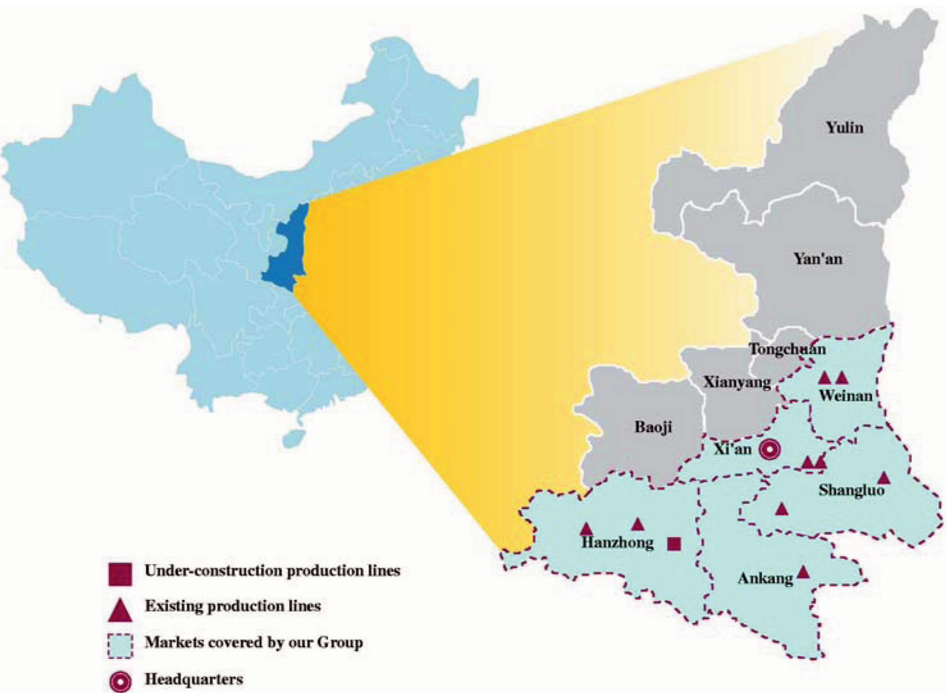
Our advanced technology also enables us to recycle and use industrial by-products, industrial waste and construction waste in our production process, which lowers our cost of production and also entitles us to VAT refunds from the PRC government. During the three years ended December 31, 2009 and the nine months ended September 30, 2010, these VAT refunds amounted to approximately RMB30.5 million, RMB39.2 million, RMB65.0 million (US$9.7 million) and RMB75.8 million (US$11.3 million), respectively. We also enjoy other government incentives such as industrial development subsidies and "clean" project investment incentives, which together amounted to approximately RMB5.2 million, RMB1.5 million, RMB6.5 million (US$1.0 million) and RMB4.3 million (US$0.6 million), respectively, during the same period.

All of our customers are located in Shaanxi province. We conduct our sales primarily through our regional and local sales offices in Shaanxi province. We have five regional sales offices in the Xi'an, Weinan, Ankang, Hanzhong and Shangluo regions, and five local sales offices in Pucheng, Lantian, Xunyang, Zhen'an and Danfeng counties.

We primarily sell our cement either directly to government infrastructure projects and ready-mixed concrete stations or to distributors, which then resell our cement to retail purchasers.

The percentages of our revenue represented by our customer type segments, namely government infrastructure projects, ready-mixed concrete stations, distributors and others, fluctuated during the three years ended December 31, 2009 and the nine months ended September 30, 2010. The percentage of our revenue represented by sales to government infrastructure projects decreased and the percentage of our revenue represented by sales to ready-mixed concrete stations increased in 2008 compared with 2007 because our Lantian production facility, which ramped up to full operations in 2008, mainly served the Xi'an market where there was substantial demand from ready-mixed concrete stations. Our sales to government infrastructure projects as a percentage of our revenue increased significantly in 2009 as the PRC government's fixed asset investment in southern Shaanxi province increased, which led to increased demand for cement by government infrastructure projects in our target markets. Our sales to government infrastructure projects as a percentage of our revenue remained largely the same for the nine months ended September 30, 2010 compared with the same period in 2009. The percentage of our revenue derived from sales of high grade cement increased and the percentage of our revenue derived from sales of low grade cement decreased from 2007 to 2009 and between the nine months ended September 30, 2009 and 2010.

We achieved significant growth in revenue, operating profit and net profit during the three years ended December 31, 2009 and the nine months ended September 30, 2010. Our revenue increased from approximately RMB525.9 million for the year ended December 31, 2007 to approximately RMB866.1 million for the year ended December 31, 2008 and to approximately RMB1,516.8 million (US$226.7 million) for the year ended December 31, 2009, representing a CAGR of 69.8% from 2007 to 2009. Our operating profit increased from approximately RMB174.9 million for the year ended December 31, 2007 to approximately RMB283.2 million for the year ended December 31, 2008 and to approximately RMB616.2 million (US$92.1 million) for the year ended December 31, 2009, representing a CAGR of 87.7% from 2007 to 2009. Our net profit increased from approximately RMB150.3 million for the year ended December 31, 2007 to approximately RMB246.2 million for the year ended December 31, 2008 and to approximately RMB330.5 million (US$49.4 million) for the year ended December 31, 2009, representing a CAGR of 48.3% from 2007 to 2009. For the nine months ended September 30, 2010, our revenue, operating profit and net profit were RMB2,017.7 million (US$301.6 million), RMB738.6 million (US$110.4 million) and RMB557.0 million (US$83.3 million), which increased by 89.7%, 73.0% and 178.8%, respectively, compared with the same period in 2009.
The map below indicates the locations of our production facilities in Shaanxi province as of the September 30, 2010:



Competitive Strengths

We believe that our competitive strengths include the following:

- We are a leading cement producer in Shaanxi province and are well positioned to capture the growth opportunities in its fast-growing construction industry;
- We have a dominant market position in our core markets due to the strategic locations of our production facilities;
- We have convenient access to coal supplies and limestone reserves;

- Our technology allows us to lower our total cost of sales;
- Our sales to distributors and cement end users such as government infrastructure projects enable us to reach a broad customer base; and
- We have a stable and experienced management team.

Business Strategies

We intend to further strengthen our leading market position in Shaanxi province and continue to grow our revenue and net profit. To achieve this goal, we plan to pursue the following strategies:

- Strengthen our leading market position through capacity expansion in selected markets;
- Further strengthen our sales and marketing capabilities;
- Continue to lower our costs through technological improvement; and
- Continue to build a strong management team with qualified personnel.

General Information

Our Company was incorporated in Jersey as a private company on October 16, 2006 and re-registered as a public company on October 27, 2006. Our registered office is located at 47 Esplanade, St. Helier, Jersey JE1 0BD. Our principal place of business and headquarters in China is located at Room 1903, Building A, Gaoke Plaza, Hi-Tech Industrial Development Zone, Xi'an, Shaanxi Province, People's Republic of China. Our principal place of business in Hong Kong is Units 3401-2, 34th Floor, AIA Tower, 183 Electric Road, North Point, Hong Kong.
Our website is www.westchinacement.com. Information contained on our website does not constitute a part of this offering memorandum.

THE OFFERING

The following summary is provided solely for your convenience. This summary is not intended to be complete. You should read the full text and more specific details contained elsewhere in this Offering Memorandum. For a more detailed description of the Notes, see "Description of the Notes." The information contained in the "Description of the Notes" shall prevail to the extent of any inconsistency with the information set forth in this section. Capitalized terms not defined herein are defined in "Description of the Notes."

Issuer................................	West China Cement Limited (the "Company").
Notes Offered	US$400,000,000 aggregate principal amount of 7.50% Senior Notes due 2016 (the "Notes").
Offering Price..................	100.00% of the principal amount of the Notes.
Maturity Date	January 25, 2016.
Interest	The Notes will bear interest from and including January 25, 2011 at the rate of 7.50% per annum, payable semi-annually in arrears.
Interest Payment Dates......	January 25 and July 25 of each year, commencing July 25, 2011.
Ranking of the Notes........	The Notes are:

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

Subject to the limitations described in "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral," the Notes will be secured by a pledge of the Collateral as described below under the caption "Description of the Notes — Security" and will:

- be entitled to a first-priority lien on the Collateral (subject to any Permitted Liens); and
- rank effectively senior in right of payment to the unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Subsidiary Guarantees....... Each of the Subsidiary Guarantors will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes.

A Subsidiary Guarantee may be released in certain circumstances. See "Description of the Notes — The Subsidiary Guarantees — Release of the Subsidiary Guarantees."

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company's Restricted Subsidiaries other than those organized under the laws of the PRC.

Any future Restricted Subsidiary (other than subsidiaries organized under the laws of the PRC) will guarantee the payment of the Notes as soon as practicable and in any event within 30 days after it becomes a Restricted Subsidiary.

Ranking of Subsidiary Guarantees.................... The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* in right of payment with all other unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

	The Subsidiary Guarantee of each Subsidiary Guarantor Pledgor will: • be entitled to a first ranking security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor, as described below under the caption "Description of the Notes — Security;" and • rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law). See "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral."
Security to be Granted......	The Company has agreed, for the benefit of the holders of the Notes, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of the initial Subsidiary Guarantors (the "Collateral") on a first-priority basis (subject to Permitted Liens) on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of such initial Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The Collateral securing the Notes and the Subsidiary Guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each Subsidiary Guarantor Pledgor may incur Permitted Pari Passu Secured Indebtedness which would be secured by the Collateral on a *pari passu* basis with the Notes and the Subsidiary Guarantees. See "Description of the Notes — Security."
Use of Proceeds...............	The Company intends to use the net proceeds of the offering of the Notes as follows: • approximately US$261.0 million to expand our production capacity through construction of additional production lines at our existing production facilities or acquisitions of other production facilities if and when opportunities that we consider appropriate arise, including construction of a production line at our Danfeng county production facility; • approximately US$85.9 million to repay the ICBC Bridge Loan. See "Description of Other Material Indebtedness;" • approximately RMB264.0 million (US$39.5 million) to repay the Credit Suisse Syndicated Loan; and • the remaining balance for general corporate purposes to enhance our liquidity position. Pending application of the net proceeds of the offering, the Company intends to invest the net proceeds in Temporary Cash Investments (as defined herein).

Optional Redemption	The Company at its option at any time on or after January 25, 2014 may redeem the Notes, in whole or in part, at the redemption prices set forth in "Description of the Notes — Optional Redemption" plus accrued and unpaid interest, if any, to the redemption date. At any time prior to January 25, 2014, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to, (but not including) the redemption date, as set forth herein. At any time and from time to time prior to January 25, 2014 the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 107.5% of the principal amount of the Notes, plus accrued and unpaid interest, if any, with the proceeds from sales of certain kinds of its capital stock, subject to certain conditions.
Withholding Taxes; Additional Amounts.......	All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any Relevant Jurisdiction, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, Holders will receive additional amounts (subject to certain exceptions) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required. See "Description of the Notes — Additional Amounts."
Repurchase of Notes Upon a Change of Control Triggering Event	Upon the occurrence of a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the Offer to Purchase Payment Date.
Redemption for Taxation Reason..........................	Subject to certain exceptions and as more fully described in the section entitled "Description of the Notes — Redemption for Taxation Reasons," the Company may redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption, if the Company, a Surviving Person or a Subsidiary Guarantor would be obligated to pay certain Additional Amounts as a result of certain changes in specified tax laws. See "Description of the Notes — Redemption for Taxation Reasons."

Covenants	The Notes and the Indenture governing the Notes and the Subsidiary Guarantees will limit the Company's ability, and the ability of its Restricted Subsidiaries to, among other things: • incur or guarantee certain additional Indebtedness and issue Preferred Stock; • declare dividends on its capital stock or purchase or redeem capital stock; • make investments or other specified Restricted Payments; • issue or sell capital stock of Restricted Subsidiaries; • guarantee indebtedness of the Company or Restricted Subsidiaries; • enter into transactions with shareholders or affiliates; • create liens; • enter into sale and leaseback transactions; and • sell assets. These covenants are subject to a number of important qualifications and exceptions described in "Description of the Notes — Certain Covenants."
Ratings	The Notes have been provisionally rated "BB-" by S&P, "Ba3" by Moody's and "BB" by Fitch. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organization. Prospective investors should evaluate each rating independently of any other rating of the Notes or other securities of the Company.
Transfer Restrictions	The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "Notice to Investors."
Form, Denomination and Registration	The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US$200,000 of principal amount and integral multiples of US$1,000 in excess thereof and will be initially represented by one or more global notes registered in the name of a nominee of DTC.
Book-Entry Only..............	The Notes will be issued in book-entry form through the facilities of DTC for the accounts of its participants, including Euroclear and Clearstream. For a description of certain factors relating to clearance and settlement, see "Description of the Notes — Book-Entry; Delivery and Form."

Delivery of the Notes	The Company expects to make delivery of the Notes, against payment in same-day funds on or about January 25, 2011, which will be the fifth business day following the date of this offering memorandum referred to as "T+5." You should note that initial trading of the Notes may be affected by the T+5 settlement. See "Plan of Distribution."
Trustee	Deutsche Bank Trust Company Americas
Principal Paying, Transfer Agent and Registrar and Collateral Agent	Deutsche Bank Trust Company Americas
Lock-up	During a period of 90 days from the Original Issue Date, the Company and each of the Subsidiary Guarantors will not, without obtaining the prior written consent of the representatives of the Initial Purchasers, offer, sell, contract to sell, or otherwise dispose of, any debt securities, including debt securities linked to, convertible to or exchangeable with equity securities, issued or guaranteed by the Company or the Subsidiary Guarantors (other than the Notes and the Subsidiary Guarantees).
Listing and Trading	Approval in-principle has been received from SGX-ST for the listing and quotation of the Notes on the Official List of the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of US$200,000 for so long as the Notes are listed on the SGX-ST.
Clearing System and Settlement	The Notes have been accepted for clearance through the facilities of Euroclear, Clearstream and DTC. Certain trading information with respect to the Notes is set forth below:

	CUSIP	ISIN	Common Code
Restricted Global Notes	952107 AA8	US952107AA85	058036536
Regulation S Global Notes	G9550B AA1	USG9550BAA10	058036544

Only Notes evidenced by either a Restricted Global Note or a Regulation S Global Note have been accepted for clearance through DTC, Euroclear and Clearstream.

Governing Law	The Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York.
Risk Factors	For a discussion of certain factors that you should consider in evaluating an investment in the Notes, see "Risk Factors."

Summary Consolidated Financial Data

The following summary consolidated financial information for the years ended December 31, 2007, 2008 and 2009 has been derived from the Accountant's Report as set forth in Appendix I to the prospectus dated August 10, 2010 for our IPO. The summary consolidated financial data for the nine month periods ended September 30, 2009 and 2010 has been derived from our unaudited financial information included elsewhere in this offering memorandum. The unaudited consolidated financial information as of and for the nine month period ended September 30, 2010 contains adjustments that our management believes are necessary for the fair presentation of such information. Results for interim periods are not indicative of results for the full year. Our consolidated financial information has been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board.

Summary Consolidated Statements of Comprehensive Income

	For the year ended December 31,				For the nine months ended September 30,		
	2007	2008	2009	2009	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)	(RMB'000) (unaudited)	(RMB'000)	(US$'000)
Revenue	525,929	866,126	1,516,766	226,704	1,063,637	2,017,666	301,572
Cost of sales	(350,165)	(556,073)	(878,087)	(131,244)	(620,393)	(1,211,051)	181,011
Gross profit	175,764	310,053	638,679	95,461	443,244	806,615	120,561
Selling and marketing expenses	(9,796)	(12,018)	(15,064)	(2,252)	(11,189)	(18,854)	(2,818)
Administrative expenses	(29,038)	(55,224)	(77,846)	(11,635)	(43,298)	(129,953)	(19,424)
Other income[1]	35,708	40,617	71,526	10,691	38,775	80,033	11,962
Other gains/(losses) — net	2,273	(184)	(1,057)	(158)	(662)	711	106
Operating profit	174,911	283,244	616,238	92,106	426,870	738,552	110,388
Finance income	1,572	2,600	1,190	178	619	259	39
Finance costs							
— loss on redemption of warrants	—	—	(168,451)	(25,178)	—	—	—
— other finance costs	(26,210)	(28,115)	(73,830)	(11,035)	(193,743)	(89,372)	(13,358)
Finance costs — net	(24,638)	(25,515)	(241,091)	(36,035)	(193,124)	(89,113)	(13,319)
Profit before income tax	150,273	257,729	375,147	56,072	233,746	649,439	97,069
Income tax expense	—	(11,566)	(44,687)	(6,679)	(33,949)	(92,470)	(13,821)
Profit for the year/period	150,273	246,163	330,460	49,392	199,797	556,969	83,248
Attributable to:							
Shareholders of our Company	150,273	246,163	330,460	49,392	199,797	551,572	82,441
Non-controlling interests	—	—	—	—	—	5,397	807
	150,273	246,163	330,460	49,392	199,797	556,969	83,248
Basic earnings per share (RMB/share)[2][3]	0.05	0.08	0.10	0.02	0.06	0.15	0.02
Diluted earnings per share (RMB/share)[2][4]	0.05	0.08	0.10	0.02	0.06	0.15	0.02
Other Financial Data							
EBITDA[5]	219,768	347,627	719,341	107,517	500,395	884,332	132,177
EBITDA margin[6]	42%	40%	47%	47%	47%	44%	44%
EBITDA/Gross interest expense[7]	8.22	5.13	6.28	—	—	—	—
Total debt/EBITDA	1.53	2.04	2.29	—	—	—	—
Last 12 months Financial Ratios (for the 12 months ended September 30, 2010)							
EBITDA/Gross interest expense[8][9]						7.84	—
Total debt/EBITDA[8]						0.85	—

Notes:

(1) Our other income primarily includes VAT refunds we received from the PRC government for sales of certain types of cement that use industrial by-products, industrial waste and construction waste.

(2) Each ordinary share of GBP0.1 of the Company has been subdivided into 50 ordinary shares of GBP0.002 each, effective on August 23, 2010. The information on the basic and diluted earnings per share for profit attributable to the shareholders of our Company for the years ended December 31, 2007, 2008 and 2009 as set forth in the Accountant's Report was calculated based on the share numbers prior to the share subdivision. For the purpose of comparison of the earnings per share information after the share subdivision, the earnings per share information is now presented as if the share subdivision had taken place and became effective from January 1, 2007 and recalculated based on the new number of shares after the share subdivision.

(3) Basic earnings per share is calculated by dividing the profit attributable to shareholders of our Company by the weighted average number of ordinary shares in issue during the three years ended December 31, 2009 and the nine months ended September 30, 2010 and taking into account the effect of share subdivision.

(4) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and taking into account the effect of share subdivision. Our Company had share options as well as warrants. For the share options and warrants, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and warrants.

(5) We calculate EBITDA by adding depreciation and amortization expenses to operating profit. 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 attributable to shareholders or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, net finance costs and depreciation and amortization. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as turnover and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash 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 the EBITDA as presented herein 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.

(6) EBITDA margin is calculated by dividing EBITDA by revenue.

(7) 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.

(8) The last 12 months EBITDA of the 12 months ended September 30, 2010 is calculated by subtracting the EBITDA for the nine months ended September 30, 2009 from the full year EBITDA for 2009 and adding the EBITDA for the nine months ended September 30, 2010.

(9) The last 12 months gross interest expense for the 12 months ended September 30, 2010 is calculated by subtracting the gross interest expense for the nine months ended September 30, 2009 from the full year gross interest expense for 2009 and adding the gross interest expense for the nine months ended September 30, 2010.

Summary Consolidated Balance Sheet Information

	As of December 31,				As of September 30,	
	2007	2008	2009	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)	(RMB'000) (unaudited)	(US$'000)
ASSETS						
Non-current assets						
Property, plant and equipment	961,507	1,540,533	2,611,502	390,330	3,684,075	550,643
Land use rights	17,806	76,521	124,571	18,619	177,405	26,516
Mining rights	25,500	27,907	46,373	6,931	55,495	8,295
Other intangible assets	—	—	65,104	9,731	63,502	9,491
Deferred income tax assets	12,364	798	13,540	2,024	22,083	3,301
	1,017,177	1,645,759	2,861,090	427,635	4,002,560	598,245
Current assets						
Inventories	45,653	81,507	128,979	19,278	180,350	26,956
Trade and other receivables and prepayments	101,454	125,770	317,670	47,481	452,033	67,563
Cash and cash equivalents	29,997	37,038	346,258	51,754	374,222	55,933
Restricted cash	24,336	35,999	19,582	2,927	16,161	2,416
	201,440	280,314	812,489	121,439	1,022,766	152,868
Total assets	1,218,617	1,926,073	3,673,579	549,074	5,025,326	751,114
EQUITY						
Capital and reserves attributable to equity holders of our Company						
Share capital	96,811	96,811	97,623	14,591	118,850	17,764
Share premium	662,636	662,636	672,775	100,557	2,001,917	299,218
Share options reserve	5,228	6,708	5,439	813	528	79
Reverse acquisition reserve	(341,304)	(341,304)	(341,304)	(51,013)	(341,304)	51,013
Statutory reserve	36,420	63,163	118,140	17,658	118,140	17,658
Retained earnings	222,650	442,070	717,553	107,250	1,269,124	189,690
	682,441	930,084	1,270,226	189,855	3,167,255	473,396
Non-controlling interests	—	—	25,000	3,737	30,397	4,543
Total equity	682,441	930,084	1,295,226	193,592	3,197,652	477,939
LIABILITIES						
Non-current liabilities						
Borrowings	63,800	407,069	360,058	53,816	215,532	32,215
Warrants classified as liabilities	—	32,908	—	—	—	—
Provisions for other liabilities and charges	—	—	6,265	936	8,325	1,244
Deferred income tax liabilities	—	—	8,079	1,208	14,532	2,172
Other liabilities	13,487	17,317	117,049	17,495	83,717	12,513
	77,287	457,294	491,451	73,455	322,106	48,144
Current liabilities						
Trade and other payables	186,536	269,511	559,395	83,610	724,237	108,249
Current income tax liabilities	—	—	38,639	5,775	55,567	8,305
Borrowings	272,353	269,184	1,288,868	192,642	725,764	108,477
	458,889	538,695	1,886,902	282,027	1,505,568	225,031
Total liabilities	536,176	995,989	2,378,353	355,482	1,827,674	273,175
Total equity and liabilities	1,218,617	1,926,073	3,673,579	549,074	5,025,326	751,114
Net current liabilities	(257,449)	(258,381)	(1,074,413)	(160,588)	(482,802)	(72,162)
Total assets less current liabilities	759,728	1,387,378	1,786,677	267,047	3,519,758	526,083

RISK FACTORS

You should carefully consider the risks and uncertainties described below and other information contained in this offering memorandum before investing in the Notes. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also materially and adversely affect our business, financial condition or results of operations. If any of the possible events described below occurs, our business, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Notes, and you could lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our business depends significantly on the level of activity and growth in the construction industry in Shaanxi province.

Historically, our cement products have been sold exclusively in Shaanxi province, and we expect this trend to continue 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 Shaanxi province, 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 Shaanxi province. Our lack of geographical diversity exposes us to risks associated with fluctuations in the political and economic conditions of Shaanxi province.

We have historically benefited from the high rate of growth in the economy of Shaanxi province. Since 2001, the growth rates of Shaanxi province's GDP and FAI have consistently been above the national averages. For the year ended December 31, 2009, according to Shaanxi Provincial Bureau of Statistics, Shaanxi province's GDP and FAI increased by approximately 13.6% and 35.1%, respectively, compared with 2008, while GDP and FAI for China increased by approximately 8.7% and 30.1%, respectively, during the same period. Weinan, Ankang, Hanzhong and Shangluo regions, all of which are within our core markets, have had relatively high FAI growth rates in the same year. As a result of the economic development and growth in Shaanxi province, the demand for construction materials, including cement, grew rapidly. According to Digital Cement Net, a website operated by the China Cement Association, cement consumption in Shaanxi province was approximately 26.5 million tons, 34.0 million tons, 37.5 million tons and 47.5 million tons for the years ended December 31, 2006, 2007, 2008 and 2009, respectively, representing a CAGR of 21.5%. The fast growth of the economy and the construction industry, particularly government infrastructure projects, has been the main driver of the growth of the cement industry in Shaanxi province and the growth of our business.

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

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

The cement industry is highly capital intensive. We require a substantial amount of capital to build our production facilities, purchase production equipment and develop and implement new technologies in our new and existing facilities. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our capital expenditures, as represented by purchase of property, plant and equipment, cash used for the acquisition of a

subsidiary, land use rights, mining rights and other intangible assets, were approximately RMB359.1 million, RMB669.1 million, RMB750.2 million (US$112.1 million) and RMB1,340.1 million (US$200.3 million), respectively, accounting for approximately 68.3%, 77.3%, 49.5% and 66.3% of our revenue for the same periods.

If our internally generated capital resources, net proceeds from the offering of the Notes and available credit facilities are insufficient to finance our capital expenditure and growth plans, we may have to seek additional financing from third parties, including banks, venture capital funds, joint-venture partners and other strategic investors. We may also consider raising funds through issuance of new shares, which would lead to dilution of our existing shareholders' interests in our Company. If we are unable to obtain financing in a timely manner, at a reasonable cost and on acceptable terms, we may be forced to delay our expansion plans, downsize or abandon such plans, which may materially and adversely affect our business, financial condition and results of operations, as well as our future prospects.

We recorded net current liabilities as of December 31, 2007, 2008 and 2009 and September 30, 2010. We may record net current liabilities after the offering of the Notes and in future periods as we continue to expand and make significant capital investments. Our net current liabilities position exposes us to liquidity risks. Our future liquidity, the payment of trade and other payables and the repayment of our outstanding debt obligations as and when they become due will depend primarily on our ability to maintain adequate cash inflows from operating activities.

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

Our revenue and net profit have grown significantly during the three years ended December 31, 2009 and the nine months ended September 30, 2010. For the years ended December 31, 2007, 2008 and 2009, our revenue was approximately RMB525.9 million, RMB866.1 million and RMB1,516.8 million (US$226.7 million), respectively, representing a CAGR of 69.8%, and our net profit for the same periods was approximately RMB150.3 million, RMB246.2 million and RMB330.5 million, respectively, representing a CAGR of 48.3%. We also recorded revenue and net profit of approximately RMB2,017.7 million (US$301.6 million) and RMB557.0 million (US$83.3 million) during the nine months ended September 30, 2010, respectively, representing an increase of approximately 89.7% and 178.8% over the same period in 2009. The significant increases in our revenue and net profit were mainly due to the growth in the demand for our products and the expansion of our production capacity, which in turn were attributable to the growth of the economy in general and the construction industry in Shaanxi province.

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

We may face difficulties in integrating our acquired businesses or investments. If we fail to realize the anticipated benefits from our acquisitions or investments, our business, financial condition and results of operations may be materially and adversely affected.

In August 2009, we acquired Shangluo Yaobai Xiushan Cement Company, Ltd. (商洛堯柏秀山水泥有限公司) ("Xiushan Yaobai"). In December 2009, we established Shangluo Yaobai Longqiao Cement Company, Ltd. (商洛堯柏龍橋水泥有限公司) ("Longqiao Yaobai"), which owns the cement production line of Shaanxi Danshui Construction Materials Company, Ltd. (陝西丹水建材有限責任公司) ("Shaanxi Danshui"), together with the previous shareholders of Shaanxi Danshui. We owned a 80% interest in Longqiao Yaobai as of December 31, 2009. On January 10, 2011, we acquired the remaining equity interest of Longqiao Yaobai from the previous shareholders of Shaanxi Danshui, as a result of which we now own a 100% interest in Longqiao Yaobai. Furthermore, on December 31, 2010, we acquired an 80% equity interest in Jianghua Yaobai under a joint venture arrangement, pursuant to which we acquired, among others, a clinker production line, certain factory buildings and cement production facilities in Ankang, Shaanxi province. For more information, see "Business — Recent Acquisitions."

We may experience difficulties in integrating the acquired businesses and personnel with ours due to differences in our respective business models and cultures. Our management's time and attention may be diverted from other business concerns and we may experience difficulties in retaining key employees and customers of the acquired businesses. In addition, we may incur higher capital expenditure and integration costs than we initially anticipated. Our acquisitions may also result in the inheritance of debt or other liabilities, which could have a material adverse effect on our business, financial condition and results of operations. We may encounter similar difficulties for businesses we may acquire in the future. We cannot assure you that we will be successful in realizing all of the anticipated benefits in the acquisitions that we have made or may make in the future. Failure to realize these anticipated benefits may materially and adversely affect our business, financial condition and results of operations.

If we fail to identify suitable acquisition targets or complete the acquisitions, our growth may be materially and adversely affected.

We have expanded our operations and markets in part through acquisitions and intend to continue to grow through acquisitions. The identification and completion of such acquisitions 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. For example, we paid RMB100 million in 2009 as a deposit to secure exclusivity in the negotiations to acquire Jianghua Yaobai. We subsequently completed this acquisition in December 2010. There can be no assurance that in the future we will be able to identify and acquire appropriate acquisition targets on commercially acceptable terms, if at all, or that we will have sufficient capital to fund such acquisitions. Failure to identify or acquire suitable acquisition targets in the future could materially and adversely affect our growth.

Our level of indebtedness and our net current liabilities position expose us to liquidity risks.

We have historically relied on cash generated from our operations, bank loans and share issuance to fund our capital requirements, finance the construction of our production facilities and purchase production equipment. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our net cash used in our investing activities was RMB355.4 million, RMB667.9 million, RMB847.5 million (US$126.7 million) and RMB1,338.5 million (US$200.1 million), respectively, while our net cash generated from operating activities was RMB171.0 million, RMB323.1 million, RMB619.7 million (US$92.6 million) and RMB834.5 million (US$124.7 million), respectively. The net cash used in our investing activities was substantially more than that generated from our operating activities. As of December 31, 2007, 2008 and 2009 and September 30, 2010, our total borrowings were approximately RMB336.2

million, RMB676.3 million, RMB1,648.9 million (US$246.5 million) and RMB941.3 million (US$140.7 million), respectively, and our net current liabilities were approximately RMB257.4 million, RMB258.4 million, RMB1,074.4 million (US$160.6 million) and RMB482.8 million (US$72.2 million), respectively. Our gearing ratios, calculated as a percentage of total indebtedness (net of cash, cash equivalents and restricted cash) divided by total capital, were 29%, 41%, 50% and 15% as of the same respective dates. Our high level of indebtedness could materially and adversely affect our liquidity. For example, it could:

- require us to allocate a higher portion of our cash flow from operations to fund repayments of principal and interest on our borrowings, thus reducing the availability of our cash flow from operations to fund working capital, capital expenditures and other general corporate purposes;
- increase our vulnerability to adverse economic or industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business or in the industry in which we operate;
- potentially restrict us from pursuing strategic business opportunities;
- limit our ability to take on more debt; and
- increase our exposure to interest rate fluctuations.

As of the date of this offering memorandum, we have not experienced a reduction or withdrawal of credit or banking facilities by our lenders or any liquidity problems in settling our trade payables in the ordinary course of business when they became due. However, we cannot assure you that we will always be able to continue to refinance our bank loans when they become due, repay our bank loans upon maturity and/or raise the necessary funding to finance our current liabilities and our capital commitments.

Any breach of financial covenants under our loan agreements could adversely affect our business, financial condition and results of operations.

Certain of our loan agreements contain financial covenants that impose restrictions on our capital expenditures and require us to maintain certain financial ratios. Under the Credit Suisse Syndicated Loan, unless a waiver has been obtained pursuant to the terms, our wholly owned subsidiary Shaanxi Yaobai is required to, among other things, (i) maintain a ratio of total indebtedness to total assets of no more than 50% for each six-month period between December 31, 2009 and December 31, 2010 and no more than 40% from January 1, 2011 until the loan is repaid, and (ii) incur no more than RMB200 million in capital expenditures in the six months ended June 30, 2010, and no more than RMB 200 million during each of the two years ending December 31, 2011 and 2012. On December 29, 2010, we also entered into an amendment agreement to remove the capital expenditures covenant effective from January 1, 2010.

As Shaanxi Yaobai increased its capital expenditures in 2010 in connection with the construction of production facilities, the total amount of the capital expenditures it incurred in the four months ended April 30, 2010 was RMB374.8 million, which exceeded the RMB200 million limit prescribed in this loan agreement for the six months ended June 30, 2010. In addition, based on Shaanxi Yaobai's unaudited consolidated management accounts as of June 30, 2010, the ratio of total indebtedness to total assets exceeded the 50% limit applicable for the six months ended June 30, 2010. The facility agent representing the lenders had granted Shaanxi Yaobai a waiver with respect to these two covenants for the four months and six months ended April 30, 2010 and June 30, 2010, respectively. Under the waiver, Shaanxi Yaobai is not required to comply with these two financial covenants until after June 30, 2011. As a result of such waiver, it is not, as of the date of this offering memorandum, in breach of the two financial covenants under the loan agreement.

However, subject to any amendments to the loan agreement, Shaanxi Yaobai will remain subject to the indebtedness asset covenant after June 30, 2011, and Shaanxi Yaobai and/or certain of its subsidiaries, as the case may be, will remain subject to the other covenants under this loan until the loan becomes due in December 2012. We cannot assure you that we will be able to comply with all the requirements under our loan agreements, or that we will be able to obtain waivers if we fail to comply with them. Failure to service our debts or comply with the terms, conditions and covenants of our loan facility agreements could result in penalties, including increases in our interest rates, accelerated repayment of loans and interest, termination of facilities and legal action against us by our creditors, any of which could have a material and adverse effect on our business, financial condition and results of operations. Furthermore, our liquidity depends on the amount of cash we generate from operations and our access to further financial resources to fulfill our short-term payment obligations, which may be affected by our future operating performance, prevailing economic conditions and other factors, many of which are beyond our control.

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

As of September 30, 2010, we had total bank loans of approximately RMB917.3 million (US$137.1 million), among which a number of loans have floating interest rates linked to, among others, one to three years benchmark rates of the People's Bank of China ("PBOC") and the London Interbank Offered Rate ("LIBOR"). If there is a material increase in the reference rates during the term of our relevant loan facilities or when our current loan facilities become due, our finance costs may increase substantially and our results of operations and financial performance may be adversely affected.

We operate in a competitive market and, if we are unable to compete successfully, our business, financial condition and results of operations may be adversely affected.

The cement industry is highly competitive both in Shaanxi province and in China, and we face a significant number of competitors. See "Business — Competition." We compete with our competitors for customers, raw materials, energy resources and distribution network. Many of our current and potential competitors may have better brand recognition in local markets, better pricing or greater financial, technical or marketing resources than we do. While most of our competitors' core markets are in central Shaanxi province, which is adjacent to one of our core markets, our competitors could compete with us for the same target customers. We compete primarily on the basis of pricing of our products, variety of product offerings, access to resources, sales and marketing network, production efficiency and brand image. If we are unable to compete successfully, our business, financial condition and results of operations could be materially and adversely affected.

Our business, financial condition and results of operations may be adversely affected by increases in coal or electricity prices or shortages of coal and electricity.

We use a substantial amount of coal and electricity in our production, and any shortage or interruption in the supply of coal or electricity could disrupt our operations and increase our costs of sales. The pricing for coal in our supply agreements is directly linked to market prices, so we bear the risk of coal price fluctuations. We experienced significant increases in coal prices in 2008 due to a surge in demand for coal and a supply shortage of coal in the market. In 2009, coal prices declined compared to 2008 due to reduced demand primarily as a result of the global financial crisis. In the first nine months of 2010, the cost of coal increased substantially due to our expansion to southern Shaanxi province, where coal price is generally higher due to higher transportation costs and due to the recovery of the global economy. For the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our cost of coal as a percentage of our total cost of sales was approximately 21.4%, 36.0%, 31.2% and 33.1%,

respectively. Our average purchase prices of coal were approximately RMB290, RMB492, RMB434 and RMB561 per ton for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. We cannot predict future price trends for coal or the degree of any price volatility.

For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our cost of electricity as a percentage of our total cost of sales was approximately 24.8%, 22.0%, 20.7% and 19.0%, respectively. Electricity prices for industrial enterprises are generally regulated by provincial governments in China. Our average electricity purchase price per KWh was approximately RMB0.40, RMB0.40, RMB0.43 and RMB0.45 for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. There was a surge in average electricity cost in 2009 as in November 2009, the Shaanxi Electric Power Company increased the price per KWh by RMB0.0367. We cannot predict future price trends for electricity or the degree of any volatility. Any significant increase in the prices of coal or electricity or any shortage or interruption in their supply could increase our costs of sales and/or cause disruptions to our operations, which in turn could have a material adverse effect on our business, financial condition and results of operations.

In 2008 and 2009, we increased prices of our cement because demand grew due to increased building and construction activities and passed on a portion of our increased cost of sales to our customers through higher average selling prices. However, we may not be able to further increase the prices of our cement products in the future if the prices of coal or electricity rise, which could have a material adverse effect on our business, financial condition and results of operation.

The resource tax we pay to local governments may increase and we may not be able to renew our existing mining rights or secure additional mining rights.

Under the Mineral Resources Law of the PRC (中華人民共和國礦產資源法), all mineral resources in China are owned by the state. We are required to obtain mining rights before undertaking any mining activities, and the mining rights are limited to a specific area during a fixed license period. We are also required to pay a resource tax of RMB2.0 per ton of excavated limestone to the local governments in Shaanxi province. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, we paid approximately RMB3.9 million, RMB5.4 million, RMB8.0 million (US$1.2 million) and RMB11.4 million (US$1.7 million) in resource tax for the limestone excavated from the quarries for which we have mining rights, respectively. The amount of this resource tax may increase in the future, which could have a negative impact on our profitability and our results of operations.

As of September 30, 2010, we owned mining licenses for the Yaoshan (堯山), Xiaozhai (小寨), Qingshanzhai (青山寨), Chujiashan (褚家寨), Jinsushan (金粟山), Longtanzi (龍潭子), Dalingliang (大嶺梁), Liu Xianping West Mountain (留仙坪西大山) and Liu Xianping East Mountain (留仙坪東大山) limestone quarries, which are due to expire between 2011 and 2022. We cannot assure you that such mining licenses will be renewed upon expiration or that upon expiration, we will be able to renew on terms that are commercially reasonable. If we are unable to renew these licenses, we may have to seek alternative sources of limestone that may be further away from our production facilities which will result in higher transportation costs. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, we paid approximately RMB27.5 million, RMB37.5 million, RMB74.8 million (US$11.2 million) and RMB100.0 million (US$14.9 million) for the limestone excavated from our quarries and purchased from third party suppliers, respectively. Of the RMB100.0 million spent for limestone during the nine months ended September 30, 2010, RMB55.9 million (US$8.4 million) was attributable to costs for excavation from our quarries and RMB44.1 million (US$6.6 million) was attributable to purchases from third party suppliers. If we are unable to find alternative sources of limestone, the affected production facilities may not be able to continue their operations, in which case our business, financial condition and results of operations will be materially and adversely affected. As part of our growth strategy, we intend to acquire additional limestone reserves and

production facilities. However, we cannot assure you that we will be able to acquire suitable limestone reserves in the future and obtain the mining rights for them. If we are unable to secure additional mining rights, our operations and growth prospects may be materially and adversely affected. Our financial performance and results of operations could also be adversely affected if we fail to pass on any increase in the cost of limestone excavation and purchases to our customers.

We rely on one third-party contractor to excavate limestone from all our limestone quarries and we may be liable for its failure to comply with applicable laws and regulations.

We engage a third-party contractor to excavate limestone from all limestone quarries for which we have mining rights. We are not able to guarantee that this third-party contractor would continue to provide the limestone excavation services to us and, if it ceases to provide such services or it fails to perform to our satisfaction, whether we would be able to locate suitable replacement to ensure a continuous supply of limestone for our production of cement products. If this third-party contractor ceases to provide such limestone excavation services to us and we are not able to locate suitable replacement, we may have to source limestone from other third party suppliers at higher cost and our results of operation and financial performance could be adversely affected.

We require our contractor to provide us with the applicable licenses and renewal certificates, as mandated under the relevant PRC laws and regulations, as well as conduct safety inspections at the quarries on a monthly basis. However, we may still be held liable by the authority if our contractor failed to comply with relevant PRC laws and regulations and we may be subject to fine or other penalty and as a result our results of operation and financial performance may be adversely affected.

The prices of raw materials may continue to rise, and we may be unable to pass on some or all of the increases to our customers.

Certain raw materials used in our production, such as gypsum, flyash, pyrite cinder and slag, are subject to price volatility caused by external conditions, including commodity price fluctuations and changes in governmental policies. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our cost of raw materials accounted for approximately 34.0%, 26.0%, 32.4% and 32.0%, of our total costs of sales, respectively.

We cannot assure you that our key suppliers will continue to provide us with raw materials at reasonable prices, or that our raw materials prices will remain stable in the future. In addition, we may not be able to transfer some or all of the increase in costs in our raw materials to our customers. As a result, any increase or material fluctuation in the prices of our raw materials could have a material adverse effect on our business, financial condition and results of operations.

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

Our business operations and construction of new facilities may be disrupted by, among other things, extreme climatic and weather conditions, fires, natural disasters, epidemics, raw material supply shortages, equipment and system failures and labor force shortages. We hire an independent contractor to excavate limestone for us and its operations are beyond our control. If our operations are disrupted for any reason, our business, financial condition and results of operations could be materially and adversely affected. In addition, due to the nature of our business and despite compliance with safety requirements and standards, our operations are subject to operational risks associated with the production of building materials, such as storage tank leaks, explosions, discharges of hazardous substances and malfunctioning of production machinery. These risks may result in personal injuries, property damage and imposition of civil or criminal penalties.

The recent global market fluctuations and economic downturn could materially and adversely affect our business, financial condition and results of operations.

The global capital and credit markets have experienced extreme volatility and disruption in recent periods. Concerns over inflation or deflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a declining residential real estate market in the United States and elsewhere have contributed to market volatility and diminished expectations of growth for the global economy and the capital and consumer markets in the future. These factors, combined with volatile oil prices, declining business activities and consumer confidence and increased unemployment, have contributed to the global economic slowdown and a possible prolonged global recession. These events have led to uncertainties in China's economy, which could materially and adversely affect the building and infrastructure industry in China. As a result, customer demand for our products may significantly decrease, thereby materially and adversely affecting our business, financial condition and results of operations.

We currently enjoy certain PRC tax incentives, some of which are due to expire at the end of 2010. Expiration of, or changes to, these incentives could materially and adversely affect our results of operations and financial condition.

We currently enjoy certain PRC tax incentives as a result of the status of certain of our PRC subsidiaries as wholly foreign owned enterprises, the locations of all of our PRC subsidiaries in western China and our use of recycled materials in our cement production. Shaanxi Yaobai and Lantian Yaobai are entitled to a two-year exemption from the PRC enterprise income tax from their first profitable year on a cumulative basis, and a 50% reduction of their applicable enterprise income tax rate for the succeeding three years. Shaanxi Yaobai is entitled to this preferential treatment because it is a wholly-foreign owned enterprise and Lantian Yaobai is entitled to this preferential treatment pursuant to Article 16 of the Provisional Regulations on the Domestic Re-investment of Foreign-Invested Enterprise (關於外商投資企業境內投資的暫行規定). As enterprises located in western China operating in "encouraged" industries, four of our PRC subsidiaries, namely Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai and Hanzhong Yaobai, are entitled to a preferential enterprise income tax rate of 15% under the Western Development Plan implemented by the PRC government to encourage development in the western region of China, compared with the regular national enterprise income tax rate of 25%. Hanzhong Yaobai, which commenced operations in 2010, is entitled to a preferential enterprise income tax rate of 15% for the year 2010. The aggregate profit contributions from Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai and Hanzhong Yaobai for each of the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 amounted to RMB162.9 million, RMB256.3 million, RMB539.0 million (US$80.6 million) and RMB470.5 million, (US$70.3 million) respectively. This program was due to expire at the end of 2010. Pursuant to a resolution made by the National People's Congress of the PRC in March 2010, the PRC government plans to further implement the Western Development Plan in future years and is expected to research and form detailed and renewed programs in due course. However, if the PRC government does not extend this program, we will be subject to a tax rate of 25% and our net profit after tax may be lower. The tax exempted under the Western Development Plan accounted for approximately 10% of our gross profit and our directors are of the view that if the program is not renewed in 2011 as expected, our business, financial condition and results of operation may be materially and adversely affected.

In addition, pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Policies Regarding the Value Added Tax on Products Made through Comprehensive Utilization of Resources and Other Products (財政部國家稅務總局關於部分資源綜合利用及其他產品增值稅政策問題的通知), we enjoy valued-added tax ("VAT") refunds for cement products that utilize recycled materials, such as slag and flyash. In three years ended December 31, 2007, 2008

and 2009 and the nine months ended September 30, 2010, such VAT refunds amounted to approximately RMB30.5 million, RMB39.2 million, RMB65.0 million (US$9.7 million) and RMB75.8 million (US$11.3 million), respectively, representing 20.3%, 15.9%, 19.7% and 13.6% of our profit during the same periods.

There is no assurance that we will be able to continue to enjoy these incentives on the same terms, or at all, in the future. Expiration of, or unfavorable changes to, these incentives in the future may adversely and materially affect our business, financial condition and results of operations.

The taxation regime in Jersey may be subject to change.

If our Company is deemed to be tax resident in Jersey then it would be subject to Jersey income tax at zero percent. Following concerns raised by some members of the ECOFIN Code of Conduct group regarding whether the current "Zero/Ten" tax regime for companies in Jersey should be interpreted as being outside the spirit of the EU Code of Conduct for Business Taxation (the "Code"), the Code of Conduct group has been asked to consider whether certain aspects of Jersey's current tax regime comply with the Code. Under current law, Jersey companies, with the exception of certain Jersey based financial services companies and local utility companies (which are generally subject to income tax at 10% and 20% respectively) are typically subject to a zero percent rate of income tax on the basis of being tax resident in Jersey. The Treasury and Resources Minister of the States of Jersey has also commenced a review of business taxation in Jersey. Although the Minister has stated on a number of occasions that tax neutrality is of fundamental importance to Jersey's financial services industry and should be maintained, the outcome of this review cannot at this time be predicted. Following the review there is, therefore, the possibility that the current tax regime applicable in Jersey may be amended and, as a result, certain companies which are currently subject to tax at the zero rate, which may include our Company, could be subject to taxation in Jersey at a rate of more than zero percent.

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

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

Our business depends substantially on the continuing efforts of our executive directors, senior management, key personnel, and our ability to maintain a skilled labor force.

We are dependent on the ability and expertise of our executive directors and senior management for our daily business operations and formulating and implementing our business strategies. If one or more of our executive directors or senior management were unable or unwilling to continue in their present positions, we may be unable to identify and recruit suitable replacements in a timely manner, or at all. In addition, if any member of our senior management were to join a competitor or form a competing company, we may lose some of our know-how and customers.

Furthermore, recruiting and retaining capable personnel, particularly experienced engineers and technicians familiar with our production processes, are vital to maintaining the quality of our products, continuously improving our production processes and supporting the expansion of our production capacity. We also need to recruit personnel with internal control experience to maintain and strengthen our internal control systems and procedures. We may also need to employ and

retain more management personnel to support our expansion in the future. There is substantial competition for qualified personnel in the cement industry and we have experienced difficulties in recruiting suitable personnel with internal control experience in the past. We cannot assure you that we will be able to attract or retain qualified personnel. If we are unable to attract and retain qualified employees, key personnel and senior management, our business, financial condition and results of operations may be materially and adversely affected.

Our controlling shareholders will have substantial influence over us and there may be conflicts of interest between our controlling shareholders and our other shareholders.

Our controlling shareholders, Zhang Jimin ("Mr. Zhang"), Ms. Zhang Lili, Asia Gain Investments, Ltd. (盈亞投資有限公司) ("Asia Gain") and Central Glory Holdings, Ltd. (中耀控股有限公司) ("Central Glory"), in aggregate beneficially own 44.24% of our issued share capital. Accordingly, our controlling shareholders, through their voting power at shareholders' meetings and their delegate(s) to our board, will be in a position to exert significant influence over our management and corporate policies, including our development strategies, capital expenditure, dividend distribution plan, change of control and corporate opportunities. In addition, circumstances may arise in which the controlling shareholders' interests may conflict with your interests. Potential conflicts of interest with our controlling shareholders may include matters relating to:

- adopting amendments to our articles of association that are not in the best interests of our other shareholders;
- determining the outcome of most corporate actions, including the enforcement of indemnities against our controlling shareholder which, subject to the applicable requirements of The Stock Exchange of Hong Kong Limited, can cause us to effect corporate transactions without the approval of our other shareholders;
- approval of potential mergers or acquisitions, asset sales, and other significant corporate transactions, including transactions which may lead to a change of control;
- issuances of securities;
- investment decisions and decisions relating to capital expenditures; and
- payment of dividends and other distributions.

Our controlling shareholders will have the ability to control our management and administration, including the appointment of a majority of our directors and, indirectly, the appointment of our executive officers through those directors. So long as our controlling shareholders continue to own a significant amount of our equity, even if such amount is less than 50% of the issued and outstanding shares, our controlling shareholders will continue to be able to strongly influence or effectively control our decisions.

Our quarterly results of operations are subject to seasonal fluctuations.

Demand for our products is subject to seasonal fluctuations. We usually record our lowest quarterly sales in the first quarter due to the Chinese New Year holidays and cold weather in Shaanxi province. Certain climatic conditions, such as snow, storms and heavy or sustained rainfall, also negatively affect our sales because the level of activity in the construction industry is relatively low under those conditions. We generally experience an increase in sales volume of our products in the second and third quarters because of improved weather conditions and we generally increase the prices of our products due to higher demand during this period as a result of the higher level of construction activities. As a result of the seasonal fluctuations, our quarterly results may not be indicative of our business and financial performance for the year as a whole.

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

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

We may be subject to liabilities in connection with accidents arising from our business and operations. We may not have sufficient insurance coverage for such liabilities.

We face various risks, including the risk of liability for personal injury and loss of life, damage to or destruction of facilities and equipment, transportation damages and delays, environmental pollution, and risks posed by natural disasters, in connection with our business and operations which may not be completely eliminated through the implementation of preventive measures. Our business involves the operation of heavy machinery, which, if operated improperly, may result in physical injury or even death. Accidents have happened in the past due to improper operation of machinery, machinery malfunction or employee negligence. See "Business — Occupational Health and Safety." There can be no assurance that similar accidents will not happen in the future. If accidents resulting in employee injuries or deaths occur, we may be liable for medical and other payments to the employees and their families, in addition to possible fines or penalties. Furthermore, we may be forced to shut down certain equipment or suspend our operations due to government investigation or government requirement to implement additional safety measures. Such business interruptions will result in loss of profit to us. We cannot assure you that all risks have been covered adequately by our existing insurance policy. If we incur substantial liabilities and they are not covered by our insurance policies, our business, financial condition and results of operations could be materially and adversely affected.

Any unauthorized use of our brand names, trademarks and other intellectual property rights may materially and adversely affect our business, financial condition and results of operations.

We rely on the PRC intellectual property and competition laws and contractual restrictions to protect our brand names, trademarks and other intellectual property rights, which are important to our business. Our cement products are principally sold under the trademarks "堯柏" (Yao Bai) and "堯柏水泥" (Yaobaishuini). Any unauthorized use of our brand name, trademark, and other intellectual property rights by third parties could adversely affect our business, reputation and market position.

We cannot assure you that the measures we take to protect our brand name, trademark and other intellectual property rights will be sufficient. In addition, the application and interpretation of the PRC laws governing intellectual property rights in China are uncertain and still evolving, which could expose us to substantial risks. If we are unable to adequately protect our brand name, trademark and other intellectual property rights, our business, financial condition and results of operations could be adversely and materially affected.

We comply with regulations and policies of social insurance funds and housing provident funds only to the extent required by local authorities in Shaanxi province which may have different interpretation and implementation of national laws and policies on the same matters.

We are required by PRC laws and regulations to participate in various social welfare schemes including pension, medical, unemployment, birth and work-related injury insurances and housing provident fund contributions. The local authorities at the counties where our subsidiaries in the

PRC are located, however, may have different interpretation and implementation of such PRC national laws and policies and we have been complying with the regulations and policies to the extent required by local authorities. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, we contributed approximately RMB0.6 million, RMB1.6 million, RMB2.5 million (US$0.4 million) and RMB2.9 million (US$0.4 million) to the social insurance schemes, respectively. We would need to pay additional amount of RMB0.5 million, nil, RMB1.1 million (US$0.2 million) and nil during the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 if we made the contribution to social insurance fund and housing provident fund for our Group members according to applicable national laws and regulations during the three years ended December 31, 2009 and the nine months ended September 30, 2010.

We cannot assure you that the interpretation and implementation of relevant social insurance policies and laws and regulations by the local social insurance authorities will remain consistent in the future or if there is any change in their interpretation or implementation, whether such change would have retrospective effect. We also cannot assure you that there will not be labor disputes or claims in respect of employee complaints regarding payment of pension insurance, medical insurance, unemployment insurance, birth insurance, work-related injury insurance and housing provident fund contributions or that such claims will not be brought against us in the future, and that we will not be required to pay such contributions or any related damages in the future. Any future changes in the interpretation and implementation of relevant social insurance policies and laws and regulations by the local social insurance authorities adverse to us or any claims against us regarding our contributions under the relevant social insurance schemes could have an adverse effect on our results of operation and financial performance.

Product liability claims may be brought against us and, whether or not successful, could harm our business, financial condition and results of operations.

We are exposed to risks associated with product liability claims if the use of our cement products results in property damage or personal injury. Our cement products are mainly used as construction materials. While we seek to conform our products to meet a variety of contractual specifications and regulatory requirements, we cannot assure you that product liability claims against us will not arise, whether due to product malfunctions, defects, or other causes. Shaanxi Yaobai maintains product liability insurance coverage on behalf of itself and all of our PRC subsidiaries. Such product liability insurance, however, may not be sufficient to cover all the losses and damages arising from claims arising as a result of deficiencies in the quality of our products. Any such claims, regardless of whether they are ultimately successful, could cause us to incur litigation costs, harm our business reputation and disrupt our operations. Furthermore, we cannot assure you that we will be able to defend against such claims successfully. If any such claims against us were ultimately successful, we could be required to pay substantial damages, which could materially and adversely affect our business, financial condition and results of operations.

Our internal controls over financial reporting may have deficiencies and weaknesses.

We engaged a reputable external consulting firm in November 2009 to review selected areas of our internal controls over financial reporting in relation to our IPO in August 2010. In response to the recommendations of the internal control advisor, we have revised and implemented internal control policies and procedures in areas of deficiencies and weaknesses and have instituted a monitoring process. However, we cannot assure you that any deficiencies or weaknesses in our internal control for financial reporting will not occur in the future. If we fail to maintain effective internal controls over our financial reporting, we may not be able to timely and accurately prepare our financial reporting and therefore our results of operation may be adversely affected.

RISKS RELATING TO THE CEMENT INDUSTRY IN THE PRC

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

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

In order to engage in cement production, we are required to maintain certain licenses and permits such as the cement production permit and the production safety permit in China. In addition, our products are also required to meet certain standards stipulated by various PRC government authorities. For example, GAQSIQ issued the GB175-1999 standards that govern certain aspects of the production and sales of cement products. All cement producers in the PRC must comply with these standards, and cement products that fail to meet the relevant quality standards may not be sold in the PRC. These standards provide strict guidelines regarding the composition and technical specifications for cement products. They also standardize the testing methods for cement products and the types of packaging permitted. Should there be any change to the existing requirements or new requirements applicable to our cement products, we may need to incur additional expenses to ensure compliance and we cannot assure you that we will successfully obtain such licenses, permits or approvals in a timely manner, or at all. If we are not able to meet all the licensing conditions or the regulatory requirements, our business, financial condition and results of operations could be adversely and materially affected.

The cement industry has traditionally been subject to government control at the policy level in terms of production method and volume, product mix and environmental protection. While the PRC Government's current policies in respect of the domestic cement industry are generally market oriented, the PRC government still closely monitors the development of the cement industry and may from time to time regulate the industry by issuing and implementing new regulations and policies. For example, according to the Notice Regarding Replacement of Obsolete Cement Production Capability (關於做好淘汰落後水泥生產能力有關工作的通知) issued by the National Development and Reform Commission of the PRC ("NDRC") on February 18, 2007, local governments are required to gradually phase out cement producers with annual output of less than 200,000 tons and those with production methods that are less environmentally friendly. In addition, according to the State Council's Notice Approving the NDRC's Guidelines on Redundant Construction, Curbing Overcapacity in Certain Industries and the Healthy Development of Industries (國務院批轉發展改革委等部門關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見的通知) promulgated on September 26, 2009, or the "2009 Notice", the industrial policies on the cement industry in the PRC are, among others, to strictly control newly added cement capacities and phase out obsolete cement production capacity. In accordance with the 2009 Notice, the Shaanxi Provincial Development and Reform Commission promulgated the Guidelines on the Cement Industry Structure Adjustment of Shaanxi Province (陝西省水泥產業結構調整指導意見) on November 23, 2009, which reiterates the aforesaid policies and encouraged the installment of residual heat recovery system and energy-saving grinding system, and the utilization of industry waste of the existing cement production lines. Each of our production lines in the PRC, including those under construction, has or is expected to have an annual production capacity of over 200,000 tons. In addition, the Shaanxi Provincial Development and Reform Commission confirmed on February 1, 2010 that all of our production lines, including those under construction, had complied with all the applicable industrial policies in the PRC. Accordingly, we believe that the policies mentioned above did not and will not have any adverse effect on our operations.

In addition, according to the Criteria for Entry to the Cement Industry (水泥行業准入條件) newly promulgated by the Ministry of Industry and Information Technology, which came into effect on January 1, 2011, the entry barriers for the new expansion of cement production have

been significantly increased. The Criteria for Entry to Cement Industry limits the relevant cement production expansion in provinces with their respective production capacity of new dry process cement clinker being 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 its entry barriers, the cement industry has been subject to a credit control policy in recent years as it is an energy intensive industry. In June 2007, the PBOC promulgated the Guidelines on the Enhancement and Improvement of Financial Services in Energy Saving and Environmental Protection Fields (中國人民銀行關於改進和加強節能環保領域金融服務工作的指導意見), or the "2007 Guidelines," which tightened credit in energy intensive and heavily polluting industries and effectively constrained bank lending to PRC cement companies. Although we have adopted energy saving and environmentally friendly production technologies, and our production facilities are in compliance with 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 December 25, 2010, the Ministry of Industry and Information Technology issued the Guidelines on Energy Saving and Emission Reduction of the Cement Industry (工業和信息化部關於水泥工業節能減排的指導意見), which aims to conserve energy and reduce the emissions resulting from cement production in the coming years. Failure to comply with these policies and regulations may result in the assessment of damages or imposition of penalties, fines, administrative sanctions, proceedings and/or suspension of production or cessation of our operations or revocation of our licenses or permits to conduct our business. With the increasing awareness of environmental protection and energy conservation issues, we anticipate that the PRC regulatory framework will become increasingly stringent. The implementation of more stringent laws and regulations or stricter interpretation of the existing laws and regulations may require us to incur additional expenses for compliance purposes. We cannot assure you that we will be able to comply with any additional regulations in the future, or enhanced implementation of such existing regulations, on a cost-effective basis, or at all. In such circumstances, our business, financial condition and results of operations could be adversely and materially affected.

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

We are required to comply with the applicable production safety standards in relation to our production processes. Our production plants and facilities are subject to regular inspections by the regulatory authorities for compliance with the Safe Production Law of the PRC (中華人民共和國安全生產法). Furthermore, under the PRC Labor Law and the PRC law on the

Prevention and Treatment of Occupational Diseases (中華人民共和國職業病防治法), we must ensure that our facilities comply with PRC standards and requirements on occupational safety and health conditions for employees. We also provide our employees with labor safety training, all necessary protective tools and facilities, and regular health examinations for those who may be exposed to risks of occupational hazards. Nevertheless, failure to meet the relevant legal requirements on production safety and labor safety could subject us to warnings from relevant governmental authorities, governmental orders to rectify such non-compliance within a specified time frame and maximum fines of up to RMB500,000 per incident. We may also be required to suspend our production temporarily or cease our operations permanently for significant non-compliance, which may have a material adverse effect on our reputation, business, financial condition and results of operations.

RISKS RELATING TO THE PRC

Any slowdown in the PRC economy or changes in political and economic policies of the PRC government could have an adverse effect on the overall growth in the PRC, which could reduce the demand for our products and materially and adversely affect our business, financial condition and results of operations.

Substantially all of our assets are located in Shaanxi province in the PRC and all of our business operations are conducted in Shaanxi province. During the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, we derived all of our revenue from the sale of our products to customers in Shaanxi province. Accordingly, our business, results of operations and financial condition are significantly affected by economic, political and legal developments in the PRC. Demand for our products is dependent on the pace of the economic growth in the PRC and in particular the general level of activity and growth in the construction industry in western China where we operate. In addition, general national economic conditions, mortgage and interest rate levels, inflation, unemployment, demographic trends, GDP growth and consumer confidence also influence the performance and growth of the construction industry and, consequently, the demand for our products. A downturn in the construction industry in the PRC or in any of the regional markets in Shaanxi province where we operate could materially and adversely affect our business, financial condition and results of operations.

The PRC government has implemented economic reform measures and industrial policies in the past three decades and will continue to do so in order to utilize market forces in the development of the PRC economy. Some of these measures and policies, while benefiting the overall PRC economy, may have a negative effect on us. For example, efforts by the PRC government to slow the pace of growth of the real estate industry to a more sustainable level in the PRC may negatively affect the real estate market and consequently impede the growth of the construction industry. Any weakening in the real estate sector in our target markets could adversely affect our business, financial condition and results of operations.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

Our business and operations are conducted in the PRC and governed by PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes and prior court decisions can only be used as reference. Since the late 1970s, the PRC government has significantly enhanced PRC laws and regulations in relation to economic matters such as foreign investments, corporate organization and governance, commerce, taxation and trade. However, the PRC does not yet have a fully integrated legal system. Due to the limited volume of published cases and the non-binding nature of prior court decisions, the interpretation and enforcement of many recently enacted laws, rules and regulations may be uncertain or inconsistent. In addition, the PRC legal system is based in part on government policies and administrative rules 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. Furthermore, the legal protection available to us under

these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and management attention, which in turn could have a material and adverse effect on our business, financial condition and results of operation.

We may be deemed a PRC resident enterprise under the PRC Enterprise Income Tax Law and be subject to PRC taxation on our worldwide income.

Under the PRC Enterprise Income Tax Law that took effect on January 1, 2008, enterprises established outside of the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and will generally be subject to the uniform 25% enterprise income tax rate on their worldwide income. The State Council of the PRC has promulgated implementation rules of this tax law which define "de facto management body" as an organization that exercises substantial and overall management and control over an enterprise's manufacturing or business operation, finance and property. In addition, the Notice of the State Administration of Taxation on Issues Relating to Determining the Resident Enterprise Status of Overseas Registered Chinese Holding Enterprises Based on the "de facto Management Bodies" Standard (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知), which was issued on April 22, 2009 and has a retrospective effect since January 1, 2008, provides specific tests regarding under what situations an enterprise's "de facto management body" would be considered to be located in the PRC. While substantially all of our management is currently based in the PRC, and we expect them to continue to be located in the PRC for the foreseeable future, it is unclear when PRC tax authorities will start the determination process and whether they will consider other factors. The PRC tax authorities in different districts may have different interpretations and policies in the implementation of such law and regulations and the classification of resident and non-resident enterprises. In the event that we are treated as a "resident enterprise" for enterprise income tax purposes, our worldwide income, excluding dividends received from our PRC subsidiaries, will be subject to PRC income tax. See "— Interest payable by us to our foreign investors and gains on the sale of our Notes may be subject to withholding taxes under PRC tax laws" below.

Additionally, under the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprise (關於加強非居民企業股權轉讓所得企業所得稅管理的通知) (Circular Guoshuihan [2009] No. 698) issued by the State Administration of Taxation (國家稅務總局) on December 10, 2009, even if we or our non-PRC subsidiaries are considered as non-PRC resident enterprises, we cannot provide any assurance that any direct or indirect transfer of our equity interests in our PRC subsidiaries via our non-PRC holding companies in the future will not be subject to examinations by our PRC subsidiaries' tax authorities and therefore will not be subject to a withholding tax of 10%.

Interest payable by us to our foreign investors and gains on the sale of our Notes may be subject to withholding taxes under PRC tax laws.

Under the PRC Enterprise Income Tax Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is withheld from interest payable to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such interest is from sources within the PRC. In addition, any gain realized on the transfer of our Notes is subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC.

If our Company is considered to be a "resident enterprise," the interest we pay with respect to our Notes would be treated as income derived from sources within the PRC and be subject to PRC income tax. Further, in the event that our Company is considered a "resident enterprise," it is

unclear whether the gain from the transfer of our Notes would be treated as income derived from sources within the PRC and be subject to PRC income tax. If the holders of our Notes are required to pay PRC income tax on the transfer of their Notes, the value of their investment in our Notes may be materially and adversely affected.

We may be subject to fines and penalties under the PRC Labor Contract Law, and our labor costs may increase.

The PRC Labor Contract Law, which became effective on January 1, 2008, imposes requirements on employers concerning, among others, the types of contracts to be executed between an employer and an employee, and establishes time limits for probation periods and for fixed-term employment contracts. It also requires the employer to contribute to social insurance and housing funds on behalf of its employees. We are unsure whether the PRC Labor Contract Law will affect our current employment policies due to different interpretations and implementation policies by local bureaus and we cannot assure you that our employment policies do not or will not violate the PRC Labor Contract Law and that we will not be subject to related penalties, fines or legal fees.

As a result of the PRC Labor Contract Law, our labor costs may increase, which would in turn lead to an increase in our cost of sales. We may not be able to pass these increases on to our customers due to competitive pricing pressures. If we are subject to large penalties or fees related to the PRC Labor Contract Law or our labor costs increase, our business, financial condition and results of operations may be materially and adversely affected.

Government control over currency conversion may limit our ability to utilize our cash effectively.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange of the PRC ("SAFE"), by complying with certain procedural requirements. However, foreign exchange transactions in the capital account, including the foreign currency capital in any foreign-invested enterprise in the PRC, the repayment of the principal amount of foreign currency loans and the payment pursuant to foreign currency guarantees, continue to be subject to significant foreign exchange controls and require prior approval from SAFE or its local branch. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

All our revenue are in Renminbi. The Renminbi is not a freely convertible currency. We will have to convert portion of our Renminbi revenue or profit to meet our foreign currency obligations, such as the payment of dividends, if declared. Limits in the PRC on conversion of Renminbi into foreign currency may restrict our ability to pay dividends or other payments, or otherwise satisfy foreign currency-denominated obligations. If restrictions imposed by the PRC Government prevent us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

In addition, since our revenues have been and will continue to be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of the PRC or otherwise fund our business activities that are conducted in foreign currencies. This could affect the ability of our subsidiaries in the PRC to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us, which could have a material and adverse effect on our business, financial condition and results of operations.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

All of our production lines and a majority of our directors are located in the PRC. As a result, it may not be possible for you to effect service of legal process upon us or our directors in the PRC. The PRC does not have treaties providing for reciprocal recognition and enforcement of judgments of courts with Hong Kong, the United States, the United Kingdom or most other western countries. Thus, it may be difficult for you to enforce against us and our directors in the PRC any judgments obtained from non-PRC courts.

Our results of operations and the trading price of our Notes may be adversely affected by the occurrence of an epidemic.

Any threatened or actual outbreak of an epidemic in the PRC, such as the H1N1 virus, severe acute respiratory syndrome or avian influenza, could have a negative effect on our results of operations and the trading price of our Notes. Our operations may be affected by a number of health-related factors, including quarantines or closures of some of our offices or production facilities, temporary suspension of manufacturing operations, travel restrictions, the sickness or death of our key officers and employees and a general slowdown in the PRC's national and regional economy.

RISKS RELATING TO THE NOTES

We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. The Notes will not be guaranteed by any current or future PRC subsidiaries or by certain other Non-Guarantor Subsidiaries. In addition, shares of our PRC subsidiaries will not be pledged for the benefit of the holders of the Notes. Our primary assets are loans to and ownership interests in our PRC subsidiaries, which are held through the Subsidiary Guarantors. The Subsidiary Guarantors do not have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors to satisfy their obligations under the Subsidiary Guarantees will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our subsidiaries. See "— Risks Relating to the PRC — Government control over currency conversion may limit our ability to utilize our cash effectively."

Creditors, including trade creditors of our PRC subsidiaries and any holders of preferred shares in such entities, would have a claim on such subsidiaries, assets that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of such subsidiaries, and all claims of creditors of our PRC subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of September 30, 2010, our PRC subsidiaries had indebtedness in the amount of RMB822.8 million (US$123.0 million) and capital commitments and contingent liabilities arising from guarantees of approximately RMB266.0 million (US$39.8 million) and nil, respectively. See "Description of Other Material Indebtedness." The Notes and the Indenture do not restrict the ability of our subsidiaries to issue certain categories of guarantee in the ordinary course of business. In addition, our secured creditors or those of any Subsidiary Guarantor would have priority as to our assets or the assets of such Subsidiary Guarantor securing the related obligations over claims of holders of the Notes.

We have substantial indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations.

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. As of December 31, 2007, 2008, 2009 and September 30, 2010, our total borrowings amounted to RMB336.2 million, RMB676.3 million, RMB1,648.9 million (US$246.5 million) and RMB941.3 million (US$140.7 million), respectively.

Our substantial indebtedness could have important consequences to you. For example, it could:

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

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. Although the Indenture governing the Notes restrict us and our Restricted Subsidiaries from incurring additional debt and contingent liabilities, these restrictions are subject to important exceptions and qualifications. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

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

In addition, the terms of the Indenture prohibits us from incurring additional indebtedness unless (i) we are able to satisfy certain financial ratios or (ii) we are able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratios requirements, and meet any other applicable restrictions. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios. Certain of our other financing arrangements also impose operating and financial restrictions on our business. See "Description of Other Material Indebtedness." Such restrictions in the Notes and our other financing arrangements may negatively affect our ability to react to changes in market conditions,

take advantage of business opportunities, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

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

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments of such subsidiaries. See "Description of Other Material Indebtedness." In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Notes. Further, certain loan agreements obtained by our PRC subsidiaries from PRC lender banks contain provisions that restrict or prohibit the payment or declaration of dividends or distributions. These restrictions could have a negative impact on the calculation of our EBITDA and could also reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the ability of the Subsidiary Guarantors to satisfy their obligations under the Subsidiary Guarantees. See "Description of Other Material Indebtedness."

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends by the board of directors. In addition, starting from January 1, 2008, dividends paid by our PRC subsidiaries to their non-PRC parent companies will be subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to a double tax treaty between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such withholding tax rate may be lowered to 5%. However, according to a Circular of the PRC State Administration of Taxation dated October 27, 2009, tax treaty benefits will be denied to "conduit" or shell companies without substantive business activities. As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Notes or satisfy our obligations under the Subsidiary Guarantees, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

Furthermore, in practice, the market interest rate that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholders' loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident, subject to approval by local tax authorities) withholding tax on our behalf on the interest paid under any shareholders' loans. PRC regulations require our non-PRC subsidiaries making shareholder loans in foreign currencies to our PRC subsidiaries to be registered with the SAFE. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with the SAFE, as well as any other documents that the SAFE or its local branch may require.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Notes or the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees.

We may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollar.

The Notes are denominated in U.S. dollars, while substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The PBOC announced its intention to proceed with the reform of the Renminbi exchange rate regime to increase the Chinese currency's exchange rate flexibility on June 19, 2010. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 23.7% from July 21, 2005 to September 30, 2010. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar denominated indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. In addition, following the offering of the Notes, we may enter into foreign exchange or interest rate hedging agreements in respect of our U.S. dollar-denominated liabilities under the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. The Initial Purchasers and their affiliates may enter into such hedging agreements permitted under the Indenture governing the Notes, and these agreements may be secured by pledges of our cash and other assets as permitted under the Indenture. If we were unable to provide such collateral, it could constitute a default under such agreements.

Any hedging obligation entered into or to be entered into by us or our subsidiaries, may contain terms and conditions that may result in the early termination, in whole or in part, of such hedging obligation upon the occurrence of certain termination or analogous events or conditions (howsoever described), including such events relating to us and/or any of our subsidiaries, and the terms and conditions of such hedging obligation(s) may provide that, in respect of any such early termination, limited or no payments may be due and payable to, or that certain payments may be due and payable by, us and/or any of our subsidiaries (as relevant) in respect of any such early termination. Any such early termination, in whole or in part, of any such hedging obligation(s), and the payment and any other consequences and effects of such early termination(s), may be material to our financial condition and/or any of our subsidiaries and may be material in relation to the performance of our or their respective obligations under or in relation to the Notes (if applicable), any indebtedness or any other present or future obligations and commitments.

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

Upon the occurrence of a change of control triggering event, the holder of each Note will have the option to require us to redeem all or some of the holder's Notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See "Description of the Notes."

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have enough available funds at the time of the occurrence of any change of control triggering event to make purchases of the outstanding Notes. Our failure to make the offer to purchase or to purchase the outstanding Notes would constitute an event of default under the Notes. The event of default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

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

Noteholders may be unable to enforce their rights under U.S. bankruptcy law.

We are incorporated under the laws of Jersey, and our principal assets are located in the PRC. Under federal bankruptcy law in the United States, courts typically have jurisdiction over a debtor's property, wherever located, including property situated in other countries. However, courts outside of the United States may not recognize the United States bankruptcy court's jurisdiction. Accordingly, difficulties may arise in administering a United States bankruptcy case involving a Jersey, British Virgin Islands or Hong Kong debtor with property located outside of the United States, and any orders or judgments of a bankruptcy court in the United States may not be enforceable outside of the United States.

The insolvency laws of Jersey and other local insolvency laws may differ from U.S. bankruptcy law or those of another jurisdiction with which holders of the Notes are familiar.

Because we are incorporated under the laws of Jersey, an insolvency proceeding relating to us, even if brought in the United States, would likely involve Jersey insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law. In addition, the Subsidiary Guarantors are incorporated in the British Virgin Islands or Hong Kong and the insolvency laws of the British Virgin Islands and Hong Kong may also differ from the laws of the United States or other jurisdictions with which the holders of the Notes are familiar.

We may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us and to repay shareholder loans. Our PRC subsidiaries must present certain documents to the SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain

and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with the SAFE). Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or 7% if the interest is paid to a Hong Kong resident, subject to approval by local tax authorities) withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on our existing shareholder loans, which may affect our ability to satisfy our obligations under the Notes.

If we are unable to comply with the restrictions and covenants in our debt agreements or the Indenture, there could be a default under the terms of these agreements or the Indenture, which could cause repayment of our debt to be accelerated.

If we are unable to comply with the restrictions and covenants in the Indenture governing the Notes, or our current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Indenture, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of debt, including the Notes, or result in a default under our other debt agreements, including the Indenture. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

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

The Indenture and other debt agreements include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on their capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of Restricted Subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

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

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

The Notes are a new issue of securities for which there is currently no trading market. Although approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST, we cannot assure you that we will obtain or be able to maintain a listing on the SGX-ST, or that, if listed, a liquid trading market will develop. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See "Transfer Restrictions." We cannot predict whether an active trading market for the Notes will develop or be sustained.

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

The Notes have been provisionally rated "BB-" by Standard and Poor's Rating Services, "BB" by Fitch Ratings and "Ba3" by Moody's Investor Service. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that the ratings will be confirmed or they will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

Certain transactions that constitute "connected transactions" under the Listing Rules will not be subject to the "Limitation on Transactions with Shareholders and Affiliates" covenant.

Our shares are listed on The Stock Exchange of Hong Kong Limited and we are required to comply with the Listing Rules, which provide, among other things, that any transaction between a listed company or any of its subsidiaries, on the one hand, and a "connected person" of such listed company, on the other hand, is a "connected transaction" that, if the value of such transaction exceeds the applicable de minimis thresholds, will require the prior approval of the independent shareholders of such listed company. The definition of "connected person" to a listed company includes, among others, any 10% or more shareholder of (i) such listed company or (ii) any subsidiary of such listed company. The concept of "connected person" also captures "associates," which include, among others, (a) any subsidiary of such "connected person," (b) any holding company of such "connected person" and any subsidiary of such holding company, and (c) any company in which such entity or entities mentioned in (a) and (b) above taken together has/have the power to exercise control, directly or indirectly, of 30% or more of the voting power of such company.

The “Limitation on Transactions with Shareholders and Affiliates” covenant in the Notes only applies to transactions between the Company or any Restricted Subsidiary, on the one hand, and (x) any holder (or any Affiliate of such holder) of 10% or more of the shares of the Company or (y) any Affiliate of the Company, on the other hand. As such, transactions between the Company or any Restricted Subsidiary, on the one hand, and an Affiliate of any Restricted Subsidiary, on the other hand, will not be captured by such covenant, even though they may be connected transactions under the Listing Rules and subject to any requirements under the Listing Rules to obtain approval from independent shareholders. As a result, we are not required by the terms of the Notes to ensure that any such transactions are on terms that are fair and reasonable, and we will not need to deliver officers’ certificates or procure the delivery of fairness opinions of accounting, appraisal or investment banking firms to the trustee of the Notes for any such transactions.

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

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions, interest rates, fluctuations in price for comparable companies and government regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. We cannot assure you that these developments will not occur in the future.

Certain facts and statistics are derived from publications not independently verified by us, the Initial Purchasers or our respective advisors.

Facts and statistics in this offering memorandum relating to China’s economy and the cement industry are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Initial Purchasers or our or their respective advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

We will follow the applicable corporate disclosure standards for debt securities listed on the SGX- ST, which standards may be different from those applicable to debt securities listed in certain other countries.

We will be subject to reporting obligations in respect of the Notes to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST may be different than those imposed by securities exchanges in other countries or regions such as the United States or Hong Kong. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

RISKS RELATING TO THE SUBSIDIARY GUARANTEES AND THE COLLATERAL

Our initial Subsidiary Guarantors do not currently have significant operations.

None of our current PRC subsidiaries will provide a Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries. Moreover, the Collateral will not include the capital stock of our existing or future PRC subsidiaries.

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

Security over the Collateral will not be granted directly to the holders of the Notes, and the Collateral will generally be shared with creditors under certain other financings.

Security over the Collateral for the obligations of the Company under the Notes and the Indenture will not be granted directly to the holders of the Notes but will be granted only in favor of the Collateral Agent on behalf of the Trustee. As a consequence, holders of the Notes will not have direct security and will not be entitled to take enforcement action in respect of the security for the Notes, except through the Collateral Agent, which has agreed to apply any proceeds of enforcement on such security towards such obligations.

The Indenture also permits us to enter into certain future financings, and creditors under those future financings may share the Collateral *pari passu* with the holders of the Notes. See "Description of the Notes — Security — Permitted Pari Passu Secured Indebtedness" for a further discussion of the sharing of the Collateral with future financings. If creditors under future financings opt to share the Collateral under the Intercreditor Agreement, a smaller portion of the proceeds from the Collateral will be available to satisfy the claims of the holders of the Notes, which could have a material adverse effect on their ability to recover sufficient proceeds to satisfy their claims under the Notes.

Any Intercreditor Agreement entered into pursuant to the Indenture may limit the rights of the holders of the Notes to enforce the Collateral

The Indenture contemplates entry into an Intercreditor Agreement by the Company, the Subsidiary Guarantor Pledgors, the Collateral Agent, the Trustee and holders (or their representative or agent) of any Permitted *Pari Passu* Secured Indebtedness upon the incurrence of any Permitted *Pari Passu* Secured Indebtedness after the Notes are issued. The ability of holders of the Notes to enforce the Collateral will be restricted under the Intercreditor Agreement, as only the Collateral Agent will be permitted to take enforcement actions. If an event of default occurs under the Notes, the holders of the Notes holding 25% of the outstanding amount of the Notes and holders (or their representative or agent) of any Permitted Pari Passu Secured Indebtedness must decide whether to take any enforcement action and thereafter, may instruct the Collateral Agent to take such enforcement action. Enforcement actions may be taken in respect of the Collateral that may be adverse to you. In the event that there is any disagreement or conflict among instructions from the secured parties, the instruction from holders of a majority of the outstanding principal amount of indebtedness secured by the Collateral will prevail or if no such instruction is given to the Collateral Agent, the Collateral Agent may in its discretion refuse to take any action, either of which may be inconsistent with the instruction from the Trustee or in your interest. In such event, the only remedy available to holders of the Notes would be to sue for payment on the Notes, the Subsidiary Guarantees and the Collateral. For a description on the Intercreditor Agreement, see "Description of the Notes — Security — Intercreditor Agreement."

The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees.

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

For Subsidiary Guarantors incorporated in the British Virgin Islands:

- incurred the debt with the intent to defraud creditors (whenever the transaction took place and irrespective of insolvency);
- either (i) put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given or (ii) received no consideration, or received consideration in money or money's worth that is significantly less than the consideration supplied by the guarantor (although in either case a guarantee will only be voidable if it (i) was entered into at a time when the guarantor was insolvent or if it became insolvent as a consequence of doing so, insolvent in this context meaning that the guarantor is unable to pay its debts as they fall due, and (ii) it was given within the six month, or, if the guarantee and beneficiary are connected entities, two year, period preceding the commencement of liquidation).

For Subsidiary Guarantors incorporated in other jurisdictions:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;
- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the jurisdiction which are being applied. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debt as it became absolute and matured. We cannot assure you that such limitation will be effective in preserving the enforceability of any of the Subsidiary Guarantees. In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the

guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration, and, as a result, such guarantee would be rendered void.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voided a Subsidiary Guarantee, subordinated such guarantee to other indebtedness of the Subsidiary Guarantor, or held the Subsidiary Guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor, and would solely be creditors of us and any Subsidiary Guarantor whose guarantee was not voided or held unenforceable. We cannot assure you that, in such an event, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

The pledge of certain Collateral may in some circumstances be voidable.

The pledge of the Collateral may be voidable as a preference under insolvency or fraudulent transfer or similar laws of Hong Kong, Jersey and the British Virgin Islands at any time within six months of the creation of the pledge or, under some circumstances, within a longer period. Pledges of shares of future Subsidiary Guarantors may also be voidable as a preference under relevant insolvency or fraudulent transfer or similar laws. In addition, the pledge of certain Collateral may be voided based on the analysis set forth under "— The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees."

If the pledges of the Collateral were to be voided for any reason, holders of the Notes would have only an unsecured claim against us.

The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes and other pari passu secured indebtedness.

The Collateral will consist only of the shares of the initial Subsidiary Guarantors. The security interest in respect of certain Collateral may be released upon the disposition of such Collateral and any proceeds from such disposition may be applied, prior to repaying any amounts due under the Notes, to repay other debt or to make investments in properties and assets that will not be pledged as additional Collateral.

The ability of the Collateral Agent, on behalf of the Trustee, to foreclose on the Collateral upon the occurrence of an Event of Default or otherwise, will be subject in certain instances to perfection and priority issues. Although procedures will be undertaken to support the validity and enforceability of the security interests, we cannot assure you that the Collateral Agent, the Trustee or holders of the Notes will be able to enforce the security interest.

The value of the Collateral in the event of a liquidation will depend upon market and economic conditions, the availability of buyers and similar factors. No independent appraisals of any of the Collateral have been prepared by or on behalf of us in connection with this offering of the Notes. Accordingly, we cannot assure you that the proceeds of any sale of the Collateral following an acceleration of the Notes would be sufficient to satisfy, or would not be substantially

less than, amounts due and payable on the Notes. By their nature, some or all of the Collateral, in particular, the shares of the existing or any future Subsidiary Guarantors may be illiquid and may have no readily ascertainable market value. Likewise, we cannot assure you that the Collateral will be saleable or, if saleable, that there will not be substantial delays in its liquidation.

The Collateral will be shared on a pari passu basis by the holders of the Notes and any other creditors with respect to Permitted Pari Passu Secured Indebtedness. Accordingly, in the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of secured indebtedness. The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the Company's and each of the Subsidiary Guarantor Pledgors' obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Notes and such Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes or additional Permitted Pari Passu Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, will be approximately US$388.2 million, which we presently plan to use as follows:

- approximately US$261.0 million to expand our production capacity through construction of additional production lines at our existing production facilities or acquisitions of other production facilities if and when opportunities that we consider appropriate arise, including construction of a production line at our Danfeng county production facility;
- approximately US$85.9 million to repay the ICBC Bridge Loan. See "Description of Other Material Indebtedness;"
- approximately RMB264.0 million (US$39.5 million) to repay the Credit Suisse Syndicated Loan; and
- the remaining balance for general corporate purposes to enhance our liquidity position.

We may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds. Pending application of the net proceeds of this offering, we intend to invest such net proceeds in "Temporary Cash Investments" as defined under "Description of the Notes."

EXCHANGE RATE INFORMATION

CHINA

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by the PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. On May 18, 2007, the PBOC enlarged, the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. From July 21, 2005 to September 30, 2010, the value of the Renminbi appreciated by approximately 23.7% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. On June 19, 2010, the PBOC instituted reform measures to increase the Renminbi exchange rate flexibility. The PBOC authorized the China Foreign Exchange Trading Centre, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi on each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over-the-counter exchange rate for the business day.

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

	Noon buying rate			
Period	**Period end**	**Average[(1)]**	**High**	**Low**
	(RMB per US$1.00)			
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2010				
July	6.7735	6.7760	6.7807	6.7709
August	6.8069	6.7873	6.8069	6.7670
September	6.6905	6.7425	6.8102	6.6869
October	6.6705	6.6677	6.6912	6.6397
November	6.6670	6.6536	6.6906	6.6233
December	6.6000	6.6473	6.6745	6.6000
2011 (through January 7)	6.6276	6.6069	6.6260	6.5850

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for average rates for periods in 2010, which are determined by averaging the daily rates during the respective periods.

On January 7, 2011, the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi was US$1.00 = RMB6.6276 as certified for customs purposes by the Federal Reserve Bank of New York.

HONG KONG

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China (the "Basic Law"), which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. However, no assurance can be given that the Hong Kong government will maintain the link at HK$7.80 to US$1.00 or at all.

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

	Noon buying rate			
Period	**Period end**	**Average**[(1)]	**High**	**Low**
	(HK$ per US$1.00)			
2005	7.7533	7.7755	7.7999	7.7514
2006	7.7771	7.7685	7.7928	7.7506
2007	7.7984	7.8008	7.8289	7.7497
2008	7.7499	7.7814	7.8159	7.7497
2009	7.7536	7.7513	7.7618	7.7495
2010				
July	7.7672	7.7763	7.7962	7.7651
August	7.7781	7.7702	7.7788	7.7605
September	7.7599	7.7646	7.7738	7.7561
October	7.7513	7.7579	7.7642	7.7513
November	7.7649	7.7550	7.7656	7.7506
December	7.7810	7.7741	7.7733	7.7612
2011 (through January 7)	7.7714	7.7706	7.7735	7.7683

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for average rates for periods in 2011, which are determined by averaging the daily rates during the respective periods.

On January 7, 2011, the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars was US$1.00 = HK$7.7714 as certified for customs purposes by the Federal Reserve Bank of New York.

CAPITALIZATION

The following table sets forth our capitalization and indebtedness as of September 30, 2010 on an actual basis and on an adjusted basis after giving effect to the issuance of the Notes in this offering with estimated net proceeds of US$388.2 million, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering. The following table should be read in conjunction with our consolidated financial information and related notes included in this offering memorandum.

	As of September 30, 2010			
	Actual		As Adjusted	
	RMB	US$	RMB	US$
	(in thousands)			
Current Borrowings:				
Bank borrowings	725,764	108,477	725,764	108,477
Non-current borrowings:				
Notes to be issued[(1)]	—	—	2,597,252	388,200
Other borrowings	24,000	3,587	24,000	3,587
Bank borrowings	191,532	28,627	191,532	28,627
Total equity attributable to our equity holders	3,167,255	473,396	3,167,255	473,396
Total capitalization[(2)(3)]	3,382,787	505,610	5,980,039	893,810

(1) According to the Group's policy, the Notes to be issued will be recognized initially at fair value net of transaction costs incurred. The Notes will be subsequently stated at amortized cost using effective interest rate method. For the purposes of this capitalization table, estimated net proceeds of US$388.2 million have been used.

(2) Total Capitalization does not include our acquisition of Jianghua Yaobai on December 31, 2010.

(3) Total capitalization equals non-current borrowings plus equity attributable to our equity holders.

Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our capitalization since September 30, 2010.

SELECTED CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial information for the years ended December 31, 2007, 2008 and 2009 has been derived from our Accountant's Report as set forth in Appendix I to the prospectus dated August 10, 2010 for our IPO. The summary consolidated financial information for the nine month periods ended September 30, 2009 and 2010 has been derived from our unaudited financial information included elsewhere in this offering memorandum. The unaudited consolidated financial information as of and for the nine month period ended September 30, 2010 contains adjustments that our management believes are necessary for the fair presentation of such information. Results for interim periods are not indicative of results for the full year. Our consolidated financial information have been prepared in accordance with IFRS.

Selected Consolidated Statements of Comprehensive Income

	For the year ended December 31,				**For the nine months ended September 30,**		
	2007	**2008**	**2009**	**2009**	**2009**	**2010**	**2010**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(US$'000)**	**(RMB'000)**	**(RMB'000)**	**(US$'000)**
					(unaudited)		
Revenue	525,929	866,126	1,516,766	226,704	1,063,637	2,017,666	301,572
Cost of sales	(350,165)	(556,073)	(878,087)	(131,244)	(620,393)	(1,211,051)	181,011
Gross profit	175,764	310,053	638,679	95,461	443,244	806,615	120,561
Selling and marketing expenses	(9,796)	(12,018)	(15,064)	(2,252)	(11,189)	(18,854)	(2,818)
Administrative expenses	(29,038)	(55,224)	(77,846)	(11,635)	(43,298)	(129,953)	(19,424)
Other income[1]	35,708	40,617	71,526	10,691	38,775	80,033	11,962
Other gains/(losses) — net	2,273	(184)	(1,057)	(158)	(662)	711	106
Operating profit	174,911	283,244	616,238	92,106	426,870	738,552	110,388
Finance income	1,572	2,600	1,190	178	619	259	143
Finance costs							
— loss on redemption of warrants	—	—	(168,451)	(25,178)	—	—	—
— other finance costs	(26,210)	(28,115)	(73,830)	(11,035)	(193,743)	(89,372)	(13,358)
Finance costs — net	(24,638)	(25,515)	(241,091)	(36,035)	(193,124)	(89,113)	(13,319)
Profit before income tax	150,273	257,729	375,147	56,072	233,746	649,439	97,069
Income tax expense	—	(11,566)	(44,687)	(6,679)	(33,949)	(92,470)	(13,821)
Profit for the year/period	150,273	246,163	330,460	49,392	199,797	556,969	83,248
Attributable to:							
Shareholders of our Company	150,273	246,163	330,460	49,392	199,797	551,572	82,441
Non-controlling interests	—	—	—	—	—	5,397	807
	150,273	246,163	330,460	49,392	199,797	556,969	83,248
Basic earnings per share RMB/share[2][3]	0.05	0.08	0.10	0.02	0.06	0.15	0.02
Diluted earnings per share RMB/share[2][4]	0.05	0.08	0.10	0.02	0.06	0.15	0.02
Other Financial Data							
EBITDA[5]	219,768	347,627	719,341	107,517	500,395	884,332	132,177
EBITDA margin[6]	42%	40%	47%	47%	47%	44%	44%
EBITDA/Gross interest expense[7]	8.22	5.13	6.28	—	—	—	—
Total debt/EBITDA	1.53	2.04	2.29	—	—	—	—
Last 12 months Financial Ratios (for the 12 months ended September 30, 2010)							
EBITDA/Gross interest expense[8][9]						7.84	—
Total debt/EBITDA[8]						0.85	—

Notes:

(1) Our other income primarily includes VAT refunds we received from the PRC government for sales of certain types of cement that use industrial by-products, industrial waste and construction waste.

(2) Each ordinary share of GBP0.1 of the Company has been subdivided into 50 ordinary shares of GBP0.002 each, effective on August 23, 2010. The information on the basic and diluted earnings per share for profit attributable to the shareholders of our Company for the years ended December 31, 2007, 2008 and 2009 as set forth in the Accountant's Report was calculated based on the share numbers prior to the share subdivision. For the purpose of comparison of the earnings per share information after the share subdivision, the earnings per share information is now presented as if the share subdivision had taken place and became effective from January 1, 2007 and recalculated based on the new number of shares after the share subdivision.

(3) Basic earnings per share is calculated by dividing the profit attributable to shareholders of our Company by the weighted average number of ordinary shares in issue during the three years ended December 31, 2009 and the nine months ended September 30, 2010 — and taking into account the effect of share subdivision.

(4) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and taking into account the effect of share subdivision. Our Company had share options as well as warrants. For the share options and warrants, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and warrants.

(5) We calculate EBITDA by adding depreciation and amortization expenses to operating profit. 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 attributable to shareholders or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, net finance costs and depreciation and amortization. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as turnover and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash 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 the EBITDA as presented herein 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.

(6) EBITDA margin is calculated by dividing EBITDA by revenue.

(7) 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.

(8) The last 12 months EBITDA of the 12 months ended September 30, 2010 is calculated by subtracting the EBITDA for the nine months ended September 30, 2009 from the full year EBITDA for 2009 and adding the EBITDA for the nine months ended September 30, 2010.

(9) The last 12 months gross interest expense for the 12 months ended September 30, 2010 is calculated by subtracting the gross interest expense for the nine months ended September 30, 2009 from the full year gross interest expense for 2009 and adding the gross interest expense for the nine months ended September 30, 2010.

Summary Consolidated Balance Sheet Information

	As of December 31,				As of September 30,	
	2007	2008	2009	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)	(RMB'000) (unaudited)	(US$'000)
ASSETS						
Non-current assets						
Property, plant and equipment	961,507	1,540,533	2,611,502	390,330	3,684,075	550,643
Land use rights	17,806	76,521	124,571	18,619	177,405	26,516
Mining rights	25,500	27,907	46,373	6,931	55,495	8,295
Other intangible assets	—	—	65,104	9,731	63,502	9,491
Deferred income tax assets	12,364	798	13,540	2,024	22,083	3,301
	1,017,177	1,645,759	2,861,090	427,635	4,002,560	598,245
Current assets						
Inventories	45,653	81,507	128,979	19,278	180,350	26,956
Trade and other receivables and prepayments	101,454	125,770	317,670	47,481	452,033	67,563
Cash and cash equivalents	29,997	37,038	346,258	51,754	374,222	55,933
Restricted cash	24,336	35,999	19,582	2,927	16,161	2,416
	201,440	280,314	812,489	121,439	1,022,766	152,868
Total assets	1,218,617	1,926,073	3,673,579	549,074	5,025,326	751,114
EQUITY						
Capital and reserves attributable to equity holders of our Company						
Share capital	96,811	96,811	97,623	14,591	118,850	17,764
Share premium	662,636	662,636	672,775	100,557	2,001,917	299,218
Share options reserve	5,228	6,708	5,439	813	528	79
Reverse acquisition reserve	(341,304)	(341,304)	(341,304)	(51,013)	(341,304)	51,013
Statutory reserve	36,420	63,163	118,140	17,658	118,140	17,658
Retained earnings	222,650	442,070	717,553	107,250	1,269,124	189,690
	682,441	930,084	1,270,226	189,855	3,167,255	473,396
Non-controlling interests	—	—	25,000	3,737	30,397	4,543
Total equity	682,441	930,084	1,295,226	193,592	3,197,652	477,939
LIABILITIES						
Non-current liabilities						
Borrowings	63,800	407,069	360,058	53,816	215,532	32,215
Warrants classified as liabilities	—	32,908	—	—	—	—
Provisions for other liabilities and charges	—	—	6,265	936	8,325	1,244
Deferred income tax liabilities	—	—	8,079	1,208	14,532	2,172
Other liabilities	13,487	17,317	117,049	17,495	83,717	12,513
	77,287	457,294	491,451	73,455	322,106	48,144
Current liabilities						
Trade and other payables	186,536	269,511	559,395	83,610	724,237	108,249
Current income tax liabilities	—	—	38,639	5,775	55,567	8,305
Borrowings	272,353	269,184	1,288,868	192,642	725,764	108,477
	458,889	538,695	1,886,902	282,027	1,505,568	225,031
Total liabilities	536,176	995,989	2,378,353	355,482	1,827,674	273,175
Total equity and liabilities	1,218,617	1,926,073	3,673,579	549,074	5,025,326	751,114
Net current liabilities	(257,449)	(258,381)	(1,074,413)	(160,588)	(482,802)	(72,162)
Total assets less current liabilities	759,728	1,387,378	1,786,677	267,047	3,519,758	526,083

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

The following discussion should be read in conjunction with "Selected Consolidated Financial and Other Data" and our consolidated financial information, including the notes thereto, included elsewhere in this offering memorandum. All significant intra-group transactions, balances and unrealized gains on intra-group transactions have been eliminated.

Our historical results do not necessarily indicate our performance for any future periods. The discussion and analysis of our financial condition and results of operations contain forward-looking statements that involve risks and uncertainties. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this offering memorandum.

OVERVIEW

We are a leading cement producer in Shaanxi province in China as measured by production capacity in 2009, according to Digital Cement Net, a website operated by the China Cement Association. We produce and sell a variety of cement products to customers in Shaanxi province under the trademarks "堯柏" (Yao Bai) and "堯柏水泥" (Yaobaishuini). We derive all of our revenue from sales of our cement products.

As of the September 30, 2010, we had nine cement production lines located in Shaanxi province, with a total annual production capacity of 11.4 million tons. For the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our sales volume of cement was approximately 2.4 million, 3.4 million, 5.1 million and 6.7 million tons, respectively. The average selling price per ton of our cement sold was approximately RMB219, RMB251, RMB299 and RMB298, respectively, during the same periods.

In September 2010, we completed the second production line at our Pucheng production facility, with a total annual production capacity of 1.1 million tons, and installed a new cement grinding mill at our Lantian production facility, which to increased our annual production capacity by its designed capacity of 0.7 million tons. We are also constructing a new production line in Xixiang county, with a total annual production capacity of 1.1 million tons, which is scheduled to be completed during the first quarter of 2011. This additional production facility, combined with our acquisition of Jianghua Yaobai, is expected to increase our total annual production capacity to 13.6 million tons upon its completion by February 2011. We intend to further increase our production capacity through acquisitions.

We achieved significant growth in revenue, operating profit and net profit during the three years ended December 31, 2009. Our revenue increased from approximately RMB525.9 million for the year ended December 31, 2007 to approximately RMB866.1 million for the year ended December 31, 2008 and to approximately RMB1,516.8 million (US$226.7 million) for the year ended December 31, 2009, representing a CAGR of 69.8%. Our profit attributable to shareholders of the Company increased from approximately RMB150.3 million for the year ended December 31, 2007 to approximately RMB246.2 million for the year ended December 31, 2008 and to approximately RMB330.5 million (US$49.4 million) for the year ended December 31, 2009, representing a CAGR of 48.3%. Our revenue, and profit attributable to shareholders of the Company for the nine months ended September 30, 2010 were approximately RMB2,017.7 million (US$301.6) million and RMB551.6 million (US$82.4 million), respectively, representing growth rates of 89.7% and 176.1%, respectively, from the same period in 2009.

SIGNIFICANT FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

Growth in the Construction Industry in Shaanxi Province, particularly in Government Infrastructure Projects

We have derived all of our revenue from sales in Shaanxi province. Economic trends in Shaanxi province have a significant impact on all aspects of our operations, including the demand for and pricing of our products, the availability and costs of raw materials, costs of energy supply, labor costs and other operating expenses. Demand for our cement products is particularly sensitive to the level of construction activities in Shaanxi province. For 2009, Shaanxi province's FAI increased by approximately 35.1% compared with 2008. The growth of FAI led to a significant increase in the demand for construction materials, including cement. We believe the growth of the construction industry in Shaanxi province will continue to have a significant impact on our results of operations.

The PRC government from time to time issues new industry policies to adjust the level of investment in infrastructure projects and real estate development through economic and administrative means. These policies could have a significant impact on our business. The PRC government made a commitment in its Eleventh Five-Year Plan to build major infrastructure and development projects between 2006 and 2010, which has increased FAI in Shaanxi province and, as a result, the demand for our cement products.

In 2008, the PRC government introduced measures to address the effects of the global economic downturn, including a RMB4 trillion stimulus plan to stimulate the PRC economy through development of infrastructure, tax breaks and other incentives for home buyers. 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 high grade cement, which benefits us and other large cement manufacturers.

In June 2009, the State Council of the PRC approved the *Guanzhong-Tianshui Economic Zone Development Plan* (關中—天水經濟區發展規劃). Under this plan, a significant number of large-scale infrastructure projects, such as highways, railways, power plants and industrial parks, will be constructed within or near our core markets in southern Shaanxi province between 2009 and 2020. As we are in a leading position in our core markets, our business will benefit directly from the infrastructure projects to be constructed near our production facilities.

Production Capacity

Our results of operations depend on our ability to fulfill customer orders, which in turn depends in part on our production capacity. Our annual cement production capacity increased from 1.4 million tons as of January 1, 2007 to 11.4 million tons as of September 30, 2010. In connection with our expansion, we incurred approximately RMB359.1 million, RMB669.1 million, RMB629.3 million (US$94.1 million) and RMB1,340.1 million (US$200.3 million) in capital expenditures, as represented by the cash used for the purchase of property, plant and equipment, land use right, mining rights and other intangible assets, for the construction of new production lines for the years ended December 31, 2007, 2008 and 2009 and for the nine months ended September 30, 2010. We have also expanded our production capacity through acquisitions since 2009. We incurred approximately RMB120.9 million (US$18.1 million) in 2009 relating to our acquisition of Xiushan Yaobai. Partly due to the increase in our production capacity, our revenue grew by approximately 64.7% between 2007 and 2008 and by approximately 75.1% between 2008 and 2009. We believe that demand for our products will continue to increase and we intend to further increase our annual production capacity. As a result, we anticipate that we will incur further capital expenditures, which we intend to finance using cash generated from our operations, bank borrowings and the net proceeds of the offering of the Notes.

Pricing

The prices of our products are primarily affected by the supply of, and demand for, cement in the regions where we operate. The average selling prices of our cement were approximately RMB219, RMB251, RMB299 and RMB298 per ton in 2007, 2008, 2009 and the first nine months of 2010, respectively. In 2008 and 2009, we increased prices of our cement products because demand grew as a result of increased building and construction activities and as a result, we were able to pass on a portion of our increased cost of sales to our customers through higher average selling prices.

The average selling price of our cement is subject to seasonal fluctuations. Periodically during the winter, many construction projects are suspended due to cold weather or the Chinese New Year holidays, which are typically during January or February. We generally offer our cement products at discounted prices in the winter season in order to attract customers and to maintain our market share. Prices of our cement products typically increase as demand rises after winter and the Chinese New Year holidays are over.

Our centralized sales department in Xi'an reviews our pricing strategy regularly and makes adjustments to our product prices when appropriate based on various factors, including raw material costs, coal and electricity price, market demand, our production capacity, transportation costs, inventory levels, competitors' prices and credit terms.

Product Mix

Our results of operations are affected by our product mix. We sell different grades of cement with various physical characteristics at different selling prices. To fully utilize our clinker production capacity, we also sold small amounts of clinker during the three years ended December 31, 2009 and the nine months ended September 30, 2010 when we had surplus clinker in our cement production.

The average selling price of our high grade cement is higher than the average selling price of our low grade cement. Our high grade cement was sold at an average price of approximately RMB239, RMB280, RMB311 and RMB311 per ton in 2007, 2008 and 2009 and the first nine months of 2010, respectively, while our low grade cement was sold at an average price of approximately RMB211, RMB227, RMB268 and RMB265 per ton in 2007, 2008 and 2009 and the first nine months of 2010, respectively.

As high grade cement has higher strength, it has been primarily used in government infrastructure projects while the low grade cement has been primarily used in various rural residential construction projects. As a result of the increasing investment in government infrastructure projects in Shaanxi province, our revenue contributed by sales of high grade cement increased substantially during the three years ended December 31, 2009 and the nine months ended September 30, 2010. We sold approximately 0.7 million tons, 1.6 million tons, 3.7 million tons and 4.7 million tons of high grade cement in 2007, 2008, 2009 and the first nine months of 2010, respectively, which represented 28.6%, 45.9%, 72.5% and 69.3% of our total sales volume and contributed to 31.2%, 51.2%, 75.4% and 73.1% of our total revenue for the relevant periods.

Costs of Coal and Electricity

The results of our operations are significantly affected by the costs of coal and electricity. The cost of coal is one of the largest components of our cost of sales, representing approximately 21.4%, 36.0%, 31.2% and 33.1% of our total cost of sales for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. Fluctuations in the price of coal have a direct impact on our results of operations. We experienced significant increases in the price of coal in 2008 due to a surge in coal demand and a supply shortage of coal in the market. In 2009, the price of coal declined compared to 2008 due to reduced demand as a result of the global financial crisis. In the first nine months of 2010, the price of coal increased due to the recovery of the Chinese economy. Additionally, our average purchase price of coal per ton increased in the nine months ended September 30, 2010 compared with the same period in 2009 because we added our Zhen'an, Danfeng and Yangxian production lines in the second half of 2009. Those production lines are located farther away from coal mines than our other production lines and, as a result, their average cost of coal is higher due to higher transportation costs. Our average purchase prices of coal per ton were approximately RMB290, RMB492, RMB434, RMB462 and RMB561 in 2007, 2008 and 2009 and the first nine months of 2009 and 2010, respectively.

Our operations also require a significant amount of electricity. The cost of electricity represented approximately 24.8%, 22.0%, 20.7% and 19.0% of our total cost of sales for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. We experienced increases in electricity prices in recent years. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our average electricity purchase price per KWh was RMB0.40, RMB0.40, RMB0.43 and RMB0.45, respectively. In November 2009, the Shaanxi Electric Power Company increased the price per KWh by RMB0.0367. We had installed residual heat recovery systems in three of our nine production lines as of September 30, 2010 and have achieved energy cost savings. We plan to install residual heat recovery systems in all our production lines in the future.

Any significant increase in the prices of coal or electricity could have a significant impact on our costs of sales, which in turn could have a material adverse effect on our business, financial condition and results of operations if we are unable to pass on some or all of such increased costs in the form of higher prices to our customers.

New Production Facilities

Our revenue, cost of sales, gross profit margin and our inventories during the three years ended December 31, 2009 and nine months ended September 30, 2010 were affected by additions of production facilities. The table below sets forth the revenue, gross profit and gross profit margin of our existing and newly-added production facilities for each of the periods indicated. Existing production facility(ies) represents those production facilities that had already commenced sales as of the first day of the year or period indicated and new production facility(ies) represents those production facilities that commenced sales during the year or period indicated.

	For the year ended December 31,				For the nine months ended September 30,	
	2007(1)	2008	2009(2)	2009	2010(3)	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)	(RMB'000)	(US$'000)
Revenue generated by:						
existing production facility(ies)	308,707	866,126	1,035,071	154,708	1,590,666	237,750
new production facility(ies)	217,222	—	481,695	71,997	427,000	63,822
Total	525,929	866,126	1,516,766	226,704	2,017,666	301,572
Gross profit contributed by:						
existing production facility(ies)	100,538	310,053	496,735	74,245	665,215	99,427
new production facility(ies)	75,227	—	141,944	21,216	141,400	21,134
Total	175,764	310,053	638,679	95,461	806,615	120,561
Gross profit margin for:						
existing production facility(ies)	32.6%	35.8%	48.0%	48.0%	41.8%	41.8%
new production facility(ies)	34.6%	—	29.5%	29.5%	33.1%	33.1%
Overall gross profit margin	33.4%	35.8%	42.1%	42.1%	40.0%	40.0%

Notes:

(1) New production facility for year ended December 31, 2007 represents the Lantian production facility.

(2) New production facilities for year ended December 31, 2009 represent the Xunyang production facility and the Zhen'an production facility.

(3) New production facilities for the nine months ended September 30, 2010 represent the Yangxian production facility, the Danfeng production facility, the Mianxian production facility and Line 2 at the Pucheng production facility.

In 2007, the Lantian production facility commenced operations, contributing approximately RMB217.2 million to our revenue and approximately RMB75.2 million to our gross profit. The gross profit margin for this new production facility was approximately 34.6% in 2007, which was slightly higher than that for our then existing production facility in Pucheng, resulting in a slightly higher overall gross profit margin for us. Our Lantian production facility serves the Xi'an area, where selling prices for cement are usually higher than in the target markets of our Pucheng production facility.

In 2009, our newly added Xunyang and Zhen'an production facilities contributed approximately RMB481.7 million (US$72.0 million) to our revenue and approximately RMB141.9 million (US$21.2 million) to our gross profit. The gross profit margins of these two production facilities were lower than those of our then-existing facilities primarily because we purchased limestone for production at our Xunyang production facility between January and November 2009, during which time the 7-km limestone conveyor belt was still under construction, at prices that

were higher than the market prices of our other facilities. In addition, the production line at our Zhen'an production facility has a higher rate of energy consumption because it does not have a residual heat recovery system, which resulted in the lower gross profit margin. We intend to improve the production efficiency at our Zhen'an production facility by upgrading its production line.

For the nine months ended September 30, 2010, our newly added Yangxian, Danfeng and Mianxian production facilities and the new production line at our Pucheng production facility and cement grinding mill at our Lantian production facility contributed approximately RMB427.0 million (US$63.8 million) to our revenue and approximately RMB141.4 million (US$21.1 million) to our gross profit. The gross profit margin of the new production facilities was approximately 33.1% in the first nine months of 2010, lower than that of our existing production facilities. This was primarily due to the lower gross profit margin of the Danfeng production facility as the market where its cement products are sold typically has lower average selling prices than the markets of our other production facilities because it is located in a mountainous area where demand and market prices of cement products are more susceptible to winter. As the Danfeng production facility was neither constructed nor managed by us before we acquired it, it is currently less cost efficient than our other production facilities.

Utilization rates for our production lines as of September 30, 2010 are set forth in the table below.

Production Line	Utilization Rate as of September 30, 2010
Pucheng	
Line 1	100.0%
Line 2 [1]	43.6%
Lantian	100.0%
Xunyang	97.3%
Yangxian	100.0%
Mianxian [2]	32.7%
Xixiang [3]	—
Danfeng	83.6%
Zhen'an	81.8%

Notes:

(1) Construction of the second production line at Pucheng was completed in August 2010.

(2) Construction of the production line at Mianxian was completed in July 2010.

(3) No utilization rate was available for our Xixiang production facility as it was under construction as of September 30, 2010 and is expected to be completed in the first quarter of 2011.

Our new production facilities increased our working capital requirements primarily in the form of inventories. The addition of new production facilities in 2007, 2009 and the first nine months of 2010 resulted in the increase of our inventories by approximately RMB18.0 million, RMB42.9 million (US$6.4 million) and RMB47.4 million (US$7.1 million), respectively, which constituted the main portion of the working capital related to the new production facilities.

PRC Government Incentives

Our net profit is affected by the tax refunds, tax exemptions, financial subsidies and preferential tax treatments that we enjoy. We are entitled to VAT refunds for cement products that use a certain percentage of recycled materials as raw materials, such as slag and flyash. As enterprises located in western China, our PRC subsidiaries enjoy a preferential enterprise income tax rate of 15% under the Western Development Plan, compared with the regular national enterprise income tax rate of 25%. The Western Development Plan was due to expire at the end of 2010, and as of the date of this offering memorandum, the relevant government authorities have not yet announced whether it will be renewed upon expiration. As a wholly foreign owned enterprise, Lantian Yaobai is entitled to a two-year exemption from the PRC enterprise income tax from its first profitable year on a cumulative basis, and a 50% reduction of its applicable enterprise income tax rate for the succeeding three years. Lantian Yaobai is currently in the 50%-reduction three-year period, which will end in 2011 and will not be renewed pursuant to the PRC Enterprise Income Tax Law that came into effect on January 1, 2008. This preferential tax treatment was previously enjoyed by Shaanxi Yaobai and expired in 2010. Loss of any of these government incentives would adversely affect our profitability and financial condition.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our consolidated financial information 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. We base our estimates on our own historical experience and on various other factors that we believe to be relevant under the circumstances. These estimates and assumptions are periodically re-evaluated by our management and are based on historical 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 information as their application places the most significant demands on our management's judgment.

Revenue Recognition

Our revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of our activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group. We recognize revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of our activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. We make this estimate based on our historical results, taking into account the type of customer, the type of transaction and the specifics of each arrangement.

We produce and sell cement products to government infrastructure projects, ready-mixed concrete stations, distributors and others in Shaanxi Province of the PRC. Sales of goods are recognized when we have delivered the products and transferred the significant risks and rewards of ownership of the products to the customers, when there is no unfulfilled obligation that could affect the customers' acceptance of the products and collectability of the related receivables is reasonably assured. Accordingly, our revenue for sales to government infrastructure projects,

ready-mixed concrete stations, distributors and others are recognized when we deliver those products to the purchasers. In case where we arrange third party to transport the products to the delivery site, we still retain the risks and rewards of ownership of the products until they are delivered to the purchasers.

Property, Plant and Equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and provision for any impairment in value. Historical cost includes its purchase price and any other expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the consolidated statements of comprehensive income during the period in which they are incurred.

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

Property and plant	20 years
Motor vehicles	8 years
Electronic and other equipment	5 years
Machinery	12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains/(losses) — net", in the consolidated statements of comprehensive income.

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

(a) ***Stripping costs***

Stripping costs incurred during the development of a limestone mine are capitalized into property, plant and equipment. Stripping costs incurred during the production phase are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred. Capitalized stripping costs are depleted on a unit-of production basis, using estimated resources as the depletion base.

(b) ***Decommissioning, restoration and similar liabilities***

Our Company recognizes provision for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and mineral assets under property, plant and equipment, when those obligations result from the acquisition, construction, or normal operation of the assets. Initially, a provision for an asset retirement obligation is recognized at its present value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

According to the new regulation issued in 2009 by the Ministry of Land and Resources of the People's Republic of China, the owner of a mine should undertake the obligation of environmental restoration. A provision is recognized at the present value of costs to be incurred for the restoration of our limestone mines based on the best estimate of future expenditure by our management. However, the local Land and Resource Bureau has not issued specific rules for the restoration standard. If the restoration standard is released in the future, the estimate of restoration costs may be subject to revision. The amounts provided in relation to restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time, and the provisions are updated accordingly.

Borrowings

We initially recognize borrowings at fair value, net of transaction costs. Borrowings are subsequently stated at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement. Any difference between the proceeds, net of transaction costs, and the redemption value is recognized in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which is relates.

Borrowings are classified as current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs that are directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to be ready for their intended use or sale are capitalized as part of the costs of the assets. All other borrowing costs are expensed.

Warrants

Together with a US$60 million loan facility under the CS Facility Agreement we borrowed on May 29, 2008, we granted the Warrants to Credit Suisse International. The Warrants were classified as liabilities because the Warrantholder were given an option to put the outstanding Warrants for an amount that would provide an internal rate of return of 19% on the whole loan. The fair value of the Warrants is initially recognized at fair value and amortized over 30 months which is the expected life of the Warrants.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of our share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

Mining Rights

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

Impairment of Non-financial Assets

Assets that have an indefinite useful life, which are not subject to amortization, are tested annually for impairment and where there are indicators of impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each balance sheet date.

Inventories

Our inventories primarily consist of: (i) raw materials and consumables; (ii) work in progress; and (iii) finished goods. We state our inventories at the lower of cost and net realizable value. Cost is calculated using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses and cost to complete.

We write down inventories to net realizable value based on an assessment of the realizability of inventories. The assessment of write-downs requires the management's judgment and estimate. Where the expectation is different from the original estimate, such difference will impact the carrying values of inventories and write-downs of inventories in the period in which such estimates have been changed.

Provision for Trade and Other Receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will become bankrupt or financial reorganization, and default of payments is considered indicators that the receivable is

impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statements of comprehensive income.

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

Deferred Income Tax

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

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by us and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

SELECTED ITEMS OF STATEMENTS OF COMPREHENSIVE INCOME

Revenue

We derive all of our revenue from sales of our cement products. Our revenue was approximately RMB525.9 million, RMB866.1 million, RMB1,516.8 million (US$226.7 million) and RMB2,017.7 million (US$301.6 million) for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively.

Our revenue in any given period is determined by our sales volume and average selling prices of our cement products. During the three years ended December 31, 2009 and the nine months ended September 30, 2010, the sales volumes of our cement products experienced significant increases. We sold approximately 2.4 million tons, 3.4 million tons, 5.1 million tons, 3.6 million tons and 6.8 million tons of cement products for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and 2010, respectively. The increases in our sales volume were mainly driven by our expansion into new markets and the growth in the construction industry in Shaanxi province. In order to capitalize on the rapidly increasing demand for our cement products, we have significantly expanded our production capacity through the construction of new production lines and acquisitions. In May and August 2007, two production lines at our Lantian production facility commenced operations. In January 2009, our Xunyang production facility commenced cement production. We acquired Xiushan

Yaobai in August 2009, which operates our Zhen'an production facility. Our Yangxian production facility commenced operation in December 2009 and started to sell cement products in March, 2010. We completed construction of our Mianxian production facility in July, 2010 and of on additional production line at our Pucheng production facility in August 2010. These two production facilities are currently in their testing period. With these additional production lines, our annual production capacity increased from 3.6 million tons as of December 31, 2007 to 11.4 million tons as of September 30, 2010, allowing us to capture the growth in the construction industry in Shaanxi province, as reflected in the substantial increase in our revenues during the three years ended December 31, 2009 and the nine months ended September 30, 2010.

In the three years ended December 31, 2009, our average selling price increased primarily due to changes in the supply of, and demand for, our products and was also affected by the increase of the cost of coal and other raw materials. The average selling price of our cement products was approximately RMB219, RMB251 and RMB299 for 2007, 2008, 2009, respectively. The average selling price of our cement products increased over the three years ended December 31, 2009 primarily as a result of the increased market demand in 2008 and 2009 caused by the increased building and construction activity in Shaanxi province. The average selling price of our cement products sold in the first nine months in 2010 was slightly lower than that for the corresponding period in 2009. We will continue to evaluate the market demand for our products and may from time to time adjust our product prices and production capacity to meet market demand.

Our revenue is also affected by our product mix. The table below sets forth our revenue, sales volume and average selling price for each category of cement products we sold and the average selling prices of cement and cement products we sold during the periods indicated:

	For the year ended December 31,											
	2007				2008				2009			
	Average selling price	Sales volume	%	Revenue	Average selling price	Sales volume	%	Revenue	Average selling price	Sales volume	%	Revenue
	(RMB)	(Ton 000')		(RMB in million)	(RMB)	(Ton 000')		(RMB in million)	(RMB)	(Ton 000')		(RMB in million)
High grade cement	239	687	28.6	164.3	280	1,581	45.9	443.1	311	3,679	72.5	1,143.4
Low grade cement	211	1,709	71.3	361.2	227	1,863	54.0	422.3	268	1,392	27.4	372.4
Clinker	201	2	0.1	0.4	191	4	0.1	0.7	256	4	0.1	1.0
Total		2,398	100.0	525.9		3,448	100.0	866.1		5,075	100.0	1,516.8
Average selling price for cement	219				251				299			
Average selling price for cement products	219				251				299			

	For the nine months ended September 30,							
	2009				2010			
	Average selling price	Sales volume	%	Revenue	Average selling price	Sale volume	%	Revenue
	(RMB)	(Ton 000')		(RMB in million)	(RMB)	(Ton 000')		(RMB in million)
High grade cement	312	2,490	70.0	776.8	311	4,716	69.3	1,475.7
Low grade cement	269	1,063	29.9	285.8	265	1,976	29.0	516.7
Clinker	256	4	0.1	1	220	115	1.7	25.3
Total	—	3,557	100.0	1,063.6	—	6,807	100.0	2,017.7
Average selling price for cement[(2)] .	299				298			
Average selling price for cement products[(3)]	299				296			

Notes:

(1) We sold more clinker in the first nine months of 2010 primarily because our newly added Danfeng production facility sold clinker when the market demand was low and because our newly added Yangxian and Mianxian production facilities sold clinker before the cement mill commenced operations.

(2) Average selling price for cement is calculated by dividing (i) our revenue derived from sales of high grade and low grade cement by (ii) the total sales volume of high grade and low grade cement. The average selling price is exclusive of VAT.

(3) Average selling price for cement products is calculated by dividing (i) our total revenue derived from sales of high grade cement, low grade cement and clinker by (ii) the total sales volume of these three products. The average selling price is exclusive of VAT.

Our revenue derived from sales of high grade cement increased from approximately RMB164.3 million in 2007 to approximately RMB443.1 million in 2008 and further increased to RMB1,143.4 million (US$170.9 million) in 2009. The increase in our revenue of high grade cement was primarily due to the increased demand of the higher strength cement by government infrastructure projects during the three years ended December 31, 2009 as a result of the economic development in Shaanxi province and the PRC government's stimulus package. In addition, the commencement of production of Lantian production facility in mid-2007 also contributed to the increase of our revenue of high grade cement because its customers demanded more high grade cement than low grade cement, a significant portion of which were contributed by the ready-mix concrete stations.

Our revenue derived from sales of high grade cement in the first nine months of 2010 increased compared to the same period in 2009. Our revenue increased primarily because sales volume increased from 2.5 million tons for the nine months ended September 30, 2009 to 4.7 million tons for the nine months ended September 30, 2010, which was a result of our increased sales volume attributable to our new production facilities in Yangxian, Mianxian, Danfeng and Pucheng counties.

Our revenue derived from sales of low grade cement increased from approximately RMB361.2 million in 2007 to approximately RMB422.3 million in 2008 but decreased to approximately RMB372.4 million in 2009. The increase of such revenue in 2008 was primarily due to the increase in the sales volume and the general increase of average selling price of low grade cement. The increase of sales volume of low grade cement was primarily due to the increased cement production capacity. The implementation of a new nation-wide industry standard by the PRC government in mid-2008, which prohibited the production of PO32.5R cement, a sub-category of low grade cement with lower quality and higher energy consumption, has mildly

impacted our sales volume of low grade cement as some customers ordered other cement products in lieu of PO32.5R cement. The average selling price of low grade cement increased in 2008 primarily due to the increased cost of coal. The decrease of our revenue from low grade cement in 2009 was primarily due to the increase in the demand of high grade cement and the decrease of production volume of our low grade cement as a result of the full implementation of the nation-wide industry standard prohibiting the production of PO32.5R cement. The impact of the decreased production volume on our revenue of low grade cement from 2008 to 2009 has been partially offset by the increased average selling price of low grade cement. Our revenue derived from low grade cement in the first nine months of 2010 increased compared to the same period in 2009 primarily due to our increased sales volume of low grade cement from 1.1 million tons for the first nine months in 2009 to 2.0 million tons for the nine months in 2010, as a result of our increased production capacity.

Cost of Sales

Our cost of sales primarily consists of raw materials, coal, electricity, depreciation, labor and other costs. The table below sets forth the major components of our cost of sales (i) with each item expressed both as a percentage of cost of sales and as a percentage of revenue, and (ii) by the cost per ton of cement products sold for the periods indicated.

	For the year ended December 31,											
	2007				2008				2009			
	Cost	% of cost of sales	% of revenue	Cost per ton of cement products sold	Cost	% of cost of sales	% of revenue	Cost per ton of cement products sold	Cost	% of cost of sales	% of revenue	Cost per ton of cement products sold
	(RMB'000)			(RMB)	(RMB'000)			(RMB)	(RMB'000)			(RMB)
Raw materials	119,141	34.0	22.7	49.7	144,379	26.0	16.7	41.9	284,543	32.4	18.8	56.1
Coal	75,070	21.4	14.3	31.3	200,209	36.0	23.1	58.1	273,745	31.2	18.0	53.9
Electricity	86,859	24.8	16.5	36.2	122,160	22.0	14.1	35.4	182,062	20.7	12.0	35.9
Depreciation	42,216	12.1	8.0	17.6	57,496	10.3	6.6	16.7	92,035	10.5	6.1	18.1
Labor costs	17,010	4.9	3.2	7.1	17,486	3.1	2.0	5.1	28,534	3.2	1.9	5.6
Others	9,869	2.8	1.9	4.1	14,343	2.6	1.7	4.2	17,168	2.0	1.1	3.4
Total	350,165	100.0	66.6	146.0	556,073	100.0	64.2	161.3	878,087	100.0	57.9	173.0

	For the nine months ended September 30,							
	2009				2010			
	Cost	% of cost of sales	% of revenue	Cost per ton of cement products sold	Cost	% of cost of sales	% of revenue	Cost per ton of cement products sold
	(RMB'000)			(RMB)	(RMB'000)			(RMB)
				(unaudited)				
Raw materials	211,790	34.2	19.9	59.5	387,978	32.0	19.2	57.0
Coal	187,566	30.2	17.7	52.7	400,732	33.1	19.9	58.9
Electricity	125,567	20.2	11.8	35.3	230,131	19.0	11.4	33.8
Depreciation	67,086	10.8	6.3	18.9	133,246	11.0	6.6	19.6
Labor costs	19,672	3.2	1.8	5.5	33,739	2.8	1.7	5.0
Others	8,712	1.4	0.8	2.4	25,226	2.1	1.3	3.7
Total	620,393	100.0	58.3	174.3	1,211,051	100.0	60.1	177.9

Cost of raw materials

Our cost of raw materials primarily includes costs of limestone, gypsum, clay, flyash, pyrite cinder and slag. Our cost of raw materials was approximately RMB119.1 million, RMB144.4 million, RMB284.5 million (US$42.5 million) and RMB388.0 million (US$58.0 million) for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. We cooperate with a third party contractor to excavate limestone from our limestone mines. We pay a fixed excavation fee for each ton of limestone excavated by the contractor and the fixed fee is adjusted at the beginning of each year depending on changes in excavation costs and consumable materials used in the limestone mine. Of the limestone we used in our production in the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, approximately 0.6 million, 2.5 million, 2.7 million and 5.2 million tons, respectively, was excavated from our mines. We purchased approximately 1.3 million tons, 0.6 million tons, 1.7 million and 2.5 million tons of limestone from third party limestone suppliers in the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. We sourced some limestone in the market for the Pucheng production facility primarily because one of our production lines at our Pucheng production facility is located some distance away from our limestone quarry and as a result it is less expensive to purchase limestone for that production line than to excavate and transport limestone from our limestone quarry. In addition, as we sourced limestone on the market for the Lantian production facility before our limestone quarry that supplies limestone to the Lantian production facility commenced full operation in 2008, we purchased a higher proportion of limestone from third party limestone suppliers in 2007. Our Xunyang production facility commenced operations in January 2009, but because the conveyor belt between its limestone mine and production line was not completed until November 2009, we also purchased limestone for production at our Xunyang production facility between January and November in 2009. We have not purchased limestone from third parties for our Xunyang production facility in 2010 and do not expect to do so in the future. The limestone purchased from third parties in the first nine months of 2010 was primarily used in the operation of our Danfeng, Zhen'an and Yangxian production facilities.

The average cost per ton we incurred for the limestone we excavated from our limestone mines for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 was approximately RMB12.2, RMB11.0, RMB11.4 and RMB10.8 per ton, respectively. The average cost per ton we incurred for the limestone we purchased on the market for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 was approximately RMB15.1, RMB15.6, RMB25.4 and RMB18.0 per ton, respectively. The increase in the average cost per ton of our purchased limestone in 2009 was primarily because our Xunyang production facility had to purchase limestone from the market at prices that were much higher than market prices of our other plants due to the scarcity of limestone in the nearby region before it completed the limestone conveyor belt connecting our limestone quarry and the Xunyang production facility. The high level of limestone cost per ton for the first nine months of 2010 was primarily due to the higher average cost per ton of limestone at our Yangxian production facility because our limestone mine for Yangxian production facility only commenced full operation in March 2010.

Our raw material cost per ton of cement products sold was approximately RMB49.7, RMB41.9, RMB56.1 and RMB57.0 for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. The decrease of the raw material cost per ton of cement products sold from 2007 to 2008 was primarily due to the higher proportion of limestone we purchased from third party limestone suppliers in 2007 as a result of the sourcing of limestone on the market by the Lantian production facility before our quarry supplying limestone to the Lantian production facility commenced full operations in 2008. The commencement of the use of recycled raw materials such as desulfurization gypsum and construction waste in 2008 also contributed to the decrease of our raw material cost per ton of cement products sold. Our raw material cost per ton of cement products sold increased from 2008 to 2009 primarily as a result of the increased proportion of limestone purchased from third parties at a higher price as a result of our operation of the Xunyang production facility in January 2009, which purchased limestone from the market before the completion of the limestone conveyor belt connecting our limestone quarry and the Xunyang production facility in November 2009. The increased price of flyash in 2009 also contributed to the increase of our raw material costs from 2008 to 2009. In addition, the commencement of cement production of the Xunyang production facility and the acquisition of the Zhen'an production facility contributed to the increase in our raw material cost per ton from 2008 to 2009 because certain raw materials used by these two production facilities, such as natural gypsum and slag, may not be replaced by recycled raw materials, such as desulfuration gypsum and flyash, or may only be replaced to a very limited extent due to the short supply of these recycled raw materials in the nearby areas.

We endeavor to reduce our cost of sales by using recycled raw materials, which also reduced the impact of the increased prices of the raw materials on our result of operations. For example, we used desulfuration gypsum to replace natural gypsum in our production of cement, and construction waste to replace flyash. These measures provided us a total saving of approximately RMB4.1 million for the three years ended December 31, 2009 and the nine months ended September 30, 2010.

Costs of coal and electricity

Costs of coal is one of the largest components of our cost of sales. The price for coal fluctuated during the three years ended December 31, 2009 and the nine months ended September 30, 2010. Our cost of coal was approximately RMB75.1 million, RMB200.2 million, RMB273.7 million, RMB187.6 million and RMB400.7 million for the three years ended December 31,

2007, 2008 and 2009 and the nine months ended September 30, 2009 and 2010, respectively, representing approximately 21.4%, 36.0%, 31.2%, 30.2% and 33.1% of our total cost of sales. In order to secure adequate coal supplies at competitive prices, we have established long-term relationships with various coal suppliers.

Our cost of coal per ton of cement products sold was approximately RMB31.3, RMB58.1, RMB53.9, RMB52.7 and RMB58.9 for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and 2010, respectively. The changes in the cost of coal per ton of cement products primarily reflected the changes in our average purchase price of coal during 2007, 2008 and 2009 and the first nine months of 2010. The cost of coal per ton of cement products sold increased by 11.8% from RMB52.7 in the first nine months in 2009 to RMB58.9 in the first nine months of 2010. This increase was primarily due to an increase in our coal transportation costs, which, in turn, was primarily caused by our addition of the Zhen'an, Danfeng and Yangxian production lines in the second half of 2009, which are located further away from coal mines than our other production lines. In addition, we believe the recovery of the global economy also contributed to the increase in coal price.

Costs of electricity is also one of the largest components of our cost of sales. The price of electricity increased during the three years ended December 31, 2009 and the nine months ended September 30, 2010. Our cost of electricity was approximately RMB86.9 million, RMB122.2 million, RMB182.1 million and RMB230.1 million for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively, representing approximately 24.8%, 22.0%, 20.7% and 19.0% of our total cost of sales during those periods.

We began using the residual heat recovery system to generate electricity in October 2008. For the years ended December 31, 2008 and 2009 and the nine months ended September 30, 2010, we generated approximately 8.3 GWh, 53.4 GWh and 64.9 GWh of electricity through the residual heat recovery system, respectively. As a result, we achieved cost savings of approximately RMB2.4 million, RMB18.4 million and RMB22.4 million in the years ended December 31, 2008 and 2009 and the nine months ended September 30, 2010, respectively, which was calculated by multiplying the electricity generated by the residual heat recovery system by the difference between the average electricity price per KWh of the same period and the average cost of generating the electricity with the residual heat recovery system. Due to the cost savings from using the residual heat recovery system, our cost of electricity for each ton of cement products sold for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 was approximately RMB36.2, RMB35.4, RMB35.9 and RMB33.8, respectively.

We anticipate that our energy supply and raw material costs will continue to account for a substantial portion of our cost of sales.

Gross Profit and Gross Profit Margin

For the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our total gross profit was approximately RMB175.8 million, RMB310.1 million, RMB638.7 million (US$95.5 million) and RMB806.6 million (US$120.6 million), respectively, and our gross profit margin was approximately 33.4%, 35.8%, 42.1% and 40.0%, respectively. Our gross profit margin increased during the three years ended December 31, 2009 primarily because the average selling price for each ton of our products increased more than the cost of sales for each ton of our products as a result of our successful pricing strategy to increase the prices of our cement products in response to the increased cost of sales. Our gross profit margin also increased as we applied more cost saving measures in our production, such as replacing more expensive raw materials with recycled materials and using residual heat recovery systems to generate electricity. Our gross profit margin decreased from 41.7% for the first nine months of 2009 to 40.0% for the first nine months of 2010 primarily because our cost of coal

per ton of cement products sold increased as a result of global economic recovery and the addition of the Zhen'an, Danfeng and Yangxian production facilities in the second half of 2009. The average cost of coal per ton for those facilities is higher than our other production facilities because they are located further away from coal mines and the coal transportation costs are higher as a result. Our depreciation per ton of cement products sold increased from RMB18.9 for the first nine months of 2009 to RMB19.6 for the first nine months of 2010, which also contributed to the decrease of our gross profit margin. The increase of depreciation per ton of cement products sold is primarily due to the addition of the Yangxian production facility and the Danfeng production facility at the end of 2009, which have higher investment costs per ton of production.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of staff costs, marketing expenses and transportation expenses. Our sales personnel sometimes work together with experienced independent project managers, who are usually individuals with market knowledge and established relationships in the cement industry. These project managers usually introduce potential projects to our sales personnel. Our sales personnel would recommend the potential projects to us if they appear commercially suitable. We would decide whether to proceed with such projects, and agree in advance with our sales personnel on a fixed percentage of compensation to the project managers based on the expected revenue from the project, taking into account various factors, such as the importance of the project to us and the market knowledge of the project managers. If we are successfully engaged by the project, we would compensate the project manager in installments after we receive payments from the project. The project managers also help us develop and maintain customer relationships and assist us in collecting outstanding payments from our customers. We do not enter into any agreement with the project managers. Our marketing expenses primarily represent our compensation for these independent project managers' services.

Our customers are generally responsible for the transportation expenses of delivering our cement to them. We arrange for transportation to deliver our cement to some government infrastructure projects at their own costs. If the actual cost of transportation exceeds the amount agreed between us and our customers, we pay the excess amount. Our transportation expenses, as a component of selling and marketing expenses, primarily include such excess amounts.

Our selling and marketing expenses were approximately RMB9.8 million, RMB12.0 million, RMB15.1 million (US$2.3 million) and RMB18.9 million (US$2.8 million) for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. As we expand our operations, we expect to strengthen our sales efforts and our selling and marketing expenses may increase accordingly. As a percentage of revenue, our selling and marketing expenses were approximately 1.9% in 2007, approximately 1.4% in 2008, approximately 1.0% in 2009 and approximately 0.9% during the nine months ended September 30, 2010, which has been continuously decreasing as a result of the economies of scale.

Administrative Expenses

Our administrative expenses primarily include staff costs, general administrative expenses, depreciation and amortization and government levies, as well as expenses associated with our IPO in 2010. Our administrative expenses were approximately RMB29.0 million, RMB55.2 million, RMB77.8 million (US$11.6 million) and RMB130.0 million (US$19.4 million) for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. Our administrative expenses as a percentage of revenue were approximately 5.5%, 6.4%, 5.1% and 6.4% for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively.

Other Income and Other Gains/(Losses)

The table below sets forth the breakdown of our other income and other gains/(losses) for the periods indicated.

	For the year ended December 31,				For the nine months ended September 30,		
	2007	2008	2009	2009	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)	(RMB'000) (unaudited)	(RMB'000)	(US$'000)
Other income							
VAT refund	30,528	39,167	65,035	9,720	35,160	75,771	11,325
Government grant	5,180	1,450	6,491	970	3,615	4,262	637
Sub-total	35,708	40,617	71,526	10,691	38,775	80,033	11,962
Other gains/(losses) — net							
Payables written back	2,981	1,153	1,344	201	—	—	—
Donations	(689)	(1,499)	(825)	(123)	(238)	—	—
Net gain/(loss) from disposal of property, plant and equipment	(425)	(74)	(2,733)	(408)	76	—	—
Others	406	236	1,157	(173)	(500)	711	106
Sub-total	2,273	(184)	(1,057)	(158)	(662)	711	106
Total	37,981	40,433	70,469	10,533	38,113	80,744	12,068

Other income primarily includes VAT refunds and other government incentives. We enjoy VAT refunds for cement products that use a certain percentage of recycled materials as raw materials, such as slag and flyash. These VAT refunds are recurring in nature as we continue to use qualified recycled materials in our production. In 2007, 2008 and 2009 and the nine months ended September 30, 2010, these VAT refunds amounted to approximately RMB30.5 million, RMB39.2 million, RMB65.0 million (US$9.7 million) and RMB75.8 million (US$11.3 million), respectively. We submit our tax assessment and refund application on a monthly basis and the tax authority usually pays us the VAT refunds by cash in the month following our application. During the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, we received VAT refunds on sales of approximately 1.4 million, 1.7 million, 2.8 million and 3.2 million tons of cement, respectively. The cement for which we applied for VAT refund generated approximately RMB290.3 million, RMB399.4 million, RMB754.1 million (US$112.7 million) and RMB892.5 million (US$133.4 million), respectively, in revenue for us for the years ended December 2007, 2008 and 2009 and the nine months ended September 30, 2010, accounting for approximately 55.2%, 46.1%, 49.7% and 44.2% of our total revenue for the same respective periods. Other government incentives are non-recurring in nature and primarily include industrial development subsidies and "clean" project investment incentive, which together amounted to approximately RMB5.2 million, RMB1.5 million, RMB6.5 million (US$1.0 million) and RMB4.3 million (US$0.6 million), respectively, for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010. The "clean" project investment incentive primarily covers energy efficient and emission reduction technologies such as our residual heat recovery systems. Other gains/(losses) primarily include payables written back, donations and net gain/(loss) from disposal of property, plant and equipment, which together amounted to gains of approximately RMB2.3 million in 2007 and losses of approximately RMB0.2 million, RMB1.1 million (US$0.2 million) and RMB0.7 million (US$0.1 million) for 2008, 2009 and the nine months ended September 30, 2010, respectively.

Finance Income

Finance income primarily includes interest income on short-term bank deposits and net foreign exchange gains on financing activities. Our finance income was RMB1.6 million, RMB2.6 million, RMB1.2 million (US$0.2 million) and RMB0.3 million (US$0.1 million) for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively.

Finance Cost

Finance cost primarily includes interest on bank loans and borrowings that is not capitalized and loss on redemption of Warrants held by Credit Suisse International. Our finance costs were approximately RMB26.2 million, RMB28.1 million, RMB242.3 million (US$36.2 million) and RMB89.4 million (US$13.4 million) for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. Our finance cost increased significantly in 2009 primarily as a result of the RMB168.5 million (US$25.2 million) cost we recorded upon the redemption on October 21, 2009 of Warrants we issued to Credit Suisse International on May 29, 2008 in connection with a US$60.0 million loan we borrowed from Credit Suisse International pursuant to the CS Facility Agreement. This RMB168.5 million cost represents the difference between the amount paid for redemption of the Warrants and the fair value of the put option feature of the Warrants, as of the date of redemption, which had previously been recognized as liabilities. Our finance cost was RMB89.4 million (US$13.4 million) for the nine months ended September 30, 2010 primarily as a result of our increased bank and other borrowings before our IPO.

Income Tax Expenses

The table below sets forth our income tax expenses for the years indicated:

	For the year ended December 31,				For the nine months ended September 30,		
	2007	2008	2009	2009	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)	(RMB'000)	(RMB'000)	(US$'000)
					(unaudited)		
Profit before income tax	150,273	257,729	375,147	56,072	233,746	649,439	97,069
Tax calculated at statutory enterprise income tax[1]	49,590	64,432	93,787	14,018	58,437	162,360	24,267
Tax effects of:							
Expenses not deductible for tax purposes	—	454	614	92	—	—	—
Tax effect of tax exemption and reduced tax rate under tax holiday	(53,750)	(59,654)	(101,429)	(15,160)	(32,025)	(94,905)	(14,185)
Tax credit	—	(3,772)	(4,355)	(651)	—	—	—
Unrecognized tax losses[2]	4,160	2,536	56,070	8,381	7,537	25,285	3,779
Reversal of deferred tax assets arising from tax credit expired	—	7,570	—	—	—	—	—
Income tax expense	—	11,566	44,687	6,679	33,949	92,470	13,821

Notes:

(1) The statutory enterprise income tax rate in the PRC was 33%, 25%, 25% and 25%, respectively, for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010.

(2) Certain tax loss was not recognized as deferred income tax asset because in certain entities, no future taxable profit is expected to be available against which the temporary differences can be utilized. The significant increase in 2009 was because the loss relating to the redemption of warrant was not recognized as deferred tax assets.

Our income tax expenses primarily consist of provision for PRC current and deferred income tax expenses. We recorded income tax expenses of nil, approximately RMB11.6 million, RMB44.7 million (US$6.7 million) and RMB92.4 million (US$13.8 million), respectively, for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010. Our effective tax rates were nil, approximately 4.5%, 11.9% and 14.2% for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively.

Net Profit and Net Profit Margin

For the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our net profit was approximately RMB150.3 million, RMB246.2 million, RMB330.5 million (US$49.4 million) and RMB557.0 million (US$83.3 million), respectively, and our net profit margin was approximately 28.6%, 28.4%, 21.8% and 27.6%, respectively. The decrease of 6.6% of our net profit margin from 2008 to 2009 was primarily due to our increase in finance cost as a result of the loss of approximately RMB168.5 million (US$25.2 million) incurred on the redemption of Warrants in October 2009. Without such loss, our net profit margin would be generally in line with the increase of our gross profit margin. For the first nine months of 2010, in addition to the increased coal price and the increased depreciation which increased our cost of sales and impacted our net profit margin during the same period, the increased finance cost and the increased effective tax rate also affected our net profit margin.

RESULTS OF OPERATIONS

The following table sets forth our results of operations for the periods indicated:

	For the year ended December 31,				For the nine months ended September 30,		
	2007	2008	2009	2009	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)	(RMB'000)	(RMB'000)	(US$'000)
					(unaudited)		
Revenue	525,929	866,126	1,516,766	226,704	1,063,637	2,017,666	301,572
Cost of sales	(350,165)	(556,073)	(878,087)	(131,244)	(620,393)	(1,211,051)	181,011
Gross profit	175,764	310,053	638,679	95,461	443,244	806,615	120,561
Selling and marketing expenses	(9,796)	(12,018)	(15,064)	(2,252)	(11,189)	(18,854)	(2,818)
Administrative expenses	(29,038)	(55,224)	(77,846)	(11,635)	(43,298)	(129,953)	(19,424)
Other income and other gains — net	37,981	40,433	70,469	10,533	38,113	80,744	12,068
Finance costs — net	(24,638)	(25,515)	(241,091)	(36,035)	(193,124)	(89,113)	(13,320)
Profit before income tax	150,273	257,729	375,147	56,072	233,746	649,439	97,076
Income tax expense	—	(11,566)	(44,687)	(6,679)	(33,949)	(92,470)	(13,862)
Profit for the year/period	150,273	246,163	330,460	49,392	199,797	556,969	83,254

Nine months ended September 30, 2010 compared to nine months ended September 30, 2009

Revenue

Our revenue increased by approximately 89.7% from approximately RMB1,063.6 million for the nine months ended September 30, 2009 to approximately RMB2,017.7 million (US$301.6 million) for the nine months ended September 30, 2010. This increase was primarily due to our increased sales volume in the first nine months of 2010, which was attributable to our expansion into new markets in southern Shaanxi and our increased production capacity as a result of the addition of our new production facilities in Danfeng and Yangxian counties. The total volume of our cement products sold increased by 91.4% from 3.6 million tons for the nine months ended September 30, 2009 to 6.8 million tons for the nine months ended September 30, 2010. Our average selling price of cement products remained relatively stable for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2010.

Cost of sales

Our cost of sales increased by approximately 95.2% from approximately RMB620.4 million for the nine months ended September 30, 2009 to approximately RMB1,211.1 million for the nine months ended September 30, 2010. This increase was in line with the increase in our sales volume. Our cost of sales as a percentage of revenue increased slightly from approximately 58.3% in the nine months ended September 30, 2009 to approximately 60.0% in the nine months ended September 30, 2010 primarily as a result of our increased average cost of coal per ton of cement, which was primarily due to the addition of our Zhen'an, Danfeng and Yangxian production lines in the second half of 2009, which are located further away from coal mines than our other production lines and have higher transportation costs for coal. In addition, the continued recovery of the global economy contributed to the increase in coal price. The increased price of coal also caused our cost of coal as a percentage of our cost of sales to increase from 30.2% for the nine months ended September 30, 2009 to 33.1% for the nine months ended September 30, 2010. Our depreciation cost as a percentage of our cost of sales increased from 10.8% for the nine months ended September 30, 2009 to 11.0% for the nine months ended September 30, 2010 primarily due to the addition of our Yangxian and Danfeng production lines in late 2009 which have higher investment costs per ton of production.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by approximately 82.0% from approximately RMB443.2 million for the nine months ended September 30, 2009 to approximately RMB806.6 million (US$120.6 million) for the nine months ended September 30, 2010. Our gross profit margin decreased from approximately 41.7% for the nine months ended September 30, 2009 to approximately 40.0% for the nine months ended September 30, 2010.

Selling and Marketing Expenses

Our selling and marketing expenses increased by approximately 68.5% from approximately RMB11.2 million for the nine months ended September 30, 2009 to approximately RMB18.9 million (US$2.8 million) for the nine months ended September 30, 2010, primarily due to our increased marketing and sales efforts in the target markets of our newly-added Danfeng, Yangxian Mianxian and Pucheng production lines, including recruiting more sales personnel and increased expenses for commissions paid to sales personnel as a result of increased sales, as well as due to increased transportation costs to cover our expanded market in southern Shaanxi province. As a result, our selling and marketing staff costs increased by approximately 169.7% from

approximately RMB3.3 million for the first nine months of 2009 to approximately RMB8.9 million (US$1.3 million) for the first nine months of 2010. Our selling and marketing expenses as a percentage of our revenue decreased from 1.1% for the first nine months of 2009 to 0.9% for the first nine months of 2010, primarily as a result of economies of scale.

Administrative Expenses

Our administrative expenses increased by approximately 200.1% from approximately RMB43.3 million for the nine months ended September 30, 2009 to approximately RMB130.0 million (US$19.4 million) for the nine months ended September 30, 2010 primarily in connection with expenses relating to our IPO in the amount of RMB61.8 million (US$9.2 million) and our newly-added Danfeng, Yangxian, Mianxian and Pucheng production lines. As a result, our administrative staff costs increased due to increased headcount at our new production facilities. Our administrative expenses as a percentage of our revenue increased from 4.1% for the first nine months of 2009 to 6.4% from the first nine months of 2010, primarily as a result of expenses relating to our IPO.

Other Income and Other Gains

Other income and other gains primarily represent the VAT refund we receive from the PRC government. Other income and other gains increased by approximately 111.8% from approximately RMB38.1 million for the nine months ended September 30, 2009 to approximately RMB80.7 million (US$12.1 million) for the first nine months of 2010. Our VAT refund recorded for the nine months ended September 30, 2010 increased in line with increased sales.

Finance Income

Finance income decreased from approximately RMB0.6 million for the nine months ended September 30, 2009 to approximately RMB0.3 million (US$0.1 million) for the nine months ended September 30, 2010 primarily as a result of a decrease in interest income on short-term bank deposits.

Finance Cost

Finance cost decreased from approximately RMB193.7 million for the nine months ended September 30, 2009 to approximately RMB89.4 million (US$13.4 million) for the nine months ended September 30, 2010 primarily as a result of our increased bank and other borrowings in 2010 and because there were no longer any fair value losses arising from our Warrants, which were redeemed in 2009. In addition, we recorded RMB7.5 million (US$1.1 million) in early repayment charges in the nine months ended September 30, 2010 in connection with our repayment of the US$60.0 million loan under the CS Facility Agreement.

Profit Before Income Tax

As a result of the foregoing, our profit before income tax increased by approximately 177.8% from approximately RMB233.7 million for the nine months ended September 30, 2009 to approximately RMB649.4 million (US$97.1 million) for the nine months ended September 30, 2010.

Income Tax Expense

Our income tax expenses increased from approximately RMB34.0 million for the nine months ended September 30, 2009 to approximately RMB92.5 million (US$13.8 million) for the nine months ended September 30, 2010 as a result of the increase in sales and our increased effective tax rate due to the profit contributed by our newly added subsidiaries that have higher

income tax rates, including Xiushan Yaobai, which operates our Zhen'an production facility, and Longqiao Yaobai, which operates our Danfeng production facility, and Mianxian Yaobai, which operates our Mianxian production facility, whose income tax rates are 25%, and Hanzhong Yaobai, which operates our Yangxian production facility, whose income tax rate is 15%.

Profit for the Period

Our net profit increased by approximately 178.8% from approximately RMB199.8 million for the nine months ended September 30, 2009 to approximately RMB557.0 million (US$83.3 million) for the nine months ended September 30, 2010.

Year ended December 31, 2009 compared to year ended December 31, 2008

Revenue

Our revenue increased by approximately 75.1% from approximately RMB866.1 million for 2008 to approximately RMB1,516.8 million (US$226.7 million) for 2009. This increase was due to increases in both the sales volume and the average selling price of our cement products. Our sales volume increased by approximately 50.0% from approximately 3.4 million tons for 2008 to approximately 5.1 million tons for 2009. Our average selling price increased by approximately 19.1% from RMB251 for 2008 to RMB299 per ton for 2009.

Our sales volume increased primarily because of strong market demand and the addition of our Xunyang production facility, which commenced operations in January 2009 and has an annual production capacity of 2.0 million tons. Our average selling price increased primarily as a result of the substantial increase of cost of coal in the second and third quarters of 2008 which resulted in the substantial increase in the average selling prices of our products in August and September 2008. In addition, as a result of the economic development in Shaanxi province and the PRC government's stimulus package, demand for our products from government infrastructure projects increased in 2009, and those projects typically require high grade cement, which commanded higher selling prices.

Cost of Sales

Our cost of sales increased by approximately 57.9% from approximately RMB556.1 million for 2008 to approximately RMB878.1 million (US$131.2 million) for 2009. Our total cost of sales increased primarily as a result of increased sale volume and our addition of the Xunyang production facility, which commenced operations in January 2009. Our cost of sales as a percentage of revenue decreased from approximately 64.2% for 2008 to approximately 57.9% for 2009. Our cost of coal as a percentage of cost of sales decreased from approximately 36.0% for 2008 to approximately 31.2% for 2009, primarily as a result of a decrease in coal prices. Our cost of electricity as a percentage of cost of sales decreased from approximately 22.0% for 2008 to approximately 20.7% for 2009, primarily due to energy savings we achieved through our residual heat recovery system.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by approximately RMB328.6 million (US$49.1 million), or approximately 106.0%, from approximately RMB310.1 million for 2008 to approximately RMB638.7 million (US$95.5 million) for 2009. Our gross profit margin increased from approximately 35.8% for 2008 to approximately 42.1% for 2009.

Selling and Marketing Expenses

Our selling and marketing expenses increased by approximately 25.8% from approximately RMB12.0 million for 2008 to approximately RMB15.1 million (US$2.3 million) for 2009, primarily as a result of the increase in our sales in 2009 compared with 2008.

Our selling and marketing expenses as a percentage of revenue decreased from approximately 1.4% for 2008 to approximately 1.0% for 2009. Our staff costs increased by approximately 37.1% from approximately RMB3.5 million for 2008 to approximately RMB4.8 million (US$0.7 million) for 2009, primarily due to an increase in the number of our sales staff and a general increase in average wages of our employees. Our marketing expenses decreased by approximately 24.0% from approximately RMB5.0 million in 2008 to approximately RMB3.8 million (US$0.6 million) in 2009. We incurred less marketing expenses in 2009 compared with 2008 primarily due to the strong market demand for our cement products in 2009. Our transportation expenses increased by approximately 100.0% from approximately RMB1.0 million for 2008 to approximately RMB2.0 million (US$0.3 million) for 2009, primarily due to increased sale volume of our products.

Administrative Expenses

Our administrative expenses increased by approximately 40.9% from approximately RMB55.2 million for 2008 to approximately RMB77.8 million (US$11.6 million) for 2009. Our administrative expenses as a percentage of revenue decreased from approximately 6.4% for 2008 to approximately 5.1% for 2009. Our staff costs increased slightly by approximately 1.7% from approximately RMB23.9 million for 2008 to approximately RMB24.3 million for 2009 because the number of our administrative staff remained fairly stable. Our general administrative expenses increased by approximately 128.3% from approximately RMB5.3 million for 2008 to approximately RMB12.1 million (US$1.8 million) for 2009 primarily because we had two additional production facilities in operation in 2009, our Xunyang and Zhen'an production facilities. We also incurred additional expenses in preparation for the operations of our Yangxian production facility, which was completed on December 31, 2009. Our administrative depreciation and amortization increased by approximately 60.9% from approximately RMB6.9 million for 2008 to approximately RMB11.1 million (US$1.7 million) for 2009, primarily as a result of depreciation we recorded in 2009 for our Xunyang production facility, which was constructed in 2008 and commenced operations in January 2009.

Other Income and Other Gains

Other income and other gains increased by approximately RMB30.1 million, or 74.5%, from approximately RMB40.4 million for 2008 to approximately RMB70.5 million (US$10.5 million) for 2009 because we received more VAT refunds in 2009 as a result of higher sales of cement eligible for such refunds in 2009 compared with 2008. We receive VAT refunds for sales of cement that uses a certain percentage of recycled materials in its production process.

Finance Income

Finance income decreased from approximately RMB2.6 million for 2008 to approximately RMB1.2 million (US$0.2 million) in 2009 because both our interest income on short-term bank deposits and our net foreign exchange gains on financing activities decreased in 2009 compared with 2008. The decrease in net foreign exchange gains was primarily because RMB appreciation against the U.S. dollar was less in 2009 compared with 2008.

Finance Cost

Finance cost increased significantly from approximately RMB28.1 million for 2008 to approximately RMB242.3 million (US$36.2 million) for 2009 primarily as a result of the RMB168.5 million (US$25.2 million) cost we recorded upon the redemption on October 21, 2009 of Warrants we issued to Credit Suisse International on May 29, 2008 in connection with a US$60.0 million loan we borrowed from Credit Suisse International under the CS Facility Agreement.

Profit Before Income Tax

As a result of the foregoing, our profit before income tax increased by approximately 45.6%, from approximately RMB257.7 million for 2008 to approximately RMB375.1 million (US$56.1 million) for 2009.

Income Tax Expense

Our income tax expenses increased from approximately RMB11.6 million for 2008 to approximately RMB44.7 million (US$6.7 million) for 2009, as a result of an increase in our profit before income tax and an increase in tax rate applicable to Lantian Yaobai changed from 0.0% for 2008 to 7.5% for 2009.

Profit for the Year

Our profit for the year increased by approximately RMB84.3 million (US$12.6 million), or approximately 34.2% from approximately RMB246.2 million for 2008 to approximately RMB330.5 million (US$49.4 million) for 2009.

Year ended December 31, 2008 compared to year ended December 31, 2007

Revenue

Our revenue increased by approximately 64.7%, from approximately RMB525.9 million in 2007 to approximately RMB866.1 million in 2008. The increase in revenue was due to both an increase in sales volume and an increase in the average selling price of our cement products, which mainly resulted from high demand for our products due to continued economic and fixed assets investment growth in Shaanxi province. The total volume of cement sold increased by approximately 41.7%, from approximately 2.4 million tons for 2007 to approximately 3.4 million tons for 2008. Our average selling price of cement products increased by approximately 14.6%, from approximately RMB219 per ton for 2007 to approximately RMB251 per ton for 2008.

Cost of Sales

Our cost of sales increased by approximately 58.8%, from approximately RMB350.2 million for 2007 to approximately RMB556.1 million for 2008. Our total cost of sales increased primarily as a result of higher coal prices and increased sales. Our cost of sales as a percentage of revenue decreased from approximately 66.6% for 2007 to approximately 64.2% for 2008. Our cost of coal as a percentage of cost of sales increased from approximately 21.4% for 2007 to approximately 36.0% for 2008 primarily due to a significant increase in coal prices.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by approximately RMB134.3 million, or approximately 76.4%, from approximately RMB175.8 million for 2007 to approximately RMB310.1 million for 2008. Our gross profit margin increased from approximately 33.4% for 2007 to approximately 35.8% for 2008.

Selling and Marketing Expenses

Our selling and marketing expenses increased by approximately 22.4%, from approximately RMB9.8 million for 2007 to approximately RMB12.0 million for 2008. This increase was largely due to a significant increase in our sales in 2008 compared with 2007. Our selling and marketing expenses as a percentage of revenue decreased from approximately 1.9% for 2007 to approximately 1.4% for 2008.

Our marketing expenses decreased by approximately 3.8% from approximately RMB5.2 million for 2007 to approximately RMB5.0 million for 2008 because of the increased demand of our products in 2008. Total selling and marketing staff costs increased by approximately 59.1% from approximately RMB2.2 million for 2007 to approximately RMB3.5 million for 2008, primarily due to an increase in the number of sales personnel and a general increase in average wages of our employees. Transportation expenses increased by approximately 66.7% from RMB0.6 million for 2007 to approximately RMB1.0 million for 2008, primarily due to increased sales volumes of our products.

Administrative Expenses

Our administrative expenses increased by approximately 90.3%, from approximately RMB29.0 million for 2007 to approximately RMB55.2 million for 2008. Our administrative expenses as a percentage of revenue increased from approximately 5.5% for 2007 to approximately 6.4% for 2008.

Our staff costs and benefits increased by approximately 117.3%, from approximately RMB11.0 million for 2007 to approximately RMB23.9 million for 2008, mainly as a result of an increase in the number of administrative staff in connection with the expansion of our operations. Our general administrative expenses increased by approximately 1.9% from approximately RMB5.2 million for 2007 to approximately RMB5.3 million for 2008. Our depreciation and amortization increased by approximately 165.4% from approximately RMB2.6 million for 2007 to approximately RMB6.9 million for 2008. These increases were primarily due to higher administrative and office expenses as we added our Xunyang production facility in 2008 and established a pre-operation project office for our Yangxian production facility in the last quarter of 2008.

Other Income and Other Gains

Other income and other gains increased by approximately RMB2.4 million, or approximately 6.3%, from approximately RMB38.0 million for 2007 to approximately RMB40.4 million for 2008 primarily because we received more VAT refunds in 2008 as a result of higher sales of cement eligible for such refunds in 2008 compared with 2007. We receive VAT refunds for sales of cement that use a certain percentage of recycled materials in its production process.

Finance Income

Finance income increased from approximately RMB1.6 million for 2007 to approximately RMB2.6 million for 2008, primarily due to approximately RMB1.6 million of net foreign exchange gains on financing activities we recorded in 2008, as partially offset by a decrease in our interest income on short-term bank deposits. The net foreign exchange gains resulted from the appreciation of the RMB against the U.S. dollar.

Finance Costs

Finance costs increased by approximately 7.3%, from approximately RMB26.2 million for 2007 to approximately RMB28.1 million for 2008, primarily due to our increased level of interest-bearing indebtedness in 2008 compared with 2007. The average interest rate of our borrowings was approximately 8.0% in 2007 and approximately 15.0% in 2008.

Profit Before Income Tax

As a result of the foregoing, our profit before income tax increased by approximately 71.5%, from approximately RMB150.3 million for 2007 to approximately RMB257.7 million for 2008.

Income Tax Expenses

Our income tax expense increased from nil for 2007 to approximately RMB11.6 million for 2008. Our effective tax rate was nil for 2007 and approximately 4.5% for 2008. As of December 31, 2007, we only had two operating subsidiaries in the PRC, Shaanxi Yaobai and Lantian Yaobai, and we were exempt from PRC enterprise income tax in 2007 due to their respective tax exemptions. This preferential tax treatment for foreign-invested enterprises was discontinued for enterprises established after March 1, 2007 when the PRC Enterprise Income Tax Law was promulgated. As a result, Ankang Yaobai, which was incorporated in April 2007, was not exempt from income tax. Instead, it was entitled to a 15% reduced enterprise income tax rate under the Western Development Plan.

Profit for the Year

Our profit for the year increased by approximately RMB95.9 million, or approximately 63.8% from approximately RMB150.3 million for 2007 to approximately RMB246.2 million for 2008.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

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

	For the year ended December 31,				For the nine months ended September 30,		
	2007	2008	2009	2009	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)	(RMB'000)	(RMB'000)	(US$'000)
					(unaudited)		
Net cash generated from operating activities	170,969	323,092	619,676	92,620	637,471	834,451	124,722
Net cash used in investing activities	(355,395)	(667,923)	(847,503)	(126,673)	(677,956)	(1,338,458)	(200,054)
Net cash generated from/(used in) financing activities	22,034	351,872	537,047	80,270	59,636	531,971	79,511
Net (decrease)/increase in cash and cash equivalents	(162,392)	7,041	309,220	46,218	19,151	27,964	4,180
Cash and cash equivalents at beginning of year/period	192,389	29,997	37,038	5,536	37,038	346,258	51,754
Cash and cash equivalents at the end of year/period	29,997	37,038	346,258	51,754	56,189	374,222	55,933

Net cash generated from operating activities

The following table summarizes our cash flow from operating activities for the periods indicated.

	Year ended December 31,				Nine months ended September 30,		
	2007	2008	2009	2009	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)	(RMB'000)	(RMB'000)	(US$'000)
					(unaudited)		
Operating cash inflows before movements in working capital. . .	221,350	350,095	724,607	106,851	501,573	885,141	132,308
Change in working capital — generated/(used)	(25,205)	(386)	(27,869)	(4,110)	215,771	110,830	16,567
Cash generated from operations . .	196,145	349,709	696,738	102,741	717,344	995,971	148,863
Interest paid	(25,176)	(26,617)	(57,975)	(8,549)	(72,380)	(83,888)	(12,539)
Income tax paid	—	—	(19,087)	(2,816)	(7,493)	(77,632)	(11,603)
Net cash generated from operating activities	170,969	323,092	619,676	91,377	637,471	834,451	124,731

Our net cash generated from operating activities was approximately RMB834.5 million in the nine months ended September 30, 2010. This net cash inflow was primarily a result of (i) profit before income tax in the amount of approximately RMB649.4 million (US$97.1 million), (ii) an increase in trade and other payables in the amount of approximately RMB94.3 million (US$14.1 million), and (iii) the adjustment of depreciation and amortization in the amount of approximately RMB145.8 million (US$21.8 million), which was partially offset by (i) an increase in trade and bill receivables of approximately RMB281.2 million, (US$42.0 million) and (ii) an increase in inventories in the amount of approximately RMB51.4 million (US$7.7 million).

Our net cash generated from operating activities was approximately RMB619.7 million (US$92.6 million) in 2009. This net cash inflow was primarily a result of (i) profit before income tax in the amount of approximately RMB375.1 million (US$56.1 million), (ii) the adjustment of depreciation and amortization in the amount of approximately RMB103.1 million (US$15.4 million) and net finance costs in the amount of approximately RMB241.1 million (US$36.0 million), and (iii) an increase in trade and other payables in the amount of approximately RMB59.6 million (US$8.9 million), which was partially offset by (i) increase in other receivables and prepayments in the amount of approximately RMB52.6 million (US$7.9 million), and (ii) an increase in inventories in the amount of approximately RMB29.9 million (US$4.5 million).

Our net cash generated from operating activities was approximately RMB323.1 million in 2008. This net cash inflow was primarily a result of (i) profit before income tax in the amount of approximately RMB257.7 million, (ii) the adjustment of depreciation and amortization in the amount of RMB64.4 million and net finance costs in the amount of approximately RMB25.5 million, and (iii) an increase in trade and other payables in the amount of approximately RMB61.1 million, which was partially offset by (i) an increase in inventories in the amount of approximately RMB35.9 million, (ii) an increase in trade and bills receivables in the amount of approximately RMB14.7 million, and (iii) an increase in other receivables and prepayments in the amount of approximately RMB11.0 million.

Our net cash generated from operating activities was approximately RMB171.0 million in 2007. This net cash inflow was primarily a result of (i) profit before income tax in the amount of approximately RMB150.3 million, (ii) an increase in trade and other payables in the amount of approximately RMB56.0 million, and (iii) the adjustment of depreciation and amortization in the amount of approximately RMB44.9 million and net finance costs in the amount of approximately RMB24.6 million, which was partially offset by (i) an increase in other receivables and prepayments in the amount of approximately RMB30.3 million, (ii) an increase in trade and bills receivables in the amount of approximately RMB29.2 million, and (iii) an increase in inventories in the amount of RMB21.7 million.

Net cash used in investing activities

Our net cash used in investing activities was approximately RMB1,338.5 million for the nine months ended September 30, 2010, primarily reflecting (i) the payment and deposit paid for acquisition of property, plant and equipment of approximately RMB1,268.7 million (US$189.6 million), and (ii) the payment for acquisition of land use rights of approximately RMB54.8 million (US$8.2 million), The acquisition of property, plant and equipment was primarily due to the construction of our new production facilities.

Our net cash used in investing activities was approximately RMB847.5 million (US$126.7 million) for the year ended December 31, 2009, primarily reflecting (i) the payment and deposit paid for acquisition of property, plant and equipment of approximately RMB600.0 million (US$89.7 million), (ii) acquisition of a subsidiary of approximately RMB120.9 million (US$18.1 million) and (iii) a deposit paid for a potential acquisition of RMB100.0 million (US$14.9 million). The acquisition of property, plant and equipment was primarily due to the construction of our new production facilities.

Our net cash used in investing activities was approximately RMB667.9 million in 2008, primarily reflecting the payment and deposit paid for acquisition of property, plant and equipment of approximately RMB603.2 million. The acquisition of property, plant and equipment primarily related to construction in progress related to construction of our production lines and the purchase of related equipment. The fixed assets acquired included new cement production lines.

Our net cash used in investing activities was approximately RMB355.4 million in 2007, primarily reflecting the payment and deposit paid for acquisition of property, plant and equipment of approximately RMB345.5 million. The acquisitions of property, plant and equipment primarily related to constructions in progress in connection with our new production lines and the purchase of related equipment.

Net cash generated from/used in financing activities

Our net cash generate from financing activities was approximately RMB532.0 million for the nine months ended September 30, 2010 primarily due to (i) proceeds received from issue of new shares with respect to our IPO of RMB1,267.9 million (US$189.5 million), and (ii) proceeds received from new bank borrowings of approximately RMB715.8 million (US$107.0 million), partially offset by a repayment of bank borrowings of approximately RMB1,304.4 million (US$195.0 million). Our cash generated from financing activities was used primarily for working capital purposes.

Net cash generated from financing activities was approximately RMB537.0 million (US$80.3 million) for the year ended December 31, 2009, primarily due to new bank and other borrowings of approximately RMB1,074.6 million (US$160.6 million), as partially offset by a repayment of bank and other borrowings of approximately RMB356.0 million (US$53.2 million) and redemption of warrants of approximately RMB206.5 million (US$30.9 million). Our cash generated from financing activities was used primarily for working capital purposes.

Our net cash generated from financing activities was approximately RMB351.9 million in 2008, primarily due to new bank and other borrowings of approximately RMB635.1 million, as partially offset by a repayment of bank and other borrowings of approximately RMB271.6 million. Our cash generated from financing activities was used primarily for the construction of our Xunyang production line.

Our net cash generated from financing activities was approximately RMB22.0 million in 2007, representing new bank and other borrowings of approximately RMB236.0 million, as partially offset by repayments of bank and other borrowings of approximately RMB198.7 million. Our cash generated from financing activities was used primarily for working capital purposes.

Capital Commitments and Contingent Liabilities

Capital commitments

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

	As of December 31,				As of September 30,	
	2007	2008	2009	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)	(RMB'000)	(US$'000)
					(unaudited)	
Property, plant and equipment	556,656	449,035	558,336	83,452	266,027	39,765

Our capital commitments as of December 31, 2007 primarily related to the construction of our Xunyang production facility, which we started to prepare for construction in late 2007 and also related to the construction of heat residual recovery system in Lantian production facility. Our capital commitments as of December 31, 2008 decreased comparing to that as of December 31 primarily because our capital commitments were primarily related to the construction of our Xunyang production facility. Our capital commitments as of December 31, 2009 increased from that as of December 31, 2008, primarily due to the construction of our Yangxian, Mianxian, Pucheng and Xixiang production facilities. Our capital commitment as of September 30, 2010 primarily related to the construction of our Xixiang production facility.

Operating lease commitments

We lease a number of properties, which have an average term of five to 10 years. The table below sets forth our commitment for rental payment as of the indicated dates of consolidated statements of financial position.

	As of December 31,				As of September 30,	
	2007	2008	2009	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)	(RMB'000)	(US$'000)
					(unaudited)	
Within one year	345	484	74	11	—	—
In the second to fifth year inclusive	533	217	209	31	—	—
Over five years	504	496	446	67	—	—
Total	1,382	1,197	729	109	—	—

Our lease commitments for leased properties decreased from RMB1.4 million as of December 31, 2007 to RMB1.2 million as of December 31, 2008. It further decreased to RMB0.8 million as of December 31, 2009 and we do not have any lease commitments as of September 30, 2010. The continued decrease of our lease commitments is primarily because throughout the three years ended December 31, 2009 and the nine months ended September 30, 2010, we purchased or ceased to use such properties.

Contingent liabilities

We do not have contingent liabilities that will have an adverse effect on our liquidity, results of operations or financial position.

Indebtedness

We have financed our operations primarily through cash flows from operations and short-term and long-term loans from banks. The table below sets forth our short-term and long-term borrowings as of the dates indicated. All of our borrowings are repayable within five years.

	As of December 31,				As of September 30,	
	2007	2008	2009	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)	(RMB'000) (unaudited)	(US$'000)
Borrowings repayable:						
Bank borrowings:						
Within 6 months or less	140,000	168,000	626,563	93,650	465,982	69,648
After 6 months but within 12 months	115,400	85,400	540,505	80,787	259,782	38,828
After 1 year but within 2 years	28,000	407,069	204,596	30,580	164,142	24,534
After 2 years but within 5 years	35,800	—	123,462	18,453	27,390	4,094
Sub-total	319,200	660,469	1,495,126	223,470	917,296	137,104
Other borrowings:						
Within 6 months or less	16,953	15,784	92,800	13,870	—	—
After 6 months but within 12 months	—	—	29,000	4,335	—	—
After 1 year but within 2 years	—	—	29,000	4,335	18,000	2,690
After 2 years but within 5 years	—	—	3,000	448	6,000	897
Sub-total	16,953	15,784	153,800	22,988	24,000	3,587
Total	336,153	676,253	1,648,926	246,458	941,296	140,691

As of December 31, 2009 and September 30, 2010, we had total borrowings of approximately RMB1,648.9 million (US$246.5 million) and RMB941.3 million (US$140.7 million), respectively, of which approximately RMB1,495.1 million (US$223.5 million) and RMB917.3 million (US$137.1 million), respectively, were bank borrowings, which were secured by our properties, equity interests in our subsidiaries and shares of our Company. The other borrowings as of December 31, 2009 of approximately RMB153.8 million (US$23.0 million) were unsecured, of which approximately RMB150.8 million (US$22.5 million) was transferred from Shaanxi Danshui to Longqiao Yaobai in connection with the establishment of Longqiao Yaobai. Our other borrowing as of September 30, 2010 RMB24.0 million (US$3.6 million) represented unsecured borrowing we inherited in connection with our investment in Longqiao Yaobai. The average annual

interest rate of such borrowing was 3.6%. The remainder of other borrowing represented certain interest free loans due to Shaanxi Industry Investment Limited (陝西省產業投資有限公司), an independent third party. For details of our bank borrowings and other borrowings, please refer to the section headed "Description of Other Material Indebtedness."

Our bank borrowings are denominated in the following currencies:

	As of December 31,				As of September 30,	
	2007	2008	2009	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)	(RMB'000)	(US$'000)
					(unaudited)	
RMB	319,200	289,200	794,800	118,795	798,786	119,391
US$	—	371,269	700,326	104,675	118,510	17,713
Total	319,200	660,469	1,495,126	223,470	917,296	137,104

The weighted average effective interest rates of our bank borrowings are set forth in the follow table for the periods indicated:

	As of December 31,			As of September 30,
	2007	2008	2009	2010
				(unaudited)
RMB Bank borrowings	7.78%	8.44%	7.27%	6.62%
US$ Bank borrowings	—	20.23%	12.94%	9.94%

Since September 30, 2010, there has not been any material adverse change in our indebtedness and contingent liabilities. Certain of our outstanding bank loans contain cross-default provisions, such as the RMB330.0 million Credit Suisse Syndicated Loan. Such cross-default provisions generally provide that if any default of another material financial indebtedness has occurred or if any event of default shall cause any such indebtedness to be declared due prior to its maturity date, then an event of default is considered to have happened under the facility which contains such cross-default provision. For more information, see "Description of Other Material Indebtedness."

Bank and other borrowings subsequent to September 30, 2010

On December 14, 2010, the Company entered into a bridge loan facility of US$85 million with ICBC International Finance Limited as lender and Mr. Zhang Jimin as guarantor. On December 21, the Company drew down US$85 million under the ICBC Bridge Loan. The proceeds were used in part to repay the outstanding balance of a US$50 million loan under the ICBC Facility Agreement, with the remainder to finance the acquisition of Jianghua Yaobai. For more information, please see "Description of Other Material Indebtedness."

CAPITAL EXPENDITURES

Historical Capital Expenditures

Our capital expenditures include expenditures for property and plant, motor vehicles, electronic and other equipment, machinery, mining equipment, land use rights and mining rights. The table below sets forth capital expenditures for the year or period indicated.

	For the year ended December, 31,				For the nine months ended September 30,	
	2007	2008	2009	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)	(RMB'000) (unaudited)	(US$'000)
Purchase of property, plant and equipment	345,515	603,246	599,998	89,679	1,273,971	190,429
Purchase of land use rights	1,124	61,731	27,398	4,095	54,774	8,187
Purchase of mining rights	12,500	4,107	1,807	270	11,380	1,700
Acquisition of subsidiary net of cash acquired	—	—	120,922	18,074	—	—
Total	359,139	669,084	750,125	112,118	1,340,125	200,068

Our capital expenditures during each year ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 primarily related to our business expansion. Our capital expenditures in 2007 related primarily to the construction of our Lantian production facility, which was completed in August 2007. Our capital expenditures in 2008 related primarily to the construction of our Xunyang production facility, which was completed in December 2008. Our capital expenditures in 2009 related primarily to the construction of our Yangxian production facility, which was completed in December 2009, and our Mianxian production facility, which was completed in July 2010. Our capital expenditure in 2009 also included RMB120.9 million (US$18.1 million) in acquisition expense for the acquisition of Xiushan Yaobai. Our capital expenditures in the nine months ended September 30, 2010 related primarily to the construction of our Yangxian, Mianxian, Xixiang and Pucheng production facilities.

We have historically funded our capital expenditures from internally generated cash, short-term and long-term bank borrowings and share offerings.

Planned Capital Expenditures

Our capital expenditures are expected to primarily consist of expenditures related to the construction of additional production lines, upgrading existing production facilities and acquisitions of production lines. We are currently constructing one new cement production line in Xixiang county in Shaanxi province.

Based on our current plan, we estimate that an aggregate of approximately RMB1,850 million to RMB2,385 million will be required to fund the construction of our new production line that is currently under construction, to upgrade our current production facilities and to fund any future acquisitions. See "Use of Proceeds" for further information.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial information. We do not have any variable interests in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

MARKET RISKS

Foreign Exchange Risk

We conduct our sales and purchases almost exclusively in Renminbi. Our exposure to foreign exchange risk is principally due to our U.S. dollar-denominated debt and our bank deposits in foreign currencies, mainly U.S. dollars, HK dollars and the British pound. As of September 30, 2010, we had U.S. dollar-denominated bank borrowings totaling RMB118.5 million (US$17.7 million). As of the same date, we had aggregate cash and bank balances (including restricted cash balances for borrowings) of RMB390.0 million (US$58.3 million), of which RMB43.9 million (US$6.6 million) was denominated in Hong Kong dollars, RMB4.9 million (US$0.7 million) was denominated in U.S. dollars and RMB3.8 million (US$0.6 million) was denominated in the British pound.

We recognize foreign exchange gain or loss on our income statement due to changes in value of assets and liabilities denominated in foreign currencies during the relevant accounting period. Appreciation of the Renminbi against the U.S. dollar generally results in a gain arising from our U.S. dollar-denominated debt and a loss arising from our bank deposits in Hong Kong dollars, U.S. dollars and the British pound. A depreciation of the Renminbi against the U.S. dollar would have the opposite effect. In addition, a depreciation of Renminbi would negatively affect the value of dividends paid by our PRC subsidiaries, which may in turn affect our ability to service foreign currency-denominated debts.

Fluctuations in the foreign exchange rate have had and will continue to have an impact on our business, financial condition and results of operations. See "Risk Factors — Risks Relating to the Notes — We may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollar." As of the date of this Offering Memorandum, we have not entered into any transaction to hedge against any fluctuation in foreign currency.

Commodity Price Risk

We consumed coal and raw materials including gypsum, flyash, pyrite cinder and slag in the production of our cement products. We are exposed to fluctuations in the prices of the aforesaid which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of coal and other raw materials could adversely affect our business, financial condition and results of operations. Historically, we have not entered into any commodity derivative instruments to hedge the potential commodity price changes.

Interest Rate Risk

Our business is sensitive to fluctuations in interest rates. Our exposure to changes in interest rates is mainly attributable to our borrowings, especially long-term borrowings. Borrowings at variable rates expose us to cash flow interest rate risk. Borrowings at fixed rate expose us to fair value interest rate risk. As of December 31, 2009 and September 30, 2010 we had floating rate borrowings of RMB1,136.2 million (US$169.8 million) and RMB917.3 million (US$137.1 million), respectively and fixed rate borrowings of RMB509.7 million (US$76.2 million) and RMB18.0 million (US$2.7 million), respectively. As of the date of this offering memorandum, we have not used any interest rate swap to hedge our exposure to interest rate risk.

Higher interest rates may lead to higher borrowing costs and thus adversely affect our revenue and profits. The PBOC benchmark one-year lending rates in China as of December 31, 2007, 2008, 2009 and 2010 were 7.47%, 5.31%, 5.31% and 5.81%, respectively. On December 25, 2010, the PBOC announced an increase in its benchmark one year lending rate to 5.81% from 5.56%, effective as of December 26, 2010. We cannot assure you that the PBOC will not further raise lending rates in the future or that our business, financial condition and results of operations will not be adversely affected as a result of these adjustments. See "Risk Factors — Risks Relating to Our Business — We have a substantial amount of bank borrowings and some of our bank loans have floating interest rates and an increase in the interest rate may have an adverse effect on our financial performance."

We are also exposed to fluctuations in LIBOR. Our ICBC Bridge Loan carries an interest rate linked to LIBOR. For details on this credit facility, see "Description of Other Material Indebtedness." Higher interest rates may increase our finance costs, and our business, financial condition and results of operations could be adversely affected.

Liquidity Risk

Our management aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financial resources, including short-term and long-term bank loans and issuance of new ordinary shares. Due to the dynamic nature of our business, our finance department strives to maintain flexibility in funding by maintaining an adequate amount of cash and cash equivalents and having available sources of financing.

In order to enable us to meet our liabilities when they become due and to carry on our business in normal course in the foreseeable future, we have reached a number of agreements to extend our current borrowings and obtain new loan facilities.

The table below sets forth an analysis of our financial liabilities based on remaining maturity period as of December 31, 2007, 2008 and 2009 and September 30, 2010, respectively:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
At December 31, 2007					
Borrowings	272,353	28,000	35,800	—	336,153
Trade and other payables	173,355	—	—	—	173,355
Other liabilities	—	1,900	11,100	487	13,487
	445,708	29,900	46,900	487	522,995
At December 31, 2008					
Borrowings	269,184	445,876	—	—	715,060
Warrants classified as liabilities	—	46,593	—	—	46,593
Trade and other payables	241,379	—	—	—	241,379
Other liabilities	—	3,700	7,400	487	11,587
	510,563	496,169	7,400	487	1,014,619
At December 31, 2009					
Borrowings	1,288,868	254,888	135,000	—	1,678,756
Trade and other payables	532,421	—	—	—	532,421
Other liabilities	—	73,860	3,700	487	78,047
	1,821,289	328,748	138,700	487	2,289,224
At September 30, 2010 (unaudited)					
Borrowings	725,764	182,142	33,390	—	941,296
Trade and other payables	724,237	—	—	—	724,237
Other liabilities	—	39,917	7,400	—	47,317
	1,450,001	222,059	40,790	—	1,712,850

Inflation and Deflation Risk

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on our business during the past three years. According to the China Statistical Bureau, China's overall national inflation rate, as represented by the general consumer price index, was approximately 4.8% and 5.9% in the years ended December 31, 2007 and 2008, respectively. Deflation could negatively affect our business as it would be a disincentive for prospective property buyers to make a purchase. According to CEIC Data, in the year ended December 31, 2009, China experienced deflation of approximately 0.7%. As of the date of this offering memorandum, we had not been materially affected by any inflation or deflation.

Credit Risk

Our credit risk is primarily attributable to our trade receivables. We have adopted a policy of only dealing with what we believe to be creditworthy counterparties. We believe the credit risk relating to trade receivables is low. Our customers' default rate has been low in the past. Our credit risk exposure is spread among a large number of customers. As such, we believe we have no significant concentration of credit risk. Ongoing credit evaluation is performed on the financial condition of accounts receivable. We do not hold any collateral for trade and other receivables.

NON-GAAP FINANCIAL MEASURES

We use certain non-GAAP data, such as EBITDA, to provide additional information about our operating performance as we believe that it is a useful measure for certain investors to assess our operating performance, operating cash flow and historical ability to meet debt service and capital expenditure requirement. We calculate EBITDA by adding depreciation and amortization expenses to operating profit.

EBITDA is not a standard measure under IFRS and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of liquidity, profitability or cash flows derived in accordance with IFRS. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. Interest expense excludes amounts capitalized.

As a measure of our operating performance, we believe that the most directly comparable IFRS measure to EBITDA is profit for the year. We operate in a capital intensive industry. We use EBITDA in addition to profit for the year because profit for the year includes many accounting items associated with capital expenditures, such as depreciation and amortization. These accounting items may vary between companies depending on the method of accounting adopted by a company. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our operating profit under IFRS to our definition of EBITDA for the periods indicated.

	For the year ended December 31,				For the nine months ended September 30,		
	2007	2008	2009	2009	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)	(RMB'000)	(RMB'000)	(US$'000)
					(unaudited)		
Operating profit	174,911	283,244	616,238	92,106	426,870	738,552	110,388
Depreciation and amortization	44,857	64,383	103,103	15,410	73,525	145,780	21,789
EBITDA	**219,768**	**347,627**	**719,341**	**107,517**	**500,395**	**884,332**	**132,177**

You should not consider our definition of EBITDA in isolation or construe it as an alternative to profit for the periods indicated or as an indicator of operating performance or any other standard measure under IFRS. Our EBITDA measures may not be comparable to similarly titled measures used by other companies.

This industry overview section contains some information and statistics concerning the national and some regional PRC cement industry that we have derived partly from official government and industry sources. The information in these sources may not be consistent with information compiled by other institutions within or outside China. Due to the inherent time-lag involved in collecting any industry and economic data, some or all of the data contained in this section may only present facts and circumstances being described at the time such data was collected. As such, you should also take into account subsequent changes and developments in our industry and the PRC economy when you evaluate the information contained in this section.

We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Lead Managers or any of their respective affiliates or advisors, nor have any other parties involved in this offering independently verified such information or statistics. No representation is given as to the accuracy of such information.

INTRODUCTION

Cement is a basic and essential construction material and Portland cement is the most common type of cement. Various types of Portland cement are produced by mixing and grinding clinker with different composite materials such as gypsum, blast furnace slag and other additives. In the PRC, Portland cement is graded by its degree of compressive strength as measured in MPa, a British standard.

Clinker is an intermediate product produced in the cement manufacturing process. Clinker is ground down and mixed with gypsum and anhydrite, among other materials, to produce cement.

Concrete is formed when cement is mixed with water and aggregates, such as gravel and sand.

Types of Cement

The common types of cement are Ordinary Portland Cement (PO), Slag Portland Cement (PS) and Composite Portland Cement (PC). The common grades are 32.5R, 42.5R and 52.5R which differ in their compression strength.

Ordinary Portland Cement is a quick hardening cement with relatively strong initial compressive strength and is more resistant to abrasion. Typically, this type of cement is used in construction projects, such as roads and bridges, which have to be completed within a short period of time.

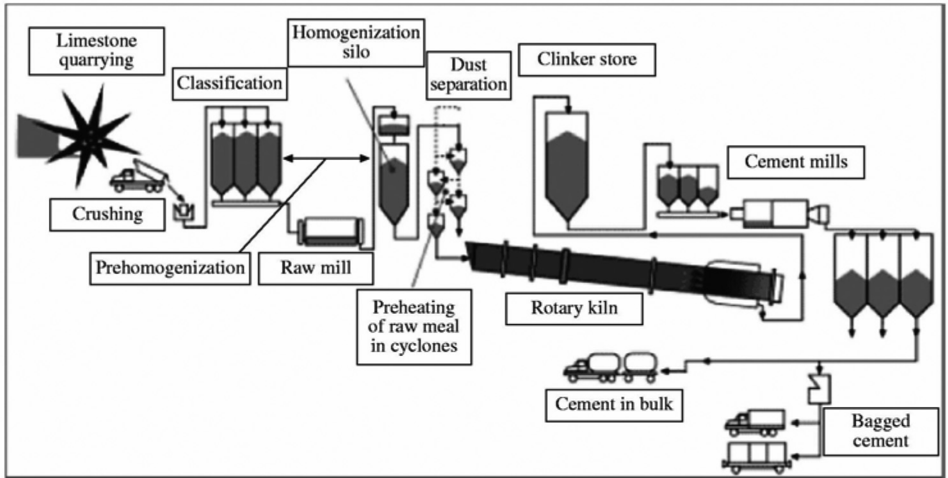
Slag Portland Cement is produced by mixing clinker with blast furnace slag and other additives. Slag Portland Cement has lower initial strength and less stable coagulate time than Ordinary Portland Cement. It has better heat resistance and adheres well to steel bars. This type of cement is used widely in underground buildings and in underwater and sea construction.

Composite Portland Cement is made of Ordinary Portland Cement and 15% to 50% of its composition is made up of aggregates, such as flyash, which is waste material derived from power stations. Composite Portland Cement is less expensive than Ordinary Portland Cement and Slag Portland Cement. It also has a lower compressive strength than Ordinary Portland Cement and is commonly used for general industrial and civil buildings.

CEMENT PRODUCTION AND TECHNOLOGY

The Production Process

The diagram below illustrates the cement production process.



There are four key stages in the production process of cement: (1) crushing of raw materials; (2) calcining and blending of raw materials; (3) sintering of clinker; and (4) grinding and blending of clinker to produce cement.

Crushing of Raw Materials

After extracting limestone from our quarries and purchasing other raw materials, such as gypsum, clay, flyash, pyrite cinder and slag, from suppliers, we transport these raw materials to our crushing installations, where they are refined into a fine compound.

The quarried limestone is reduced in size to a maximum of about three inches by crushers capable of handling pieces as large as an oil drum.

Calcining and Blending of Raw Materials

The next stage can be either a wet or dry process. In the wet process, crushed raw materials mixed in a certain proportion are ground with water to form a mud-like mixture of slurry before being transferred into a kiln. In the dry process, crushed raw materials mixed in a certain proportion are ground and mixed without water to form a raw meal before being transferred into a kiln. The slurry or raw meal will then be fed into the kiln system for calcinations.

In a huge cylindrical steel kiln lined with special firebrick and placed horizontally at a slight angle, the slurry or raw meal will be heated to about 2,700 degrees Fahrenheit (or about 1,450 degrees Celsius). The slurry or raw meal is then fed into the higher end of the kiln, and as it approaches the lower end, a roaring blast flame, which is produced by burning either coal, oil or gas, heats and chemically alters it.

Sintering of Clinker

As the material moves through the kiln, certain elements dissipate in the form of gases. After a series of complex physical and chemical reactions, the remaining elements unite to form a new substance the size of a marble called clinker.

Clinker is discharged from the lower end of the kiln and generally is brought down to handling temperature in various types of coolers. The heated air from the coolers is returned to the kilns, a process that saves fuel and increases burning efficiency.

Grinding and Blending of Clinker to Produce Cement

In order to produce cement, clinker is ground in a finishing mill to a fine powder and mixed with, among other raw materials, gypsum, a key addition which adjusts the setting time of the cement when cement is eventually used in the production of concrete.

Based on the type of cement to be produced, the clinker and other aggregates will be mixed together in an appropriate proportion. The mixture will then be fed into the cement grinding mill to be ground to the required fineness for cement production. The cement is then stored in silos and delivered to customers or distributors.

The cement manufacturing process consists of many simultaneous and continuous operations using some of the largest moving machinery in manufacturing. Several hundred sensors and computers allow the entire operation to be controlled by many operators from a central control room at the production sites.

Comparison between the Wet and Dry Process used in Cement Production

There are two different processes, namely wet and dry, used in cement production. In the wet process, the raw materials, properly proportioned, are ground and thoroughly mixed with water to form slurry and fed into the kiln. In the dry process, raw materials are ground, mixed, and fed to the kiln in a dry state. The dry process is more fuel-efficient and less polluting. In other respects, the two processes are essentially the same. The raw materials, mixed under either wet or dry process are then heated through the kiln to form a new substance with new physical and chemical characteristics, clinker.

Comparison between the Rotary and Vertical Kilns used in Cement Production

There are two types of kilns, vertical kilns and rotary kilns. The traditional production technologies use vertical kilns, which are less energy efficient and produced lower quality clinker. On the other hand, rotary kilns employ more advanced technology, such as NSP technology, and produce better quality clinker. Rotary kilns can be used in the wet, dry, or semi-dry process, while vertical kilns can only be used in the semi-dry process.

Comparison between NSP technology and non-NSP technology in Cement Production

The major characteristic of NSP technology is the pre-heating of raw materials for production of clinker before they are mixed and fed into the rotary kiln. In non-NSP technology production process, the raw materials are crushed and mixed to form a raw meal and fed into the rotary kiln without pre-heating. In contrast, the NSP technology requires pre-heating of the raw materials such that the raw materials are substantially decomposed prior to their mixing and feeding into the rotary kiln. This pre-heating process greatly enhances the efficiency of calcination and formation of clinker in the rotary kiln and reduces the energy consumption in the production of clinker. To the best knowledge of our directors, NSP technology is commonly adopted in the cement production process in China and other developed countries.

The following table shows a comparison between rotary kilns and vertical kilns:

	Technology	Product quality	Production efficiency	Pollution
Rotary kilns				
Wet process	Old	High	High	Low
Semi-dry process	New	High	High	Low
Dry process — NSP	Latest	Highest	Highest	Lowest
Vertical kilns	Old	Low	Low	High

Prior to 2000, most cement production lines in the PRC used vertical kilns to produce cement, while rotary kilns adopting NSP technology, which generally discharges fewer harmful emissions and produces better quality cement, accounted for approximately 14.1% of cement production capacity in the PRC in 2001. With the intention to control pollution and industry waste, government policies encourage the use of NSP technology. Rotary kilns with NSP technology is now the most common cement production technology in the PRC, and accounted for approximately 63.0% of total cement produced in 2008, according to China Cement Association.

CEMENT MARKET IN THE PRC

The PRC economy experienced significant growth in recent years. The total GDP of the PRC increased from approximately RMB21,192.4 billion in 2006 to approximately RMB33,535.3 billion in 2009, representing a CAGR of 16.5%, rendering the PRC one of the fastest growing economies in the world.

Accompanying the strong economic growth is the need for building and construction of infrastructure and other fixed assets. China's total FAI grew from approximately RMB10,999.8 billion in 2006 to approximately RMB22,484.6 billion in 2009, representing a CAGR of 26.8%. The massive expansion of the construction industry in turn drove the growth of cement production and consumption. China's total cement production volume amounted to approximately 1,629.0 million tons in 2009 compared with approximately 1,240.0 million tons in 2006, representing a CAGR of 9.5% from 2006. China's total cement consumption volume amounted to approximately 1,620.5 million tons in 2009, representing a CAGR of 9.9% from 2006.

Effect of world financial turmoil

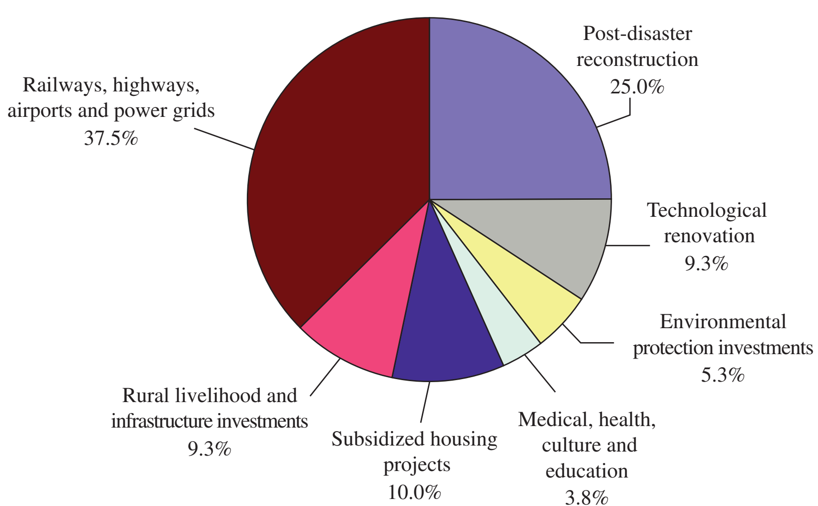
The financial turmoil affected the global economy as well as the economy of the PRC. Year over year real GDP growth in 2008 was approximately 9.6%, a decrease from the higher growth rates of approximately 10.0% to 13.0% for the years between 2003 and 2007. The PRC government took immediate actions to boost the economy by launching a RMB4 trillion economic stimulus package which provided for investment in infrastructure and expansion of social benefit programs. As a result, many government and infrastructure projects were commenced or accelerated in 2008 and 2009, including railways, highways, rural development projects, subsidized housing and post-disaster reconstruction, accounting for approximately 81.8% of the total stimulus package. In light of the increase in investments by the PRC government, many provincial governments pushed forward their investment plans and began constructing a number of major infrastructure projects in the first quarter of 2009, which drove a significant increase in FAI in the first quarter in 2009. Examples of these projects in Shaanxi province include the Zhengzhou-Xi'an Passenger Line (鄭西客運專綫), Baotao-Xi'an Railway (包西鐵路), Xi'an-Chengdu Passenger Line (西安至成都客運專綫), Xi'an-Ankang Railway (西安至安康鐵路複綫) and Shiyan-Tianshui Expressway (十天高速).

The table below sets forth the amounts and growth rates of GDP, FAI and cement production in the PRC for the periods indicated.

	For the year ended December 31,				CAGR (%)
	2006	2007	2008	2009	2006-2009
GDP:					
RMB (in billions)	21,192.4	25,730.6	31,404.5	33,535.3	16.5%
Growth rate (%)	11.6%	13.0%	9.6%	8.7%	—
FAI:					
RMB (in billions)	10,999.8	13,732.4	17,229.1	22,484.6	26.8%
Growth rate (%)	23.9%	24.8%	25.5%	30.1%	—
Cement Production:					
Tons (in millions)	1,240.0	1,360.0	1,400.0	1,629.0	9.5%
Growth rate (%)	17.0%	9.7%	2.9%	16.4%	—
Cement Consumption:					
Tons (in millions)	1,220.6	1,344.8	1,368.8	1,620.5	9.9%
Growth rate (%)	16.4%	10.2%	1.8%	18.4%	—

Source: National Bureau of Statistics, Digital Cement Net

The pie chart below illustrates the breakdown of the RMB4 trillion economic stimulus package in the PRC.



Source: NDRC

Regionalized Market

The low value-to-weight ratio of cement raw material and finished products deters long distance transportation. The production and sale of cement tend to be regionally concentrated.

Cement production is unevenly spread across the PRC, with concentration in the Eastern, Central and Southern regions. The top four provinces, by production volume, namely Shandong, Jiangsu, Henan and Zhejiang are located on the eastern seaboard of China. These four provinces collectively accounted for approximately 31.3% of the total production volume in the PRC in 2009. Shaanxi province, ranked 16th in terms of cement production in 2009, accounted for only approximately 2.7% of the national cement production volume.

Key industry trends in the PRC

Promotion of NSP technology

Most of the developed nations in the world began phasing out vertical kilns in the 1970s, opting instead for a more advanced and environmentally friendly rotary kilns. In the PRC, the process of phasing out vertical kilns only began in recent years. The elimination of vertical kilns was a slow process until the manufacturing of NSP cement production equipment was introduced domestically in the middle of year 2000.

The table below sets out the ratio of cement produced in the PRC with NSP technology as a percentage of total production for the years from 2001 to 2008.

2001	2002	2003	2004	2005	2006	2007	2008
14.1%	17.1%	22.1%	32.8%	44.9%	48.8%	55.0%	63.0%

Source: China Cement Association (Digital Cement Net)

The increase in popularity of NSP technology is partly due to significant investment cost reductions after PRC manufacturers mastered the equipment manufacturing skills and produced it locally. The high production efficiency and reliable cement quality from NSP production and rising energy cost have also contributed to the shift to this new technology.

The PRC government has also been promoting the NSP technology and issued a series of regulations intended to phase out obsolete production technologies. According to the Notice Regarding Replacement of Obsolete Cement Production Capability (關於做好淘汰落後水泥生產能力有關工作的通知) issued on February 18, 2007 and the Policies on the Development of the Cement Industry (水泥工業產業發展政策) 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. It also forbade any new production line to use vertical kilns and less advanced technologies. The NDRC also required in these policies that all local governments 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. The PRC government aims to achieve 70% NSP output by 2010. There are also various new regulations promoting the usage of higher quality cement, which is mainly used for larger scale infrastructure and high-rise building projects and can only be produced in rotary kilns. Furthermore, the government is currently offering VAT tax refunds to cement producers that are able to demonstrate a 30% recycling rate for raw materials, a level that is difficult for cement producers who use vertical kiln to achieve.

Industry consolidation

The cement industry in the PRC is highly fragmented. The government aims to promote corporate restructuring and consolidation at regional levels through gradual integration of operation and the optimization of resources allocation in order to concentrate the production effort and enhance competitiveness of cement producers generally.

In recent years, major cement producers in the PRC have started the industry consolidation process in various parts of the PRC via mergers and acquisitions. The aim is to increase their market share and competitiveness. As stated in the Policies on the Development of the Cement Industry (水泥工業產業發展政策) issued in October 2006, the PRC government intends to shrink the number of cement producers from 5,000 in 2006 to 2,000 in 2020. Of the 2,000 cement producers, 10 shall have annual capacity of 30 million tons and 40 shall have annual capacity of five million tons. According to Digital Cement Net, cement producers in the Northeast provinces of the PRC have already begun consolidating other cement producers of smaller scale and size.

Curbing oversupply

Despite the economic recovery plans to boost investment growth, certain industries, including the cement industry, were over-expanding, which led to the government's launch of policies to limit new capacity growth. Under the State Council's Notice Approving the NDRC's Guidelines on Redundant Construction, Curbing Overcapacity in Certain Industries and the Healthy Development of Industries (國務院批轉發展改革委等部門關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見的通知) issued by the State Council on September 26, 2009, and the Criteria for Entry to the Cement Industry (水泥行業准入條件) issued by the Ministry of Industry and Information Technology on November 16, 2009, which will come into effect on January 1, 2011, the PRC government has set out rules and opinions to increase the entry barriers of new cement production companies, including higher requirements for capital, industry experience and compliance with local development plans. According to the Criteria for Entry to the Cement Industry, among others, new cement production lines or expansion of current cement production lines must comply with the cement industrial policy of the province where the production lines are located. Applicants for new cement production lines must have limestone resources sufficient to support at least 30 years of excavation for cement production. These efforts are specifically targeted at regions such as eastern and southwestern China. Northwestern China, however, does not suffer from over-capacity problem due to strong investment from the PRC government to boost local demand. (Source: China Cement Net — Over-capacity, *The Growth of Cement Industry* (中國水泥網 — 產能過剩水泥業成長過程中的陣痛)

Increased focus on environmental protection

In response to increasing concerns regarding environmental problems in the PRC, 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 processes, reducing energy consumption in the cement and clinker production processes across the industry.

According to the Notice regarding Several Opinions for Accelerating Adjustments of Cement Industrial Structure (關於加快水泥工業結構調整的若干意見) issued by the NDRC and seven other ministries of the PRC government on April 13, 2006, by the end of 2010, the heat consumption for producing clinker with NSP should be reduced from 130 kg/ton to 110 kg/ton of coal equivalent, the percentage of production lines with residual heat recovery systems should reach 40% and utilization rate of limestone reserves should be increased from 60% to at least 80%. Our production facilities are expected to comply with such relevant requirements by the end of 2010. Our production facilities at Pucheng, Lantian, Xunyang, Zhen'an and Yangxian were able to reduce their heat consumption level to about 110 kg/tons. The percentage of our production lines with residual heat recovery systems is expected to reach 80% by the end of 2010 and our utilization rate of the limestone reserves has reached over 80%.

In recent years, the cement research institutions in the PRC have developed key technologies for decreasing or eliminating toxins from substances that are considered hazardous so that they may be recycled and reused in kilns. Cement producers have successfully implemented these technologies, which has laid the foundation for further development of recycling techniques in the cement industry.

SHAANXI PROVINCE CEMENT MARKET OVERVIEW

Shaanxi province, located in the middle of the PRC, has historically been considered the nation's "gateway to the west." It is a strategic transportation hub, linking northwest and southern China. Shaanxi province is also part of the Western Development Plan implemented in 1999 (Source: Western China Development Web (中國西部開發網), a website operated by State Information Center of the PRC) with the aim to boost economic development in western China. Enterprises located in western China enjoy a preferential enterprise income tax rate of 15% as part of the Western Development Plan. The PRC government and various local governments in western China have also mandated a large number of infrastructure projects under the Western Development Plan. In addition, northwestern China will likely benefit from the PRC government's post-financial crisis stimulus package since many railway and highway projects will be undertaken and rapid rural development is under way in northwestern China.

Shaanxi province's GDP growth continued to outpace the national average in the past decade. Despite the global financial crisis in 2008, Shaanxi province maintained double-digit GDP growth of approximately 15.6% in 2008, which was higher than the national GDP growth rate of approximately 9.6%. Accompanying the GDP growth, FAI in Shaanxi province also increased to approximately RMB655.3 billion or by approximately 35.1% in 2009. In contrast, the national total FAI growth for all of China for the same period was approximately 30.1%. The rapid growth of the total FAI in Shaanxi province is underpinned by the PRC government's investment growth policy to maintain GDP as well as by the increased wealth of the general public of Shaanxi province.

The 2009-2020 Guanzhong-Tianshui Economic Zone Development Plan

In June 2009, the State Council approved the "2009-2020 Guanzhong-Tianshui Economic Zone Development Plan," (關中—天水經濟區發展規劃) or the Plan, which serves to facilitate regional coordinated development and establish a platform for the "Go West" initiative. The Guanzhong-Tianshui Economic Zone, or the Zone, covers Xi'an, Xianyang, Tongchuan, Weinan, Baoji, certain counties in Shangluo, the Yangling Agricultural High-tech Industry Demonstration Zone in Shaanxi province and the administrative district under Tianshui city in Gansu province. The Zone is targeted to contribute more than one-third of the total GDP in the northwestern region. Planned projects in the Zone include power plant construction, coal resources exploration, watercourse improvement works, development of 3G mobile communication, the construction of an underground railway in Xi'an-Xianyang and strengthening the functionality of the Xi'an-Xianyang International Airport. We believe that the Plan will further contribute to the future growth of the cement market in Shaanxi province.

The table below sets forth the amounts and growth rates of GDP, FAI, cement production and cement consumption in Shaanxi province and the PRC for the periods indicated.

	Year ended December 31,				CAGR
	2006	2007	2008	2009	2006-2009
GDP: RMB (in billions)					
Shaanxi	438.4	537.0	685.1	818.7	23.2%
GDP Growth rate:					
Shaanxi	12.7%	14.4%	15.6%	13.6%	23.2%
China	11.6%	13.0%	9.6%	8.7%	16.5%
FAI: RMB (in billions)					
Shaanxi	261.0	364.2	483.5	655.3	35.8%
FAI Growth rate:					
Shaanxi	31.9%	39.5%	32.8%	35.1%	35.8%
China	23.9%	24.8%	25.5%	30.1%	26.8%
Cement Production: Tons (in millions)					
Shaanxi	23.8	30.3	36.1	44.8	23.5%
Cement Production Growth rate:					
Shaanxi	20.8%	27.4%	19.2%	24.1%	23.5%
China	17.0%	9.7%	2.9%	16.4%	9.5%
Cement Consumption: Tons (in millions)					
Shaanxi	26.5	34.0	37.5	47.5	21.5%
Cement Consumption Growth rate:					
Shaanxi	20.5%	28.3%	10.3%	26.7%	21.5%
China	16.4%	10.2%	1.8%	18.4%	9.9%

Source: National Bureau of Statistics, Shaanxi Provincial Bureau of Statistics, Digital Cement Net

Despite its relatively small size, Shaanxi province's cement market grew strongly in recent years. Total cement production in Shaanxi province increased from approximately 23.8 million tons in 2006 to approximately 44.8 million tons in 2009, representing a CAGR of 23.5% compared with 9.5% nationwide. Shaanxi province's cement consumption increased from approximately 26.5 million tons for 2006 to approximately 47.5 million tons for 2009, representing a CAGR of 21.5%, compared with a CAGR of 9.9% for China as a whole during the same period. This high growth rate is directly attributable to the high FAI in Shaanxi province, as one of the provinces greatly benefited from the PRC government's economy stimulus investment and the Western Development Plan.

The table below sets forth the top ten regions with highest CAGR for cement production volume in the PRC between 2003 and 2009.

2003-2009 CAGR of Cement Production Volume

Rank	Province or Region	2003-2009 CAGR
1	Inner Mongolia	31.0%
2	Jilin	23.9%
3	Shaanxi	19.5%
4	Jiangxi	19.0%
5	Guangxi	17.1%
6	Fujian	17.1%
7	Yunnan	17.0%
8	Henan	16.3%
9	Hunan	16.3%
10	Anhui	15.7%

Source: China Cement Association (Digital Cement Net), National Bureau of Statistics

Regional Cement Market Overview within Shaanxi province

Shaanxi province is divided into ten regions, namely Ankang, Baoji, Hanzhong, Shangluo, Tongchuan, Weinan, Xi'an, Xianyang, Yan'an and Yulin, as indicated on the map below.

As a whole, the supply and demand of cement in Shaanxi province have maintained a stable balance while increasing gradually. Xi'an is the largest cement market and accounts for about 40% of the demand in Shaanxi province. Cement producers in Shaanxi province are located close to limestone reserves. Limestone is a scarce resource in northern Shaanxi, namely Yulin and Yan'an regions. Most of the limestone resources as well as the cement producers are located in Baoji, Xianyang, Tongchuan, and Weinan, which together supply more than 50% of Shaanxi province's cement output. As a relatively underdeveloped and mountainous region, southern Shaanxi has low cement output and consumption.

The Xi'an, Yan'an and Yulin regions have the biggest cement demand and supply gap. According to Digital Cement Net, the Xi'an region consumed 15 million tons of cement in 2008 with more than 70% of the cement supply coming from neighboring regions such as Tongchuan, Xianyang, Baoji and Weinan in Shaanxi province. The cement prices in Xi'an remained stable because there was sufficient supply to satisfy the high demand. Yan'an and Yulin purchase cement from neighboring provinces, such as Ningxia and Inner Mongolia, and recorded some of the highest prices in Shaanxi province.

The Ankang, Hanzhong and Shangluo regions in southern Shaanxi maintained a balanced position in terms of cement supply and demand in 2009. However, due to the mountainous topography and lack of transportation network, the cement prices were relatively high. There are several infrastructure projects taking place and/or commencing in these regions such as Shiyan-Tianshui Expressway, Xi'an-Chengdu Passenger Line and Xi'an-Ankang Railway, which will further boost cement demand in southern Shaanxi.

The table below sets forth the demand by region in 2009 in Shaanxi province:

Region	**Demand ('000 tons)**
Ankang	3,300
Baoji	4,400
Hanzhong	3,000
Shangluo	2,400
Tongchuan	800
Weinan	3,500
Xi'an	17,500
Xianyang	4,600
Yan'an	3,700
Yulin	4,300
Total	47,500

Source: China Cement Association (Digital Cement Net)

The industry figures for demand and average prices of specific cement products in the regions where we operate are not available. In addition, because of the different types and grades of cement products and their different selling prices, our directors consider any comparison of average price of a specific product would not provide any meaningful information and the comparison of the average prices of all of our products would be inappropriate.

Competitive landscape

In Shaanxi province, raw materials and cement are typically transported by road. There is no water transportation system and the rail network coverage is not extensive. The high transportation costs have hindered the transport of cement from other provinces entering Shaanxi province. However, in northern Shaanxi, due to its lack of limestone resources and cement output, cement is usually purchased from neighboring provinces such as Ningxia and Inner Mongolia.

There are many small producers with small output capacity in Shaanxi province. According to Digital Cement Net, there were 164 cement producers in Shaanxi province which had proper and valid approvals and licenses, annual sales of over RMB5 million and annual production capacity of over 150,000 tons of cement in 2008, of which only seven producers had annual clinker production volume exceeding one million tons, which accounted for approximately 77.4% of the total cement production capacity of Shaanxi province.

The details of the aforesaid seven producers are set out below:

Ranking	Name	Cement Production Volume (thousand tons) in 2008
1	Tangshan Jidong Cement Co., Ltd. (唐山冀東股份有限公司)	3,979.3
2	Our Group	3,422.4
3	Shaanxi Qinling Cement (Group) Co., Ltd. (陝西秦嶺水泥(集團)股份有限公司)	2,960.1
4	Shengwei Cement Co., Ltd. (聲威水泥建材集團有限公司)	2,864.1
5	Baoji Zhongxi Cement Co., Ltd. (寶雞眾喜水泥有限公司)	2,397.0
6	Shaanxi She Hui Cement Co., Ltd. (陝西社會水泥有限責任公司)	1,293.4
7	Shaanxi Fuping Cement Co., Ltd., a subsidiary of Italcementi Group (意大利水泥集團的附屬公司，陝西富平水泥有限公司)	1,180.0

The following table sets out the nine largest producers in Shaanxi province in terms of cement production capacity as of December 31, 2009:

Ranking	Name	Cement Production Capacity (thousand tons) in 2009
1	Tangshan Jidong Cement Co., Ltd. (唐山冀東股份有限公司)	8,680
2	Our Group	8,120
3	Shengwei Cement Co., Ltd. (聲威水泥建材集團有限公司)	6,510
4	Baoji Zhongxi Cement Co., Ltd. (寶雞眾喜水泥有限公司)	4,640
5	Shaanxi Qinling Cement (Group) Co., Ltd. (陝西秦嶺水泥(集團)股份有限公司)	4,120
6	Shaanxi Fuping Cement Co., Ltd., a subsidiary of Italcementi Group (意大利水泥集團的附屬公司，陝西富平水泥有限公司)	2,170
7	Shaanxi She Hui Cement Co., Ltd. (陝西社會水泥有限責任公司)	1,090
8	Sinoma China National Materials Group Corporation Ltd. (中國中材集團有限公司)	1,090
9	Ankang Jianghua Cement Co., Ltd. (安康江華水泥有限公司)	1,090

Source: Digital Cement Net

Based on an annual cement production volume for 2009 in Shaanxi according to Digital Cement Net and our volume of cement production in the corresponding period, our production accounted for approximately 11.4% of all cement produced in Shaanxi for 2009. We are not able to include market share information of our competitors as the information on production capacity/volume of our competitors in Shaanxi province is not publicly available. We plan our sales and expansion strategy based on our internal study through self-collection of other market data available and the management's industry knowledge and experience.

On June 14, 2007, the provincial government of Shaanxi province promulgated the Notice on Phasing Out Obsolete Cement Production Capacity (關於做好全省淘汰落後水泥生產能力工作的通知), which provided that approximately 15.6 million tons of cement production capacity with obsolete technology would be eliminated between 2007 and 2010, among which approximately 60%, or approximately 9.9 million tons, will be in the five regions, namely, Ankang, Hanzhong, Shangluo, Weinan and Xi'an, where we have production facilities. Approximately 3.3 million tons had been eliminated by the end of 2008, and approximately 6.6 million tons will be eliminated by the end of 2010.

The table below indicates the plan to phase out cement production lines with obsolete technology from 2007-2010 in Shaanxi province:

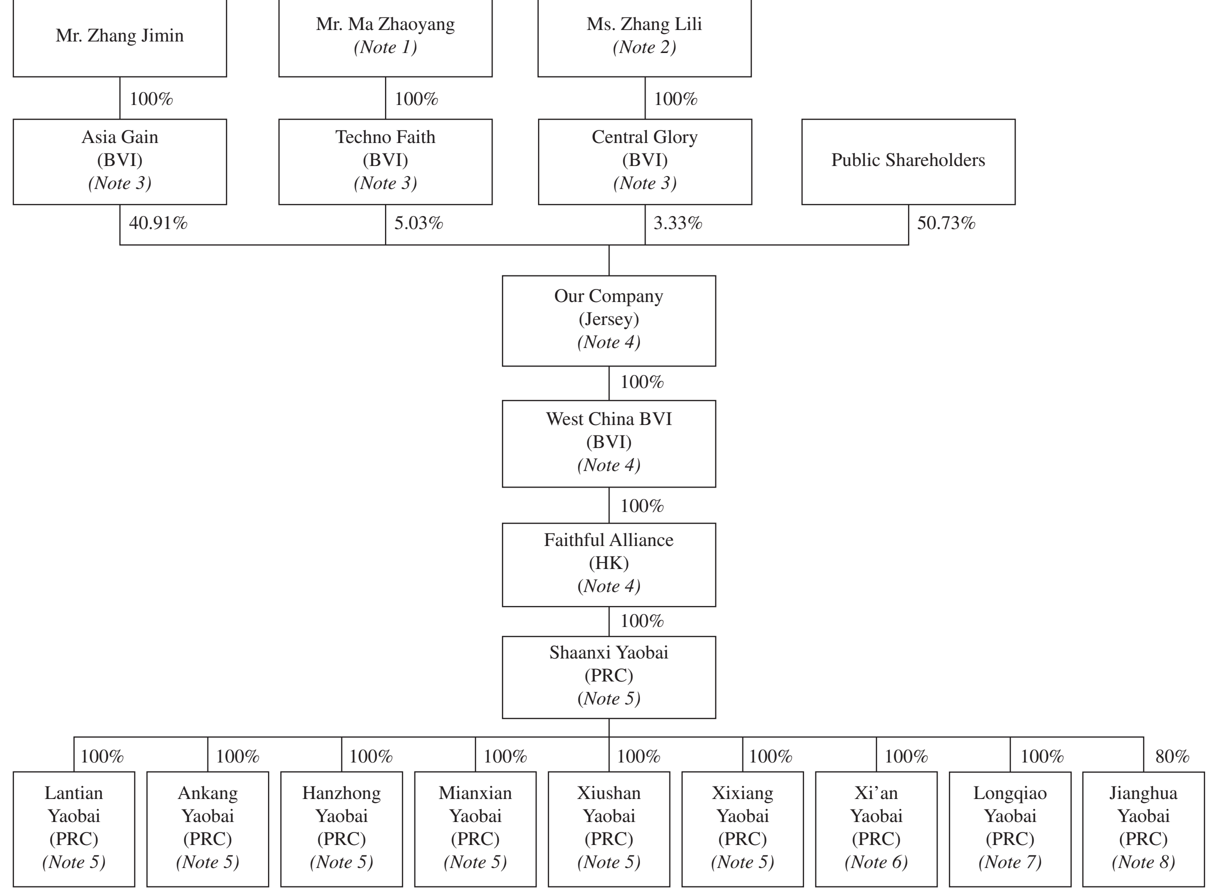
Regions	Total capacity planned to be phased out	Capacity closed as of end of 2008	Closure between 2009-2010
	(All in thousand tons)		
Our market	9,880	3,280	6,600
Ankang	550	200	350
Hanzhong	950	200	750
Shangluo	570	280	290
Weinan	5,530	1,850	3,680
Xi'an	2,280	750	1,530
Other regions	5,750	3,220	2,530
Baoji	1,900	1,090	810
Tongchuan	2,950	1,750	1,200
Xianyang	900	380	520
Yan'an	—	—	—
Yulin	—	—	—
Total	15,630	6,500	9,130

Source: Notice Regarding Replacement of Obsolete Cement Production Capability by Office of Shaanxi Provincial Government (陝西省人民政府辦公廳關於做好全省淘汰落後水泥生產能力工作的通知)

We engaged Beijing Zhongshui Xiewang Information Consulting Company Limited (北京中水協網資訊諮詢有限公司), a consulting company organized by China Cement Association which focuses on the cement industry and operates Digital Cement Net (www.dcement.com), an independent third party, to conduct a detailed analysis of the cement market in Shaanxi province. Digital Cement Net uses a variety of government sources and conducts market surveys to gather first-hand market information in preparation for the Digital Cement Report. The China Cement Association is a social organization legal entity (社會團體法人) established in the PRC whose affairs are supervised by the State Economic and Trade Commission (國家經濟貿易委員會), a department of the State Council of the PRC, representing over 4,000 cement makers in the PRC with an annual aggregate production volume of 1.2 billion tons. It helps to formulate industry development strategies, legal policies, and industry standards and guidelines. We paid a total of RMB180,000 to Digital Cement Net for its services. Digital Cement Net compiled a report in July 2010, which consisted of historical data for the period from 2001 to 2008, where available. The methodology combines primary and secondary research to provide a composite analysis of the market.

CORPORATE STRUCTURE

The following chart sets forth our corporate structure as of the date of this offering memorandum:



Notes:

1. *Mr. Ma Zhaoyang is a non-executive director.*
2. *Ms. Zhang Lili is the daughter of Mr. Zhang.*
3. *The principal business activity of each of Asia Gain, Techno Faith Investments Limited (科信投資有限公司) ("Techno Faith") and Central Glory is investment holding.*
4. *The principal business activity of each of our Company, West China BVI and Faithful Alliance is investment holding.*
5. *The principal business activity of each of Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai, Mianxian Yaobai, Xiushan Yaobai and Hanzhong Xixiang Yaobai Cement Company, Ltd. (漢中西鄉堯柏水泥有限公司) ("Xixiang Yaobai") is production and sales of cement.*
6. *The principal business activity of Xi'an Yaobai Material Company, Ltd. (西安市堯柏物資有限公司) ("Xi'an Yaobai") is wholesale of raw materials.*
7. *We owned an 80% interest in Longqiao Yaobai as of December 2009. We acquired the remaining 20% equity interest in Longqiao Yaobai from Shaanxi Danshui on January 10, 2011. The principal business activity of Longqiao Yaobai is production and sale of cement.*
8. *We acquired an 80% interest in Jianghua Yaobai pursuant to a joint venture agreement with Jianghua Cement and Jianghua Mining in December 2010. Jianghua Yaobai obtained its business licence on January 6, 2011. The principal business activity of Jianghua Yaobai is production and sale of cement.*

OVERVIEW

We are a leading cement producer in Shaanxi province in China as measured by production capacity in 2009, according to Digital Cement Net, a website operated by the China Cement Association. Our cement is sold under the trademarks "堯柏" (Yao Bai) and "堯柏水泥" (Yaobaishuini) and is primarily used in the construction of infrastructure projects such as highways, bridges, railways and roads, as well as residential buildings. Our shares have been listed on The Stock Exchange of Hong Kong Limited since August 2010. Our cement can be categorized into high grade cement and low grade cement. High grade cement is a category of cement that generally has a 28-day compressive strength of 42.5 MPa, or 425 kg/cm^2, or above and is primarily used for government infrastructure projects. Low grade cement is a category of cement that generally has a 28-day compressive strength of 32.5 MPa, or 325 kg/cm^2, or below and is primarily used for residential buildings.

As of September 30, 2010, we had nine cement production lines located in Shaanxi province, with a total annual production capacity of 11.4 million tons. According to Digital Cement Net, a website operated by the China Cement Association, we were the second largest cement producer in Shaanxi province by production capacity as of December 31, 2009. All of our production lines employ NSP technology, which requires less energy to produce cement and is more environmentally friendly than non-NSP technologies. For the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our production lines produced 2.4 million, 3.5 million, 5.1 million and 6.7 million tons of cement, respectively. In September 2010, we completed the second production line in our Pucheng production facility with a total annual production capacity of 1.1 million tons. In order to meet the fast-growing market demand for cement products in Shaanxi province, we are constructing a new production line in Xixiang county, Hanzhong region in Shaanxi province with a total annual production capacity of 1.1 million tons, which we expect to complete in the first quarter of 2011. This additional production facility, combined with our acquisition of Jianghua Yaobai, is expected to increase our annual production capacity to 13.6 million tons upon its completion in the first quarter of 2011. Upon the completion of a new production line with an annual production capacity of 1.3 million tons at our Danfeng production facility, we expect to have a total annual production capacity of 14.9 million tons by the end of 2011. We intend to further increase our production capacity through acquisitions of suitable target companies or assets.

Our revenue derived from sales of cement products as of September 30, 2010 was RMB2,017.7 million. For the years ended December 31, 2007, 2008 and 2009, our revenues derived from sales of cement products were RMB525.9 million, RMB866.1 million and RMB1,516.8 million, respectively.

Limestone is the principal raw material used in our production of cement. We have obtained mining rights to a number of limestone quarries, most of which are located near our production facilities. Our mining rights are for periods ranging from one to 15 years, with expiration dates between August 2011 and December 2022. Our convenient access to limestone reserves provides us with a secure and stable supply of limestone at low transportation costs. We have sufficient reserves of limestone to meet the current production requirements of our existing production facilities for at least 30 years, based on government surveyors' reports on the amounts of our limestone reserves, the annual excavation limits specified in our mining licenses and our current production requirements. We use coal as fuel in our production process, and it represents one of the largest components of our cost of sales. We have convenient access to large coal mines in Shaanxi province, which ensures that we have an abundant supply of coal at low transportation costs. For the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our raw materials, which primarily included limestone, gypsum, clay, flyash,

pyrite cinder and slag, represented approximately 34.0%, 26.0%, 32.4% and 32.0% of our cost of sales, respectively; coal represented approximately 21.4%, 36.0%, 31.2% and 33.1% of our cost of sales, respectively; and electricity represented approximately 24.8%, 22.0%, 20.7% and 19.0% of our cost of sales, respectively.

Our advanced technology includes residual heat recovery systems, NSP technology and recycling of industrial by-products, industrial waste and construction waste. Our residual heat recovery system collects residual heat from the cement production process to generate power that can be used in the production process, thereby lowering electricity costs. All of our production lines employ NSP technology, which requires less energy to produce cement and is more environmentally friendly than non-NSP technologies.

Our advanced technology also enables us to recycle and use industrial by-products, industrial waste and construction waste in our production process, which lowers our cost of production and also entitles us to VAT refunds from the PRC government. During the three years ended December 31, 2009 and the nine months ended September 30, 2010, these VAT refunds amounted to approximately RMB30.5 million, RMB39.2 million, RMB65.0 million (US$9.7 million) and RMB75.8 million (US$11.3 million), respectively. We also enjoy other government incentives such as industrial development subsidies and "clean" project investment incentives, which together amounted to approximately RMB5.2 million, RMB1.5 million, RMB6.5 million (US$1.0 million) and RMB4.3 million (US$0.6 million), respectively, during the same period.

All of our customers are located in Shaanxi province. We conduct our sales primarily through our regional and local sales offices in Shaanxi province. We have five regional sales offices in the Xi'an, Weinan, Ankang, Hanzhong and Shangluo regions, and five local sales offices in Pucheng, Lantian, Xunyang, Zhen'an and Danfeng counties.

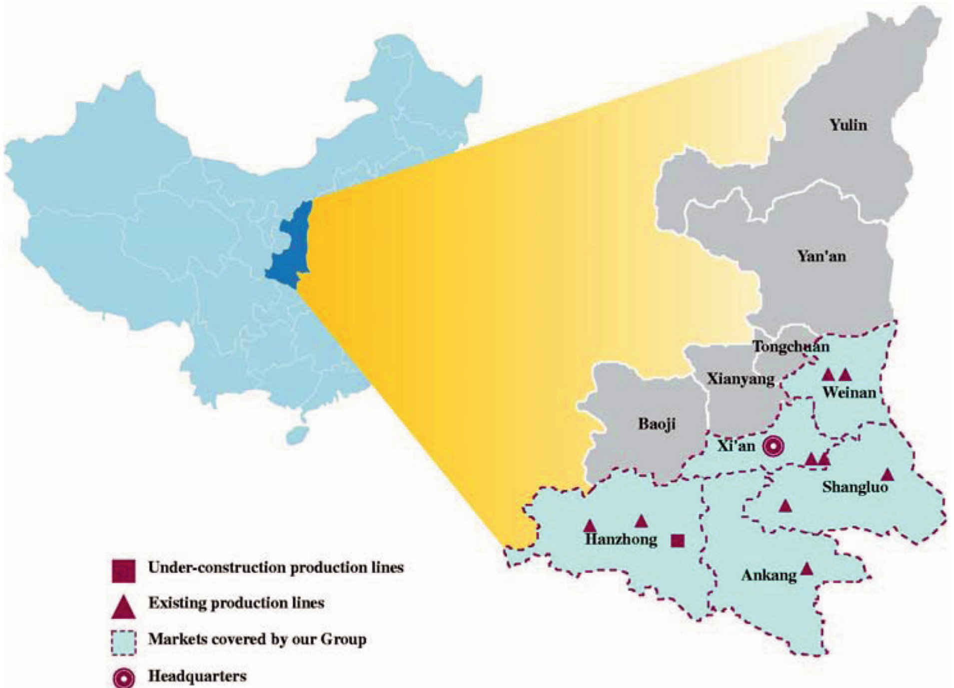
We primarily sell our cement either directly to government infrastructure projects and ready-mixed concrete stations or to distributors, which then resell our cement to retail purchasers.

The percentages of our revenue represented by our customer type segments, namely government infrastructure projects, ready-mixed concrete stations, distributors and others, fluctuated during the three years ended December 31, 2009 and the nine months ended September 30, 2010. The percentage of our revenue represented by sales to government infrastructure projects decreased and the percentage of our revenue represented by sales to ready-mixed concrete stations increased in 2008 compared with 2007 because our Lantian production facility, which ramped up to full operations in 2008, mainly served the Xi'an market where there was substantial demand from ready-mixed concrete stations. Our sales to government infrastructure projects as a percentage of our revenue increased significantly in 2009 as the PRC government's fixed asset investment in southern Shaanxi province increased, which led to increased demand for cement by government infrastructure projects in our target markets. Our sales to government infrastructure projects as a percentage of our revenue remained largely the same for the nine months ended September 30, 2010 compared with the same period in 2009. The percentage of our revenue derived from sales of high grade cement increased and the percentage of our revenue derived from sales of low grade cement decreased from 2007 to 2009 and between the nine months ended September 30, 2009 and 2010.

We achieved significant growth in revenue, operating profit and net profit during the three years ended December 31, 2009 and the nine months ended September 30, 2010. Our revenue increased from approximately RMB525.9 million for the year ended December 31, 2007 to approximately RMB866.1 million for the year ended December 31, 2008 and to approximately

RMB1,516.8 million (US$226.7 million) for the year ended December 31, 2009, representing a CAGR of 69.8% from 2007 to 2009. Our operating profit increased from approximately RMB174.9 million for the year ended December 31, 2007 to approximately RMB283.2 million for the year ended December 31, 2008 and to approximately RMB616.2 million (US$92.1 million) for the year ended December 31, 2009, representing a CAGR of 87.7% from 2007 to 2009. Our net profit increased from approximately RMB150.3 million for the year ended December 31, 2007 to approximately RMB246.2 million for the year ended December 31, 2008 and to approximately RMB330.5 million (US$49.4 million) for the year ended December 31, 2009, representing a CAGR of 48.3% from 2007 to 2009. For the nine months ended September 30, 2010, our revenue, operating profit and net profit were RMB2,017.7 million (US$301.6 million), RMB738.6 million (US$110.4 million) and RMB557.0 million (US$83.3 million), which increased by 89.7%, 73.0% and 178.8%, respectively, compared with the same period in 2009.

The map below indicates the locations of our production facilities in Shaanxi province as of the September 30, 2010:



OUR STRENGTHS

We believe that our competitive strengths include the following:

We are a leading cement producer in Shaanxi province and are well positioned to capture the growth opportunities in its fast-growing construction industry

We were the second largest cement producer in Shaanxi province by production capacity as of December 31, 2009, according to Digital Cement Net, a website operated by the China Cement Association. We were recognized by *Forbes* magazine as one of the "Famous Enterprises With Highest Growth Potential in China" for three consecutive years from 2006 through 2008. In September 2009, we were selected by *Forbes* as one of Asia's 200 best companies with a market capitalization under US$1 billion. In 2009 we were recognized as an "Outstanding Foreign-Invested Enterprise" by the Xi'an Foreign Invested Enterprise Committee.

On September 26, 2009, the State Council promulgated the State Council's Notice Approving the NDRC's Guidelines on Redundant Construction, Curbing Overcapacity in Certain Industries and the Healthy Development of Industries (國務院批轉發展改革委員會等部門關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見的通知), which seeks to control overall production capacity in the cement industry and encourages large producers with advanced technology to acquire smaller ones with less advanced technology. Our large production scale and leading market position in Shaanxi province allow us to benefit from the current PRC government policies to support large cement manufacturers and encourage consolidation within the cement industry. We believe that strong government support helps us access resources and to capitalize on market opportunities.

Since 2001, the growth rates of Shaanxi province's GDP and FAI have consistently been above the national averages. According to Shaanxi Provincial Bureau of Statistics, for the year ended December 31, 2009, Shaanxi province's GDP and FAI increased by approximately 13.6% and 35.1%, respectively, compared with 2008, while GDP and FAI for China increased by approximately 8.7% and 30.1%, respectively, during the same periods. Weinan, Ankang, Hanzhong and Shangluo, all of which are within our core markets, have relatively high FAI growth rates within Shaanxi province.

As a result of economic development in Shaanxi province, the demand for construction materials, including cement, has been growing rapidly. According to Digital Cement Net, cement sales in Shaanxi province were approximately 26.5 million tons, 34.0 million tons, 37.5 million tons and 45.1 million tons for the years ended December 31, 2006, 2007, 2008 and 2009, respectively, representing a CAGR of 19.4%. We believe that with our leading market position, strong government support and well-known brand name, we are well positioned to capture opportunities in the fast-growing construction industry in Shaanxi province.

We have a dominant market position in our core markets due to the strategic locations of our production facilities

We believe that the strategic deployment of our production facilities allows us to establish a dominant market position in our core markets at the Weinan, Ankang, Hanzhong and Shangluo regions in Shaanxi province. As the weight and bulky nature of cement make it expensive to transport, the cement industry is localized in nature. We have chosen to focus on building our production facilities in southern Shaanxi province, where we believe the growth potential is significant for the economy in general and the cement industry in particular. We have production facilities in Pucheng, Lantian, Xunyang, Zhen'an, Danfeng, Yangxian and Mianxian counties, with a total of nine production lines. Our production facilities provide seamless market coverage that encompasses all the major metropolitan areas in southern Shaanxi province. For many of the major infrastructure projects in southern Shaanxi province, we believe that we are the major cement provider with NSP technology and the capability of producing high quality cement products within a commercially reasonable distance. As a result of our strategically located production facilities, we have effectively established dominance over our target markets in southern Shaanxi province, which we believe provides us with significant pricing leverage.

We have convenient access to coal supplies and limestone reserves

Coal represents one of the largest components of our cost of sales. We are located close to several large coal mines in Shaanxi province, namely those operated by the Coal Transportation and Sales Company under the Tongchuan Mining Bureau (銅川礦務局煤炭運輸銷售公司), Shuiliandong Coal Co., Ltd. of Bin County (彬縣水簾洞煤炭有限責任公司), Shaanxi Huoshizui Coal Mine Co., Ltd. (陝西火石咀煤礦有限責任公司) and the Hongshiyan Coal mine of Shaanxi Province (陝西省紅石岩煤礦). Our geographic proximity to these coal mines reduces our transportation costs for coal and increases our profit margin as a result.

Limestone is the principal raw material used in the production of clinker, which in turn is the base of all cement products. We have obtained mining rights to limestone quarries that are located near our production facilities in Pucheng, Lantian, Xunyang, Zhen'an, Yangxian and Danfeng counties with convenient access to public roadways. These quarries provide our production facilities with a secure and stable supply of high quality limestone at low transportation costs and the reserves are sufficient to meet the current production requirements of our existing production lines for at least 30 years based on government surveyors' reports on the amounts of our limestone reserves, the annual excavation limits specified in our mining licenses and our current production requirements.

Our technology allows us to lower our total cost of sales

We believe we are among the first cement producers in Shaanxi province to use desulfurization gypsum and construction waste as additives in cement products. In addition, we recycle industrial by-products such as flyash from power stations, slag from steel factories, pyrite cinder from sulfuric acid factories and limestone tailings and use them as raw materials in our production. For the year ended December 31, 2009, we used approximately 1.6 million tons of industrial by-products, industrial waste and urban construction waste as raw materials. These by-products and waste materials are readily available at low costs. Our ability to recycle such materials and use them in our cement production lowers our overall cost of materials, which we believe represents a significant advantage that distinguishes us from our competitors. In addition, pursuant to the Notice of the Ministry of Finance and State Administration of Taxation On Policies Relating to Value-Added Tax on Products Made Through Comprehensive Utilization of Resources and Other Products promulgated by the Ministry of Finance and the State Administration of Taxation (財政部, 國家稅務總局關於資源綜合利用及其他產品增值稅政策的通知), we enjoy VAT refunds for cement products that utilize a certain percentage of recycled materials. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, such VAT refunds amounted to approximately RMB30.5 million, RMB39.2 million, RMB65.0 million and RMB75.8 million, respectively.

We have installed a residual heat recovery system at our production facilities in Lantian and Xunyang counties. The residual heat recovery system collects residual heat from the cement production process to generate power that can be used in the production process. We achieved approximately RMB18.4 million and RMB22.4 million in electricity cost savings in 2009 and the nine months ended September 30, 2010, respectively, as a result of installing the residual heat recovery system. We expect to complete the installation of a residual heat recovery system in our Pucheng, Danfeng, Yangxian and Mianxian production facilities by mid 2011.

Our sales to distributors and cement end users such as government infrastructure projects enable us to reach a broad customer base

We divide our customers mainly into the following categories: government infrastructure projects, ready-mixed concrete stations and distributors. We sell our cement directly to end-user customers such as government infrastructure projects, ready-mixed concrete stations and retail customers. We also sell our cements to distributors which then resell our products to retail purchasers. We conduct our sales through our five regional sales offices and five local sales offices in Shaanxi province. We centralize the management of our sales activities. Our sales personnel are responsible for marketing and sales as well as providing after-sales customer services to our direct sale customers. The distributors are responsible for their own market development and customer services. They are required to make prepayments for the entire sales amount of the products they purchase from us each time they place a purchase order with us.

Under our sales model, we are able to use distributors to reach out to small or one-time customers, while our sales personnel can focus on serving large project developers and regular customers. We believe that our sales model allows us to capture opportunities across a wide spectrum of end users and provide tailored services to all of them without retaining a large sales force.

We have a stable and experienced management team

The majority of the members of our senior management team have been with us for more than five years. They possess solid industry knowledge, extensive operational experience and have a proven track record of generating rapid growth for us. In particular, our chief executive officer, Mr. Zhang, has over 20 years of experience in business management as well as in cement production. Mr. Zhang is currently the chairman of the Shaanxi Cement Association. 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 logistics. We believe the industry knowledge and technical expertise of our management team as well as our other experienced staff have been, and will continue to be, important assets and will continue to contribute to our results of operations.

OUR BUSINESS STRATEGIES

We intend to further strengthen our leading market position in Shaanxi province and continue to grow our revenue and net profit. To achieve this goal, we plan to pursue the following strategies:

Strengthen our leading market position through capacity expansion in selected markets

We intend to strengthen our leading market position in Shaanxi province and achieve better economies of scale by constructing and acquiring additional production facilities. We have recently completed the construction of production lines in Mianxian and Pucheng counties and are constructing one additional production line in Xixiang county which is expected to increase our annual production capacity by 1.1 million tons. We plan to actively pursue acquisitions that will enable us to penetrate other markets adjacent to our current core markets, such as selected markets in other parts of southern Shaanxi province, Gansu province or Sichuan province. As of the date of this offering memorandum, we do not have a definitive timetable or execution plan as to when we will expand to these or any other regions. Such plan is subject to, among other things, market conditions and our business development plans and may not materialize. In August 2009, we acquired Xiushan Yaobai to close the gap in our market coverage between our production facilities in Lantian and Xunyang counties. In December 2009, we obtained an 80% interest in Longqiao Yaobai, a newly established company that owns the cement production line of Shaanxi Danshui, which is located in Danfeng county in the Shangluo region, one of our core markets. On January 10, 2011, we acquired the remaining 20% interest, as a result of which we now own 100% of the equity interest in Longqiao Yaobai. In December 2010, in order to further expand our production capacity, we obtained an 80% equity interest in Jianghua Yaobai under a joint venture arrangement, pursuant to which we acquired, among others, a clinker production line, land use rights, certain factory buildings and cement production facilities in Ankang, Shaanxi province. In accordance with the agreement with our joint venture partners, Jianghua Mining has agreed to enter into an agreement to transfer the mining rights in certain mines in Ankang to Jianghua Yaobai within three months of the establishment of Jianghua Yaobai. These acquisitions have further strengthened our leading position in these markets. We have applied, and will continue to apply, a value-based method to assess acquisition opportunities presented to us, by evaluating

whether such opportunities will help us to fulfill our expansion plans and other factors such as costs and prevailing market conditions. Based on our experience in assessing and completing acquisitions, we believe that we will be able to seize attractive acquisition opportunities presented to us in the future to further expand our business and market.

Further strengthen our sales and marketing capabilities

We will continue to strengthen our sales and marketing capabilities. We intend to deploy additional sales personnel based on the demand for our products and customer mix in different geographical markets. We will strengthen our customer relationship management and use product experts to better serve our customers, particularly in relation to major construction projects. We plan to expand our sales network by establishing branch offices to serve more than 20 cities and towns in southern Shaanxi province, including Zhongyang, Mianxian, Xixiang, Shangluo and Ankang counties and regions. We believe that these branch offices will enhance our ability to develop, penetrate and control our target markets in southern Shaanxi province.

We intend to build mutually beneficial relationships with selected distributors. We plan to enhance the distributor selection process to better ensure the quality and performance of the distributors. We plan to engage selected distributors that have strong financial background and established sales networks in our target markets. We intend to build long-term relationships with these distributors, support their development and work with them closely, which we believe will further improve the stability of our sales network.

We will continue to provide high quality services to our customers, including visiting our customers and collecting their feedback, timely addressing their inquiries and providing comprehensive after-sale services. In addition, we plan to promote our "堯柏" (Yao Bai) brand and establish our reputation as a producer of high quality cement in our target markets. We expect these measures will have a positive impact on our results of operations.

Continue to lower our costs through technological improvement

Our primary focus in our research and development efforts is to increase the percentage of additives in our clinker, thus lowering our cost of sales. We intend to conduct research and experiments on various materials, such as construction waste, shale, tailings and other new materials, and their use and compatibility as additives in clinker. In addition to our own research and development efforts, we will leverage our cooperative relationships with leading research institutions, such as Xi'an University of Architecture & Technology (西安建築科技大學) and Tianjin Cement Industrial Design Institution (天津水泥工業設計院), and outsource certain research projects to them. With the installation of additional equipment, all our production facilities are capable of burning non-recyclable domestic garbage as fuel in our production process. If put into use, this equipment will be able to reduce our requirements for coal, thus significantly reducing our cost of sales. We plan to use this equipment to generate fuel upon the passage of regulations by the local governments where our production facilities are located requiring separate placement and disposal of recyclable and non-recyclable garbage. We believe that continuous technological innovation will allow us to further improve the quality of our products and lower our costs.

Continue to build a strong management team with qualified personnel

With our rapid expansion in recent years, we have experienced an increasing need for qualified personnel, particularly in the areas of production technology, research and development, accounting and finance. To ensure our sustained growth and development, we plan to hire qualified personnel and strengthen our team.

We will continue to train our existing employees and hire additional qualified personnel. We plan to continue to sponsor our employees to attend training classes in key aspects of our

business, such as powder technology, sales and marketing and production management. We will establish an evaluation and performance incentive system to encourage the growth and development of our employees. We will also hire qualified personnel with relevant technological and management experience from other companies or from universities and research institutions. We believe that a strong team with qualified personnel will help ensure our long-term and sustained growth.

OUR PRODUCTS

Our principal product is cement. Our cement is sold under the trademarks "堯柏" (Yao Bai) and "堯柏水泥" (Yaobaishuini) and is primarily used in the construction of infrastructure projects such as highways, bridges, railways and roads as well as in residential buildings. We produce different types of cement by mixing different proportions of gypsum, clay, flyash, pyrite cinder, slag and other additives to clinker, a semi-finished product produced from limestone through a rotary kiln process.

Our principal products are set forth in the following table:

Product/Grade	National Standards	Characteristics	Application	Target Customers
Ordinary Portland Cement • PO42.5; • PO42.5R; • PO52.5; • PO52.5R.	Loss≤5.0% (all); SO3≤3.5% (all); MgO≤5.0% (all); 3-day compressive strength ≥ 17MPa (42.5), ≥22MPa (42.5R), ≥23MPa (52.5), ≥27MPa (52.5R); 28-day compressive strength ≥ 42.5MPa (42.5 and 42.5R), ≥52.5MPa (52.5 and 52.5R); 3-day fractural load ≥ 3.5MPa (42.5), ≥4MPa (42.5R and 52.5), ≥5MPa (52.5R); 28-day fractural load 6.5 MPa (42.5 and 42.5R), 7.0 (52.5 and 52.5R);	High strength at the initial phase; high hydration heat; high freeze-resistance; low heat-resistance; low corrosion-resistance; low dry shrinkage.	Construction of structures which require short construction time, such as roads and bridges. It is also used for the construction of high rise buildings	Ready-mixed concrete stations and construction companies

Product/Grade	National Standards	Characteristics	Application	Target Customers
Composite Portland Cement • PC32.5; • PC32.5R; • PC42.5; • PC42.5R.	SO_3≤3.5% (all); MgO≤6.0% (all); 3-day compressive strength ≥ 10MPa (32.5), ≥15MPa (32.5R and 42.5), ≥19MPa (42.5R); 28-day compressive strength ≥ 32.5MPa (32.5 and 42.5R), ≥42.5MPa (42.5 and 42.5R); 3-day fractural load ≥ 2.5MPa (32.5), ≥3.5MPa (32.5R and 42.5) and ≥4.0MPa (42.5R); 28-day fractural load ≥ 5.5MPa (32.5 and 32.5R), ≥6.5MPa (42.5 and 42.5R);	Low strength at the initial phase; low hydration heat; high heat-resistance; low acid-corrosion resistance; using coal ash powder and coal gangue as composite raw materials; stable strength at the initial stage and late stage.	Construction of structures which do not require high strength, such as low rise buildings	Distributors
Moderate Heat Portland Cement • PMH42.5	SO_3 ≤ 3.5%; MgO ≤ 5%; 3-day compressive strength ≥12MPa; 7-day compressive strength ≥ 22MPa; 28-day compressive strength ≥ 42.5MPa; 3-day fractural load ≥ 3MPa; 7-day fractural load ≥ 4.5MPa; 28-day fractural load ≥ 6.5MPa; 3-day Heat of Hydration ≤ 251 kj/kg; 7-day Heat of Hydration ≤ 293 kj/kg	Low hydration heat; relatively high sulphuric acid resistance; good abrasion resistance and freeze-resistance	For large volume concrete structures under complicated environment such as dams, bridges, harbor waterworks construction and underground foundation, etc.	Construction companies

Product/Grade	National Standards	Characteristics	Application	Target Customers
Low Heat Portland Cement • PLH42.5	SO3 ≤ 3.5%; MgO ≤ 5%; 7-day compressive strength ≥ 13MPa; 28-day compressive strength ≥ 42.5MPa; 7-day fractural load ≥ 42.5MPa; 28-day fractural load ≥ 6.5MPa; 3-day Heat of Hydration ≤ 230 kj/kg; 7-day Heat of Hydration ≤ 260 kj/kg	Low hydration heat; good abrasion resistance; dry shrinkage resistance and chemical corrosion resistance	For large volume concrete waterworks, water conservancy works, high strength and high performance concrete, and relatively low hydration heat requirement works.	Construction companies
Low Heat Slag Portland Cement • PSLH32.5	SO3 ≤ 3.5%; MgO ≤ 5%; 7-day compressive strength ≥ 21MPa; 28-day compressive strength ≥ 32.5MPa; 7-day fractural load ≥ 3.0MPa; 28-day fractural load ≥ 5.5MPa; 3-day Heat of Hydration ≤ 197 kj/kg; 7-day Heat of Hydration ≤ 230 kj/kg	Low hydration heat; good collision resistance; abrasion resistance and freeze-resistance	For relatively low hydration heat requirement dams and large volume concrete.	Construction companies
Highway Portland Cement • PR42.5	SO3 ≤ 3.5%; MgO ≤ 5%; 3-day compressive strength ≥ 21MPa; 28-day compressive strength ≥ 42.5MPa; 3-day fractural load ≥ 4.0MPa; 28-day fractural load ≥ 7.0MPa	High strength (especially flexural strength); High abrasion resistance; Low dry shrinkage; Good impact resistance; Good frost resistance and Good acid-corrosion resistance.	Suitable for surface layer of concrete construction, such as cement concrete pavement, airport runways, railway station platform and public squares.	Construction companies

PRODUCTION FACILITIES

As of September 30, 2010, we had a total of nine cement production lines at our Pucheng, Lantian, Xunyang, Zhen'an, Danfeng, Yangxian and Mianxian production facilities with an aggregate annual production capacity of 11.4 million tons. We carefully select the locations of our production facilities to lower transportation costs and serve our target customers. Except for our Mianxian production line, all of our production lines are located near our limestone quarries and are also strategically located close to our end markets. All of our production lines employ the advanced NSP technology, which is energy efficient and environmentally friendly. We also employ residual heat recovery systems at our Lantian and Xunyang production facilities, which allows us to achieve electricity cost savings.

Details of our production lines as of September 30, 2010 are set forth in the table below.

Production Lines	Location	Owned By	Commencement of Operations	NSP Technology	Residual Heat Recovery Systems	Capital Investment/ Acquisition Cost	Investment Cost per Ton of Cement[1]
						(RMB million)	(RMB)
Pucheng — Line 1	Pucheng county	Shaanxi Yaobai	February 2004	Yes	No[2]	448.0	320.0
Pucheng — Line 2	Pucheng county	Shaanxi Yaobai	September 2010	Yes	No[2]	412.5	375.0
Lantian — Line 1	Lantian county	Lantian Yaobai	May 2007	Yes	Yes	646.1	293.7[3]
Lantian — Line 2	Lantian county	Lantian Yaobai	August 2007	Yes	Yes		
Xunyang	Xunyang county	Ankang Yaobai	January 2009	Yes	Yes	807.8	448.8[4]
Zhen'an	Zhen'an county	Xiushan Yaobai	April 2005[5]	Yes	No[2]	153.8	219.7
Danfeng	Danfeng county	Longqiao Yaobai	September 2007[5]	Yes	No[2]	365.4	332.2
Yangxian	Yangxian county	Hanzhong Yaobai	December 2009	Yes	No[2]	454.8	413.5
Mianxian	Mianxian county	Mianxian Yaobai	July 2010	Yes	No[2]	419.9	381.7

Notes:

(1) The investment cost per ton of cement is arrived at by dividing the capital investment/acquisition cost of each production line(s) by its annual production capacity as of September 30, 2010.

(2) We expect to install a residual heat recovery system at our Pucheng (both line 1 and line 2), Mianxian, Yangxian, Zhen'an and Danfeng production lines in 2011.

(3) The investment cost per ton of cement of our Lantian production lines does not take into consideration the 0.7 million tons of production capacity increase as a result of the installation of a cement grinding mill at our Lantian production line as this grinding mill was not part of the original capital investment.

(4) The investment cost per ton of cement does not take into consideration the 0.2 million tons of a production capacity of increase as a result of the installation of an additive grinding mill at our Xunyang production line as this grinding mill was not part of the original capital investment. The investment cost per ton of cement of our Xunyang production line is comparatively higher because it included the cost of construction of a 7-km conveyor belt, part of which is over a mountainous region, for transportation of limestone from the quarry to our production facility.

(5) We acquired our Zhen'an and Danfeng production lines in August 2009 and December 2009, respectively.

The table below sets forth the annualized production capacity, actual production volume and utilization rate of our production lines during the three years ended December 31, 2007, 2008 and 2009:

	Annualized Production Capacity as of December 31,[1]			Actual Cement Production Volume for the year ended December 31,			Utilization Rate for the year ended December 31,[2]		
Production Lines	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**
	(in million tons, except for percentages)								
Pucheng — Line 1	1.4	1.4	1.4[3]	1.4	1.4	1.4	100.0%	100.0%	100.0%
Lantian — Line 1 + Line 2	2.2	2.2	2.2	1.0[4]	2.0	2.2	83.9%	90.9%	100.0%
Xunyang	—	—	2.0[5]	—	—	1.3[6]	—	—	86.7%
Zhen'an	—	—	0.7[7]	—	—	0.2[8]	—	—	68.6%
Yangxian	—	—	1.1	—	—	—[9]	—	—	—
Danfeng	—	—	1.1	—	—	—[10]	—	—	—
Total	3.6	3.6	8.5[11]	2.4	3.5	5.1	—	—	—

Notes:

(1) *The annual cement production capacity figures are calculated on the basis of a 310-day year at a clinker/cement ratio of 0.7. Each type of cement has its specific chemical features and therefore a different clinker/cement ratio ranging from 0.25 to 0.95. The commonly used industrial benchmark average ratio is 0.7, and we have been using 0.7 clinker/cement ratio to derive at our cement production capacity.*

(2) *The utilization rate is derived on the basis of actual production volume divided by pro-rata production capacity of each production facility for the actual number of months in a year during which the production facility was in operation.*

(3) *The production capacity of Pucheng production line includes 300,000 tons of production capacity of an additive grinding mill. An additive grinding mill is a standalone process through which materials such as industrial by-products and waste are grounded and mixed to form cement.*

(4) *Our Lantian — Line 1 and Line 2 production lines commenced operations in May 2007 and August 2007, respectively. Their actual production volume for the year ended December 31, 2007 represents the amount of cement they produced between May 1, 2007 to December 31, 2007 and August 1, 2007 to December 31, 2007, respectively.*

(5) *The production capacity of Xunyang production line includes 200,000 tons of production capacity of an additive grinding mill effective as of December 31, 2009.*

(6) *Our Xunyang production line began trial production in January 2009 and commenced full operation in March 2009. Its actual production volume for the year ended December 31, 2009 represents the amount of cement it produced between March 1, 2009 and December 31, 2009.*

(7) *The production capacity of Zhen'an production line includes 248,000 tons of production capacity of an additive grinding mill.*

(8) *We acquired our Zhen'an production line in August 2009. The actual production volume of our Zhen'an production line represents the amount of cement it produced between August 1, 2009 and December 31, 2009.*

(9) *Our Yangxian production line commenced operations on December 31, 2009.*

(10) *We acquired our Danfeng production line on December 31, 2009.*

(11) *We completed the construction of a production line in Mianxian county in July 2010 with an annual production capacity of 1.1 million tons and installed a new cement grinding mill in our Lantian production facility in August 2010 which is expected to increase our total annual production capacity by 0.7 million tons.*

Production Lines	Annualized Production Capacity as of September 30, 2010[1]	Actual Cement Production Volume for the nine months ended September 30, 2010	Utilization Rate for the nine months ended September 30, 2010[2]
	(in million tons, except for percentages)		
Pucheng Line 1	1.4	1.28	100.0%
Pucheng Line 2	1.1	0.04[4]	43.6%
Lantian — Line 1 + Line 2	2.9[3]	1.96	100.0%
Xunyang	2.0	1.46	97.3%
Zhen'an	0.7	0.43	81.8%
Yangxian	1.1	0.81	100.0%
Danfeng	1.1	0.69	83.6%
Mianxian	1.1	0.03[5]	32.7%
Total	11.4	6.70	

Notes:

(1) The annual cement production capacity figures are calculated on the basis of a 310-day year at a clinker/cement ratio of 0.7. Each type of cement has its specific chemical features and therefore a different clinker/cement ratio ranging from 0.25 to 0.95. The commonly used industrial benchmark average ratio is 0.7, and we have been using 0.7 clinker/cement ratio to derive at our cement production capacity.

(2) The utilization rate is derived on the basis of actual production volume divided by pro-rata production capacity of each production facility for the actual number of months during which the production facility was in operation.

(3) The production capacity of Lantian production lines include 700,000 tons of production capacity of an additive grinding mill. An additive grinding mill is a standalone process through which materials such as industrial by-products and waste are grounded and mixed to form cement.

(4) We completed the construction of a production line at our Pucheng production facility in August 2010. Its actual production volume for the nine months ended September 30, 2010 represents the amount of cement it produced between September 1, 2010 and September 30, 2010.

(5) We completed construction of our Mianxian production line in July 2010. Its actual production volume for the nine months ended September 30, 2010 represents the amount of cement it produced between July 1, 2010 and September 30, 2010.

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 (關於做好淘汰落後水泥生產能力有關工作的通知) issued on February 18, 2007 and Policies on the Development of the Cement Industry (水泥工業產業發展政策) 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 the 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. We believe that all the production lines we acquired in 2009 are in compliance with both the environmental production requirements and product quality national standards.

During the three years ended December 31, 2009 and the nine months ended September 30, 2010, we have improved our production process technology through continuous research and development efforts, which enabled us to achieve relatively high production efficiency and utilization rate for our production facilities. Our directors are of the view that although the actual annual production volume of certain of our production facilities exceeds the annual production capacity, there will not be any adverse impact on our production safety.

RECENT ACQUISITIONS

In August 2009, we acquired Xiushan Yaobai for approximately RMB180.7 million. We financed this acquisition with cash generated from our operations and consideration for this acquisition was paid in full in January 2010. Xiushan Yaobai is located in Zhen'an county, which is in the Shangluo region, one of our core markets in southern Shaanxi province. Xiushan Yaobai commenced its operations in April 2005. As of December 31, 2009, it had an annual production capacity of 700,000 tons. Xiushan Yaobai's main products are PC32.5 and PO42.5 cement.

In December 2009, we established Longqiao Yaobai, which owns the cement production line of Shaanxi Danshui, together with the original shareholders of Shaanxi Danshui. We owned an 80% interest in Longqiao Yaobai, for which we have agreed to inject RMB100.0 million into Longqiao Yaobai. RMB50.0 million was paid on December 25, 2009 and remaining RMB50.0 million was paid in February 2010. On January 10, 2011, we acquired the remaining 20% equity interest from Shaanxi Danshui for consideration of RMB25 million. We financed this acquisition with cash generated from our operations. Longqiao Yaobai is located in Danfeng county, which is also in the Shangluo region. The production facility of Longqiao Yaobai commenced its operations in September 2007. As of December 31, 2009, Longqiao Yaobai had an annual cement production capacity of 1.1 million tons. Longqiao Yaobai's main products are PO42.5, PC32.5 and PC32.5R cement.

With these two acquisitions, we established our presence in the Shangluo region, closed a gap in our market coverage in southern Shaanxi province and strengthened our market position in Shaanxi province.

In December 2010, we entered into a joint venture agreement with Jianghua Cement and its shareholder Jianghua Mining, pursuant to which we agreed to make cash capital injections into Jianghua Yaobai, the joint venture company, and Jianghua Cement agreed to make contributions in the form of operational assets such as a clinker production line, land use rights, certain factory buildings and cement production facilities in Ankang to Jianghua Yaobai. In accordance with the joint venture agreement with our joint venture partners, Jianghua Mining has agreed to enter into an agreement to transfer the mining rights in certain mines in Ankang to Jianghua Yaobai within three months of the establishment of Jianghua Yaobai. As a result of the joint venture and upon the completion of the capital contributions, we acquired an 80% equity interest in Jianghua Yaobai, with the remaining 20% being held by Jianghua Cement. The cost of the acquisition and the establishment of Jianghua Yaobai, amounted to approximately RMB320 million and was financed by bank borrowings and our internal resources. The annual production capacity of Jianghua Yaobai is expected to be 1.1 million tons with utilization rate of over 90%. Jianghua Yaobai obtained its business license on January 6, 2011 and has been officially established as our non-wholly owned PRC subsidiary.

PLANNED CAPACITY EXPANSION

In order to meet the fast-growing market demand for cement products in Shaanxi province, we plan to further expand our production capacity through acquisitions of additional production facilities and construction of new production facilities. We intend to actively pursue acquisition opportunities that will enable us to penetrate other markets adjacent to our current core markets,

such as selected markets in other parts of southern Shaanxi province, Gansu province or Sichuan province. As of the date of this offering memorandum, we do not have a definitive timetable or execution plan as to when we will expand to these or any other regions. Such plan is subject to, among other things, market conditions and our business development plans and may not materialize.

In addition to the new production capacity in 2010 from our production facilities in Yangxian county which commenced operation in December 2009, we have recently completed the construction of new production lines in Pucheng and Mianxian counties with total annual production capacity of 2.2 million tons and are constructing a new production line in Xixiang county which is expected to increase our annual production capacity by 1.1 million tons. Notwithstanding the fact that the utilization rates of our production facilities in Xunyang and Zhen'an counties in 2009 were not maximized, we believe our new production lines in Mianxian, Pucheng and Xixiang counties would not affect the utilization rates of our production facilities at Xunyang and Zhen'an counties due to their different geographical locations and different target markets. Our board of directors had conducted detailed analysis of each new production facility including analyzing the economic growth of the region where the new production facilities will be located, the competition we will face from the existing cement producers and the potential market demand of cement.

As a result of the Western Development Plan implemented by the PRC government and the RMB4 trillion economic stimulus package, we expect that the fixed asset investment will continue to grow rapidly in Shaanxi province and that the demand for cement will remain high in view of the substantial number of major government-led infrastructure projects that will commence in Shaanxi province, including Baoji Hanzhong Bazhong Railway (寶雞－漢中－巴中鐵路), Hanzhong Yangpingguan Double Track Railway (漢中－陽平關鐵路複線) and Hanzhong Airport (漢中機場). We believe that it is important for us to capture the substantial growth in cement consumption and to further expand market coverage in southern Shaanxi province which we believe has significant potential for future growth. Based on our analysis, raw materials, coal and electricity supplies are readily available and our central procurement arrangement would ensure a stable and low-cost supply of raw materials for our cement production.

Our estimated capital expenditures to be incurred for our new production facility at Xixiang county, Shaanxi province amount to RMB482 million. We intend to use cash generated from our operations and bank borrowings to fund these expansion plans.

Production Lines Under Construction	**Location**	**Owned By**	**Planned Annual Production Capacity**	**Target Production Commencement Date**	**Total Budgeted Capital Expenditure**	**Actual Capital Expenditure Incurred as of September 30, 2010**	**Estimated Capital Expenditure in Future**
			(in million tons)		**(RMB in millions)**	**(RMB in millions)**	**(RMB in millions)**
Xixiang . . .	Xixiang county	Xixiang Yaobai	1.1	First quarter 2011	482[(1)]	230	252

Note:

(1) This figure represents the total budgeted capital expenditure for our Xixiang production line as it is currently under construction.

In addition to the project set forth in the table above, we intend to use approximately RMB1,850 million to RMB2,385 million in total to upgrade our production facilities and expand our production capacities, of which (i) RMB300 million will be used to install residual heat recovery systems at our production facilities at Danfeng, Pucheng, Yangxian, Zhen'an and Mianxian counties; (ii) RMB50 million and RMB110 million will be used to upgrade our current production facilities at Zhen'an county and Danfeng county, respectively; (iii) RMB1,000 million to RMB1,500 million will be used to fund any future acquisitions; and (iv) the remaining amount will be used to pay the remainder of the construction costs for our second Danfeng production line. Such expenditures will also be funded by cash generated from our operations, bank borrowings and net proceeds from the offering of the Notes.

The first phase of the upgrade of our Zhen'an production facilities and the upgrade of our Danfeng production facilities are expected to commence in 2011, and the installation of additional residual heat recovery systems commenced in December 2010. The first phase of the upgrade of our Zhen'an production facilities was directed towards improvement of environmental protection equipment and enhancement of energy efficiency and production safety measures. The second phase of the upgrade of our Zhen'an production facilities will increase clinker production capacity from 1,500 t/d to 2,500 t/d.

Any future acquisition will depend on finding suitable target and negotiation with the relevant parties.

Our plan for the upgrade of our production facilities at Danfeng county will mainly focus on its ability to recycle industrial waste, industrial by-products and construction waste to produce cement and the residual heat recovery system. Our executive directors do not expect any legal impediment to obtaining approval to upgrade our production facilities in Danfeng county as the proposed upgrade is in compliance with applicable regulations and industry policy.

We believe our plan to upgrade our production facilities in Zhen'an and Danfeng counties will enhance our production efficiencies and capacities and does not conflict with the PRC government's policy of restricting excessive production capacities in the cement industry which is targeted at cement producers using non-NSP technology which are less efficient and less environmentally friendly than NSP technology production lines.

PRODUCTION PROCESS

There are four key stages in the production of cement: (1) crushing of raw materials; (2) calcining and blending of raw materials; (3) sintering of clinker in a kiln; and (4) grinding and blending of clinker to produce cement. Each of our nine production lines includes all four stages. For a detailed description of the cement production process, please see the section headed "Industry Overview — Cement Production and Technology — The Production Process" in this offering memorandum.

Limestone is first extracted from quarries using a blasting and ripping process. It is then refined into a fine compound in crushing installations. The crushed materials are homogenized on blending beds before they are dried and mixed into roller grinding mills. These materials are mixed at different consistencies, depending on the type of cement being produced. After the raw materials are ground, they are placed in a raw meal silo. After that, the materials are burned in a kiln in a sintering process to produce clinker. The clinker is then cooled down in clinker silos and placed in ball mills or roller presses. The clinker is ground into a finer compound, to which further materials are added in order to attain the desired properties in the cement. After that, the cement is stored in silos, before being delivered to customers.

RAW MATERIALS

The primary raw materials used in our cement production are limestone, gypsum, clay, flyash, pyrite cinder and slag. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, the costs of raw materials accounted for approximately 34.0%, 26.0%, 32.4% and 32.0%, respectively, of our total cost of sales.

Limestone

The principal raw material used in the production of cement is limestone. Most of the limestone that we use for cement production is sourced from quarries which we have obtained licenses to excavate. We have sufficient reserves of limestone to meet the current production requirements of our existing production facilities for at least 30 years, based on government surveyors' reports on the amounts of our limestone reserves, the annual excavation limits specified in our mining licenses and our current production requirements. We cooperate with an independent third-party contractor to excavate limestone from our limestone quarries. We have entered into cooperation mining agreements with the contractor to excavate limestone for our Pucheng, Lantian, Xunyang and Yangxian production lines. The agreements are for terms between nine to 10 years and the contractor is required to excavate different minimum amounts of limestone per year. The fees we paid to the contractor is based on a fixed price for each ton of limestone excavated which may be adjusted at the beginning of each year depending on changes in excavation costs and consumable materials used in the limestone mine. Under our agreements with the contractor, the contractor is responsible for excavating limestone with its own equipment and employees, and is liable for its employees' personal injuries. The contractor is required to comply with applicable laws and regulations for excavation of limestone at our quarries. All limestone excavated by the contractor must be supplied to us and the contractor is not allowed to supply such limestone to any other third party. The supply of limestone will be in accordance with our production arrangement. We ensure that our contractor is in compliance with the relevant PRC laws and regulations by requiring them to provide us with the applicable licenses and renewal certificates as well as conduct safety inspections at the quarries on a monthly basis. However, we may still be held liable by the authority if our contractor failed to comply with relevant PRC laws and regulations. Contractors for limestone excavation are readily available in Shaanxi province. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, we paid the contractor approximately RMB7.6 million, RMB27.3 million, RMB31.4 million and RMB55.6 million for its services, respectively.

All of the limestone produced from our limestone quarries is used for our cement production. We have not made any external sales of limestone.

For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, we excavated approximately 0.6 million, 2.5 million, 2.7 million and 5.2 million tons of limestone, respectively. In 2007 and 2008, we only excavated limestone from our Yaoshan and Xiaozhai quarries. In 2008, our Lantian production facilities ramped up to full operation and thus our limestone excavated increased to approximately 2.5 million tons for that year. In 2009, excavation of limestones at Qingshanzhai quarry did not commence until the end of 2009 while no excavation was carried out at Chujiazhai, Longtanzi and Jinsushan limestone quarries and therefore the amount of limestone excavation of 2009 was similar to that of 2008.

We purchased approximately 1.3 million tons, 0.6 million tons, 1.7 million and 2.5 million tons of limestone from third party limestone suppliers in the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively.

The mining rights obtained by us in relation to our limestone quarries are as follows:

Name of Quarry	**Location in Shaanxi Province**	**Mining Right Owner**	**Period of Validity**[1]	**Area**	**Maximum Annual Excavation Volume Per Mining License**	**Reserves**[2]
				(km^2)	**('000 tons)**	**('000 tons)**
Yaoshan (堯山)[2]	Pucheng county	Shaanxi Yaobai	June 18, 2008 – November 18, 2013	1.3	1,078	85,300
Xiaozhai (小寨)	Lantian county	Lantian Yaobai	December 17, 2007 – December 17, 2022	1.3	2,120	59,360
Qingshanzhai (青山寨)	Xunyang county	Ankang Yaobai	December 30, 2008 – December 30, 2013	0.4	1,754	69,500
Chujiazhai (褚家寨)	Zhen'an county	Xiushan Yaobai	May 8, 2008 – May 8, 2016	0.1	400	154,970
Longtanzi (龍潭子)	Zhen'an county	Xiushan Yaobai	December 3, 2009 – December 3, 2012	0.1	450	8,635
Jinsushan (金粟山)[3]	Pucheng county	Shaanxi Yaobai	August 1, 2009 – August 1, 2011[4]	0.2	80	7,007
Dalingliang (大嶺梁)	Hanzhong region	Hanzhong Yaobai	January 25, 2010 – January 25, 2020	0.6	2,219	110,180
Liu Xianping West Mountain (留仙坪西大山)	Danfeng county	Longqiao Yaobai	January 26, 2010 – January 26, 2020	0.3	1,200	13,542
Liu Xianping East Mountain (留仙坪東大山)	Danfeng county	Longqiao Yaobai	January 26, 2010 – January 26, 2020	0.2	1,200	27,937

Notes:

(1) According to Procedures for Registration of Mining of Mineral Resources (礦產資源開採登記管理辦法) issued by the State Council on February 12, 1998, the mining license period will be based on the scale of the quarry: large-scale or above quarry can have a maximum of 30-year mining license period, medium-scale quarry can have a maximum of 20-year mining license period and small-scale quarry can have a maximum of 10-year mining license period. The bases for classifying into "large-scale", "medium-scale" and "small-scale" quarries are specified in the Notice Regarding the Standard for Sizes of Natural Resources and Reserves (礦產資源儲量規模劃分標準的通知) issued by the Ministry of Land and Resources in the PRC on April 24, 2000. According to such notice, "large-scale" quarry has a reserve of over 80 million tons, "medium-scale" quarry has a reserve between 15 to 80 million tons, and "small-scale" quarry has a reserve of less than 15 million tons.

(2) The limestone reserve figures are extracted from data compiled and project approval documents issued by relevant government authority and document issued by government appointed expert committee and asset appraisal firm engaged by us.

(3) As of January 1, 2007, we had mining rights at Yaoshan and Jinsushan limestone quarries for supplying limestone to our production facility at Pucheng county. The mining right of Yaoshan was renewed in June 2008 while the mining right of Jinsushan was renewed annually.

(4) Our directors understand that the period of validity for quarries with mining volume of less than 100,000 tons per year is subject to the approval of the Ministry of Land and Resources in the PRC and such authority limits the period of validity for such quarry to one year subject to renewal. We do not foresee any legal impediment to renewing this mining right.

Other raw materials

Our other raw materials primarily include gypsum, clay, flyash, pyrite cinder and slag. Gypsum is used to regulate the setting time of cement. We source gypsum from Chengcheng County Kaitong Yunye Co., Ltd. (澄城縣凱通運業有限公司), Yuncheng Fenglingdu Development Zone Longxing Flyash Co., Ltd. (運城風陵渡開發區龍興粉煤灰有限公司) and Jingmen City Zhengda Mining Business Co. Ltd. (荊門市正大礦業有限公司). Clay is another principal ingredient in cement production. We purchase clay from third-party suppliers that are located close to our production facilities. Flyash is a by-product of the electric power generating process. We purchase flyash from local coal power stations and its price has been stable over the past three years. Pyrite cinder is an industrial by-product of the production process of sulfuric acid. We source pyrite cinder from Shaanxi Qinneng Resources and Technology Development Co., Ltd. (陝西秦能資源科技開發有限公司), Hanzhong Tanfeng Industrial and Trade Co., Ltd. (漢中唐楓工貿有限公司) and other sulfuric acid factories near our production facilities. Slag is industrial waste that can be added to clinker to produce slag cement. We source slag from Shaanxi Longmeng Steel Environmental Protection Industry Branch (陝西龍門鋼鐵環保產業公司).

All of the above-mentioned suppliers are independent third parties. Other than Chengcheng County Kaitong Yunye Co., Ltd. (澄城縣凱通運業有限公司) and Jingmen City Zhengda Mining Business Co. Ltd. (荊門市正大礦業有限公司), all of the above-mentioned suppliers have long-term business relationships with us. We have not entered into any long-term supply contracts with the suppliers of other raw materials. Under the current arrangements with our suppliers of other raw materials, our suppliers are generally required to provide a minimum amount of the respective raw materials to ensure a sufficient supply for our cement production. We settle the purchase prices of such raw materials with our suppliers on a monthly basis. Most of the other raw materials are readily available in the market.

We believe that there is an adequate supply of limestone, gypsum, clay, flyash, pyrite cinder and slag and other raw materials for our production either from our own reserves or on the market and we do not foresee any difficulty in obtaining any of these raw materials for our production requirements in the near future.

ENERGY SUPPLY

Coal

Coal is used as fuel in our cement production. We obtain our supply of coal mainly from the Coal Transportation and Sales Company under the Tongchuan Mining Bureau (銅川礦務局煤炭運輸銷售公司), Shuiliandong Coal Co., Ltd. of Bin County (彬縣水簾洞煤炭有限責任公司), Shaanxi Huoshizui Coal Mine Co., Ltd. (陝西火石咀煤礦有限責任公司) and the Hongshiyan Coal mine of Shaanxi Province (陝西省紅石岩煤礦), with whom we have supply contracts for terms of six months to one year. We believe that our existing suppliers are capable of meeting our demand for coal and alternative sources of supply are considered unnecessary. The purchase price is determined when we place each purchase order with reference to the prevailing market price. We are usually able to obtain competitive prices from our coal suppliers due to our long-term relationships with them. We are required to make full payment in advance for the coal we purchase. Coal is delivered to our production facilities by means of road transportation. All the above-mentioned coal suppliers are independent third parties. We have had a two-year business relationship with each of Shuiliandong Coal Co., Ltd. of Bin County (彬縣水簾洞煤炭有限責任公司) and Shaanxi Huoshizui Coal Mine Co., Ltd. (陝西火石咀煤礦有限責任公司) and a more than three-year business relationship with each of Tongchuan Mining Bureau (銅川礦務局煤炭運輸銷售公司) and Hongshiyan Coal mine of Shaanxi Province (陝西省紅石岩煤礦).

Coal constituted approximately 21.4%, 36.0%, 31.2% and 33.1% of our total cost of sales for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. We purchased approximately 0.3 million, 0.4 million, 0.6 million and 0.8 million tons of coal in 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. The average purchase price of coal used in our production was RMB290, RMB492, RMB434 and RMB561 per ton in 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. In 2009, the price of coal declined compared with 2008 due to reduced demand as a result of the global financial crisis. In the first nine months of 2010, our average purchase price of coal increased substantially due to our expansion in southern Shaanxi province, where the price of coal is generally higher due to higher transportation costs and due to the recovery of the global economy.

With the installation of additional equipment, all our production facilities would be capable of burning non-recyclable domestic garbage as fuel in our production process. If put into operation, this equipment will be able to reduce our requirements for coal, thus reducing our cost of sales. We plan to use this equipment to generate fuel upon the passage of regulations by the local governments where our production facilities are located requiring separate placement and disposal of recyclable and non-recyclable garbage.

Electricity

Electricity costs constituted approximately 24.8%, 22.0%, 20.7% and 19.0% of our total cost of sales for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. We obtain our electricity supply from the Electricity Supply Bureau of Shaanxi Province, which is the sole supplier of electricity to our production facilities in Shaanxi province. We pay standard rates. We have not in the past experienced any disruption in our operations due to an 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 due to surging coal prices. We pay for our electricity expenses at the end of each month based on actual consumption. We believe that we are able to obtain sufficient electricity from the Electricity Supply Bureau of Shaanxi Province.

We have installed residual heat recovery systems with a total installed capacity of 16,500 KW at our cement production facilities in Lantian and Xunyang counties. The residual heat recovery system collects residual heat from the cement production process to generate power that can be used in the production process. The average costs of electricity produced through these generators ranged from RMB0.14 to RMB0.16 per KWh in 2009, significantly lower than our average electricity purchase price of RMB0.45 per KWh during the same period. We achieved approximately RMB18.4 million in electricity cost savings in 2009 as a result of installing the residual heat recovery system. In December 2010 we began installing residual heat recovery systems with a total installed capacity of 22,500 KW at our production facilities at Pucheng, Yangxian, Mianxian and Xixiang counties. We plan to install a residual heat recovery system at our Danfeng county production facility in the second quarter of 2011.

To mitigate the impact of price fluctuations of our raw materials and energy costs on our results of operation and as a result of the increased market demand for cement products in 2008 and 2009, we raised the prices of our cement products in 2008 and 2009. Notwithstanding the substantial increase of cost of coal in the second and third quarters of 2008, we were able to maintain our gross profit margin in 2008 and 2009 as we were able to pass most of the raw materials and energy cost increases onto our customers. We may further raise the prices of our

cement products in the future if the costs of raw materials and energy continue to increase. Any further increase in the prices of our cement products will depend on a number of factors, including general market demand for cement products and prices of cement products of our competitors.

Suppliers

Our procurement department is responsible for the centralized procurement of key raw materials such as gypsum, flyash, pyrite cinder and slag from our suppliers. Our procurement department orders the relevant raw materials according to our monthly production plans. We are typically required to make full payment for our raw materials within one to three months after delivery. Our production lines source clay locally as it is easy to obtain and inexpensive.

The quality of the raw materials is checked by our quality control department to ensure that the raw materials purchased comply with our production requirements. In addition, our procurement department monitors the quality, the timing of delivery and the pricing of raw materials.

For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, purchases from our five largest suppliers accounted for approximately 49.2%, 51.9%, 35.6% and 35.6% of our total cost of sales, respectively. During the same periods, purchases from our largest supplier accounted for approximately 15.7%, 16.4%, 8.8% and 14.4% of our cost of sales, respectively. Our five largest suppliers during the three years ended December 31, 2009 and the nine months ended September 30, 2010 were mainly suppliers of coal, electricity, other raw materials and a third party contractor for excavation of limestone. To the best knowledge of our directors after due inquiry, as of September 30, 2010, all of our suppliers were independent third parties.

As of September 30, 2010, none of our directors, their respective associates or any of the shareholders (which to the knowledge of our directors owns more than 5% of our issued share capital) had any interest in any of our five largest suppliers.

SALES AND MARKETING

Sales

In 2007, 2008 and 2009 and the nine months ended September 30, 2010, we sold all our products to customers in Shaanxi province. We sell a majority of our cement directly to government infrastructure projects, ready-mixed concrete stations and distributors, which then resell our cement to retail purchasers. We conduct our sales primarily through our regional and local sales offices in Shaanxi province. We have five regional sales offices in Xi'an, Weinan, Ankang, Hanzhong and Shangluo regions, and five local sales offices in Pucheng, Lantian, Xunyang, Zhen'an and Danfeng counties. Our regional sales offices are responsible for, among other things, organizing sales activities, establishing market development plans and controlling marketing expenses. On the other hand, our local sales offices are more tailored toward customer service, with a focus on sales activities and product promotion. We centralize the management of our sales activities by setting sales target and guidelines for sales activities of each regional sales office and monitoring their implementation.

Demand for our products is subject to seasonal fluctuations, and our sales volume is generally lower in the first quarter due to cold winter weather in Shaanxi and the Chinese New Year holiday season.

Marketing

Our marketing department gathers market information, such as cement prices, coal prices and transportation costs. Our general administrative office together with our sales department coordinate our marketing activities, which primarily include promotional media events, purchasing outdoor billboards, distributing promotional brochures and purchasing advertisements placed on vehicles. Our marketing activities are focused on raising the awareness of our brand.

We monitor market developments and customer preferences by having our sales personnel visit our customers and potential customers. Our sales personnel pay regular visits to our direct sales customers, both to provide after-sales support, such as seeking their feedback on ways to improve our delivery schedule and packing services as well as our adjustment to pricing policy and to assess their needs in order to meet their demand. Our sales personnel also visit potential customers and introduce our products to them by offering product samples and plant tours.

Our sales personnel sometimes work together with experienced independent project managers, who are usually individuals with market knowledge and established relationships in the cement industry. These project managers are usually involved at the early stage of a project by introducing potential projects to our sales personnel. Based on the negotiations with the project managers, our sales personnel propose the potential project to us. We then decide whether to allow our sales personnel to proceed with such project, and agree in advance with our sales personnel on a fixed percentage of compensation to the project managers based on the income of the project, considering various factors, such as the importance of the project to us and the market knowledge of the project managers. If we are successfully involved in the project, we compensate the project manager in installments, along with the payments we received from the project. The project managers also help us develop and maintain customer relationships and assist us in collecting outstanding payments from our customers. We do not enter into any agreement with the project managers.

Customers

We have a broad and well-established customer base in Shaanxi province. Our cement products are primarily sold to government infrastructure projects, ready-mixed concrete stations and distributors, which then resell our products to retail purchasers. We participate in both the "open bidding processes" and "bidding by invitations" for supplying to government infrastructure projects.

The table below sets forth our revenue by customer type for each of the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and 2010.

	For the year ended December 31,				For the nine months ended September 30,		
Type of Customer	**2007**	**2008**	**2009**	**2009**	**2009**	**2010**	**2010**
	(RMB in millions)			**(US$ in millions)**	**(RMB in millions)**		**(US$ in millions)**
					(unaudited)		
Government infrastructure projects[1]	104.6	136.4	657.7	98.3	199.7	281.8	42.1
Ready-mixed concrete stations	60.4	165.1	113.3	16.9	59.9	151.5	22.6
Distributors (both entities and individuals)	273.7	406.4	595.1	88.9	574.9	1,158.0	173.1
Others[2]	87.2	158.2	150.7	22.5	166.1	426.4	63.7
Total	525.9	866.1	1,516.8	226.7	1,000.6	2,017.7	301.5

Notes:

(1) Include infrastructure projects sponsored by various levels of the PRC government or state-owned enterprises, including telecommunication network, railway and expressways.

(2) These customers were primarily individuals or entities located near our production facilities and purchased our products for use in small construction projects. Such sales also included direct cash sales to individual retail customers which amounted to approximately RMB0.9 million, RMB1.8 million, RMB5.5 million, RMB1.4 million and RMB11.7 million during the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and 2010, respectively.

Our direct sales personnel are divided into teams to cover different customer groups. As of the date of this offering memorandum, we had 146 direct sales personnel, who are responsible for selling our products in their assigned areas and providing after-sales support to our direct sales 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. In the event that our direct sales personnel do not meet their sales targets, their target-based compensation will be prorated.

Distributors

We also sell our cement to distributors, which then resell our cement to retail purchasers. We do not have any distributorship arrangement nor exclusive relationships with these distributors, and they can purchase and sell cement produced by other cement producers. We do not have minimum purchase requirements for such distributors. We do not provide any credit sales to, nor do we allow any return of our products from, such distributors. We require the distributors to pay in advance the full purchase price for each purchase order they place with us. As an incentive, we provide rebates in the form of extra amounts of cement to such distributors with high sales volumes at the end of each year. Our standard of rebate is based on the annual sales volume of the distributors and the rebates were settled with our cement products of same monetary value as the rebates to the distributors. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our rebates to the distributors amounted to approximately RMB1.7 million, RMB1.1 million, nil and nil, respectively. We did not pay any rebate to the distributors in 2009 and the nine months ended September 30, 2010 because our sales volume was particularly high and no rebate was necessary to incentivize the distributors.

The table below sets out the numbers of distributors that we engaged and their average number of years of relationship with us during the three years ended December 31, 2007, 2008 and 2009:

Year	Number of Distributors	Range of Years of Relationship between the Distributors and us
2007	322	1-3
2008	412	1-4
2009	431	1-5

We believe that our low entry barrier for cement distributors in Shaanxi province has attracted a substantial number of individuals to purchase our cement products and re-sell them to end customers in nearby regions. As we do not require the setting up of corporate entity to act as our distributor nor a minimum purchase amount, individuals can commence business as our distributors as soon as they are able to identify demand of cement products in local districts in Shaanxi province. We typically select our distributors based on their customer base and financial resources.

To the best knowledge of our directors after due inquiry, all of the our distributors during the three years ended December 31, 2007, 2008 and 2009 were independent third parties. In the years ended December 31, 2007, 2008 and 2009, we sold our products to 144, 289 and 291 new distributors, respectively, and ceased to sell our products to 96, 174 and 272 distributors, respectively. We ceased our sales to those distributors mainly because of the completion of certain construction projects in which such distributors were involved and because of changes in our sales policies in favor of distributors with stronger financial strength such as a lower selling price provided to distributors who were able to make large pre-payments. As indicated in the table above, we worked with an increasing number of distributors during the three years ended December 31, 2007, 2008 and 2009 as we entered into new markets in local districts with the commencement of operation of our production lines at Lantian and Xunyang counties in 2008 and 2009.

For the three years ended December 31, 2007, 2008 and 2009, we sold our products to 282, 387 and 340 distributors who were individuals, respectively, and our sales to such distributors amounted to approximately RMB255.6 million, RMB362.9 million and RMB413.9 million, representing approximately 48.5%, 38.0% and 21.9% of our revenue for the same periods, respectively. We maintain close relationships with only selected distributors and we do not require such distributors to sell our cement products exclusively. We require full payment in advance from the distributors before we sell our products to them and therefore we did not suffer any loss in the past from our sales to such distributors.

During the three years ended December 31, 2009 and the nine months ended September 30, 2010, we also sold our products to individual retail customers through direct cash sales. These sales are recorded as "cash sales" in our sales and accounting system. The identities of these individuals were not recorded and there is no listing of these individual retail customers. We only maintained a record of stocks sold and cash received for such sales to the individual retail customers as such direct cash sales were considered insignificant when compared with our total sales. During the three years ended December 31, 2009 and the nine months ended September 30, 2010, the volume of our sales to individual retail customers amounted to approximately 3,900 tons, 6,600 tons, 16,800 tons and 116 tons, respectively, which constituted less than 0.5% of our cement products produced during the three years ended December 31, 2009 and the nine months ended September 30, 2010. Our sales to individual retail customers during the three years ended December 31, 2009 and the nine months ended September 30, 2010 amounted to approximately RMB0.9 million, RMB1.8 million, RMB5.5 million and RMB0.04 million, respectively. As our sales to individual retail customers were direct cash sales, we did not suffer any loss from payment default during the three years ended December 31, 2009 and the nine months ended September 30, 2010. We have a record system of individual retail customers in all of our sales offices. Under the record system, in addition to details of cash sales to retail customers such as the date of transaction, sales volume and value which we recorded in the past, our sales personnel also record the intended use and details of the retail customers. All such details will be confirmed by the retail customers and our accounting personnel and the person-in-charge of each sales office will conduct a monthly check on the record.

We believe that sales of cement products to individuals (including distributors and retail customers) are common for cement producers in Shaanxi province as the entry barrier for new cement distributors is low and because our cement products are also sold for domestic use.

For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, sales to our five largest customers accounted for approximately 25.0%, 19.2%, 13.4% and 7.8%, respectively, of our revenue, and sales to our largest customer accounted for approximately 6.6%, 4.8%, 7.1% and 2.0%, respectively, during the same periods. Our five largest customers during the same periods included (i) construction companies for government

infrastructure projects including the Zhengzhou (Henan Province) — Xi'an Railway and Baotou (Inner Mongolia) — Xi'an Railway; (ii) ready-mixed concrete stations in Shaanxi province and (iii) individual distributors, most of whom have maintained business relationships with us during the three years ended December 31, 2009 and nine months ended September 30, 2010 and conduct cement sales activities mostly in Weinan. During each of the three years ended December 31, 2007, 2008 and 2009 and the nine month ended September 30, 2010, our aggregate sales to such individual distributors amounted to RMB76.4 million, RMB152.8 million, RMB133.5 million and RMB115.8 million, respectively.

As of the date of this offering memorandum, none of our directors, their respective associates or any of our shareholders (which to the knowledge of our directors own more than 5% of our issued share capital) had any interests in any of our five largest customers.

Pricing policy

We set the prices for our products based on raw material costs, coal and electricity prices, market demand, our production capacity, transportation costs, inventory levels, competitors' prices and credit terms. A minimum price level is set for each type of cement. Any sales below the minimum price is subject to approval by the sales manager and senior management. Our central sales department in Xi'an evaluates the factors affecting our selling price on a regular basis and adjusts our minimum prices when appropriate. We usually sell our products by prepayment or credit sales. In general, the prices for credit sales are higher than that under prepayment. We usually sell cement to our distributors at the same price as our direct retail customers. In certain cases, we sell our cement to some customers on a comparatively lower price based on the purchase volume. We set different prices for different markets based on estimated transportation costs as well as local market conditions. We do not have any control over the re-sell price charged by the distributors to end users.

Payment terms

We require the distributors and the retail customers to make full payment of the contract price before they collect our products from our production facilities. We typically grant a credit period of 60 to 90 days to governmental infrastructure projects. Our customers usually pay either by cash or by bank transfers.

TRANSPORTATION

For coal, depending on contract terms, we are either required to collect the coal we purchase from our suppliers or our suppliers deliver it to us, in both cases at our own cost. In cases where our suppliers are responsible for delivery, they also bear the risk of loss in delivery, and we bear the risk of loss when we collect the raw materials from our suppliers. The distributors and some of our direct sale customers collect their cement purchases at their own cost at our production facilities. We arrange for transportation to deliver our cement to some government infrastructure projects at their own costs. If the actual cost of transportation exceeds the amount agreed between us and our customers, we pay the excess amount.

COMPETITION

We compete exclusively in the Shaanxi province market. The cement industry in China is generally a fragmented and regional industry. According to Digital Cement Net, there were 165 cement producers which had proper and valid approvals and licenses, annual sales of over RMB5 million and annual production capacity of over 150,000 tons of cement in Shaanxi province as of December 31, 2009.

As the weight and bulky nature of cement makes it expensive to transport, the cement industry is localized in nature. As a result, we view only those companies with a presence in or near Shaanxi province as our primary competitors. Our major competitors include Tangshan Jidong Cement Co., Ltd. (唐山冀東水泥股份有限公司), Shengwei Cement Co., Ltd. (聲威水泥建材集團有限公司), Baoji Zhongxi Cement Co., Ltd. (寶雞眾喜水泥有限公司), SINOMA Cement Co. Ltd. (中材水泥有限責任公司), Shaanxi Fuping Cement Co., Ltd, a subsidiary of Italcementi Group (意大利水泥集團陝西富平水泥有限公司) and Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司).

We compete primarily on the basis of pricing, variety of product offerings, access to resources, sales and marketing network and brand image. We believe we compete favorably on the basis of each of these factors. However, some of our competitors may have better brand recognition in their local markets, better pricing or greater financial, technical or marketing resources than we do. While most of our competitors' core markets are in central Shaanxi province, which is adjacent to one of our core markets, they could compete with us for the same target customers. If we fail to compete effectively against our competitors, our business, financial condition and results of operations may be materially and adversely affected.

RESEARCH AND DEVELOPMENT

Our research and development efforts focus on lowering costs by using waste materials as additives in our cement products. For the year ended December 31, 2009, we used approximately 1.6 million tons of industrial by-products, industrial waste and urban construction waste as raw materials in our cement production. These by-products and waste materials are readily available at low costs. Our ability to recycle such materials and use them in our cement production lowers our overall cost of materials, which we believe represents a significant advantage that distinguishes us from our competitors. Our total expenditures on research and development (including the costs of cooperative research projects undertaken with external organizations) amounted to nil, approximately RMB0.7 million, RMB1.9 million and nil during the three years ended December 31, 2009 and the nine months ended September 30, 2010.

As of the date of this offering memorandum, we have entered into cooperative agreements with Xi'an University of Architecture & Technology (西安建築科技大學), Tianjin Cement Industrial Design Institution (天津水泥工業設計院) and Nanjing Cement Industrial Design Institution (南京水泥工業設計院), each a leading research institution in construction materials or cement-related technology. Under the relevant cooperative agreements, we are entitled to use the equipment or software developed with relevant institutions for free while the institutions retain or jointly hold with us the ownership of the technology. These cooperative agreements are included among our research and development expenditures, and during the three years ended December 31, 2009 and the nine months ended September 30, 2010, we did not have any profit sharing from our cooperation with educational and scientific institutions.

The following table shows the major terms of our cooperation with scientific and educational institutions:

Name of Institution	Terms of Cooperation	Scope of Research and Development	Ownership of Technology	Profit and Expense Sharing	Confidentiality Agreement
Xi'an University of Architecture & Technology	January 12, 2006 — January 11, 2016	Establishment of Shaanxi Yaobai Special Cement Co., Ltd. Technology Center	The institute and we jointly enjoy the ownership of technology	Both the institute and we are entitled to share 50% of the profit obtained from transfer of any results of research and development conducted by Shaanxi Yaobai Special Cement Co., Ltd. Technology Center established under the cooperative agreement (no actual profit sharing during three years ended December 31, 2009 and the nine months ended September 30, 2010)	The institute and we should not disclose any data, technology or design provided by the other party to any third party and can only use them within the scope of cooperation agreement
Tianjin Cement Industrial Design Institution	October 28, 2006 — present	Provide project design and technological service in relation to the establishment of 2*2500t/d production lines	The institute enjoys the ownership of the software developed under the cooperation agreement	N/A	We should not copy and reuse the design documents, or transfer the design documents to third party, or use the documents in other projects without the institute's consent
Nanjing Cement Industrial Design Institution	October 6, 2003 — present	Provide project design and technological service in relation to the establishment of 1*5000t/d production line	The institute enjoys the ownership of the software developed under the cooperation agreement	N/A	N/A

Our cooperation with these institutions has helped, and we believe will continue to help, us to improve our product on technology and lower our operational costs.

INTELLECTUAL PROPERTY

We rely on a combination of trademarks, domain name registrations and contractual restrictions to establish and protect our intellectual property rights. We sell our products under the trademarks "堯柏" (Yao Bai) (Registration No. 901015) and "堯柏水泥" (Yaobaishuini) (Registration No. 5158040), which are registered with the PRC Trademarks Office under the State Administration for Industry and Commerce. We have also registered our corporate logos " " and " ", as well as certain other trademarks in Hong Kong. In addition, we have registered our internet domains "yaobo.com.cn" (Registration No. ce08b-ym/ty0027998gh), "westchinacement.com" (Registration No. 20061219129921093), "中國西部水泥" (Registration No. 20061219129921083) and "中國西部水泥有限公司" (Registration No. 20070706130198354) in China.

Any unauthorized use of our brand names, trademarks and other intellectual property rights could adversely affect our business, reputation and market position. Each of our research and development personnel has entered into a standard employment contract with us that is subject to renewal every three years, 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 during their employment by us are our property, and assigns to us any ownership rights that they may claim in those works.

QUALITY CONTROL

The production facilities of our following PRC subsidiaries, namely, Shaanxi Yaobai, Ankang Yaobai, Lantian Yaobai, Longqiao Yaobai and Xiushan Yaobai are accredited with ISO-9000 quality control system certification, which are valid until August 3, 2012, August 10, 2012, September 26, 2013, January 20, 2012 and May 17, 2012, respectively. We established testing laboratories equipped with various advanced testing equipment at our production facilities to work together with our production technology department to conduct quality testing and maintain quality control. Our quality control system includes raw materials and coal, production process and finished products quality control inspections. Raw materials and coal are tested by taking samples from each shipment. Any raw materials and coal that do not meet our requirements will be returned to the suppliers for replacement. We also set up multiple inspection points at different production stages to test our products by random sampling during the production process. All of our substandard products would be reprocessed and regenerated for use. Our finished products are inspected and tested by applying a variety of national standards prior to delivery. Such national standards include GB/T 17671-1999 on compressive strength and GB/T1 76-1 996 on cement chemical analysis method.

As of the date of this offering memorandum, we are not involved in any material litigation nor entered into any settlement with any third parties concerning the quality of our products.

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 aim to maintain suitable inventory levels of raw materials and finished goods at each production facility.

We maintain different inventory levels for raw materials and coal depending on lead time required to obtain additional supplies. We typically maintain an inventory of nine days for limestone and 16.5 days for coal. We typically keep an inventory level of approximately nine days for cement products.

REPAIR AND MAINTENANCE

Regular repair and maintenance programs for our production facilities are scheduled by our production departments and carried out by our machinery and electrical repair teams to maximize production efficiency and avoid unexpected interruption of our operations. We conduct scheduled maintenance twice a year, which takes approximately one week to complete. Our machinery and electrical repair teams carry out day-to-day maintenance and repair of the facilities and machinery on an as-needed basis. Normally, maintenance is only carried out on one production line at each plant at a time to ensure the continuity of our production.

OCCUPATIONAL HEALTH AND SAFETY

We obtained the OHSAS18000 certification for our health and safety management systems in Lantian Yaobai and Shaanxi Yaobai, which are valid until November 9, 2011 and September 6, 2013, respectively. 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. This department currently consists of 18 personnel, all of whom have relevant production safety management experience and qualifications issued by relevant governmental authorities. 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 two to three times each month 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. Our operations are in compliance with the currently applicable labor and safety regulations in all material aspect.

To prevent future occurrence of industrial accidents, we have adopted a series of remedial measures, including revision of relevant operation safety measures, inspection and modification of equipment, and holding training sessions for employees. 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 training on a regular basis. We also provide various healthcare benefits to our employees in accordance with applicable laws and regulations and our subsidiaries in Pucheng and Lantian counties have passed the occupational health and safety certification with our Xunyang subsidiary in the process of obtaining such certification. 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 situation.

INSURANCE

We maintain loss of cash and property insurance covering our equipment, vehicles and facilities for loss due to fire, flood and a wide range of natural disasters. We also maintain public

liability insurance, product liability insurance and loss of profit insurance for Shaanxi Yaobai. We do not maintain key employee or business interruption insurance. We believe our insurance coverage is customary and standard with respect to the type and scope of coverage for companies of comparable size in the cement industry in China.

EMPLOYEES

As of November 30, 2010, we employed a total of 3,442 full time employees. A breakdown of our employees by function is shown below:

Employee Function	Number of Employees
General and administration	523
Finance	194
Production/technical	2,182
Quality control	324
Sales and marketing	145
Procurement	56
Others	18
Total	3,442

Compensation for our employees includes basic wages, variable wages, bonuses and other staff benefits. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our employee benefit expenses were approximately RMB30.2 million, RMB44.9 million, RMB57.7 million and RMB65.1 million, respectively.

Under PRC law, we are required to make contributions to pension funds, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing provident funds and other staff welfare for our employees.

SOCIAL WELFARE SCHEMES

We are required by the PRC state laws and regulations to participate in various social welfare schemes including pension, medical, unemployment, birth and work-related injury insurances and housing provident fund contributions. The local authorities at the counties where our subsidiaries in the PRC are located, however, have different interpretation and implementation of such state laws and policies and we have been complying with the regulations and policies to the extent required by local authorities. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, we contributed approximately RMB0.6 million, RMB1.6 million, RMB2.5 million (US$0.4 million) and RMB2.9 million (US$0.4 million) to the social insurance schemes, respectively. We would need to pay additional amount of RMB0.5 million, nil, RMB1.1 million (US$0.2 million) and nil for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 if we made the contribution to social insurance fund and housing provident fund for our group members according to applicable national laws and regulations during the same periods.

Pursuant to policies including the Opinions of the Central Committee of the Communist Party of China and the State Council Regarding Deepening Medical and Hygienic Reform (中共中央、國務院關於深化醫藥衛生體制改革的意見), the Report of the Agricultural and Rural Affairs Committee of the National People's Congress on Follow-up and Inspection of Construction of Social Security System in Rural Areas (全國人民代表大會農業與農村委員會關於農村社會保障體系

建設情況跟蹤檢查報告) and the Guiding Opinions of the State Council Regarding Development of New Rural Social Old-Age Insurance on an Experimental Basis (國務院關於開展新型農村社會養老保險試點的指導意見), the PRC Government does not request contribution of pension and medical insurance for workers with rural residence on a mandatory basis.

Due to the differences in the local regulations and interpretation and implementation of relevant social insurance policies and laws and regulations by the local social insurance authorities, we have been making payments to selected social welfare schemes in accordance with policies of local social insurance authorities at counties where our PRC subsidiaries are located. As acknowledged by the social insurance authorities in the counties where our subsidiaries in the PRC are located: (1) pursuant to the national and local policies and laws and regulations regarding rural social security system, our subsidiaries in the PRC do not have mandatory obligations to pay social insurance payments for workers with rural residence; (2) other than pension insurance, the relevant counties have different implementation policies regarding medical, unemployment, birth and work-related injury insurances and housing provident funds and our subsidiaries in the PRC have complied with the relevant local policies. The local social insurance authorities where our subsidiaries are located have confirmed that none of our subsidiaries has been penalized for non-compliance with social insurance regulations and that they may continue to make social insurance contributions under the present regulations and guidelines without incurring any penalty.

PROPERTY

As of November 30, 2010, we owned 22 parcels of land, with an aggregate site area of approximately 1,650,482 square meters. We own 194 buildings and units, with an aggregate gross floor area of approximately 94,673 square meters. All of the properties we own are located in Shaanxi province.

As of November 30, 2010, we had under construction buildings and structures with an aggregate planned gross floor area of 171,814 square meters in relation to our production lines under construction in Mianxian, Pucheng and Xixiang counties.

ENVIRONMENTAL COMPLIANCE AND POLLUTION CONTROLS

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. According to the Environmental Protection Law of China (中華人民共和國環境保護法) and other relevant laws and regulations, companies that discharge contaminants must report and register with the State or the relevant local environmental protection authorities. 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 the section headed "Regulatory Overview — Environmental Protection" in this offering memorandum.

We have established and implemented various internal control rules and guidelines regarding environmental compliance and pollution controls, such as the guidelines on control and

management of waste water, solid waste and waste gas, the guidelines on management of the operation of pollution control system and the guidelines on management of data related to environmental protection. We have also established a Safety and Environmental Protection Committee comprising 38 members including:

The members of the Safety and Environmental Protection Committee comprise senior management at both our senior management and production facility level who are responsible for the day-to-day operation and production management at such facilities, some of whom have relevant qualifications in production safety and environmental management.

The committee is responsible for overseeing our environmental protection related matters. The main responsibility of our environmental protection committee includes (i) providing regular training to our staff, (ii) conducting regular on-site inspection, (iii) collecting documents or information related to environmental protection and (iv) implementing the opinions and requirements of local environmental protection authorities.

We have established a pollution control system and installed various equipment to process and dispose of our industrial wastes and hazardous materials to minimize the impact on the environment. Two of our subsidiaries have met the ISO 14001 environmental management standards.

Air: We generate dust in our cement production process. We have installed electrostatic precipitators and bag filters for the collection and removal of dust. Electrostatic precipitator applies high voltage static electricity to separate gas and dust. During the cement production process, dusty air will pass through the electrostatic precipitator where dust is removed. Bag filter is more widely used among cement producers. During the cement production process, dusty air passes through the bag filter and becomes purified fume, which is then discharged.

Water: We have a water treatment and recycle system which allows us to recycle and reuse water.

Noise: We have also installed mufflers, acoustic claddings and soundproof doors to control the noise generated during our operations.

Mining area: We plan to actively rehabilitate the mining area where the environment is affected by the mining activities after the limestone quarries are fully excavated on when our mining rights expire. Measures include careful selection of actual mining sites and location of storage of limestone to minimize impact to the mining area, proper storage and re-use of soil removed and sufficient plantation and vegetation after the mining is completed.

We have fully complied with the relevant environmental rules and regulations and have obtained all environmental permits and approvals necessary to conduct our existing business. Our cost of compliance with applicable environmental protection laws and regulations was approximately RMB21.3 million, RMB41.8 million, RMB74.7 million (US$11.2 million) and RMB62.2 million (US$9.3 million) for each of the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. The increase in our cost of compliance with applicable environmental protection laws and regulations during the three years ended December 31, 2007, 2008 and 2009 was mainly driven by addition of new production facilities in Xunyang and Lantian counties and therefore we acquired new equipment for pollution control. The cost of compliance for the year ending December 31, 2010 is estimated to increase as compared to December 31, 2009, primarily due to the addition of new facilities for residual heat recovery system at our new production lines at Mianxian, Pucheng and Xixiang counties. We have

not encountered material environmental claims or been subject to any material sanctions or fines for environmental violations in the past. 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.

GOVERNMENT INCENTIVES

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation Regarding Policies Relating to the Value Added Tax on Products Made Through Comprehensive Utilization of Resources and Other Products (財政部，國家稅務總局關於資源綜合利用及其他產品增值稅政策的通知), we enjoy VAT refunds for cement products that use a certain percentage of recycled materials as raw materials, such as slag and flyash. During the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, such VAT refunds amounted to RMB30.5 million, RMB39.2 million, RMB65.0 million and RMB75.8 million, respectively.

We currently enjoy certain PRC tax incentives as a result of the status of certain of our PRC subsidiaries as wholly foreign owned enterprises and the locations of all of our PRC subsidiaries in western China. As a wholly foreign owned enterprise, Lantian Yaobai is entitled to a two-year exemption from the PRC enterprise income tax from its first profitable year on a cumulative basis, and a 50% reduction of its applicable enterprise income tax rate for the succeeding three years. Shaanxi Yaobai enjoyed such treatment until the end of 2010. Lantian Yaobai may still enjoy the 50% tax reduction treatment until the end of 2011. As enterprises located in western China, certain of our PRC subsidiaries are entitled to a preferential enterprise income tax rate of 15% under the Western Development Plan, compared with the regular national enterprise income tax rate of 25%. The tax benefits under the Western Development Plan was due to expire at the end of 2010. The PRC government has not announced whether or not it intends to renew those benefits upon their expiration. If the tax benefits under the Western Development Plan are not renewed, we will be subject to the 25% regular national enterprise income tax from 2011.

Pursuant to the Notice regarding the Collection of Funds for Bulk Cement and Its Method of Use promulgated by the Ministry of Finance and the State Administration of Taxation (財政部，國家稅務總局關於散裝水泥專項資金徵收和使用管理辦法的通知), we enjoy rebates for selling cement in bulk. For the sale of each bag of packaged cement, an enterprise is required to contribute RMB1.0 to the "Bulk Cement Fund," and in turn, the money collected in that fund will be used as rebates for the sales of bulk cement. We received RMB230,000, RMB450,000, RMB700,000 and RMB800,000, respectively, in bulk cement rebates for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010.

LEGAL PROCEEDINGS AND COMPLIANCE

We were not involved in any legal, administrative or arbitration proceedings which had a material adverse effect on our business, result of operations on financial position during the three years ended December 31, 2009. As of the date of this offering memorandum, we were not aware of any legal, arbitration or administrative proceedings against us or any of our directors or senior management members which may have a material adverse effect on our business, results of operations or financial position.

All our business and operations are in Shaanxi province, the PRC. We have complied with all material applicable laws and regulations in jurisdictions where we operated since for the past three years ended December 31, 2009 and the nine months ended September 30, 2010 and we have obtained all material permits, certificates, licenses and approvals for our operations. In order to maintain our on-going compliance with the relevant regulatory requirements in such jurisdictions, we have adopted the following measures:

- establishment of a Safety and Environment Protection Committee to oversee all of our safety and environment related matters and our compliance with applicable laws and regulations; and
- appointment of external legal advisors in the PRC to advise us on compliance with applicable laws and regulations.

This section summarizes the principal PRC laws and regulations which are relevant to our business and operations. These include the laws and regulations relating to our cement production and sales in the PRC and the relevant mineral resources, environmental protection, taxation, labor and foreign exchange laws and regulations. As this is a summary, it does not contain the detailed analysis of the PRC laws which are relevant to our business and operations.

THE PRC

The PRC Legal System

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws, laws of Special Administrative Regions and laws resulting from international treaties entered into by the PRC government. Court verdicts do not constitute binding precedents. However, they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies and civil and criminal matters. The Standing Committee of the NPC is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council is the highest organ of the State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul administrative rules, regulations, directives and orders.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local laws and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council, provincial and municipal governments may also enact or issue rules, regulations or directives in new areas of the law for experimental purposes. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on June 10, 1981, the Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative bodies which promulgate such laws.

The PRC Judicial System

Under the PRC Constitution and the Law of Organization of the People's Courts, the judicial system is made up of the Supreme People's Court, the local courts, military courts and other special courts.

The local courts are comprised of the basic courts, the intermediate courts and the higher courts. The basic courts are organized into civil, criminal, economic and administrative divisions. The intermediate courts are organized into divisions similar to those of the basic courts, and are further organized into other special divisions, such as the intellectual property division. The higher level court supervise the basic and intermediate courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Courts is the highest judicial body in the PRC. It supervises the administration of justice by all other courts.

The courts employ a two-tier appellate system. A party may appeal against a judgment or order of a local court to the court at the next higher level. Second judgments or orders given at the same level and at the next higher level are final. First judgments or orders of the Supreme People's Court are also final. If, however, the Supreme People's Court or a court at a higher level finds an error in a judgment which has been given in any court at a lower level, or the presiding judge of a court finds an error in a judgment which has been given in the court over which he presides, the case my then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the PRC, which was adopted on April 9, 1991, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the object of the action. However, such selection can not violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request for enforcement of the judgment, order or award. The time limit imposed on the right to apply for such enforcement is two years. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognized and enforced by the court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according to the principal of reciprocity, unless the court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interests.

THE CEMENT INDUSTRY

Industry Policy

Pursuant to the Interim Provisions on Promoting Industrial Structure Adjustment (促進產業結構調整暫行規定) promulgated by the State Council and the "Guiding Catalogue of Industrial Structure Adjustment (2005)" (產業結構調整指導目錄 (2005年本)) promulgated by NDRC on December 2, 2005, the following activities belong to the "encouraged" category of business: (i) the production of cement and clinker using NSP technology with a daily production capacity of 4,000 tons or more, or 2,000 tons or more for the western region of the PRC, and the development of the NSP technology, the equipment and ancillary materials, (ii) the construction of cement grinding mills with annual production capacity of 1 million tons or more and (iii) the production of clinker with a daily production capacity of 2,000 tons or above using the new dry process employing residual heat recovery technology. Vertical kilns, dry hollow kilns, Lepol kilns, wet process kilns, and newly-built new dry process clinker production lines with a daily production capacity of 1,500 tons or below belong to the "restricted" category of business. Mechanical vertical kiln cement production lines of 2.2 meters in diameter or less, dry hollow kiln cement production lines of 2.5 meters in diameter or less (except for those that produce special cement), cement grinding equipment of 1.83 meters in diameter or less, earthen (egg-shaped) kilns, ordinary vertical kilns and other outdated kilns belong to the "eliminated" category of business.

New investments in the eliminated category are prohibited. All regions, departments and enterprises concerned are required to adopt strong measures to eliminate the prescribed production technology, equipment and products within a prescribed timeframe. For enterprises which fail to do so, the local governments at all levels and competent authorities shall order suspension or closure in accordance with relevant PRC laws and regulations. If the products of such enterprises are regulated under the production permit system, the competent authorities shall revoke the production permits in accordance with the law. The industry and commerce administration shall supervise and urge the enterprises to undergo procedures for modification or cancellation of their registration in accordance with the law. The environmental protection and management authorities shall revoke the discharge licenses of such enterprises. If the relevant requirement is not fulfilled, the person with direct responsibilities and the related leadership shall be prosecuted and held liable.

Pursuant to the Policies on the Development of Cement Industry (水泥工業產業發展政策), promulgated by the NDRC and effective on October 17, 2006, the State encourages local governments and enterprises to eliminate technology that has low production capacity and to promote the development of cement production using the NSP technology. The government supports projects for the construction of cement production plants with a daily clinker production capacity of 4,000 tons or more using the NSP technology in areas with appropriate resources, the construction of large-scale clinker production bases and the construction of large-scale cement grinding mills at locations near the relevant markets. Local governments at all levels should close down and rationalize the production capacity of the enterprise with annual production capacity of less than 200,000 tons or not in compliance with environmental protection requirements or its cement quality not up to the standard in accordance with the law.

Pursuant to the Special Plan for the Development of Cement Industry (水泥工業發展專項規劃), promulgated by the NDRC and effective on October 17, 2006, the State encourages the construction of large-scale production line using NSP technology with daily clinker production capacity of 4,000 tons or above, and those in western region should have a daily production capacity of 2,000 tons or above. Except for special regions restricted by market volume and transportation conditions, the construction of cement project with daily production capacity of less than 2,000 tons is not allowed. The construction of any obsolete cement production capacity and

the small-scale cement plant that causes significant pollution to the environment and serious damages to resources should be eliminated in accordance with the law. The State encourages the consolidation of the industry through mergers and reorganizations and actively encourages superior enterprises to enhance competitive capacities; encourages large-scale enterprises to merge with small-scale ones in the consumer market and reconstruct the qualified ones to substituted industry such as cement grinding mills, silo terminals or ready mix concrete; gives efforts to increase the proportion of bulk cement. As the new dry process cement production in western region does not develop well, emphasized support should be given to it on the basis of reducing stress on transportation and satisfying the regional needs to develop and build production lines with daily production capacity of more than 2,000 tons using the NSP technology, speed up the elimination of obsolete production capacity and promote the structural upgrade of the industry in western region. According to this plan, goals of the development of cement industry are: the proportion of new dry process cement will be above 70% and the technical equipment, energy consumption, environmental protection and resource utilization of new dry process cement will reach the level of moderately developed countries by 2010. Cement industry will achieve basic modernization and have stronger international competitive capacity by 2020; new dry process cement and clinker production volume will be controlled at about 700 million tons; the number of enterprises will decrease from current 5,000 to 2,000, the number of enterprise with a production capacity of 30 million tons will amount to 10 and the number of those with production capacity of 5 million will amount to 40.

According to the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) jointly promulgated by the NDRC and the Ministry of Commerce on October 31, 2007, cement production project is listed in the "permissible" category for foreign investment.

According to the Guidance Catalogue of Advantageous Industries for Foreign Investment in the Central and West Regions (Amendment 2008) (中西部地區外商投資優勢產業目錄(2008年修訂)) effective from January 1, 2009, in respect of Shaanxi province, the production of cement and clinker with a daily production capacity of 4,000 tons or more using NSP technology belongs to the "encouraged" category for foreign investment.

According to the Opinions regarding Restrain on Overcapacity and Duplicated Construction Leading to Healthy Development of Certain Industries (關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見) jointly promulgated by the NDRC, the Ministry of Industry and Information Technology, the Ministry of Supervision, the Ministry of Finance, the Ministry of Land and Resources, the Ministry of Environmental Protection, the PBOC, the General Administration of Quality Supervision, Inspection and Quarantine, the China Banking Regulatory Commission and the China Securities Regulatory Commission and agreed by the State Council on September 26, 2009, the industrial policies on the cement industry in China are: strictly control the newly added cement capacities and execute the principle of eliminating obsolete capacities equivalently and suspend the construction of projects that have not yet commenced the construction before September 30, 2009 and conduct one-off conscientious liquidation, as well as projects which are not in compliance with above principles are forbidden to commence the construction. Each province, district and city must promptly put in place a schedule to eliminate obsolete capacities thoroughly in three years. Enterprises are encouraged to generate power by using residual heat recovery systems, increasing the efficiency of the grinding systems and re-utilizing industrial wastes. Newly constructed projects' heat consumption of cement and clinker burning should be lower than 105 kg of standard coal/ton of clinker and the comprehensive electricity consumption for cement should be lower than 90KWh/ton of cement; the limestone reserve life must be more than 30 years; the density of waste gas and dust content must be lower than 50 mg/standard cubic meter. The provinces should encourage the merger or reorganization of those enterprises with obsolete capacities and promote the elimination of obsolete capacities through the construction of new production lines.

According to the Notice of the State Council on Further Strengthening the Elimination of Obsolete Production Capacities (國務院關於進一步加強淘汰落後產能工作的通知) issued by the State Council on February 6, 2010, cement, iron and steel and electricity are key industries for the elimination of obsolete capacities in the short term. Obsolete cement production capacities including mechanized shaft kiln cement production lines with a kiln diameter below 3.0 m, dry-process hollow kiln production line (excluding those for producing high alumina cement) with a kiln diameter below 2.5 m and wet-process kiln cement production lines (excluding those mainly used for disposing sludge, carbide slag, etc.) with a kiln diameter below 2.5 m, cement mills with a diameter below 3.0 m (excluding those for producing special cement), cement earth kilns (egg-shape), ordinary shaft kilns, etc. shall be eliminated before 2012. All cement production lines currently operated by us are new dry process kilns. We do not operate mechanical shaft kilns, dry-process hollow kilns or wet-process kilns. Our cement production capacities do not fall into the obsolete production capacities that should be eliminated before 2012 as required by the above policy.

According to the Criteria for Entry into the Cement Industry (水泥興業准入條件) issued by the Ministry of Industry and Information Technology on November 16, 2010, which will come into effect on January 1, 2011, the PRC government has set out rules and opinions to increase the entry barriers facing new cement production companies, including higher requirements on capital, industry experience and compliance with local development plans. The Criteria for Entry to Cement Industry limits the relevant cement production expansion in provinces with their respective production capacity of new dry process cement clinker being 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. According to the Criteria for Entry into the Cement Industry, among others, new cement production lines or expansion of current cement production lines must comply with the cement industrial policy of the province where the production lines are located. The acquisition of small producers with less advanced technology by larger producers with advanced technology is encouraged. Applicants for new cement production lines must have limestone resources sufficient to support at least 30 years of excavation for cement production. In addition, the Criteria for Entry into the Cement Industry provides that only existing cement producers can apply for new cement production lines.

Our cement production lines are required to comply with the above industrial policies. If we intend to invest in new cement production lines in the future, we must obtain an approval from the relevant authorities and abide by the prevailing national industrial policies. If we acquire cement production lines owned by third parties, only the cement production lines which have already been approved by the competent authorities and conform to the prevailing national industrial policies can be considered for acquisition.

We have obtained all necessary approvals by the authorities in the PRC with respect to our production lines in operation and in construction and the construction and operation of such production lines comply with the current policies applicable to the cement industry in the PRC.

Production Licenses

Pursuant to the Regulations of the People's Republic of China on the Administration of Production License for Industrial Products (中華人民共和國工業產品生產許可證管理條例), promulgated by the State Council on July 9, 2005 and effective on September 1, 2005, and the Measures for the Implementation of the Regulations of the People's Republic of China on the Administration of Production License for Industrial Products (中華人民共和國工業產品生產許可證管理條例實施辦法), revised by the General Administration of Quality Supervision, Inspection and Quarantine on April 21, 2010 and became effective on June 1, 2010, the State adopted a production license system for the administration of major industrial products which affect public safety, human health, life and property. The catalog of industrial products in respect of which the

State adopts the production license system shall be formulated by the authorities in charge of industrial product production licenses under the State Council and the relevant authorities of the State Council, and shall be subject to approval by the State Council. Any enterprise without a production license shall not produce any product governed under the production license system, and any unit or individual shall not sell or use such products in operating activities that are within these categories, and any unit or individual shall not sell or use any products in operating activities which are without production licenses. Pursuant to the prevailing Catalogue of Production Licenses for Industrial Products (工業產品生產許可證目錄), production of cement requires a production license.

The General Administration of Quality Supervision, Inspection and Quarantine is responsible for the centralized administration of the production licenses of industrial products across China. Authorities at the county level and above in charge of production licenses for industrial products are responsible for the administration of production licenses for industrial products within their own jurisdictions, and they are empowered to impose penalties pursuant to the relevant provisions for acts that violate the stipulations of production licenses.

The relevant subsidiaries of our Company which are operating existing cement production lines have obtained and will maintain a production license for industrial products for cement production.

Bulk Cement

Pursuant to the Administrative Measures of Bulk Cement (散裝水泥管理辦法) jointly promulgated by MOFCOM, the Ministry of Finance, the Ministry of Construction, the Ministry of Railways, the Ministry of Transportation, the General Administration of Quality Supervision, Inspection and Quarantine, and the State Administration for Environmental Protection on March 29, 2004, the State encourages and promotes the development of bulk cement and restricts the development of bagged cement. Authorities designated by the local people's government at the county level and above are responsible for the supervision and administration of bulk cement production within their own jurisdictions. Cement production enterprises shall produce bulk cement only after obtaining relevant production licenses. Entities and individuals engaged in the production, operation and utilization of bulk cement shall adopt measures to ensure that the facilities and sites for production, loading and unloading, delivery, storage and utilization are in compliance with safety and environmental protection requirements.

Pursuant to the Administrative Measures of Bulk Cement Special Funds Collection and Use (散裝水泥專項資金徵收和使用管理辦法) issued by the Ministry of Finance and the State Economic and Trade Commission on April 18, 2004, cement production enterprises selling bagged cement, including paper bag, plastic compound bag, compound bag will need to pay special funds on the basis of maximum RMB 1 per ton and enterprises using bagged cement will need to pay special funds on the basis of maximum RMB 3 per ton. The Ministry of Finance and the State Economic and Trade Commission are responsible for the centralized formulation of the policies in respect of the bulk cement special funds collection, use and management and local financial departments and bulk cement administrative departments are responsible for its organization and implementation.

Residual Heat Recovery System

Pursuant to the Guiding Catalogue of Industrial Structure Adjustment (2005) (產業結構調整指導目錄 (2005年本)), the production of clinker with a daily production capacity of 2,000 tons or above using the new dry process employing residual heat recovery system belongs to the "encouraged" category of industries.

MINERAL RESOURCES

Acquisition of Mining Rights

Pursuant to the Mineral Resources Law of the PRC (中華人民共和國礦產資源法) promulgated on March 19, 1986 and amended on August 29, 1996 by the Standing Committee of the National People's Congress and the Implementation Rules of the Mineral Resources Law of the PRC (中華人民共和國礦產資源法實施細則) promulgated on March 26, 1994 by the State Council, a licensing system is adopted by the State for the exploration and exploitation mineral resources; for any exploration of mineral resources, an application shall be made for registration in accordance with the law, and mining permits and mining rights shall be obtained. A system whereby the exploration rights and mining rights shall be obtained with compensation has been adopted; however, the State may, in light of specific conditions, prescribe reduction of or exemption from the compensation for acquiring the exploration right and mining right. Any exploitation of mineral resources must pay resource taxes and resource compensation in accordance with relevant regulations of the State. The State has adopted a unified block registration system of mineral resources exploitation.

According to the Administrative Measures on Registration of Mineral Resources Exploitation（礦產資源開採登記管理辦法）promulgated and implemented by the State Council on February 12, 1998, the validity period of a mining permit shall be determined according to the scale of the mine. The maximum validity period of a mining permit for a big-scale mine, medium-scale mine and small-scale mine shall be 30 years, 20 years and 10 years, respectively. A holder of mining permit shall go through the renewal registration procedures with registration authorities for its permit within 30 days before its permit expires. If a holder of a mining permit fails to renew its permit within such period, such mining permit shall be automatically annulled.

According to the Measures for the Administration of Bidding, Auctioning and Listing of Mineral Exploitation Rights and Mining Rights (Trial Implementation) (探礦權採礦權招標拍賣掛牌管理辦法 (試行)) promulgated by the Ministry of Land and Resources on June 11, 2003 and took effect on August 1, 2003, new mineral exploitation rights and mining rights that fall within the categories specified by the law may be granted by the competent authority through bidding, auctioning and listing procedures; the competent administration authorities of land and resources at above county level are in charge of the organization and implementation of bidding, auctioning and listing activities pursuant to the statutory scope of power of exploration permit and mining permit.

According to the Circular of Further Administration of Grant of Mining Rights (關於進一步規範礦業權出讓管理的通知) promulgated by the Ministry of Land and Resources on January 24, 2006 and became effective on the same day, exploration rights will no longer be granted for limestone used as construction materials and natural quartz sand used in construction and tile and mining rights for them will be directly granted through bidding, auctioning and listing procedures; the exploration rights for limestone (for other uses) are granted through bidding, auctioning and listing procedures. At the same time, the grant of exploration rights through bidding, auctioning and listing procedure that meets specific circumstances may be granted in the form of agreement upon approval, provided that the purchase price of mineral exploration and mining rights shall not be lower than the market price under similar conditions.

We have obtained mining permits for all our limestone quarries and the purchase price of the mining rights of each of our limestone mines has been settled in full. Please refer to the paragraphs headed "Limestone" in the section headed "Business" in this offering memorandum for details of our limestone mining rights.

Mining Safety

Pursuant to the Mining Safety Law of the People's Republic of China (中華人民共和國礦山安全法), promulgated by the Standing Committee of the National People's Congress and became effective on May 1, 1993, and the Regulation for the Implementation of the Mining Safety Law of the PRC (中華人民共和國礦山安全法實施條例), promulgated and became effective on October 30, 1996, mining enterprises shall install facilities to ensure safe production, establish and enhance safety management systems, and take effective measures to improve the work conditions of staff and workers and to strengthen the safety administration of mines. The mining enterprises administrations of the people's governments at the county level and above shall be responsible for the administration of safety measures in mines. The design of mine construction engineering work shall comply with the safety rules for mines and technological standards for the mining industry, and shall be subject to approval by the mining enterprises administration prescribed by the State. Before commencement of operation or use, mine construction engineering work shall go through safety facilities pre-approval inspection in accordance with the provisions of the relevant laws and regulations, and shall not be put into operation or use until the inspection has passed. Any breach of the above provisions may result in fines, revocation of exploitation license or operation license or other penalties.

Pursuant to the Regulations on Safety Production Licenses (安全生產許可證條例), promulgated by the State Council and effective on January 13, 2004, the State adopts a safety license system in respect of mining enterprises, and a mining enterprise which fails to obtain a safety license shall not engage in their production activities. In order to obtain a safety production license, mining enterprises shall satisfy certain safety production requirements. The safety production license issuance and administration authorities issue safety production licenses to enterprises that meet the production safety requirements pursuant to the relevant provisions. Safety production licenses are required to be renewed every three years through application to the safety production license issuance and administration authorities no later than three months before the expiration date.

All of our subsidiaries in the PRC which are operating the existing cement production lines have obtained the relevant safety production licenses.

Usage Fee and Purchase Price of Mineral Exploration and Mining Rights

In accordance with the Measures for the Administration of the Usage Fee and Purchase Price of Mineral Exploration and Mining Rights (探礦權採礦權使用費和價款管理辦法) promulgated by the Ministry of Finance and the Ministry of Land and Resources on June 7, 1999, any party which conducts exploration and mining activities of mineral resources in the PRC is required to pay a usage fee and the purchase price of mineral exploration and mining rights. The usage fee for an exploration right is calculated on the basis of the exploration year and the size of the area and is payable annually. The annual rate is RMB100 per square kilometer for the first to third exploration year, with an increment of RMB100 per square kilometer per year from the fourth exploration year onwards up to a maximum of RMB500 per square kilometer. The usage fee for the mining rights, which is RMB1,000 per square kilometer per year, is payable annually based on the size of the mining area. The purchase price for mineral exploration and mining rights is determined by reference to the valuation price confirmed by the Ministry of Land and Resources, and is paid as a lump-sum, or in installments within two years in the case of an exploration right and within six years in the case of a mining right. The usage fee and purchase price of mineral exploration and mining rights are paid by the owners of mineral exploration and mining rights during the registration of the mineral exploration and mining rights or their annual inspection pursuant to criteria determined by registration and administration authorities to "special account of usage fee and purchase price of mineral exploration and mining rights" opened by financial

authorities at the same level. We are required to pay the usage fee and purchase price of mineral exploration and mining rights for limestone quarries for cement production we own in accordance with these provisions. We are paying usage fee for mining rights of RMB1,000 per square kilometer per year for all our limestone mines.

Provisions on the Administration of Collection of the Mineral Resources Compensation Fee

Pursuant to the Provisions on the Administration of Collection of the Mineral Resources Compensation Fee (礦產資源補償費徵收管理規定) promulgated on February 27, 1994 and revised on July 3, 1997 by the State Council, the mineral resources compensation fee is calculated on the basis of a ratio of the sales income from mineral products. The mineral resources compensation fee is treated as an administration cost of the enterprise and is calculated using the following formula:

Resources compensation fee = Sales income of mineral products x Compensation fee rate x Coefficient of mining recovery rate

Any adjustment to the rate of a mineral resources compensation fee is determined by the Ministry of Finance, the Ministry of Land and Resources and the NDRC, and is subject to the approval of the State Council. Mineral resources compensation fees are collected by the departments of land and resources together with the departments of finance. Mineral resources compensation fee for the first half of each year is payable on or before July 31 of the same year, and the fee for the second half of the year is payable on or before January 31 of the following year. Pursuant to the Reply Letter in Respect of Problems in Collecting Mineral Resources Compensation Fee (關於徵收礦產資源補償費有關問題的覆函) promulgated by the Ministry of Land and Resources, a mineral resources compensation fee with a fee rate of 2% should be paid as required by the State for any mining activities of mineral resources within the territory of the PRC and other territorial waters under its administration, regardless of any purposes.

In specific circumstances, certain parties may be partly or fully exempted from paying mineral resources compensation fees upon joint approval by the department of land and resources and the department of finance at provincial level. Approval from the provincial people's government is required if the mineral resources compensation fee is reduced by more than 50% of the amount payable. Any approval for the reduction of the mineral resources compensation fee must be reported to both the Ministry of Land and Resources and the Ministry of Finance. We are required to pay the mineral resources compensation fee for limestone used in our cement production. As of September 30, 2010, we are not entitled to the reduction or exemption treatments of the mineral resources compensation fee.

Other Taxes Relating to the Mining Industry

Pursuant to the Interim Regulations on Resource Tax of the People's Republic of China (中華人民共和國資源稅暫行條例), promulgated by the State Council on December 25, 1993 and took effect on January 1, 1994, enterprises and individuals engaging in the mining of mineral resources in the People's Republic of China shall pay resource taxes. The resource taxes applicable to non-metal ores shall be RMB0.5-20 per ton or square meter.

Pursuant to the Notice on Adjustments to the Applicable Resource Tax Rates of Limestone, Marble and Granite (關於調整石灰石、大理石和花崗石資源適用稅率的通知), promulgated by the Ministry of Finance and the State Administration of Taxation on June 4, 2003 and effective on July 1, 2003, the applicable rate of limestone resource tax has been adjusted from RMB2 per ton to RMB0.5-3.0 per ton. We are required to pay the resource tax for limestone used in our cement production. The uniform resource tax rate of RMB2 per ton is applicable to each of our limestone mines.

Provision on the Geological Environmental Protection of Mines

Pursuant to the Provision on the Geological Environmental Protection of Mines (礦山地質環境保護規定) promulgated by the Ministry of Land and Resources of the PRC on March 2, 2009 and took effect on May 1, 2009, the applicant for mining rights, upon applying for a mining permit, is required to work out a plan for geological environmental protection and recovery, and to submit the plan to the administrative departments of state land and resources for approval. For mining resulting in geological environmental damage to mines, a holder of a mining permit shall be responsible for recovery work and the related costs shall be credited to production costs. If a holder fails to fulfill its obligations for mine's geological environmental recovery, the relevant administrative departments of state land and resources shall order the holder to fulfill its recovery obligations within a specified period. A holder of a mining permit shall fulfill its recovery obligations before the closure of mines. A holder shall pass inspection by and submit documents for acceptance to the administrative departments of state land and resources upon applying for closure formalities. We are required to conform to the above Provision on the Geological Environmental Protection of Mines for our limestone mining projects.

ENVIRONMENTAL PROTECTION

General Regulations

Pursuant to the Environmental Protection Law of the PRC (中華人民共和國環境保護法), promulgated by the Standing Committee of the National People's Congress and effective on December 26, 1989, the State Administration for Environmental Protection is empowered to formulate national environmental quality standards. The environmental protection administration of the people's governments at the county level and above are responsible for monitoring, on a unified basis, the environmental protection work within their jurisdictions. For items which are not governed by any national pollutant discharge standards, the people's governments of provinces, autonomous regions, and municipalities directly under the Central Government may formulate local standards; for items which are governed by national pollutant discharge standards, the people's governments of provinces, autonomous regions, and municipalities directly under the Central Government may formulate stricter local standards. Local pollutant discharge standards shall be filed with State Administration for Environmental Protection for the records.

According to the Law on the Prevention and Control of Water Pollution of the PRC (中華人民共和國水污染防治法) amended on February 28, 2008 and with effect from June 1, 2008, construction projects or other water facilities which are newly constructed, reconstructed and expanded, and which discharge pollutants into the water directly or indirectly, should conduct an environmental impact assessment in accordance with relevant laws. Enterprises which discharge industrial sewage directly or indirectly into water system should obtain pollutant discharge permits. Enterprises which discharge pollutants directly or indirectly into the water system should report to and register with the environmental protection administrative department in charge which is above county level in relation to the facilities which they own for discharging and treating water pollutants, as well as the types, quantities and concentrations of water pollutants discharged under normal operating conditions. These enterprises are also required to provide relevant technical information about how to prevent and control water pollution. Enterprises which discharge pollutants directly into the water should pay pollutant discharge fees according to the types and quantities of their water pollutants and the levy standard.

The Law on Prevention and Control of Air Pollution of the PRC (中華人民共和國大氣污染防治法) which was amended on April 29, 2000 and took effect from September 1, 2000 requires newly constructed, expanded or reconstructed projects which discharge pollutants into the atmosphere to comply with certain regulations relating to environmental protection. Units that discharge pollutants into the atmosphere should report to the local environmental protection

administrative department in charge in relation to the facilities which they own for the discharge and treatment of pollutants, as well as the types, quantities and concentrations of the pollutants discharged under normal operating conditions. They are also required to provide relevant technical information about how to prevent and control atmospheric pollution. The PRC government has implemented a system on levying fees for discharging pollutants into the atmosphere based on the type and quantity of pollutants discharged. The standards on levying pollution discharge fees that the government put in place have been based on the requirements for strengthening the prevention and control of atmospheric pollution as well as the national economic and technological conditions.

According to the Law on Prevention and Control of Environmental Pollution Caused by Solid Waste of the PRC (中華人民共和國固體廢物污染環境防治法) amended on December 29, 2004 and with effect from April 1, 2005, enterprises producing industrial solid wastes should form and improve an accountability system in preventing and controlling environmental pollution, and adopt measures to prevent and control such wastes from polluting the environment. The State has implemented a reporting and registration system for industrial solid pollutants. In accordance with the relevant requirements, units producing industrial solid pollutants must provide relevant information to the local environmental protection administrative department in charge which is above county level, where such information includes the type, quantity, flow, storage and treatment of the industrial solid wastes.

Under the Law on Prevention and Control of Environmental Noise Pollution of the PRC (中華人民共和國環境噪聲污染防治法), effective from March 1, 1997, industrial enterprises producing environmental noise pollution as a result of using their fixed facilities in industrial production must report to the local environmental protection administrative department in charge in relation to their facilities that produce noise pollution by category, quantity, and noise pollution level under normal operating conditions as well as the conditions of their noise pollution preventive facilities. They should also provide technical information about how to prevent and control noise pollution. Units producing environmental noise pollution should adopt remedial measures and pay discharge fees for exceeding the standards according to the PRC regulations.

According to the Opinion on the Enforcement of the Environmental Protection Laws and Prevention of Credit Risk (關於落實環保政策法規防範信貸風險的意見) promulgated by State Administration for Environmental Protection, the PBOC, and the China Banking Regulatory Commission (中國銀行業監督管理委員會) on July 12, 2007, the following irregularities will be addressed in accordance with the law: commencement of construction without approval or without approval by an authority at an appropriate level, failure to complete any environmental protection facilities at the same time as the production facility is completed, and commencement of operations without passing environmental examination. The above irregularities will be reported to the local people's banks, banking regulatory department and financial institutions. The financial institutions shall, on the basis of the administrative provisions of the State on environmental protection in respect of construction projects and the information disclosed by the environmental protection authority, conduct their examination and approval, disbursement, and supervision and administration of loans stringently. No credit in whatever form shall be granted to any project which has not passed the environmental assessment examination, or the environmental protection facilities of which have not passed the pre-approval inspection. Environmental authorities at all levels shall sanction enterprises in accordance with the law if they have conducted any of the following: excessive discharge of pollutants, excessive total discharge level, discharge of pollutants without obtaining the necessary permits in accordance with the law, discharges in breach of the levels allowed by the license or failure to restore the damaged environment within a prescribed timeframe. These breaches will be reported to the local people's banks, banking regulatory department and financial institutions. The financial institutions at all levels, when

examining enterprises' application for working capital loans, shall act on the information provided by the environmental protection departments, strengthen the management of credit and take measures to control stringently any lending of loans to enterprises which are in violation of the environmental laws, so as to safeguard against credit risks.

Environmental Impact Assessment

Pursuant to the Administrative Regulations for the Environmental Protection of Construction Projects (建設項目環境保護管理條例) promulgated by the State Council on November 29, 1998 and took effect on the same day, and the Administrative Measures for the Examination and Approval of Environmental Protection Facilities of Construction Projects (建設項目竣工環境保護驗收管理辦法) promulgated by State Administration for Environmental Protection on December 27, 2001 with effect from February 1, 2002, and the Environmental Impact Assessment Law of the People's Republic of China (中華人民共和國環境影響評價法) promulgated by the Standing Committee of the National People's Congress on October 28, 2002 and took effect on September 1, 2003, enterprises are required to engage institutions with corresponding environmental impact assessment qualifications to provide environmental impact assessment services and reports for submission to the competent environmental protection approval administration. Construction work may only be commenced after such an assessment is submitted to and approved by the environmental protection administrative authority. The construction of pollution prevention and control facilities in a construction project must be designed and commenced simultaneously with the main facility. Pollution prevention and control facilities shall not be put to use until the approval, upon inspection, by the original environmental protection authority which had approved the environmental impact assessment report. An enterprise which fails to submit assessment documents on the environmental impact of a construction project in accordance with the law or which commences construction work without permission will be ordered to cease construction and go through formalities retrospectively within a prescribed timeframe. If the enterprise fails to go through the formalities retrospectively, the enterprise and the person with direct responsibilities are subject to fines or administrative penalties.

Pursuant to the Classification of Construction Project Lists for Environmental Impact Assessments (建設項目環境影響評價分類管理名錄) promulgated by the Ministry of Environmental Protection on September 2, 2008 and effective on October 1, 2008, cement manufacturers shall prepare an environmental impact report to fully evaluate the relevant impact their operations have on the environment, as cement manufacturing may cause significant impact to the environment. We are required to conduct an environmental impact assessment on our cement production projects, and obtain approval from the competent environment protection authorities.

DIRECTORS

Our board currently consists of eight directors, comprising four executive directors, one non-executive director and three independent non-executive directors. The powers and duties of our board include convening general meetings and reporting our board's work at our shareholders' meetings, determining our business and investment plans, preparing our annual financial budgets and final reports; formulating proposals for profit distributions, recovery of losses and for the increase or reduction of our registered capital, as well as exercising other powers, functions and duties conferred by our memorandum and articles of association. We have entered into service contracts with each of our executive directors and non-executive director. We have also entered into letters of appointment with each of our independent non-executive directors.

The following table sets forth certain information concerning our directors.

Name	Age	Position
Mr. Zhang Jimin (張繼民)	56	Chairman, Executive Director and Chief Executive Officer
Mr. Wang Jianli (王建禮)	47	Executive Director and Chief Engineer
Ms. Low Po Ling (羅寶玲)	35	Executive Director and Chief Financial Officer
Mr. Tian Zhenjun (田振軍).	50	Executive Director and Deputy Chief Executive Officer
Mr. Ma Zhaoyang (馬朝陽)	42	Non-executive Director
Mr. Lee Kong Wai Conway (李港衛)	56	Independent non-executive Director
Mr. Wong Kun Kau (黃灌球)	50	Independent non-executive Director
Mr. Tam King Ching Kenny (譚競正) . . .	61	Independent non-executive Director

Executive Directors

Mr. Zhang Jimin (張繼民), age 56, is the chairman, executive director and chief executive officer of our Company. He was appointed an executive director of our Company on October 27, 2006. He is also our chief executive officer. Mr. Zhang is the founder of our Group and is also a director of a number of our subsidiaries including West China BVI, Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Xiushan Yaobai, Xi'an Yaobai and Longqiao Yaobai. He is responsible mainly for our overall strategy planning and investment decisions. Mr. Zhang has approximately 25 years of experience in the cement industry. He served as the factory manager of Shaanxi Province Pucheng County Hanjing Town Second Cement Factory (陝西省蒲城縣罕井鎮第二水泥廠), a collectively-owned enterprise established by the Pucheng County Hanjing Town Commune (蒲城縣罕井鎮人民政府), a PRC local-level government from 1985 to December 1990. Since December 1990, Mr. Zhang served as the manager of Pucheng County Hanjing Town Cement Factory (蒲城縣罕井鎮水泥廠), a collectively-owned enterprise established by the Pucheng County Hanjing Town Commune (蒲城縣罕井鎮人民政府) and which was then succeeded by Pucheng Yaobai and continued with such positions in Shaanxi Yaobai. Mr. Zhang actively participated in various cement technologies development projects and during 1992 to 1994, he led the development of low heat slag cement and moderate-heat Portland cement, which won the Second Grade Science and Technology Progress Prize issued by the Shaanxi Province government. Mr. Zhang has also assumed several social positions, such as being the chairman of Shaanxi Province Cement Association (陝西省水泥協會), an industry association jointly established by the Raw Materials Division of the Industry and Information Technology Department of Shaanxi Province (陝西省工業和信息化廳原材料處) and various cement production enterprises in Shaanxi, since December 2009. As the chairman of Shaanxi Province Cement Association (陝西省水泥協會), Mr.

Zhang is mainly responsible for promoting the information exchange of the cement enterprises in Shaanxi, leading the association to establish and perfect the self-regulatory regime of the cement industry, maintain fair market competition, providing technology and human resources and assisting the Shaanxi Province government to regulate the cement industry in Shaanxi province. Mr. Zhang is also a representative of Xi'an City of the 11th Standing Committee of Shaanxi Provincial People's Congress (陝西省第十一屆人民代表大會常務委員會西安市代表) who participates in the plenary sessions of the 11th Standing Committee of Shaanxi Provincial People's Congress for discussion and approval of various matters such as politics, economics in relation to Shaanxi province. Through these social positions, Mr. Zhang is able to maintain close contact with the industry partners and the local government so as to keep abreast of the latest development of the cement industry and government policies. Mr. Zhang received professional training course in economic management from Peking University (北京大學) in July 2001.

Mr. Wang Jianli (王建禮), age 47, is an executive director of our Company. He is also our chief engineer and director of a number of our subsidiaries including Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai, Mianxian Yaobai and Xixiang Yaobai. He was appointed an executive director of our Company on November 2, 2006. He is responsible mainly for our overall production management, technology quality assurance, safety, environmental protection, efficiency management and project management. Mr. Wang graduated from Xi'an University of Technology (西安理工大學) (formerly known as Shaanxi College of Machinery (陝西機械學院)) with a bachelor's degree in engineering in December 1990. Mr. Wang has more than 28 years of experience in the cement industry. He worked at the Shaanxi Design & Research Institute of Building Materials (陝西省建築材料工業設計研究院), an integrated research institute supervised by the Science and Technology Department of Shaanxi Province (陝西省科技廳) and specializing in the scientific research and designing of construction materials, from December 1982 to February 2002 with a range of positions including technician, assistant engineer, engineer, senior engineer, deputy director of design institute, director of design institute and assistant to the dean; and he had been engaged in the design and technical management of cement plants during such period. He has been in his current position at Shaanxi Yaobai since March 2002 and was in charge of design and construction of our various cement production lines at Pucheng, Lantian, Xunyang and Yangxian and through such engagement, he accumulated valuable management experience and technical knowledge. Mr. Wang has also published some thesis in cement industry journals, for example, "Microstructure and chemical composition of ferrous micro-bead separated from fly ash (粉煤灰中磁珠的微觀結構及化學組成)" in the cement industry journal Mining Research and Development (礦業研究與開發) and "Characteristics of ultra-fine flyash and hydration in cement paste (超細粉煤灰及其在水泥淨漿中的水化特徵研究)" and "Influence of particle pattern and gradation on the water dosage of fly ash cement (顆粒形貌及粒級對粉煤灰水泥需水量影響的試驗研究)" in the cement industry journal Concrete (混凝土).

Ms. Low Po Ling (羅寶玲), age 35, is an executive director of our Company. She was appointed an executive director of our Company on October 20, 2008. She is also our chief financial officer and a director of our subsidiary, Shaanxi Yaobai. She is responsible mainly for supervising our corporate finance, audit, securities and information dissemination. Ms. Low graduated from Systematic Business Training Centre in 1995. Before joining us, Ms. Low worked in Malaysia, Singapore and the United Kingdom. She was an associate consultant of PricewaterhouseCoopers Consulting Sdn Bhd, an accounting firm in Malaysia between May 1998 and May 1999. From November 2000 to January 2003, she worked as an audit assistant with Tan Choon Chye & Co., a CPA firm. In January 2003, Ms. Low joined BDO International, a CPA firm in Singapore as a senior auditor. Between January 2005 and May 2006, she was with BDO London as a consultant. She then joined PKF (UK) LLP, an accounting and business consulting firm in London and worked as a corporate finance executive until March 2007. From April 2007 to

December 2008, Ms. Low served as an associate director of Goldenway Capital and Chang'an Capital, an investment company before joining our Group. Ms. Low is a fellow member of the Association of Chartered Certified Accountants (ACCA). Ms. Low has more than 10 years of experience in audit practice and corporate finance.

Mr. Tian Zhenjun (田振軍), age 50, is an executive director of our Company. He was appointed an executive director of our Company on May 17, 2010. He is also our deputy chief executive officer and is responsible for our overall administrative, human resources and operational management. Mr. Tian is a director of a number of our subsidiaries including Shaanxi Yaobai, Lantian Yaobai and Ankang Yaobai. Mr. Tian has received an undergraduate degree in accountancy from Shaanxi Finance & Economy College (陝西財經學院) in December 2001. From August 1988 to August 1998, Mr. Tian served as the accounting manager of Pucheng County Coal Mine (蒲城縣煤礦), a local state-owned enterprise. He joined Shaanxi Yaobai in September 1998 and has held several positions in our Group, including general accountant, director of the finance department, assistant general manager and sales manager. Mr. Tian became a certified accountant in the PRC in October 1994.

Non-executive Director

Mr. Ma Zhaoyang (馬朝陽), age 42, was appointed a non-executive director of our Company on July 29, 2010. Mr. Ma received a master's degree in management from Northwestern Polytechnic University (西北工業大學) in May 1998. Mr. Ma has been a professor of management at Northwestern Polytechnic University in Shaanxi, China since 1996. In view of his academic knowledge and extensive experience in strategic planning, Mr. Ma Zhaoyang was appointed a non-executive director of our Company and assumes an advisory role with us in respect of the overall strategic planning and operation of our business. Mr. Ma has been the chairman and director of Sino Vanadium Inc., a vanadium mining company listed on the TSX Venture Exchange in Canada since June 2009. He has also been a non-executive director of Taihua PLC, a pharmaceutical company listed on the London Stock Exchange, where he assumes an advisory role since December 2006. He is currently and has been an independent non-executive director of Xi'an Kaiyuan Holding Group Co., Ltd. (西安開元控股集團股份有限公司), a company listed on the Shenzhen Stock Exchange which is principally engaged in department store retail businesses and where he has assumed an advisory role since May 2006.

Independent non-executive Directors

Mr. Lee Kong Wai Conway (李港衛), age 56, was appointed an independent non-executive director of our Company on July 29, 2010. Mr. Lee received a bachelor's degree in arts from Kingston University (formerly known as Kingston Polytechnic) in London in July 1980 and further obtained his postgraduate diploma in business from Curtin University of Technology in Australia in February 1988. Mr. Lee served as a partner of Ernst & Young over the past 29 years and held key leadership positions in the development of such firm in China. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Registered Accountants. Mr. Lee currently also serves as an independent non-executive director of China Taiping Insurance Holdings Company Limited and Chaowei Power Holdings Limited, companies listed on the Main Board of The Stock Exchange of Hong Kong Limited since October 2009 and July 2010, respectively, and Sino Vanadium Inc., a company listed on the TSX Venture Exchange in Canada since October 2009. Mr. Lee was appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province in China since 2007.

Mr. Wong Kun Kau (黃灌球), age 50, was appointed an independent non-executive director of our Company on July 29, 2010. Mr. Wong received a bachelor's degree in social sciences from the University of Hong Kong in November 1982. He has 28 years of experience in fund management, securities broking and corporate financing involving securities origination, underwriting and placing of equities and equity-linked products, mergers and acquisitions, corporate restructuring and reorganizations and other general corporate advisory activities. Mr. Wong has extensive experience in the Greater China region markets. He is the founder and currently the managing partner of Bull Capital Partners Ltd, a direct investment fund management company. Before founding Bull Capital Partners Ltd., Mr. Wong was the head of investment banking (Asia) of BNP Paribas Capital (Asia Pacific) Limited from 2002 to 2007.

Mr. Tam King Ching Kenny (譚競正), age 61, was appointed an independent non-executive director of our Company on July 29, 2010. Mr. Tam received a bachelor's degree in commerce from the Concordia University in November 1975. He is a practising Certified Public Accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Tam is serving as a member of the Ethics Committee and Practice Review committee in the Hong Kong Institute of Certified Public Accountants. He is also a past president of The Society of Chinese Accountants and Auditors. Mr. Tam also serves as an independent non-executive director of five other listed companies on the Main Board of The Stock Exchange of Hong Kong Limited, namely, Kingmaker Footwear Holdings Limited, CCT Telecom Holdings Limited, Shougang Concord Grand (Group) Limited, Starlite Holdings Limited and Van Shung Chong Holdings Limited since May 1994, December 1999, February 1996, July 2004 and September 2004, respectively, and a listed company on the GEM board of The Stock Exchange of Hong Kong Limited, namely, North Asia Strategic Holdings Limited, since September 2004. He was also an independent non-executive director of King Stone Energy Group Limited (formerly known as Yun Sky Chemical (International) Holdings Limited), a listed company on the Main Board of The Stock Exchange of Hong Kong Limited, during the period from August 2005 to September 2008.

Although Mr. Tam has been appointed an independent non-executive director of six other listed companies, Mr. Tam is of the view that he can allocate sufficient time to serve as an independent non-executive director and our Company is also satisfied that Mr. Tam can devote sufficient time to perform his duties as an independent non-executive director.

SENIOR MANAGEMENT

The following table sets forth certain information concerning our other senior management members.

Name	Age	Position
Mr. Chen Zhixin (陳志信)	50	General Manager of Ankang Yaobai
Mr. Li Wenyu (李文育)	50	General Manager of Longqiao Yaobai
Mr. Tian Maoyuan (田茂遠)	45	General Sales Manager
Mr. Li Yongji (李永繼)	32	Strategic Planning Director and Secretary to the board of directors of Shaanxi Yaobai
Mr. Lian Jie (連杰)	41	General Manager of Xiushan Yaobai
Ms. Tang Huiqin (唐會芹)	42	Head of internal audit department
Mr. Sin Lik Man (冼力文)	32	Company Secretary

Mr. Chen Zhixin (陳志信), age 50, is the general manager of Ankang Yaobai. Mr. Chen is also a director of a number of our subsidiaries including Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai and Xiushan Yaobai. Mr. Chen received an undergraduate degree in commanding communications from the PLA Commanding Communications Academy (中國人民解放軍通信指揮學院) in July 2000. From February 1978 to December 2002, Mr. Chen worked for the army of the PRC. From December 2002 to September 2005, he worked as vice general manager of the Shaanxi West Cyber Information Co. Ltd. (陝西西部數通電訊資訊有限公司). Mr. Chen joined Shaanxi Yaobai in September 2005 and has held several positions in our Group including assistant to the general manager of Shaanxi Yaobai, vice general manager of Shaanxi Yaobai, general manager of a branch office of Shaanxi Yaobai and general manager of Ankang Yaobai.

Mr. Li Wenyu (李文育), age 50, is the general manager of Longqiao Yaobai and is responsible for the overall management of Longqiao Yaobai. He is also a director of Shaanxi Yaobai and Longqiao Yaobai. Mr. Li received professional training in business operations from Northwest University of China (西北大學) in March 2003. Mr. Li served as the director of supply and marketing division of Pucheng Shangwang Construction Material Co., Ltd. (蒲城縣上王建材廠) from February 1993 to October 1997 and has been involved in the building materials industry for approximately 17 years. In 1997, Mr. Li joined Shaanxi Yaobai and has held several positions in our Group including head officer of general logistics department, sales manager and general manager of Hanzhong Yaobai, Mianxian Yaobai and Xixiang Yaobai.

Mr. Tian Maoyuan (田茂遠), age 45, is our general sales manager and is responsible for sales and marketing of our products. Mr. Tian is also a director of a number of our subsidiaries including Shaanxi Yaobai, Hanzhong Yaobai, Mianxian Yaobai and Xixiang Yaobai. Mr. Tian received a bachelor's degree and a MBA from Northwestern Polytechnic University (西北工業大學) in July 1988 and December 2005, respectively. From August 1988 to August 2008, Mr. Tian worked for Xi'an Electric Switch Electric Co., Ltd. (西安西電開關電氣有限公司), a subsidiary of China XD Group (中國西電集團), in a range of positions including deputy director of the manufacture institute, deputy director of the sale and service department, deputy director and director of the isolating switch institute and assistant to the general manager. Mr. Tian joined us in 2008 and has held several positions in our Group including vice president of our Company, head officer of the administration department, general manager of a branch office of Shaanxi Yaobai and sales manager.

Mr. Li Yongji (李永繼), age 32, is the strategic planning director and secretary to the board of directors of Shaanxi Yaobai. He is responsible for our strategic planning of the development and public relations. Mr. Li is also a director of Xi'an Yaobai and Longqiao Yaobai. Mr. Li received a diploma in accounting from Xi'an Jiaotong University (西安交通大學) in December 2004. Mr. Li joined us in August 2002 and has worked in several departments of our Group including finance department, Lantian project department, and investment and development department. Mr. Li obtained the certificate for medium level accountant (中級會計師) issued by the Ministry of Finance of the PRC (中華人民共和國財政部) in May 2005 and became a certified tax planner in the PRC in March 2009.

Mr. Lian Jie (連杰), age 41, is a director and the general manager of Xiushan Yaobai and is responsible for the overall management of Xiushan Yaobai. Mr. Lian received an undergraduate degree in accounting from Shaanxi Economics and Trade Institute (陝西經貿管理學院, formerly known as Shaanxi College of Industry and Commerce (陝西工商學院)) in July 1995 and a bachelor's degree in accounting from Central Broadcasting and Television University (中央廣播電視大學) in June 2005. Prior to joining us, Mr. Lian worked as the deputy general manager of Shaanxi Xiushan Cement (Group) Co., Ltd. (陝西秀山水泥(集團)有限公司), the predecessor of Xiushan Yaobai, from January 2006 to July 2009 and as a director of the finance department of Shaanxi Xiushan Cement (Group) Co., Ltd. (陝西秀山水泥(集團)有限公司) from March 2005 to

December 2005. Mr. Lian joined us in August 2009 as executive vice general manager of Xiushan Yaobai and is currently the general manager of Xiushan Yaobai. Mr. Lian obtained the certificate for medium level accountant (中級會計師) issued by the Ministry of Finance of the PRC (中華人民共和國財政部) in May 2002.

Ms. Tang Huiqin (唐會芹), age 42, is the head of internal audit department of our Company and she joined us in November, 2004. Ms. Tang has approximately 19 years of experience in accounting and internal audit. Between July 1991 and October 2004, Ms. Tang worked at Shaanxi Shaanhua Company Fufei Factory (陝西陝化股份公司復肥廠) and served as a vice manager, responsible for financial reporting, costing and internal auditing. From November 2004 to December 2007, she served various positions in Shaanxi Yaobai, such as head of internal audit department of Pucheng branch office, deputy financial controller, head of internal control, deputy general manager and head of audit department, responsible for audit and internal control of Shaanxi Yaobai. She received a Master's degree of Business Administration from School of Economics and Management, Northwestern University (西北大學經濟管理學院) in the PRC in 2005. She also obtained the senior accountant certificate awarded by the Human Resources Bureau of Shaanxi Province in October 2007 and became a certified tax planner in the PRC in March 2009.

Mr. Sin Lik Man (冼力文), age 32, is the company secretary of our Company and he joined us on May 17, 2010. Mr. Sin received a bachelor's degree of Business Administration, with a major in accounting from the Hong Kong University of Science and Technology in November 2000 and further received a master's degree in accounting from Curtin University of Science and Technology, Australia in April 2007. Mr. Sin is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a fellow member of the Association of Chartered Certified Accountants (ACCA). Mr. Sin possesses about 10 years of experience in financial control, corporate finance, capital market relations, corporate governance and compliance, and company secretarial practice through his past working history which enabled him to discharge the functions as a company secretary of our Company. Before joining us, Mr. Sin worked as a senior finance manager of a subsidiary and an associated company of Norstar Founders Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, from April 2006 to May 2010 and was responsible for the management of the overall corporate finance and treasury functions, providing technical support on the financial control and corporate governance issues of the company. From May 2003 to September 2005, Mr. Sin served as an accounting services officer of HSBC International Trustee Limited, responsible for preparing the financial accounts, and internal audit officer of Delta Asia Financial Group, responsible for performing the internal audit and preparing internal audit report. Mr. Sin was a staff accountant of Ernst & Young from September 2000 to April 2003, responsible for reviewing accounting and internal control system, auditing financial accounts and preparing audited financial statements.

COMPANY SECRETARY

Mr. Sin Lik Man is a member of our senior management and the company secretary of our Company. Please refer to his biography under the paragraph headed "— Senior Management" above.

BOARD COMMITTEES

Audit Committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The audit committee currently consists of three

independent non-executive directors, being Mr. Lee Kong Wai Conway, Mr. Tam King Ching Kenny and Mr. Wong Kun Kau, with Mr. Lee Kong Wai Conway serving as chairman of the audit committee. Mr. Lee Kong Wai Conway has the appropriate professional qualification as set out in Rule 3.10(2) of the Listing Rules.
The primary duties of the audit committee are to assist our board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by our board.

Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with paragraph B1 of the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The remuneration committee currently consists of two independent non-executive directors, being Mr. Tam King Ching Kenny and Mr. Wong Kun Kau and one executive director, being Mr. Zhang, with Mr. Zhang serving as chairman of the remuneration committee.

The primary duties of the remuneration committee are to establish and review the policy and structure of the remuneration for directors and senior management.

Nomination Committee

We have established a nomination committee with written terms of reference as recommended under the Code on Corporate Governance Practices, set out in Appendix 14 to the Listing Rules. The nomination committee currently consists of two independent non-executive directors, being Mr. Lee Kong Wai Conway and Mr. Tam King Ching Kenny, and one executive director, being Mr. Zhang, with Mr. Zhang serving as chairman of the committee.

The primary functions of the nomination committee are to make recommendations to our board regarding the appointment of members of our board.

Risk Assessment Committee

We have established a risk assessment committee with written terms of reference. The risk assessment committee currently consists of 23 members including, among others, all our executive directors, namely Mr. Zhang, Mr. Wang Jianli, Ms. Low Po Ling and Mr. Tian Zhenjun, our company secretary, Mr. Sin Lik Man, and each of our senior management disclosed in the section headed "Management", namely Mr. Chen Zhixin, Mr. Li Wenyu, Mr. Tian Maoyuan, Mr. Li Yongji, Mr. Lian Jie and Ms. Tang Huiqin, with Mr. Zhang serving as the chairman of the committee.

The primary functions of the risk assessment committee are to identify risk areas and formulate action plans for each department of our Group to execute.

COMPENSATION OF DIRECTORS AND MANAGEMENT

We have established a remuneration committee to determine the remuneration of our directors and senior management from time to time. Our remuneration policy is to provide remuneration packages, in terms of basic salary, short term bonuses and long term rewards such as options, so as to attract and retain top quality staff. Our remuneration committee reviews such packages annually, or when the occasion requires. Our executive directors, who are also our employees, receive compensation in the form of salaries, bonuses and other allowances. The aggregate amount of remuneration (including fees, salaries and discretionary bonuses) which we paid to our directors for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 were approximately RMB4.5 million, RMB8.0 million, RMB4.7 million and RMB2.9 million, respectively.

The aggregate amount of remuneration (including fees, salaries and discretionary bonuses) which were paid by our Group to the five highest paid individuals, including our directors, during the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 were approximately RMB4.5 million, RMB7.9 million, RMB4.7 million and RMB2.7 million, respectively.

We paid no remuneration to our directors or the five highest paid individuals as an inducement to join or upon joining us or as compensation for loss of office, apart from severance of six months salary paid to two departed British directors related to our IPO, in respect of the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010. Further, none of our directors had waived any remuneration during the same period.

Save as disclosed above, no other payments including contributions to pension schemes have been paid or are payable, in respect of the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, by us or any of our subsidiaries to our directors, and no payments were made during the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 by us to any of our directors as an inducement to join or upon joining us.

PRINCIPAL SHAREHOLDERS

As of December 31, 2010, according to the register we maintain in accordance with Section 336 of the Securities and Futures Ordinance, the following parties were directly or indirectly interested in 5% or more of our issued share capital.[1]

Name	Nature of interest	Number of shares held	Percentage of shareholding in our Company
Asia Gain[2]	Beneficial owner	1,738,873,900	40.91%
Zhang Jimin[2]	Interest of a controlled corporation	1,738,873,900	40.91%
Techno Faith[3].	Beneficial owner	213,679,950	5.03%
Ma Zhaoyang[3]	Interest of a controlled corporation	213,679,950	5.03%

Notes:

(1) All interest in these shares are long positions

(2) Asia Gain is beneficially and wholly-owned by Zhang Jimin.

(3) Techno Faith is beneficially and wholly-owned by Ma Zhaoyang.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

On December 28, 2009, Shaanxi Yaobai entered into a joint venture agreement with Shaanxi Danshui in relation to the establishment of Longqiao Yaobai. Pursuant to the joint venture agreement, Shaanxi Danshui advanced to Longqiao Yaobai, a non-wholly owned subsidiary of our Company, an unsecured interest-free shareholder's loan in the amount of RMB140,320,900 (the "Loan"). The Loan is repayable as to 50% on or before June 30, 2010 and the remaining 50% on or before June 30, 2011. On January 1, 2010, Longqiao Yaobai entered into a supplementary agreement with Shaanxi Danshui, pursuant to which the repayment date of the Loan was extended to December 31, 2011. As of the date of this memorandum, the outstanding amount owed to Shaanxi Danshui amounted to approximately RMB0.08 million. No security over our assets has been granted in respect of the Loan.

The Loan constituted financial assistance provided by a connected person of our Company for the benefit of our Group and fall within the exemption under Rule 14A.65(4) of the Listing Rules for the following reasons:

(i) the financial assistance provided for the benefit of our Group was unsecured and interest free, which represented better terms than normal commercial terms; and

(ii) no security over the assets of our Group has been granted in respect of such financial assistance.

As the Loan was provided by Shaanxi Danshui for the benefit of our Group on normal commercial terms (or better to our Group) where no security over the assets of our Group is granted in respect of the Loan, the Loan is exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules. See also "Business — Recent Acquisitions."

On January 10, 2011, we acquired the remaining equity interest of Longqiao Yaobai from the previous shareholders of Shaanxi Danshui, as a result of which we now own a 100% interest in Longqiao Yaobai. Accordingly Shaanxi Danshui is no longer a connected person of our Company under the Listing Rules.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing business operations and to finance our working capital requirements, we have borrowed money or incurred indebtedness from various banks. As of September 30, 2010, our total borrowings amounted to RMB941.3 million (US$140.7 million). Since September 30, 2010, the Company has incurred additional indebtedness pursuant to the ICBC Bridge Loan as described below. We set forth below a summary of the material terms and conditions of these loans and other indebtedness.

PRC LOAN AGREEMENTS

Bilateral Bank Loan Agreements

Shaanxi Yaobai has entered into bilateral loan agreements with a number of PRC banks, namely the Agricultural Bank of China (collectively, the "ABC Loans"), the Bank of China (the "BOC Loan") and the Xi'an City Commercial Bank (the "Xian Commercial Bank Loan"). These loans are typically used to satisfy our working capital requirements and are repayable within one year.

Interest

The ABC Loans bear a floating rate interest calculated by reference to the PBOC's benchmark interest rate per annum. Floating interest rates generally are subject to review monthly. Interest payments under the ABC Loan are payable monthly and must be made on each payment date as provided in the loan agreement. Any overdue amount under the ABC Loans will be subject to a penalty interest accruing from the due date up to the date of actual payment at a rate of 30% above the benchmark interest rate per annum. Any portion of the loan which is not used for the prescribed purpose will be subject to a penalty interest at a rate of 50% above the benchmark interest rate per annum.

The principal amounts outstanding under the BOC Loan and the Xi'an Commercial Bank Loan bear interest at a fixed rate of 5.31% per annum and 0.508875% per month, respectively. Interest payments under the BOC Loan is payable quarterly and interest payments under the Xi'an Commercial Bank Loan is payable monthly. Any overdue amount under the BOC Loan and Xi'an Commercial Bank Loan will be subject to a penalty interest accruing from the due date up to the date of actual payment at a rate of 30% and 50%, respectively, above the benchmark interest rate per annum. Any portion of the loans which is not used for prescribed purposes will be subject to a penalty interest at a rate of 100% above the benchmark interest rate per annum under both loans.

Covenants

Under these PRC bank loans, Shaanxi Yaobai has agreed, among other things, not to take the following actions without first notifying the lender and/or obtaining the lenders' prior consent:

- create encumbrances on any part of properties or assets or deal with assets in a way that may adversely affect its ability to repay its loans;
- grant guarantees to any third parties that may adversely affect its ability to repay its loans;
- application for bankruptcy, liquidation and dissolution proceedings;
- transfer part or all of the liabilities under the loans to a third party; and
- prepay the loan.

Guarantee and security

Certain of our PRC subsidiaries have entered into guarantee and security agreements with the lenders in connection with the bank loan agreements, pursuant to which the borrower and its subsidiaries have provided guarantees and security including land use rights and fixed assets such as plant and equipment of such PRC subsidiaries or our other PRC subsidiaries.

Credit Suisse Syndicated Loan

On November 30, 2009, Shaanxi Yaobai entered into a loan agreement with a syndicate of financial institutions led by Credit Suisse, Shanghai Branch Xi'an City Commercial Bank and Standard Chartered Bank (China) Limited for a loan of RMB330.0 million to satisfy its working capital requirements.

Interest and maturity

This loan is for a period of 36 months from the drawdown date and will be repaid in 10 installments at three-month intervals. The interest rate is 110% of the base rate for RMB-denominated loans for terms between one and three years as quoted by the PBOC. As of the date of this offering memorandum, we have drawn down the entire amount and approximately RMB264 million (US$39.5 million) was outstanding under this syndicated loan.

Guarantees and security

In connection with the Credit Suisse Syndicated Loan, our wholly owned PRC subsidiaries, Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai and Mianxian Yaobai (collectively, the "PRC guarantors") entered into guarantee agreements with the lenders to guarantee the obligations of Shaanxi Yaobai under this loan. In addition, Shaanxi Yaobai also pledged shares of the four PRC guarantors and Ankang Yaobai and Hanzhong Yaobai provided mortgages over their equipment, land and building to secure their obligations under the loan.

Covenants

Shaanxi Yaobai has agreed to the following financial covenants under the loan agreement:

- maintain a ratio of total borrowings to EBITDA of no more than 2.5:1 at or prior to June 30, 2010 and 2.01:1 thereafter;

- maintain a ratio of EBITDA to fixed charges of no less than 5;

- maintain a ratio of total borrowings to total capitalization of no more than 55% on or prior to December 31, 2009 and 45% thereafter;

- maintain a ratio of total indebtedness to total assets of no more than 50% on or prior to December 31, 2010 and 40% thereafter;

- incur capital expenditures of no more than RMB700 million for the year ended December 31, 2009, no more than RMB200 million for the six months ended June 30, 2010, no more than RMB450 million for the year ended December 31, 2010 and no more than RMB200 million during each of the two years ended December 31, 2011 and 2012.

On December 29, 2010, we entered into an amendment agreement to remove the capital expenditures covenant effective from January 1, 2010.

In addition to the above financial covenants, each of the Shaanxi Yaobai and the PRC guarantors also agreed, among other things, subject to certain exceptions, not to take the following actions without prior written approval of the lenders whose share of commitments exceeds 50% of the total commitments if there is no loan outstanding or whose share in the outstanding loans exceeds 50% of the total then outstanding loans:

- create any liens or encumbrance on the assets;
- extend any credit or guarantee the indebtedness of any third parties;
- sell, lease, transfer or otherwise dispose of any assets, except for any such disposal of any asset of RMB1 million or less undertaken in the ordinary course of business at arm's length;
- invest in any business which is not related to its main business;
- acquire any business which is not related to its main business or in which it will not have control;
- merge with any person if as a result of such merger, it will not have control in any successor entity; or
- materially change its main business.

As Shaanxi Yaobai increased its capital expenditures in 2010 in connection with the construction of production facilities, the total amount of the capital expenditures it incurred in the four months ended April 30, 2010 was RMB374.8 million, which exceeded the RMB200 million limit prescribed in this loan agreement for the six months ended June 30, 2010. In addition, based on Shaanxi Yaobai's unaudited consolidated management accounts as of June 30, 2010, the ratio of total indebtedness to total assets exceeded the 50% limit applicable for the six months ended June 30, 2010. The facility agent representing the lenders had granted Shaanxi Yaobai a waiver with respect to these two covenants for the four months and six months ended April 30, 2010 and June 30, 2010, respectively. Under the waiver, Shaanxi Yaobai is not required to comply with these two financial covenants until after June 30, 2011. As a result of such waiver, it is not, as of the date of this offering memorandum, in breach of the two financial covenants under the loan agreement. See "Risk Factors — Risks Relating to Our Business — Our level of indebtedness and our net current liabilities position expose us to liquidity risks" and "Any breach of financial covenants under our loan agreement could adversely affect our business, financial condition and result of operations."

Dividend restriction

Shaanxi Yaobai agreed under the Credit Suisse Syndicated Loan not to make dividend distributions if the amount of such dividends will exceed the distributable profits as reflected in the audited financial information for the latest fiscal year, which distributable profits shall not include any accumulated profits from prior fiscal years.

OFFSHORE LOAN AGREEMENT

ICBC Bridge Loan Agreement

On December 14, 2010, the Company entered into a bridge loan facility of US$85 million with ICBC International Finance Limited as lender ("Lender") and Mr. Zhang Jimin as guarantor. On December 21, 2010, the Company drew down US$85 million under the ICBC Bridge Loan. The proceeds were used in part to repay the outstanding balance of a US$50 million loan under the ICBC Facility Agreement, with the remainder to finance the acquisition of Jianghua Yaobai.

Interest

Interest payable under the ICBC Bridge Loan will be accrued on the principal amount of the ICBC Bridge Loan at LIBOR plus 4% per annum, unless the ICBC Bridge Loan is extended beyond its initial term, in which case the interest payable will be accrued at LIBOR plus 5.50% per annum.

Repayment, maturity and prepayment

The ICBC Bridge Loan matures in June 2011, and the Company is required to repay the ICBC Bridge Loan in a lump sum amount on the maturity date. However, with prior notice to the Lender, the Company may extend the maturity date by a further six months to December 2011.

Pursuant to the ICBC Bridge Loan Agreement, the Company may voluntarily prepay the entire or any part of the ICBC Bridge Loan at any time after one month from the date of the ICBC Bridge Loan Agreement by giving six days' prior written notice to the Lender, provided any prepayment made is not less than a minimum amount of US$5 million and is made on the last day of an interest period as agreed between the parties thereto. The Company is required to notify the Lender immediately if the Company raises any funds in the equity or debt market through incurring any financial indebtedness, which includes borrowing money, entry into any credit facility, issuance of debt instrument and entry into any finance or capital lease. The Company is also required to repay all outstanding amounts under the ICBC Bridge Loan within five business days of any successful capital raising.

Collateral

The ICBC Bridge Loan is secured by (i) an equity pledge over Shaanxi Yaobai provided by Faithful Alliance; and (ii) a share mortgage over the shares in Faithful Alliance executed by West China BVI. In addition, Mr. Zhang Jimin has provided a personal guarantee in favor of the Lender, as guarantor to the ICBC Bridge Loan. Share certificates with respect to 1,000,000 shares in the issued capital of the Company held by Asia Gain were also delivered to the Lender under a custody arrangement.

Covenants

Pursuant to the ICBC Bridge Loan Agreement, the Company agreed to the following financial covenants:

- the consolidated tangible net worth shall not be less than RMB2,500,000,000;
- the ratio of the consolidated borrowings to the consolidated tangible net worth shall not be more than 2.00:1; and
- the ratio of the consolidated borrowings at the end of a relevant period to the consolidated EBITDA for that relevant period (meaning each period of 12 months ending on the last day of our financial year and each period of 12 months ending on the last day of the first half of our financial year) shall not be more than 5.00:1.

In addition to the financial covenants, the Company agreed to certain non-financial covenants including the following:

- the Company shall not create or permit to subsist any security interest over any of our assets, except for certain security already existing as of the date of the ICBC Bridge Loan Agreement;
- the Company shall not sell, lease, transfer or otherwise dispose of any asset, except in certain limited circumstances as permitted by the ICBC Bridge Loan Agreement;
- the Company shall not substantially change the nature of our business from that carried on at the date of the ICBC Bridge Loan Agreement;
- the Company shall not acquire any company, business, assets or undertaking or make any investment, except in certain limited circumstances as permitted by the ICBC Bridge Loan Agreement;
- the Company shall not make any loan, grant any credit or give any guarantee or indemnity for the benefit of any person, except in certain limited circumstances as permitted by the ICBC Bridge Loan Agreement; and
- the Company shall not incur any financial indebtedness, except for any such indebtedness incurred under the ICBC Bridge Loan Agreement and any new proceeds raised for the purpose of repaying the outstanding amounts under the ICBC Bridge Loan.

Events of default

Under the ICBC Bridge Loan Agreement, events of default include any non-payment of any outstanding amount under the ICBC Bridge Loan, non-compliance with financial covenants, insolvency or bankruptcy, cessation of our main business and change of control with respect to our Subsidiary Guarantors. In addition, any non-payment of financial indebtedness by any member of our Group, any cancellation, suspension of credit facility or acceleration of repayment as a result of an event of default under any financing document entered into by a member of our Group is considered an event of cross default under the ICBC Bridge Loan Agreement, unless the aggregate amount of indebtedness in question is less than US$1 million.

Release of collateral

The Company intends to repay the ICBC Bridge Loan concurrently or around the same date when the Notes will be issued using the proceeds from such issuance.

DESCRIPTION OF THE NOTES

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

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

The following is a summary of certain provisions of the Indenture, the Notes and the Subsidiary Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes and the Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee at Deutsche Bank Trust Company Americas, 60 Wall Street, MSNYC 60-2710, New York, New York 10005, Attn: Trust and Securities Services.

Brief Description of the Notes

The Notes are:

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

In addition, on the Original Issue Date, subject to the limitations described in "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral," the Notes will be secured by a pledge of the Collateral as described below under "— Security" and will:

- be entitled to a first-priority lien on the Collateral (subject to any Permitted Liens); and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Notes will mature on January 25, 2016, unless earlier redeemed pursuant to the terms thereof and the Indenture. The Indenture allows additional Notes to be issued from time to time (the "Additional Notes"), subject to certain limitations described under "— Further Issues." Unless the context requires otherwise, references to the "Notes" for all purposes of the Indenture and this "Description of the Notes" include any Additional Notes that are actually issued. The Notes will bear interest at 7.50% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semiannually in arrears on January 25 and July 25 of each year (each an "Interest Payment Date"), commencing July 25, 2011.

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

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

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, The City of New York (which initially will be the corporate trust administration office of the Trustee, currently located at Deutsche Bank Trust Company Americas, 60 Wall Street, MSNYC 60-2710, New York, New York 10005, Attn: Trust and Securities Services), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, at the option of the Company, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register maintained by the Note Registrar or by wire transfer. Interest payable on the Notes held through DTC will be available to DTC participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company's Restricted Subsidiaries other than the Non-Guarantor Subsidiaries (as defined below). All of the initial Subsidiary Guarantors are holding companies that do not have significant operations. The initial Subsidiary Guarantors will be West China Cement Company Limited and Faithful Alliance Limited.

Restricted Subsidiaries organized under the laws of the PRC (collectively, the "Non-Guarantor Subsidiaries") will not be Subsidiary Guarantors on the Original Issue Date.

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC), as soon as practicable and in any event within 30 days after it becomes a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which it will Guarantee the payment of the Notes as a Subsidiary Guarantor.

Each Restricted Subsidiary that Guarantees the Notes after the Original Issue Date is referred to as a "Future Subsidiary Guarantor" and, upon execution of the applicable supplemental indenture to the Indenture, will be a "Subsidiary Guarantor."

None of the existing Non-Guarantor Subsidiaries will provide a Subsidiary Guarantee at any time in the future. Moreover, no future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that Non-Guarantor Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, such Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company.

As of September 30, 2010,

- the Company and its consolidated subsidiaries (including the Non-Guarantor Subsidiaries) had total consolidated indebtedness of approximately RMB941.3 million (US$140.7 million), of which RMB917.3 million (US$137.1 million) was secured; and

- the Non-Guarantor Subsidiaries had total indebtedness of approximately RMB822.8 million (US$123.0 million).

In addition, as of September 30, 2010, the Non-Guarantor Subsidiaries had capital commitments and contingent liabilities of approximately RMB266.0 million (US$39.8 million) and nil, respectively.

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;

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

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

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

In addition, subject to the limitations described in "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral," the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor will:

- be entitled to a first-ranking security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor, as described below under "— Security;" and

- rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

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

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

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee and the enforceability of the Collateral granted in respect of the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. See "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral — The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees."

Release of the Subsidiary Guarantees

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

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

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

Security

The Company has agreed, for the benefit of the Holders, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of the initial Subsidiary Guarantors (the "Collateral") on a first-priority basis (subject to Permitted Liens) pursuant to share mortgages or share charges on the applicable Capital Stock of the Subsidiary Guarantors (the "Share Charges") on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of such initial Subsidiary Guarantor Pledgor under its Subsidiary Guarantee.

The initial Subsidiary Guarantor Pledgor is West China Cement Company Limited.

None of the Capital Stock of the Non-Guarantor Subsidiaries will be pledged on the Original Issue Date or at any time in the future. In addition, none of the Capital Stock of any future Restricted Subsidiary that may be organized under the laws of the PRC, or any Restricted Subsidiary owned directly by a Subsidiary organized under the laws of the PRC, will be pledged at any time in the future.

The Company has agreed, for the benefit of the Holders, to pledge, or cause each Subsidiary Guarantor to pledge, the Capital Stock owned directly by the Company or such Subsidiary Guarantor of any Person that becomes a Restricted Subsidiary (other than Persons organized under the laws of the PRC or a Restricted Subsidiary owned directly by such Person) after the Original Issue Date, as soon as practicable and in any event within 30 days after such Person becomes a Restricted Subsidiary, to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, in the manner described above.

Each Subsidiary Guarantor that pledges capital stock of a Restricted Subsidiary after the Original Issue Date is referred to as a "Future Subsidiary Guarantor Pledgor" and, upon giving such pledge, will be a "Subsidiary Guarantor Pledgor."

The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the Company's and each of the Subsidiary Guarantor Pledgors' obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Notes and such Subsidiary Guarantee may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and other Permitted Pari Passu Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture. See "— Release of Security" and "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral — The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes and other *pari passu* secured indebtedness."

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors. Some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Payment Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and any Subsidiary Guarantor Pledgor, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

Permitted Pari Passu Secured Indebtedness

On or after the Original Issue Date, the Company and any Subsidiary Guarantor Pledgor may create Liens on the Collateral *pari passu* with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) and any Pari Passu Subsidiary Guarantee of a Subsidiary Guarantor Pledgor with respect to such Indebtedness (such Indebtedness of the Company and any such Pari Passu Subsidiary Guarantee, "Permitted Pari Passu Secured Indebtedness"); *provided* that (1) the Company or such Subsidiary Guarantor Pledgor was permitted to Incur such Indebtedness under the covenant described under "— Limitation on Indebtedness;" (2) the holders of such Indebtedness (or their representative or agent), other than with respect to Additional Notes, become party to the Intercreditor Agreement referred to below; and (3) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee and the Collateral Agent (as defined below) an Opinion of Counsel and Officers' Certificate with respect to corporate and collateral matters in connection with the Security Documents, in form and substance as set forth in the Security Documents. The Trustee and/or the Collateral Agent, as the case may be, will be permitted and authorized, without the consent of any Holder, to enter into any amendments to the Security Documents, the Intercreditor Agreement (if any) or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph and the terms of the Indenture (including, without limitation, the appointment of any collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness (the "Collateral Agent").

Except for certain Permitted Liens and Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Intercreditor Agreement

Prior to or concurrently with the first Incurrence of any Permitted Pari Passu Secured Indebtedness (other than Additional Notes), the Trustee and the Collateral Agent will, without requiring any instruction or consent from the Holders, enter into an intercreditor agreement (as amended, waived, restated, replaced and/or supplemented from time to time, the "Intercreditor Agreement") (which shall be in a form reasonably satisfactory to the Trustee and the Collateral Agent) with the Company, the Subsidiary Guarantor Pledgors and the holders of such Permitted Pari Passu Secured Indebtedness (or their representative or agent). Neither the Trustee nor the Collateral Agent shall have any liability to any Holder for so entering into the Intercreditor Agreement.

The Intercreditor Agreement will provide, among other things, that (1) the secured parties thereto and the holders of any future Permitted Pari Passu Secured Indebtedness (or their representative or agent) will share equal priority and *pro rata* entitlement in and to the Collateral; (2) the Collateral shall only be substituted or released and Liens only be granted on the Collateral to the extent permitted under the Debt Documents (as defined herein), and the terms for substitution or release of the Collateral shall be substantially similar to the terms of the Indenture;

and (3) the secured parties thereto shall enforce their rights with respect to the Collateral and the Indebtedness secured thereby as described in "— Enforcement of Security" below. Items (1), (2) and (3) in the previous sentence may only be amended or waived with the consent of the holders of a majority of the outstanding principal amount of the Indebtedness secured by the Collateral (the "Majority Creditors").

By accepting the Notes, each Holder shall be deemed to have consented to the execution of the Intercreditor Agreement and any amendments or modifications thereto required under the Indenture.

Enforcement of Security

The first-priority Lien (subject to any Permitted Lien) securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors will be granted to the Collateral Agent. Deutsche Bank Trust Company Americas will act as the initial Collateral Agent under the Security Documents entered into on the Original Issue Date. The Collateral Agent, subject to the Intercreditor Agreement (if any), will hold such Liens over the Collateral granted pursuant to the Security Documents with sole authority as directed by the Creditor Representatives (as defined herein) to exercise remedies under the Security Documents. The Collateral Agent has agreed to act as secured party under the applicable Security Documents on behalf of the creditors under the Debt Documents, to follow the instructions provided to it by one ore more of the Creditor Representatives under the Indenture, the Security Documents and/or the Intercreditor Agreement (if any) and to carry out certain other duties. The Trustee will give instructions to the Collateral Agent by itself or in accordance with instructions it receive from the Holders under the Indenture.

The Intercreditor Agreement will provide that the Collateral Agent will enforce the Collateral in accordance with a written instruction by any Creditor Representative to do so if it does not receive any conflicting instruction, and in the case of conflicting instructions delivered by two or more Creditor Representatives, the Collateral Agent will only enforce the Collateral upon receiving written instructions from the Majority Creditors. See "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral — the Intercreditor Agreement may limit the rights of holders of the Notes to enforce the Collateral."

All payments received and all amounts held by the Collateral Agent in respect of the Collateral under the Security Documents will be, subject to the Intercreditor Agreement (if any), applied as follows:

first, to the Collateral Agent to the extent necessary to reimburse the Collateral Agent for any expenses (including reasonable expenses of its counsel) incurred in connection with the collection or distribution of such amounts held or realized or in connection with expenses incurred in enforcing all available remedies under the Intercreditor Agreement (if any) and the Security Documents and preserving the Collateral and all amounts for which the Collateral Agent is entitled to indemnification under the Intercreditor Agreement (if any) and the Security Documents;

second, to the extent not reimbursed under the above paragraph, to the Trustee and other Creditor Representatives, to the extent necessary to reimburse the foregoing persons ratably for any expenses (including reasonable expenses of counsel) incurred in connection with the collection or distribution of such amounts held or realized or in connection with expenses incurred in enforcing all available remedies under the Debt Documents, the Intercreditor Agreement (if any) and the Security Documents and preserving the Collateral and all amounts for which the foregoing persons are entitled to indemnification under the Debt Documents, the Intercreditor Agreement (if any) and the Security Documents;

third, ratably to each of the Trustee for the benefit of the Holders and, to the extent applicable, to other Creditor Representatives for the benefit of the holders of any Permitted Pari Passu Secured Indebtedness (to the extent not paid pursuant to the paragraphs above), inclusive of any reasonable fees and expenses of the foregoing persons and the principal, interest and premium thereon and for the benefit of the holders each thereof in accordance with the terms of the relevant Debt Documents; and

fourth, any surplus remaining after such payments will be paid to the Company, the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto.

The Collateral Agent may decline to expend its own funds, foreclose on the Collateral or exercise remedies available if it does not receive indemnification or security to its reasonable satisfaction. In addition, the Collateral Agent's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Collateral Agent's Liens on the Collateral. Neither the Trustee, the Collateral Agent nor any of their respective officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents or the Intercreditor Agreement (if any), for the creation, perfection, continuation, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so.

The Security Documents provide that the Company and the Subsidiary Guarantor Pledgors will indemnify the Collateral Agent for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Collateral Agent arising out of the Intercreditor Agreement, if any, or the Security Documents except to the extent that any of the foregoing are finally judicially determined to have resulted from the gross negligence or willful misconduct of the Collateral Agent.

This section, "— Enforcement of Security," shall be subject to any amendments to the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with "— Permitted Pari Passu Secured Indebtedness" above.

Release of Security

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon defeasance and discharge of the Notes as provided below under "— Defeasance — Defeasance and Discharge;"
- upon certain dispositions of the Collateral in compliance with the covenants described under "Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries" or "Certain Covenants — Limitation on Asset Sales" or in accordance with the provision described under "Certain Covenants — Consolidation, Merger and Sale of Assets;" and
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first interest period and, to the extent necessary, certain temporary securities law transfer restrictions) (a "Further Issue") so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes will then be permitted under the "Limitation on Indebtedness" covenant described below and the other provisions of the Indenture; and, *provided further* that any Additional Notes which are consolidated and form a single series with previously outstanding Notes must be fungible with the previously outstanding Notes for U.S. federal income tax purposes.

Optional Redemption

On or after January 25, 2014, the Company may on any one or more occasions redeem all or any part of the Notes, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the Notes redeemed, to the applicable date of redemption, if redeemed during the twelve-month period beginning on January 25 of the years indicated below, subject to the rights of holders of Notes on the relevant Record Date to receive interest on the relevant Interest Payment Date:

Year	Redemption Price
2014	103.750%
2015 and thereafter	101.875%

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

At any time and from time to time prior to January 25, 2014, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 107.5% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

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

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

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

A Note of US$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

Repurchase of Notes Upon a Change of Control Triggering Event

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

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

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

The phrase "all or substantially all," as used with respect to the assets of the Company in the definition of "Change of Control," will likely be interpreted under applicable law of the relevant jurisdictions and its interpretation will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of "all or substantially all" the assets of the Company has occurred.

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

No Mandatory Redemption or Sinking Fund

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

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under "— Consolidation, Merger and Sale of Assets") or an applicable Subsidiary Guarantor is

organized or resident for tax purposes or any political subdivision or taxing authority thereof or therein (each, as applicable, a "Relevant Taxing Jurisdiction") or any jurisdiction through which payment is made or any political subdivision or taxing authority thereof or therein (together with the Relevant Taxing Jurisdictions, the "Relevant Jurisdictions"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as will result in receipt by the Holder of each Note or the Subsidiary Guarantees, as the case may be, of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

(1) for or on account of:

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

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

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

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

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

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

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

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

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

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

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

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

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

Redemption for Taxation Reasons

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

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

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

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

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

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

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

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

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

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness

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

Charge Coverage Ratio would not be less than 3.00 to 1.0 with respect to any Incurrence of Indebtedness on or prior to December 31, 2011, 3.25 to 1.0 with respect to any Incurrence of Indebtedness from January 1, 2012 through and including December 31, 2012 and 3.50 to 1.0 with respect to any Incurrence of Indebtedness thereafter.

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

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

(a) Indebtedness under the Notes (excluding any Additional Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee;

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

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

(d) Indebtedness ("Permitted Refinancing Indebtedness") of the Company or any Restricted Subsidiary issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, redeem, defease, discharge or extend (collectively, "refinance" and "refinances" and "refinanced" shall have a correlative meaning), then outstanding Indebtedness Incurred under the proviso in paragraph (1) above or clauses (a), (b), (f), (k) or (p) of paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or any Subsidiary Guarantee shall only be permitted under this clause (d) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or any Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or any Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee, as the

case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee, as the case may be, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded, and (iii) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;

(e) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business;

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

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

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

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

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

(k) Indebtedness of the Company or any Restricted Subsidiary incurred in the ordinary course of business:

  (i) representing Capitalized Lease Obligations; or

  (ii) constituting purchase money Indebtedness incurred to finance all or any part of the purchase price of equipment, property or assets of the Company to be used in the ordinary course of business by the Company or a Restricted Subsidiary;

provided, *however*, that (A) such purchase money Indebtedness shall not exceed the purchase price of such property or assets so acquired, (B) such purchase money Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or assets and (C) on the date of the Incurrence of any Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (k) (together with any refinancings thereof), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clause (n) below does not exceed an amount equal to 10% of Total Assets;

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

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

(n) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; *provided* that on the date of the Incurrence of any Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (n), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clause (k) above (together with any refinancings thereof) does not exceed an amount equal to 10% of Total Assets;

(o) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock in a Restricted Subsidiary pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement; and

(p) Indebtedness of the Company or any Restricted Subsidiary in an aggregate amount outstanding at any time (together with any refinancings thereof) not to exceed US$5 million (or the Dollar Equivalent thereof).

(3) For purposes of determining compliance with this "Limitation on Indebtedness" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Permitted Indebtedness, or of Indebtedness described in the proviso in paragraph (1) of this covenant and one or more types of Permitted Indebtedness, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness in one or more types of Indebtedness described above.

Limitation on Restricted Payments

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

(1) declare or pay any dividend or make any distribution on or with respect to the Company's or any of the Restricted Subsidiaries' Capital Stock (other than dividends or

distributions payable solely in shares of the Company's or any Restricted Subsidiary's Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;

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

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

(4) make any Investment, other than a Permitted Investment; if, at the time of, and after giving effect to, the proposed Restricted Payment:

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

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

    (c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and the Restricted Subsidiaries after the Original Issue Date, shall exceed the sum of:

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

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

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

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

(v) the amount of deposit paid in cash, which was treated as a Restricted Payment when made, in connection with an acquisition of any Person upon such Person becoming a Restricted Subsidiary; plus

(vi) US$10 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

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

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

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

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

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

(6) the payment made to a Person that is not the Company or any of its Restricted Subsidiaries to purchase 20% of the outstanding Capital Stock of Jianghua Yaobai in an aggregate amount not to exceed RMB200 million, *provided* that Jianghua Yaobai is a Restricted Subsidiary when such payment is made; or

(7) the declaration and payment of dividends by the Company with respect to the fiscal year ended December 31, 2010 in an aggregate amount not to exceed US$10 million (or the Dollar Equivalent thereof),

provided that, in the case of clauses (2), (3) and (4) of this paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein. Each Restricted Payment made pursuant to clause (1) of this paragraph shall be included in calculating whether the conditions of clause (c) of the first paragraph of this "— Limitation on Restricted Payments" covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or an appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US$10 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment (other than those made pursuant to clause (7) of the second paragraph of this "— Limitation on Restricted Payments" covenant) in excess of US$10 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "— Limitation on Restricted Payments" covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

(1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:

(a) pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;

(b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;

(c) make loans or advances to the Company or any other Restricted Subsidiary; or

(d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.

(2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:

(a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the Indenture, the Security Documents or under any Permitted Pari Passu Secured Indebtedness of the Company or any Subsidiary Guarantor Pledgor or Pari Passu Subsidiary Guarantee of any Subsidiary Guarantor, or any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(b) existing under or by reason of applicable law, rule, regulation or order;

(c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;

(e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the "— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "— Limitation on Indebtedness" and "— Limitation on Asset Sales" covenants; or

(f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness permitted under clauses (2)(d) or (k) of the "— Limitation on Indebtedness" covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such type of agreement and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell, any shares of Capital Stock of a Restricted Subsidiary (including in each case options, warrants or other rights to purchase shares of such Capital Stock) except:

(1) to the Company or a Wholly Owned Restricted Subsidiary;

(2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;

(3) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "— Limitation on Asset Sales" covenant; and

(4) the issuance or sale of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer be a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the "Limitation on Restricted Payments" covenant if made on the date of such issuance or sale and *provided* that the Company complies with the "— Limitation on Asset Sales" covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary that is not a Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any Subsidiary Guarantor, unless (a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee until the Notes have been paid in full.

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness will rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or (2) is

subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness will be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 5.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an "Affiliate Transaction"), unless:

(1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary, as the case may be, than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and

(2) the Company delivers to the Trustee:

  (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$2 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

  (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$10 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion as to the fairness to the Company or such Restricted Subsidiary, as the case may be, of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

(1) the payment of reasonable and customary regular fees to directors of the Company who are not employees of the Company;

(2) transactions between or among the Company and any Wholly Owned Restricted Subsidiary or between or among Wholly Owned Restricted Subsidiaries;

(3) any Restricted Payment of the type described in clause (1) or (2) of the first paragraph of the covenant described above under "— Limitation on Restricted Payments" if permitted by that covenant;

(4) any sale of Capital Stock (other than Disqualified Stock) of the Company; and

(5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the "Limitation on Restricted Payments" covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this Offering Memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date and (iii) any transaction between or among the Company, any Wholly Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary; *provided* that in the case of clause (iii), (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or in such Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary).

Limitation on Liens

The Company will not, and will not permit any Subsidiary Guarantor to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on the Collateral (other than Permitted Liens).

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are (or, in respect of any Lien on any Subsidiary Guarantor's property or assets, any Subsidiary Guarantee of such Restricted Subsidiary is) secured equally and ratably with (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) the obligation or liability secured by such Lien, for so long as such obligation or liability is secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

(1) the Company or such Restricted Subsidiary, as the case may be, could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described under "— Limitation on Indebtedness" and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under "— Limitation on Liens," in which case, the corresponding Indebtedness will be deemed Incurred and the corresponding Lien will be deemed incurred pursuant to those provisions;

(2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and

(3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or such Restricted Subsidiary, as the case may be, applies the proceeds of such transaction in compliance with, the covenant described below under "— Limitation on Asset Sales."

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

(1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;

(2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;

(3) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur at least US$1.00 of Indebtedness under the proviso in paragraph (1) of the covenant described under "— Limitation on Indebtedness" after giving *pro forma* effect to such Asset Disposition; and

(4) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets (as defined below); *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US$10 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing. For purposes of this provision, each of the following will be deemed to be cash:

  (a) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary, as the case may be, from further liability; and

  (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary, as the case may be, into cash, to the extent of the cash received in that conversion.

(5) Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company or any Restricted Subsidiary, may apply such Net Cash Proceeds to:

  (a) permanently repay unsubordinated Indebtedness of the Company or any Restricted Subsidiary (and, if such unsubordinated Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or

  (b) acquire properties and assets (other than current assets) that will be used in the Permitted Businesses ("Replacement Assets");

provided that, pending the application of Net Cash Proceeds in accordance with clauses (a) or (b) of this paragraph, such Net Cash Proceeds may be temporarily invested only in cash or Temporary Cash Investments.

(6) Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clause (5) will constitute "Excess Proceeds." Excess Proceeds of less than US$10 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US$10 million (or the Dollar Equivalent thereof), within ten days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

   (a) accumulated Excess Proceeds, multiplied by

   (b) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company or any Restricted Subsidiary may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes to be purchased on a pro rata basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided, however*, that the Company or any Restricted Subsidiary may own Capital Stock of Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was not prohibited under the "— Limitation on Restricted Payments" covenant.

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes issued and sold on the Original Issue Date, in any amount, for any purpose other than (1) as specified under "Use of Proceeds" in this Offering Memorandum and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in cash or Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) such Restricted Subsidiary does not own any Disqualified Stock of the Company or any Subsidiary Guarantor or Disqualified or Preferred Stock of a Restricted Subsidiary that is not a Subsidiary Guarantor or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under "— Limitation on Indebtedness" or such Lien would violate the covenant described under "— Limitation on Liens"; (3) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; (4) such

Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company or any other Restricted Subsidiary and none of the Company or any Restricted Subsidiary Guarantees or provides credit support for the Indebtedness of such Restricted Subsidiary; and (5) the Investment deemed to have been made thereby in such newly designated Unrestricted Subsidiary and each other newly designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under "— Limitation on Restricted Payments."

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under "— Limitation on Indebtedness"; (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under "— Limitation on Liens"; (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary will upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary will become a Subsidiary Guarantor; and (6) if such Restricted Subsidiary is not organized under the laws of the PRC or directly owned by a Restricted Subsidiary organized under the laws of the PRC, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary will be pledged as required under "— Security."

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company or any Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes and the Subsidiary Guarantees on substantially identical terms; *provided* that this requirement does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Maintenance of Insurance

The Company will, and will cause its Restricted Subsidiaries to, maintain insurance with reputable and financially sound carriers against such risks and in such amounts as is customarily carried by similarly situated businesses, including, without limitation, property and casualty insurance.

Suspension of Certain Covenants

If on any date following the date of the Indenture, the Notes have a rating of Investment Grade from two of the three Rating Agencies and no Default has occurred and is continuing (a "Suspension Event"), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from at least two of the three Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

(1) "— Certain Covenants — Limitation on Indebtedness;"

(2) "— Certain Covenants — Limitation on Restricted Payments;"

(3) "— Certain Covenants — Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries;"

(4) "— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries;"

(5) "— Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries;"

(6) "— Certain Covenants — Limitation on Business Activities;"

(7) "— Certain Covenants — Limitation on Sale and Leaseback Transactions;" and

(8) "— Certain Covenants — Limitation on Asset Sales."

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries" or the definition of "Unrestricted Subsidiary."

Such covenants will be reinstituted and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under "— Certain Covenants — Limitation on Restricted Payments" will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended.

There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

(1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company's common shares are at any time listed for trading, true and correct copies of any financial or

other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:

(a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such financial year (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and audited by a member firm of an internationally recognized firm of independent accountants;

(b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Company, copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and reviewed by a member firm of an internationally recognized firm of independent accountants; and

(c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarters of the Company, copies of the unaudited financial statements (on a consolidated basis and in the English language) of the Company, including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company, together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.

(2) In addition, so long as any Note remains outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent fiscal quarters and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; and (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

Further, the Company and each Subsidiary Guarantor have agreed that, for as long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which the Company or such Subsidiary Guarantor is neither subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company or such Subsidiary Guarantor, as the case may be, shall supply to (i) any Holder or beneficial owner of a Note or (ii) a prospective purchaser of a Note or a beneficial interest therein designated by such Holder or beneficial owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act upon the request of any Holder or beneficial owner of a Note.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

(1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(2) default in the payment of interest or Additional Amounts on any Note when the same becomes due and payable, and such default continues for a period of 30 days;

(3) default in the performance or breach of the provisions of the covenant described under "— Consolidation, Merger and Sale of Assets," the failure by the Company to make or consummate an Offer to Purchase in the manner described under "— Repurchase of Notes upon a Change of Control Triggering Event" or "— Certain Covenants — Limitation on Asset Sales" or any failure by the Company to create, or cause its Restricted Subsidiaries to create, a first-priority Lien on the Collateral in accordance with the provisions described under "— Security;"

(4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;

(5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US$10 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) a failure to make a principal payment when due;

(6) one or more final judgments or orders for the payment of money are rendered against the Company or any Restricted Subsidiary and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US$10 million (or the Dollar Equivalent thereof) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(7) an involuntary case or other proceeding is commenced against the Company or any Restricted Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;

(8) the Company or any Restricted Subsidiary, (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator,

assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary or (c) effects any general assignment for the benefit of creditors;

(9) any Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or will for any reason cease to be in full force and effect;

(10) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents that adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or that adversely affects the condition or value of the Collateral; or

(11) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under any Security Document or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Collateral Agent ceases to have a first-priority Lien over the Collateral.

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written direction of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of all the Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

(1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived; and

(2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or, subject to the Intercreditor Agreement (if any), to enforce the performance of any provision of the Notes, the Indenture or the Security Documents. The Trustee or the Collateral Agent may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. In addition, if an Event of Default occurs and is continuing, the Trustee may, and shall upon written direction of the

Holders of at least 25% in aggregate principal amount of outstanding Notes, foreclose on the Collateral in accordance with the terms of the Security Documents and the Indenture and take such further action on behalf of the Holders with respect to the Collateral as the Trustee deems appropriate. See "— Security."

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or the Collateral Agent or exercising any trust or power conferred on the Trustee. However, the Trustee or the Collateral Agent may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee or the Collateral Agent in personal liability, or that the Trustee or the Collateral Agent determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. In addition, the Trustee or the Collateral Agent will not be required to expend its own funds in following such direction if it does not reasonably believe that reimbursement or reasonable satisfactory indemnification is assured to it.

A Holder may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

(1) the Holder has previously given the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer the Trustee indemnity or security reasonably satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;

(4) the Trustee does not comply with the request within (x) 60 days after receipt of the written request pursuant to clause (2) above or (y) 60 days after the receipt of the offer of indemnity pursuant to clause (3) above, whichever occurs later; and

(5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder of a Note to receive payment of the principal of, premium, if any, or interest on, such Note or any payment under any Subsidiary Guarantee, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and the Restricted Subsidiaries and the Company's and the Restricted Subsidiaries' performance under the Indenture and that the Company and each Restricted Subsidiary have fulfilled all of their respective obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See "— Provision of Financial Statements and Reports."

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the properties and assets of the Company and the Restricted Subsidiaries (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) unless each of the following conditions is satisfied:

(1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Company consolidated or merged, or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of Jersey, Bermuda, the British Virgin Islands, the Cayman Islands or Hong Kong and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes and the Security Documents, as the case may be, and the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, shall remain in full force and effect;

(2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(4) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, could Incur at least US$1.00 of Indebtedness under the proviso of paragraph (1) of the covenant described under "— Certain Covenants — Limitation on Indebtedness;"

(5) the Company shall deliver to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;

(6) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under "— Consolidation, Merger and Sale of Assets," shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee shall apply to the obligations of the Company or the Surviving Person, as the case may be, in accordance with the Notes and the Indenture; and

(7) no Rating Decline shall have occurred.

No Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the properties and assets of the Subsidiary Guarantor and its Restricted Subsidiaries (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor), unless each of the following conditions is met:

(1) such Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Subsidiary Guarantor consolidated or merged, or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction in accordance with the Indenture;

(2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction on a *pro forma* basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(4) immediately after giving effect to such transaction on a *pro forma* basis, the Company could Incur at least US$1.00 of Indebtedness under the proviso of paragraph (1) of the covenant described under "— Certain Covenants — Limitation on Indebtedness;"

(5) the Company shall deliver to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and

(6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the "Limitation on Asset Sales" covenant or any Subsidiary Guarantor whose Subsidiary Guarantee is unconditionally released in accordance with the provisions described under "— The Subsidiary Guarantees — Release of the Subsidiary Guarantees."

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor survives such consolidation or Merger. The foregoing provisions would not necessarily afford Holders protection in the event of highly leveraged or other transactions involving the Company or the Subsidiary Guarantors that may adversely affect Holders.

No Payments for Consents

The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture, the Notes or any Subsidiary Guarantee unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

(1) the Company (a) has deposited with the Trustee, in trust, cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture and an Opinion of Counsel to the effect that the Holders have a valid, perfected, exclusive Lien over such trust;

(2) the Company has delivered to the Trustee (a) either (i) an Opinion of Counsel of recognized international standing with respect to U.S. federal income tax matters that is based on a change in applicable U.S. federal income tax law occurring after the Original Issue Date to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Company's exercise of its option under this "Defeasance and Discharge" provision and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would have been the case if such deposit, defeasance and discharge had not occurred or (ii) a ruling directed to the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel and (b) an Opinion of Counsel to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law;

(3) the Company shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by it with the intent of preferring the Holders over any other of its creditors or with the intent of defeating, hindering, delaying or defrauding any other of its creditors or others; and

(4) immediately after giving effect to such deposit on a *pro forma* basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of the Restricted Subsidiaries is a party or by which the Company or any of the Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, each of the Subsidiary Guarantees will terminate.

Defeasance of Certain Covenants

The Indenture will further provide that the provisions of the Indenture will no longer be in effect with respect to clauses (3) and (4) under the first and second paragraphs under "— Consolidation, Merger and Sale of Assets" and all the covenants described herein under "— Certain Covenants," other than as described under "— Certain Covenants — Government Approvals and Licenses; Compliance with Law" and "— Certain Covenants — Anti-Layering," clause (3) under "Events of Default" with respect to such clauses (3) and (4) under the first and second paragraphs under "— Consolidation, Merger and Sale of Assets" and with respect to the other events set forth in such clause, clause (4) under "— Events of Default" with respect to such other covenants and clauses (5), (6), (7) and (8) under "— Events of Default" shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee, in trust, of cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (2)(b) of the preceding paragraph and the delivery by the Company to the Trustee of an Opinion of Counsel of recognized international standing with respect to U.S. federal income tax matters to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would have been the case if such deposit and defeasance had not occurred.

Defeasance and Certain Other Events of Default

In the event the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of cash in U.S. dollars and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company and the Subsidiary Guarantors will remain liable for such payments.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture, the Intercreditor Agreement (if any) or any Security Document may be amended, without the consent of any Holder:

(1) to cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Intercreditor Agreement (if any) or any Security Document;

(2) to comply with the provisions described under "— Consolidation, Merger and Sale of Assets;"

(3) to evidence and provide for the acceptance of appointment by a successor Trustee;

(4) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;

(5) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;

(6) to effect any changes to the Indenture in a manner necessary to comply with the procedures of the relevant clearing system;

(7) to add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;

(8) to add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledger as provided or permitted by the terms of the Indenture;

(9) to conform the text of the Indenture, the Notes or the Subsidiary Guarantees to any provision of this "Description of the Notes" to the extent that such provision in this "Description of the Notes" was intended to be a verbatim recitation of a provision of the Indenture, the Notes or the Subsidiary Guarantees;

(10) to permit Permitted Pari Passu Secured Indebtedness (including, without limitation, permitting the Trustee and the Collateral Agent to enter into any amendments to the Security Documents, the Intercreditor Agreement (if any) or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture);

(11) to add additional Collateral to secure the Notes or any Subsidiary Guarantee; or

(12) to make any other change that does not adversely affect the rights of any Holder.

Amendments With Consent of Holders

Amendments of the Indenture, the Intercreditor Agreement (if any) or any Security Document may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the Holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company with any provision of the Indenture or the Notes; *provided*, *however*, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;

(2) reduce the principal amount of, or premium, if any, or interest on, any Note;

(3) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;

(4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;

(5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;

(6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;

(7) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

(8) release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture;

(9) release any Collateral, except as provided in the Indenture and the Security Documents;

(10) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders;

(11) amend, change or modify any provision of any Security Document or the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;

(12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale or change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale;

(13) change the redemption date or the redemption price of the Notes from that stated under "— Optional Redemption" or "— Redemption for Taxation Reasons;"

(14) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or

(15) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee in a manner which adversely affects the Holders.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any Subsidiary Guarantor in the Indenture, or in any of the Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company or any Subsidiary Guarantor or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Collateral Agent, Trustee and the Paying Agent

Deutsche Bank Trust Company Americas is to be appointed as Trustee under the Indenture, as registrar and paying agent (the "Paying Agent") with regard to the Notes and as Collateral Agent with regard to the Collateral under the Security Documents. Except during the continuance of a Default, the Trustee (in its capacity as registrar, Paying Agent and Collateral Agent, as the case may be) undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, the Notes, the Security Documents or the Intercreditor Agreement, if any, (as the case may be), and no implied covenant or obligation shall be read into the Indenture, the Notes (as the case may be) against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture or the Notes or the Intercreditor Agreement, if any, (as the case may be) as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

Pursuant to the terms of the Indenture, the Notes, the Security Documents or the Intercreditor Agreement, if any, (as the case may be), the Company and the Subsidiary Guarantors will reimburse the Trustee and the Collateral Agent for all reasonable expenses.

If the Company maintains a paying agent in a European Union member state, then it will ensure that it maintains a paying agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 (each, a "Directive") or any law implementing or complying with, or introduced in order to conform to, such Directive.

Book-Entry; Delivery and Form

The certificates representing the Notes will be issued in fully registered form without interest coupons. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will initially be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Regulation S Global Note") and will be deposited with Deutsche Bank Trust Company Americas as custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream.

Notes sold in reliance on Rule 144A will be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Restricted Global Note"; and together with the Regulation S Global Notes, the "Global Notes") and will be deposited with Deutsche Bank Trust Company Americas as custodian for, and registered in the name of a nominee of, DTC.

Each Global Note (and any Notes issued for exchange therefor) will be subject to certain restrictions on transfer set forth therein as described under "Notice to Investors."

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Qualified institutional buyers may hold their interests in a Restricted Global Note directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system.

Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such system. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through DTC.

So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Indenture and the Notes. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Indenture and, if applicable, those of Euroclear and Clearstream.

Payments of the principal of, and interest on, a Global Note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Company, nor any of the Guarantors, the Trustee nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. The Company also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

The Company expects that DTC will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a Global Note is credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC will exchange the applicable Global Note for Certificated Notes, which it will distribute to its participants and which may be legended as set forth under the heading "Notice to Investors."

The Company understands that: DTC is a limited purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies and certain other organizations that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("indirect participants").

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, any of the Subsidiary Guarantors, the Trustee or any Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depositary for the Global Notes and a successor depositary is not appointed by the Company within 90 days, the Company will issue Certificated Notes in registered form, which may bear the legend referred to under "Notice to Investors," in exchange for the Global Notes. Holders of an interest in a Global Note may receive Certificated Notes, which may bear the legend referred to under "Notice to Investors," in accordance with the DTC's rules and procedures in addition to those provided for under the Indenture.

The Clearing Systems

General

DTC, Euroclear and Clearstream have advised the Company as follows:

DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the Initial Purchasers. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Transfers of ownership or other interests in Notes in DTC may be made only through DTC participants. In addition, beneficial owners of Notes in DTC will receive all distributions of principal of and interest on the Notes from the Trustee through such DTC participant.

Euroclear and Clearstream. Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Initial Settlement

Initial settlement for the Notes will be made in immediately available funds. All Notes issued in the form of global notes will be deposited with Deutsche Bank Trust Company Americas, as custodian for DTC. Investors' interests in Notes held in book-entry form by DTC will be represented through financial institutions acting on their behalf as direct and indirect participants in DTC. As a result, Euroclear and Clearstream will initially hold positions on behalf of their participants through DTC.

Investors electing to hold their Notes through DTC (other than through accounts at Euroclear or Clearstream) must follow the settlement practices applicable to United States corporate debt obligations. The securities custody accounts of investors will be credited with their holdings against payment in same day funds on the settlement date.

Investors electing to hold their Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear Holders and of Clearstream Holders on the Business Day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading between DTC Participants. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in same-day funds using DTC's Same Day Funds Settlement System.

Trading between Euroclear and Clearstream Participants. Secondary market trading between Euroclear participants and Clearstream participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

Trading between DTC Seller and Euroclear or Clearstream Purchaser. When Notes are to be transferred from the account of a DTC participant to the account of a Euroclear participant or a Clearstream participant, the purchaser must send instructions to Euroclear or Clearstream through a participant at least one Business Day prior to settlement. Euroclear or Clearstream, as the case may be, will receive the Notes against payment. Payment will then be made to the DTC participant's account against delivery of the Notes. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to and excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. After settlement has been completed, the Notes will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participant's or Clearstream participant's account. Credit for the Notes will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Notes will accrue from, the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade date fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear participants or Clearstream participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the Notes are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream participants purchasing Notes would incur overdraft charges for one day, assuming they cleared the overdraft when the Notes were credited to their accounts. However, interest on the Notes would accrue from the value date. Therefore, in many cases, the investment income on Notes earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC participant, a cross-market transaction will settle no differently than a trade between two DTC participants.

Finally, day traders that use Euroclear or Clearstream and that purchase Notes from DTC participants for credit to Euroclear participants or Clearstream participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

(1) borrowing through Euroclear or Clearstream for one day (until the purchase side of the day trade is reflected in their Euroclear account or Clearstream account) in accordance with the clearing system's customary procedures;

(2) borrowing the Notes in the United States from a DTC participant no later than one day prior to settlement, which would give the Notes sufficient time to be reflected in the borrower's Euroclear account or Clearstream account in order to settle the sale side of the trade; or

(3) staggering the value dates for the buy and sell sides of the trade so that the value date for the purchase from the DTC participant is at least one day prior to the value date for the sale to the Euroclear participants or Clearstream participants.

Trading between Euroclear or Clearstream Seller and DTC Purchaser. Due to the time zone differences in their favor, Euroclear participants or Clearstream participants may employ their customary procedures for transactions in which Notes are to be transferred by the respective clearing system to another DTC participant. The seller must send instructions to Euroclear or Clearstream through a participant at least one Business Day prior to settlement. In these cases, Euroclear or Clearstream will credit the Notes to the DTC participant's account against payment. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to the Notes excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. The payment will then be reflected in the account of the Euroclear participant or Clearstream participant the following day, and receipt of the cash proceeds in the Euroclear or Clearstream participant's account will be back-valued to the value date (which would be the preceding day when settlement occurs in New York). If the Euroclear participant or Clearstream participant has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of

receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over the one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream participant's account would instead be valued as of the actual settlement date.

As in the case with respect to sales by a DTC participant to a Euroclear or Clearstream participant, participants in Euroclear and Clearstream will have their accounts credited the day after their settlement date. See "— Trading between DTC Seller and Euroclear or Clearstream Purchaser" above.

None of the Company, the Trustee or any Paying and Transfer Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the United States mails (if intended for the Company, any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee and, if intended for any Holder, addressed to such Holder at such Holder's last address as it appears in the Note register (or otherwise delivered to such Holders in accordance with applicable DTC, Euroclear or Clearstream procedures).

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of the relevant clearing system. Any such notice shall be deemed to have been delivered on the day such notice is delivered to the relevant clearing system or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each Subsidiary Guarantor will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint National Corporate Research, Ltd. for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the Notes" for which no definition is provided.

"Acquired Indebtedness" means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

"Adjusted Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Affiliate" means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child, parent, brother, sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew or niece of a Person described in clause (1) or (2). For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Applicable Premium" means, with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the redemption price of such Note at January 25, 2014, plus all required remaining scheduled interest payments due on such Note (but excluding accrued and unpaid interest to the redemption date) through January 25, 2014, computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

"Asset Acquisition" means (1) an investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any Restricted Subsidiary; or (2) an acquisition by the Company or any Restricted Subsidiary of the property and assets of any Person other than the Company or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

"Asset Disposition" means the sale or other disposition by the Company or any Restricted Subsidiary (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary that is a Significant Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any Restricted Subsidiary that is a Significant Subsidiary.

"Asset Sale" means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale of Capital Stock of s Subsidiary or issuance of Capital Stock of a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any Restricted Subsidiary to any Person; *provided* that "Asset Sale" shall not include:

(1) sales or other dispositions of inventory, receivables and other current assets in the ordinary course of business;

(2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made by the covenant described under "— Certain Covenants — Limitation on Restricted Payments;"

(3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US$1 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;

(4) any sale, transfer, assignment or other disposition of any property or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or the Restricted Subsidiaries;

(5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;

(6) a transaction covered by the first paragraph of the covenant described under "— Consolidation, Merger and Sale of Assets;" and

(7) a sale, transfer or other disposition to the Company or a Restricted Subsidiary, including, without limitation, an issuance of Capital Stock by a Restricted Subsidiary to the Company or to another Restricted Subsidiary.

"Attributable Indebtedness" means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

"Average Life" means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

"Board of Directors" means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

"Board Resolution" means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

"Business Day" means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York or in Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized or required by law or governmental regulation to close.

"Capitalized Lease" means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

"Capitalized Lease Obligations" means the discounted present value of the rental obligations under a Capitalized Lease.

"Capital Stock" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock.

"Change of Control" means the occurrence of one or more of the following events:

(1) the merger, amalgamation or consolidation of the Company with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Company, or the direct or indirect sale of all or substantially all the consolidated assets of the Company to another Person (other than one or more Permitted Holders);

(2) the Permitted Holders are the beneficial owners (as such term is used in Rule 13d-3 of the Exchange Act) of less than 35% of the total voting power of the Voting Stock of the Company;

(3) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined above), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;

(4) individuals who on the Original Issue Date constituted the Board of Directors, together with any new directors whose election to the Board of Directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors on the Original Issue Date or whose election was previously so approved, cease for any reason to constitute a majority of the Board of Directors then in office; or

(5) the adoption of a plan relating to the liquidation or dissolution of the Company.

"Change of Control Triggering Event" means the occurrence of both a Change of Control and a Rating Decline.

"Clearstream" means Clearstream Banking, *société anonyme*, Luxembourg.

"Collateral" means all collateral securing, or purported to be securing, directly or indirectly, the Notes or any Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of the initial Subsidiary Guarantors.

"Commodity Hedging Agreement" means any commodities swap agreement, commodities cap agreement, commodities floor agreement, commodities futures agreement, commodities option agreement or any other similar agreement or arrangement which may consist of one or more of the foregoing agreements, designed to manage commodities prices and commodities price risk.

"Common Stock" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and includes, without limitation, all series and classes of such common stock or ordinary shares.

"Comparable Treasury Issue" means the U.S. Treasury security having a maturity comparable to January 25, 2014 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity comparable to January 25, 2014.

"Comparable Treasury Price" means, with respect to any redemption date (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities"; or (2) if such release (or any successor release) is not published or does not contain

such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

"Consolidated EBITDA" means, with respect to any Person for any period, Consolidated Net Income of such Person for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

(1) Consolidated Interest Expense;

(2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets); and

(3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income;

all as determined on a consolidated basis for such Person and its Subsidiaries (excluding Unrestricted Subsidiaries) in conformity with GAAP; *provided* that (i) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of the Restricted Subsidiaries; and (ii) in the case of any PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

"Consolidated Fixed Charges" means, with respect to any Person for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of such Person or any of its Subsidiaries (other than Unrestricted Subsidiaries) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company's Capital Stock (other than Disqualified Stock) or dividend paid to the Company or to a Wholly-Owned Restricted Subsidiary.

"Consolidated Interest Expense" means, with respect to any Person for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of such Person and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by such Person and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is Guaranteed by, or secured by a Lien on any asset of, such Person or any of its

Restricted Subsidiaries and (7) any capitalized interest; *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a *pro forma* basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

"Consolidated Net Income" means, with respect to any Person (the "Subject Person") for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

(1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:

(a) subject to the exclusion contained in clause (5) below, the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and

(b) the Company's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;

(2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of the Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of the Restricted Subsidiaries;

(3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other constitutive document or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

(4) the cumulative effect of a change in accounting principles;

(5) any net after tax gains realized on the sale or other disposition of (a) any property or asset of the Company or any Restricted Subsidiary that is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company or a Restricted Subsidiary realized on sales of Capital Stock of the Company or of any Restricted Subsidiary);

(6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and

(7) any net after-tax extraordinary or non-recurring gains.

"Consolidated Net Worth" means, at any date of determination, stockholders' equity as set forth on the most recently available semiannual or annual consolidated balance sheet of the Company and the Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of

the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of the Restricted Subsidiaries, each item to be determined in conformity with GAAP.

"Creditor Representatives" mean, collectively, the Trustee and the holders (or their representatives or agents) of the holders of any Permitted Pari Passu Secured Indebtedness.

"Currency Hedging Agreement" means any currency swap agreement, currency cap agreement, currency floor agreement, currency futures agreement, commodity option agreement or any other similar agreement or arrangement which may consist of one or more of the foregoing agreements, designed to manage currencies and currency risk.

"Debt Documents" mean, collectively, the Indenture and the documents evidencing any Permitted Pari Passu Secured Indebtedness.

"Default" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"Disqualified Stock" means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 183 days after the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 183 days after the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the date that is 183 days after the Stated Maturity of the Notes shall not constitute Disqualified Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the "— Limitation on Asset Sales" and "— Repurchase of Notes upon a Change of Control Triggering Event" covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company's repurchase of such Notes as are required to be repurchased pursuant to the covenants described under "— Certain Covenants — Limitation on Asset Sales" and "— Repurchase of Notes upon a Change of Control Triggering Event."

"Dollar Equivalent" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the noon buying rate for U.S. dollars in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on the date of determination.

"DTC" means The Depository Trust Company and its successors.

"Entrusted Loans" means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings, provided that such borrowings are not reflected on the consolidated balance sheet of the Company.

"Equity Offering" means (i) any bona fide public or private offering of Capital Stock (other than Disqualified Stock) of the Company other than to Affiliates of the Company after the Original Issue Date or (ii) any bona fide underwritten secondary public offering or secondary private placement of Capital Stock (other than Disqualified Stock) of the Company beneficially

owned by the Permitted Holders, after the Original Issue Date, to the extent that the Permitted Holders or a company controlled by such Person concurrently with such public offering or private placement purchases in cash an equal amount of Capital Stock (other than Disqualified Stock) from the Company at the same price as the public offering or private placing price; *provided* that (i) the aggregate gross cash proceeds received by the Company as a result of such offering described in clause (i) or (ii) or a combination thereof (excluding gross cash proceeds received from the Company or any of its Subsidiaries) shall be no less than US$25 million (or the Dollar Equivalent thereof) and (ii) any such offering shall result in such Capital Stock being listed and eligible for dealing on the Stock Exchange of Hong Kong Limited.

"Euroclear" means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

"Fair Market Value" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

"Fitch" mean Fitch Inc., a subsidiary of Fimalac, S.A., and its successors.

"Fixed Charge Coverage Ratio" means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the "Four Quarter Period") to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

(a) *pro forma* effect shall be given to any Indebtedness Incurred, repaid or redeemed during the period (the "Reference Period") commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem such Indebtedness;

(b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate will be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Hedging Agreement applicable to such Indebtedness if such Interest Rate Hedging Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

(c) *pro forma* effect will be given to the creation, designation or redesignation of Restricted Subsidiaries and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;

(d) *pro forma* effect will be given to Asset Dispositions and Asset Acquisitions (including giving *pro forma* effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and

(e) *pro forma* effect will be given to asset dispositions and asset acquisitions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that *pro forma* effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such *pro forma* calculation will be based upon the four full fiscal quarters immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

"GAAP" means International Financial Reporting Standards as adopted by the European Union as in effect from time to time.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Hedging Obligation" of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Hedging Agreement.

"Holder" means the Person in whose name a Note is registered in the Note register.

"Incur" means, with respect to any Indebtedness or Disqualified Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Disqualified Stock; *provided* that (1) any Indebtedness and Disqualified Stock of a Person existing at the time such Person becomes a Restricted Subsidiary will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms "Incurrence," "Incurred" and "Incurring" have meanings correlative with the foregoing.

"Indebtedness" means, with respect to any Person at any date of determination (without duplication):

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;

(5) all Capitalized Lease Obligations and Attributable Indebtedness;

(6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;

(7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;

(8) to the extent not otherwise included in this definition, Hedging Obligations;

(9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends; and

(10) any Preferred Stock issued by (a) such Person, if such Person is a Restricted Subsidiary or (b) any Restricted Subsidiary of such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided*

(1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;

(2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest; and

(3) that the amount of Indebtedness with respect to any Hedging Obligation shall be (i) zero if Incurred pursuant to paragraph (2)(e) under the "Limitation on Indebtedness" covenant, and (ii) equal to the net amount payable if the Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Hedging Agreement giving rise to such Hedging Obligation terminated at that time due to default by such Person if not Incurred pursuant to such paragraph.

"Independent Third Party" means any Person that is not an Affiliate of the Company.

"Intercreditor Agreement" has the meaning set forth under "— Security."

"Interest Rate Hedging Agreement" means any interest rate swap agreement, interest rate cap agreement, interest rate floor agreement, interest rate future contract, interest rate option agreement or any other similar agreement or arrangement which may consist of one or more of any of the foregoing agreements, designed to manage interest rates and interest rate risk.

"Investment" means:

(1) any direct or indirect advance, loan or other extension of credit to another Person;

(2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);

(3) any purchase or acquisition of Capital Stock (or options, warrants or other rights to acquire such Capital Stock), Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or

(4) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the covenants described under "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries" and "— Certain Covenants — Limitation on Restricted Payments": (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the Company's proportionate interest in the assets (net of the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary calculated as of the time of such designation, and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

"Investment Grade" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns, or a rating of "Aaa," or "Aa," "A" or "Baa," as modified by a "1," "2" or "3" indication, or an equivalent rating representing one of the four highest rating categories, by Moody's or any of its successors or assigns, or a rating of "AAA," "AA," "A," "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P, Moody's or Fitch or two or three of them, as the case may be.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

"Moody's" means Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors.

"Net Cash Proceeds" means:

(1) with respect to any Asset Sale (other than the issuance or sale of Capital Stock), the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:

(a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale;

(b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and the Restricted Subsidiaries, taken as a whole;

(c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale; and

(d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP and reflected in an Officers' Certificate delivered to the Trustee; and

(2) with respect to any Asset Sale consisting of the issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Offer to Purchase" means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

(1) the provision in the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;

(2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "Offer to Purchase Payment Date");

(3) that any Note not tendered will continue to accrue interest pursuant to its terms;

(4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;

(5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;

(6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and

(7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or any amount in excess thereof which is an integral multiple of US$1,000.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof to be accepted by the Company for payment on the Offer to Purchase Payment Date. On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; and (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and upon receipt of written order of the Company signed by an Officer the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or any amount in excess thereof which is an integral multiple of US$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"Officer" means one of the executive officers of the Company or, in the case of a Restricted Subsidiary, one of the directors or officers of such Restricted Subsidiary.

"Officers' Certificate" means a certificate signed by two Officers.

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Trustee.

"Original Issue Date" means the date on which the Notes are originally issued under the Indenture.

"Pari Passu Subsidiary Guarantee" means a Guarantee by any Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes); *provided* that (1) the Company and such Subsidiary Guarantor were permitted to Incur such Indebtedness by the covenant described under "— Limitation on Indebtedness" and (2) such Guarantee ranks *pari passu* with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor.

"Payment Default" means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under "— Repurchase of Notes upon a Change of Control Triggering Event," or an Offer to Purchase in the manner described under "— Limitation on Asset Sales" or (4) any Event of Default specified in clause (4) of the definition of Events of Default.

"Permitted Businesses" means any business which is the same as or ancillary or complementary to any of the businesses of the Company and the Restricted Subsidiaries on the Original Issue Date.

"Permitted Holders" means any or all of the following:

(1) Mr. Zhang Jimin or Ms. Zhang Lili;

(2) any Affiliate (other than an Affiliate as defined in clause (2) of the definition of Affiliate) of the Person specified in clause (1); and

(3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by one or more of the Persons specified in clauses (1) and (2).

"Permitted Investment" means:

(1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or will be merged or consolidated with or into, or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;

(2) cash or Temporary Cash Investments;

(3) payroll, travel and similar advances made in the ordinary course of business to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;

(4) stock, obligations or securities received in satisfaction of judgments;

(5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;

(6) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;

(7) receivables, trade credits or other current assets owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

(8) Investments consisting of consideration received in connection with an Asset Sale under clause 4(b) of, and made in compliance with, the covenant described under "— Certain Covenants — Limitation on Asset Sales";

(9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of "Permitted Liens";

(10) loans or advances to vendors, contractors, suppliers or distributors, including advance payments for equipment and machinery made to the manufacturer thereof, of the Company or any Restricted Subsidiary in the ordinary course of business and dischargeable in accordance with customary trade terms within 90 days; and

(11) Investments in existence on the Original Issue Date.

"Permitted Liens" means:

(1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);

(4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and the Restricted Subsidiaries, taken as a whole;

(5) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person (i) becomes a Restricted Subsidiary or (ii) is merged with or into or consolidated with the Company or any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets of such Person (if such Person becomes a Restricted Subsidiary) or the property or assets acquired by the Company or such Restricted Subsidiary (if such Person is merged with or into or consolidated with the Company or such Restricted Subsidiary); *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;

(6) Liens in favor of the Company or any Restricted Subsidiary;

(7) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that do not give rise to an Event of Default;

(8) Liens securing reimbursement obligations with respect to letters of credit, performance and surety bonds and completion guarantees that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;

(9) Liens existing on the Original Issue Date;

(10) Liens securing Indebtedness which is Incurred to refinance Secured Indebtedness which is permitted to be Incurred under clause (2)(d) of the covenant described under "— Certain Covenants — Limitation on Indebtedness," *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;

(11) Liens securing Hedging Obligations permitted to be Incurred under clause (2)(e) of the covenant described under "— Certain Covenants — Limitation on Indebtedness," *provided* that (i) Indebtedness relating to any such Hedging Obligation is, and is permitted under the covenant described under "— Certain Covenants — Limitation on Liens" to be, secured by a Lien on the same property securing such Hedging Obligation or (ii) such Liens are encumbering customary initial deposits or margin deposits or are otherwise within the general parameters customary in the industry and incurred in the ordinary course of business;

(12) Liens under the Security Documents;

(13) Liens securing Attributable Indebtedness that is permitted to be Incurred under the Indenture;

(14) any interest or title of a lessor under any Capitalized Lease Obligation permitted to be Incurred under the Indenture; *provided*, *however*, that the Liens do not extend to any property or assets which is not leased property subject to such Capitalized Lease Obligation;

(15) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under "— Security — Permitted Pari Passu Secured Indebtedness;"

(16) Liens on deposits securing trade letters of credit (and reimbursement obligations relating thereto) incurred in the ordinary course;

(17) Liens securing Indebtedness permitted under clause (2)(k) of the covenant described under "— Certain Covenants — Limitation on Indebtedness"; *provided* that such Lien (i) covers only the assets acquired with such Indebtedness and (ii) is created within 180 days of such acquisition; and

(18) Liens securing indebtedness permitted under clause (2)(n) of the covenant described under "— Certain Covenants — Limitation on Indebtedness"; *provided* that (a) such Lien is created prior to, at the time of or within 30 days after entering into the agreement underlying such Indebtedness and (b) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (18) does not exceed 130% of the aggregate principal amount or aggregate committed amount of Indebtedness secured by such Liens;

provided that for purposes of the Collateral, Permitted Liens shall mean Liens described in clauses (1), (5), (12) and (15) above only.

"Permitted Pari Passu Secured Indebtedness" has the meaning set forth under "— Security — Permitted Pari Passu Secured Indebtedness."

"Permitted Subsidiary Indebtedness" means Indebtedness of, and all Preferred Stock issued by, the Restricted Subsidiaries, taken as a whole; *provided* that, on the date of Incurrence of such Indebtedness, and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness and all Preferred Stock issued by the Restricted Subsidiaries (excluding any Indebtedness of any Restricted Subsidiary permitted under clause (2)(c) or (e) of the covenant described under "— Certain Covenants — Limitation on Indebtedness") does not exceed an amount equal to 15% of Total Assets (or the Dollar Equivalent thereof).

"Person" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"PRC" means the People's Republic of China.

"PRC CJV" means any future Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws and regulations may be amended from time to time.

"PRC CJV Partner" means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

"Preferred Stock" as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"Rating Agencies" means (1) S&P, (2) Moody's and (3) Fitch; *provided* that if S&P, Moody's, Fitch, two of any of the three or all three of them shall not make a rating of the Notes publicly available, one or more nationally recognized statistical rating organizations (as defined in Rule 436 under the Securities Act), as the case may be, selected by the Company, which shall be substituted for S&P, Moody's, Fitch, two of any of the three or all three of them, as the case may be.

"Rating Category" means (1) with respect to S&P, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); (2) with respect to Moody's, any of the following categories: "Ba," "B," "Caa," "Ca," "C" and "D" (or equivalent successor categories); (3) with respect to Fitch, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); and (4) the equivalent of any such category of S&P, Moody's or Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories ("+" and "-" for S&P; "1," "2" and "3" for Moody's and "+" and "-" for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from "BB+" to "BB," as well as from "BB-" to "B+," will constitute a decrease of one gradation).

"Rating Date" means (i) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (ii) in connection with actions contemplated under "— Consolidation, Merger and Sale of Assets," that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

"Rating Decline" means (i) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly

announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below, or (ii) in connection with actions contemplated under "— Consolidation, Merger and Sale of Assets," the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

(a) in the event the Notes are rated by all three of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any two of the three Rating Agencies shall be below Investment Grade;

(b) in the event the Notes are rated by any two, but not all three, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any of such two Rating Agencies shall be below Investment Grade;

(c) in the event the Notes are rated by one, and only one, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or

(d) in the event the Notes are rated below Investment Grade by all three of the Rating Agencies on the Rating Date, the rating of the Notes by any Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

"Reference Treasury Dealer" means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer at 5:00 p.m. (New York City Time) on the third Business Day preceding such redemption date.

"Restricted Subsidiary" means any Subsidiary of the Company other than an Unrestricted Subsidiary.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

"Sale and Leaseback Transaction" means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

"Secured Creditors" mean, collectively, the Collateral Agent and the creditors and the agents under the Debt Documents.

"Secured Indebtedness" means any Indebtedness of the Company or a Restricted Subsidiary secured by a Lien.

"Secured Liabilities" means, collectively, all present and future obligations, contingent or otherwise, of the Company and its Restricted Subsidiaries to the creditors, noteholders, lenders and their agents or trustees under the Debt Documents, including any interest, fees and expenses accruing after the initiation of any insolvency proceeding (irrespective of whether such interest, fees and expenses are allowed as a claim in such proceeding).

"Securities Act" means the U.S. Securities Act of 1933, as amended.

"Security Documents" means, collectively, the Share Charges and any other agreements or instruments that may evidence or create, or purport to create, any Lien in favor of the Trustee and/or any holder (or its representative or agent) of any Permitted Pari Passu Secured Indebtedness in any or all of the Collateral.

"Share Charges" has the meaning given under "— Security."

"Significant Subsidiary" means any Restricted Subsidiary that would constitute a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the United States Securities Act of 1933, as such Regulation is in effect on the date of the Indenture, *provided* that in each instance in such definition in which the term "10 percent" is used, the term "5 percent" shall be substituted therefor.

"Staged Acquisition Agreement" means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (a) pursuant to which the Company or such Restricted Subsidiary agrees to acquire not less than a majority of the Capital Stock of a Person for consideration that is not more than the appraised value of such Capital Stock of such Person (determined by an independent appraisal firm, accountancy firm or investment bank of recognized international standing appointed by the Company) at the time the Company or such Restricted Subsidiary enters into such Agreement and (b) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

"Stated Maturity" means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

"Subordinated Indebtedness" means any Indebtedness of the Company or any Subsidiary Guarantor that is contractually subordinated or junior in right of payment to the Notes or to any Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

"Subsidiary" means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person.

"Subsidiary Guarantee" means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

"Subsidiary Guarantor" means the initial Subsidiary Guarantors named herein and any other Restricted Subsidiary that Guarantees the obligations of the Company under the Indenture and the Notes; *provided* that "Subsidiary Guarantor" does not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

"Subsidiary Guarantor Pledgor" means the initial Subsidiary Guarantor Pledgors, if any, and any other Subsidiary Guarantor that pledges Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided* that "Subsidiary Guarantor Pledgor" does not include any person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

"Temporary Cash Investment" means any of the following:

(1) direct obligations of the United States of America, Hong Kong or any agency of either of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, Hong Kong or any agency of either of the foregoing, in each case maturing within one year;

(2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company that is organized under the laws of the United States of America, any state thereof or Hong Kong and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act);

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;

(4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P or Fitch;

(5) securities maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or Moody's or Fitch;

(6) any money market fund that has at least 95.0% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and

(7) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with (i) Agricultural Bank of China, Bank of China, Bank of Communications, China Merchants Bank, Industrial and Commercial Bank of China, China Construction Bank, or Bank of Shanghai, (ii) Bank of Xi'an, HSBC Bank (China) and Rural Credit Cooperatives of Shaan'xi Province, (iii) any other bank or trust company organized under the laws of the PRC whose long-term debt is rated as high or higher than any of those banks listed in clause (i) of this paragraph or (iv) any other bank organized under the laws of the PRC; *provided* that, in the case of clause (iv), such deposits do not exceed US$10 million (or the Dollar Equivalent thereof) with any single bank or US$30 million (or the Dollar Equivalent thereof) in the aggregate, at any date of determination thereafter.

"Total Assets" means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last date of the most recent fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) *provided* that only with respect to clause (2)(k)(ii) of "Certain Covenants — Limitation on Indebtedness" covenant and the definition of "Permitted Subsidiary Indebtedness," Total Assets shall be calculated after giving *pro forma* effect to include the cumulative value of all of the equipment, property or assets the purchase of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder in each case as of such date, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness.

"Trade Payables" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

"Transaction Date" means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

"Unrestricted Subsidiary" means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture and (2) any Subsidiary of an Unrestricted Subsidiary.

"U.S. Government Obligations" means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the Company thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"Voting Stock" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

"Wholly Owned" means, with respect to any Restricted Subsidiary, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law) by the Company or one or more Wholly Owned Subsidiaries of the Company; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries.

TAXATION

JERSEY, BRITISH VIRGIN ISLANDS AND HONG KONG TAXATION

The following summary of certain Jersey, British Virgin Islands and Hong Kong tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes.

Jersey

Jersey companies which are tax resident in Jersey, with the exception of certain Jersey based financial services companies and local utility companies (which are generally subject to income tax at 10% and 20% respectively) are typically subject to a zero percent rate of income tax on the basis of being tax resident in Jersey. Under Article 123 of the Income Tax (Jersey) Law 1961, a company shall not be regarded as tax resident in Jersey if its business is centrally managed and controlled outside Jersey in a country or territory where the highest rate at which any company may be charged tax on any part of its income is 20% or higher and the company is resident for tax purposes in that country or territory. If the Company is not regarded as tax resident in Jersey it will not be liable to Jersey income tax other than on Jersey source income (except where such income is exempted from income tax pursuant to the Income Tax (Jersey) Law 1961, as amended). If the Company is regarded as tax resident in Jersey it will subject to income tax in Jersey at a rate of zero per cent (other than on any income arising from land or buildings situate in Jersey).

Payments in respect of the Notes may be paid by the Company without withholding or deduction for or on account of Jersey income tax. Holders of Notes (other than residents of Jersey) will not be subject to any tax in Jersey in respect of the holding, sale or other disposition of such Notes.

In Jersey, no stamp duty is levied on the issue or transfer of Notes except that stamp duty is payable on Jersey grants of probate and letters of administration, which will generally be required to transfer Notes on the death of a holder of such Notes. In the case of a grant of probate or letters of administration, stamp duty is levied according to the size of the estate (wherever situate in respect of a holder of Notes domiciled in Jersey, or situate in Jersey in respect of a holder of Notes domiciled outside Jersey) and is payable on a sliding scale at a rate of up to 0.75% of such estate.

Jersey does not otherwise levy taxes upon capital, inheritances, capital gains or gifts nor are there other estate duties.

As part of an agreement reached in connection with the European Union directive on the taxation of savings income in the form of interest payments, and in line with steps taken by other relevant third countries, Jersey has introduced a retention tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in a Member State by a paying agent established in Jersey. The retention tax system applies for a transitional period prior to the implementation of a system of automatic communication to Member States of information regarding such payments. During this transitional period, such an individual beneficial owner resident in a Member State will be entitled to request a paying agent not to retain tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the Member State in which the beneficial owner is resident.

The retention tax system in Jersey is implemented by means of bilateral agreements with each of the Member States, the Taxation (Agreements with European Union Member States) (Jersey) Regulations 2005 and Guidance Notes issued by the Policy & Resources Department of the States of Jersey (being the predecessor to the Chief Minister's Department of the States of Jersey). Based on these provisions and what is understood to be the current practice of the Jersey tax authorities, the Company would not be obliged to levy retention tax in Jersey under these provisions in respect of interest payments made by it to a paying agent established outside Jersey.

British Virgin Islands

There is no income or other tax in the British Virgin Islands imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors pursuant to the Subsidiary Guarantees.

Hong Kong

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside Hong Kong) of a Note.

PRC

Under the PRC Enterprise Income Tax Law and the Implementation Rules both of which took effect on January 1, 2008, enterprises established outside the PRC whose "de facto management

bodies" are located in China are considered as "PRC Tax resident enterprises." The Implementation Rules define the term "de facto management body" as a management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise.

The Company holds its shareholders' meeting and board meetings outside China and keeps its shareholders' list outside China. However, most of the Company's directors and senior management are currently based inside China and the Company keeps its books of account inside China. The above elements may be relevant for the tax authorities to determine whether it is a PRC resident enterprise for tax purposes.

Although it is unclear under PRC tax law whether the Company has a "de facto management body" located in China for PRC tax purposes, it intends to take the position that it is not PRC resident enterprise for tax purpose. The Company cannot assure you that tax authorities will respect its position. The Company's PRC counsel, Zong Heng Law Firm, has advised the Company that if it is deemed to be a PRC resident enterprise for enterprise income purpose, among other things, the Company would be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income excluding equity investment income such as dividend and bonus between the Company and its PRC subsidiaries if they are each deemed a qualified resident enterprise. Furthermore, the Company would be obligated to withhold PRC income tax from payments of interest on the Notes to investors that are non-resident enterprises, generally at the rate of 10%, because the interest would be regarded as derived from sources within the PRC. If the Company fails to do so, it may be subject to fines and other penalties. In addition, any gain realized by such non-resident enterprise investors from the transfer of the Notes may be regarded as derived from sources within the PRC and accordingly may be subject to PRC income tax at a rate of 10%. However, if the Company is not considered as a PRC resident enterprise for enterprise income purposes, non-resident enterprise investors would not be subject to PRC income tax on any interest received on the Notes or any gains realized from the transfer of the Notes.

U.S. FEDERAL INCOME TAXATION

CIRCULAR 230: ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES SET FORTH IN THIS OFFERING MEMORANDUM WAS WRITTEN IN CONNECTION WITH THE PROMOTION AND MARKETING BY THE COMPANY OF THE NOTES. SUCH DISCUSSION WAS NOT INTENDED OR WRITTEN TO BE LEGAL OR TAX ADVICE TO ANY PERSON AND WAS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON. EACH INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion is a summary of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of the Notes by the U.S. Holders described below. The discussion is not a complete description of all the tax considerations that may be relevant to a particular holder. This summary is based on the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, all as of the date hereof, changes to any of which subsequent to the date of

this offering memorandum may affect the tax consequences described herein and may apply retroactively. The discussion addresses only initial purchasers of the Notes that are U.S. Holders (as defined below), that hold the Notes as capital assets, that purchase the Notes in this offering at their "issue price," which will be the first price at which a substantial amount of the Notes is sold to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) for money, and that have the U.S. dollar as their functional currency. It does not address all of the issues that may be relevant to the tax treatment of investors subject to special rules, such as banks, insurance companies, investors liable for the alternative minimum tax, beneficial owners of individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, traders that elect mark-to-market treatment, or investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes.

PROSPECTIVE PURCHASERS OF THE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE U.S. FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES.

U.S. Holders

As used here, "U.S. Holder" means a beneficial owner of Notes that is, for U.S. federal income tax purposes:

(i) an individual who is a citizen or resident of the United States;

(ii) a corporation (or other business entity classified as a corporation) created or organized under the laws of the United States, any State thereof or the District of Columbia;

(iii) an estate the income of which is subject to U.S. federal income tax without regard to its source; or

(iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) it has a valid election in effect under applicable United States Treasury regulations to be treated as a U.S. person.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes purchases or holds the Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A partnership and any partner in a partnership holding the Notes is urged to consult its own tax advisor.

Taxation of Interest and Original Issue Discount

The gross amount of interest payments received by a U.S. Holder (including any foreign tax withheld) with respect to the Notes will generally be includible in taxable income as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's method of tax accounting.

In addition, if the Notes are issued with original issue discount ("OID") for U.S. federal income tax purposes, a U.S. Holder must include the OID in income as ordinary interest for U.S. federal income tax purposes as it accrues under a constant yield to maturity basis in advance of receipt of the cash payment attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. Generally, a Note will have OID to the extent that its stated redemption price at maturity exceeds its issue price, unless the stated redemption price at maturity exceeds its issue price by less than 1/4 of 1% of the Note's stated redemption price at maturity multiplied by the number of complete years to maturity, or de minimis OID. The stated redemption price at

maturity of a Note is the total of all payments due on the Note other than payments of "qualified stated interest." In general, "qualified stated interest" is interest that is unconditionally payable at least annually at a single fixed rate. Semi-annual interest payments made on the Notes will constitute qualified stated interest.

A U.S. Holder may elect to recognize all of the interest and OID on a Note (including de minimis OID) using a constant yield method. The constant yield election will apply only to the Note with respect to which it is made and may not be revoked without the consent of the U.S. Internal Revenue Service.

Interest payments and any OID received or accrued on the Notes will generally be from foreign sources for U.S. federal income tax purposes and will generally be treated as "passive category income" or, in certain cases, "general category income" for U.S. foreign tax credit purposes. Subject to applicable limitations, foreign income taxes, if any, withheld from payments in respect of the Notes would be creditable against the U.S. Holder's U.S. federal income tax liability. The U.S. foreign tax credit rules are extremely complex. U.S. Holders should consult their own tax advisors regarding the availability of U.S. foreign tax credits and the application of the U.S. foreign tax credit rules to their particular situation.

Taxation of the Sale, Exchange, Redemption or Retirement of a Note

Upon the sale, exchange, redemption or retirement of a Note, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale, exchange, redemption or retirement (less any amount attributable to accrued but unpaid interest, which will be taxable as such) and the U.S. Holder's adjusted tax basis in such Note. A U.S. Holder's adjusted tax basis in a Note will generally equal the amount the U.S. Holder paid to acquire the Note, increased by any OID included in the U.S. Holder's income with respect to the Note and reduced by any payments, other than qualified stated interest payments, previously received by the U.S. Holder. Gain or loss recognized by a U.S. Holder generally will be long-term capital gain or loss if the U.S. Holder has held the Note for more than one year at the time of disposition. Certain non-corporate U.S. Holders (including individuals) may qualify for preferential rates of U.S. federal income taxation in respect of long-term capital gains. The deductibility of capital losses is subject to certain limitations. Capital gains realized on the disposition of the Notes may be subject to PRC tax as described in this section under "Taxation —PRC." In the event that foreign tax applies, a U.S. Holder's amount realized would include the gross amount of the proceeds from the disposition. Each prospective purchaser is urged to consult its independent tax advisers regarding the consequences if a PRC withholding tax is imposed on the disposition of a Note and the availability of foreign tax credits under the investor's particular circumstances (including in the case that a U.S. Holder is eligible for the benefits of the U.S. — PRC income tax treaty).

Information Reporting and Backup Withholding

Payments of interest, principal or proceeds from the disposition of a Note that are made in the United States or through certain U.S.-related financial intermediaries may be subject to information reporting, and may also be subject to backup withholding of U.S. federal income tax if a recipient who is a U.S. Holder fails to furnish to the payor a U.S. Internal Revenue Service Form W-9 containing such U.S. Holder's taxpayer identification number or to otherwise establish an exemption from backup withholding. Penalties also may be imposed on a recipient that fails to properly supply a U.S. Internal Revenue Service Form W-9 or other evidence of an exemption from backup withholding. Any amounts deducted and withheld may be allowed as a credit against the recipient's U.S. federal income tax liability, if any. If backup withholding results in an overpayment of taxes, a refund may be obtained provided that the required information is timely furnished to the U.S. Internal Revenue Service.

PLAN OF DISTRIBUTION

Deutsche Bank AG, Singapore Branch and ICBC International Capital Limited are acting as joint bookrunners of the offering. Deutsche Bank AG, Singapore Branch and ICBC International Securities Limited are acting as joint lead managers of the offering Deutsche Bank AG, Singapore Branch, ICBC International Securities Limited and SinoPac Securities (Asia) Limited are acting as the Initial Purchasers named below. Subject to the terms and conditions stated in the purchase agreement, each Initial Purchaser named below has severally agreed to purchase, and we have agreed to sell to that Initial Purchaser, the principal amount of the Notes set forth opposite the Initial Purchaser's name.

Initial Purchaser	Principal Amount
Deutsche Bank AG, Singapore Branch	US$200,000,000
ICBC International Securities Limited	US$198,680,000
SinoPac Securities (Asia) Limited	US$1,320,000
Total	US$400,000,000

The purchase agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Initial Purchasers must purchase all the Notes if they purchase any of the Notes.

The Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering memorandum within the United States to qualified institutional buyers ("QIBs") in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "Transfer Restrictions". The price at which the Notes are offered may be changed at any time without notice.

We and the Subsidiary Guarantors have agreed that, for a period of 90 days from the Original Issue Date (as defined in "Description of the Notes"), we and the Subsidiary Guarantors will not, without obtaining the prior written consent of the representatives of the Initial Purchasers, offer, sell, contract to sell, or otherwise dispose of, any debt securities, including debt securities linked to, convertible to or exchangeable with equity securities, issued or guaranteed by us or the Subsidiary Guarantors (other than the Notes or the Subsidiary Guarantees). The representatives of the Initial Purchasers in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

The Notes will constitute a new class of securities with no established trading market. Approval-in-principle has been received for the listing and quotation of the Notes on the Official List of the Singapore Exchange Securities Trading Limited (the "SGX-ST"). However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Initial Purchasers have advised us that they currently intend to make a market in the Notes. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes.

Deutsche Bank AG, Singapore Branch (or its affiliates) may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Over-allotment involves sales in excess of the offering size, which creates a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Notes in the open market after the distribution has been completed in

order to cover short positions. Penalty bids permit Deutsche Bank AG, Singapore Branch (as stabilizing manager) to reclaim a selling concession from a dealer when the Notes originally sold by such dealer are purchased in a stabilizing transaction or a covering transaction to cover short positions. Neither we nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the Initial Purchasers make any representation that Deutsche Bank AG, Singapore Branch (as stabilizing manager) will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in three business days, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own advisor.

The Initial Purchasers or their affiliates have performed commercial banking, investment banking or advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The Initial Purchasers or its affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business for which they may receive customary fees and reimbursement of expenses.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

Selling Restrictions

General

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchasers that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering memorandum or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

United States

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act.

The Initial Purchasers, through their affiliates, acting as selling agents where applicable, propose to offer the Notes to certain persons in offshore transactions in reliance on Regulation S and in accordance with applicable law and propose to offer the Notes to QIBs in the United States pursuant to Rule 144A. Except as permitted under the purchase agreement, the Notes will not be

offered, sold or delivered within the United States. Any offer or sale of the Notes in the United States in reliance on Rule 144A will be made by broker-dealer affiliates who are registered as such under the Exchange Act. Terms used in this paragraph have the meanings given to them by Regulation S.

United Kingdom

No invitation or inducement to engage in investment activity (within the meanings of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by the Initial Purchasers in connection with the issue or sale of the Notes may be communicated or caused to be communicated except in circumstances in which section 21(1) of the FSMA does not apply to the Initial Purchasers. All applicable provisions of the FSMA must be complied with respect to anything done or to be done by the Initial Purchasers in relation to any Notes in, from or otherwise involving the United Kingdom.

Hong Kong

This offering memorandum has not been and will not be registered with the Registrar of Companies in Hong Kong. Accordingly, except as mentioned below, this offering memorandum may not be issued, circulated or distributed in Hong Kong. A copy of this offering memorandum may, however, be issued to a limited number of prospective applicants for the Notes in Hong Kong in a manner which does not constitute an offer of the Notes to the public in Hong Kong or an issue, circulation or distribution in Hong Kong of a prospectus for the purposes of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). No advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning as defined in the Securities and Futures Ordinance (Chapter 571. of the Laws of Hong Kong) and any rules made thereunder.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948) (as amended) (the "FIEL"), and disclosure under the FIEL has not been made with respect to the Notes. Accordingly, the Notes may not be offered or sold, directly or indirectly in Japan or to, or for the account of, any resident of Japan, or to others for reoffering or re-sale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption from the registration requirements of the FIEL and otherwise in compliance with the FIEL and other applicable provisions of Japanese laws and regulations. As used in this paragraph, "resident of Japan" means any person residing in Japan, including any corporation or other entity organized under the laws of Japan.

Singapore

This offering memorandum or any other material distributed by the Initial Purchasers has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Notes to be issued from time to time by us may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased in reliance of an exemption under Sections 274 or 275 of the SFA, the Notes shall not be sold within the period of six months from the date of the initial acquisition of the Notes, except to any of the following persons:

(a) an institutional investor (as defined in Section 4A of the SFA);

(b) a relevant person (as defined in Section 275(2) of the SFA); or

(c) any person pursuant to an offer referred to in Section 275(1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six (6) months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

    (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or (in the case of a corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA or (in the case of a trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;

    (2) where no consideration is or will be given for the transfer;

    (3) where the transfer is by operation of law; or

    (4) as specified in Section 276(7) of the SFA.

PRC

This offering memorandum does not constitute a public offer of the Notes, whether by sale or by subscription, in the PRC. The Notes will not be offered or sold within the PRC by means of this offering memorandum or any other document except pursuant to the applicable laws and regulations of the PRC.

Jersey

The Notes are not offered or sold, and will not be offered or sold, directly or indirectly to the public in Jersey.

British Virgin Islands

No invitation will be made directly or indirectly to any person resident in the British Virgin Islands to subscribe for any of the Notes.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer, sale, resale, charge or other transfer of the Notes.

United States

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (1) to QIBs in compliance with Rule 144A; and (2) outside the United States in offshore transactions in reliance on Regulation S.

By its purchase of the Notes, each purchaser of the Notes will be deemed to:

1. represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is: (i) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A; or (ii) a purchaser that is outside the United States;

2. acknowledge that the Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except as set forth below;

3. agree that if it is a purchaser other than a purchaser outside the United States and if it should resell or otherwise transfer the Notes within the time period referred to in Rule 144(d) under the Securities Act with respect to such transfer, it will do so only: (a) if such purchaser is an initial investor, (i) to us or any subsidiary thereof; (ii) inside the United States to a QIB in compliance with Rule 144A; (iii) outside the United States in an offshore transaction in compliance with Rule 904 under the Securities Act (if available); or (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available), in each case in accordance with any applicable securities law of any state of the United States or (b) pursuant to an effective registration statement under the Securities Act;

4. agree that it will inform each person to whom it transfers the Notes of any restrictions on transfer of such Notes;

5. understand that if it is a purchaser outside the United States, the Notes will be represented by the Regulation S Global Note and that transfers thereto are restricted as described under "Description of the Notes — Book-Entry; Delivery and Form." If it is a QIB, it understands that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note. Before any interest in the Restricted Global Note may be offered, sold, charged or otherwise transferred to a person who is not a QIB, the transferee will be required to provide the Trustee with a written certification (the form of which certification can be obtained from the Trustee) as to compliance with the transfer restriction referred to above;

6. understand that each Note sold within the United States will bear a legend to the following effect unless otherwise agreed by us and the holder thereof (unless such Note has been sold pursuant to a registration statement that has been declared effective under the Securities Act):

   THIS NOTE AND THE SUBSIDIARY GUARANTEES RELATED TO THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS

AMENDED (THE "SECURITIES ACT"), AND ACCORDINGLY, THIS NOTE AND THE SUBSIDIARY GUARANTEES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT WITHIN THE TIME PERIOD REFERRED TO IN RULE 144(d) UNDER THE SECURITIES ACT AS IN EFFECT WITH RESPECT TO SUCH TRANSFER, RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) IF SUCH PURCHASER IS AN INITIAL INVESTOR, (I) TO WEST CHINA CEMENT LIMITED OR ANY SUBSIDIARY THEREOF; (II) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT; (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT; (IV) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE); (B) IF SUCH PURCHASER IS A SUBSEQUENT INVESTOR OF AN INTEREST IN THE RESTRICTED GLOBAL NOTE, AS SET FORTH IN (A) ABOVE AND, IN ADDITION, PURSUANT TO ANY AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT (PROVIDED THAT AS A CONDITION TO THE REGISTRATION OF TRANSFER OF ANY NOTES OTHERWISE THAN AS DESCRIBED IN (A)(I), (A)(II) OR (A)(III) ABOVE OR (C) BELOW, WE AND THE SUBSIDIARY GUARANTORS, THE TRUSTEE OR THE PAYING AGENT AND NOTE REGISTRAR MAY, IN CIRCUMSTANCES THAT ANY OF THEM DEEMS APPROPRIATE, REQUIRE EVIDENCE AS TO COMPLIANCE WITH ANY SUCH EXEMPTION); OR (C) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. IN CONNECTION WITH ANY TRANSFER OF THIS NOTE WITHIN THE TIME PERIOD REFERRED TO ABOVE, THE HOLDER MUST CHECK THE APPROPRIATE BOX SET FORTH ON THE REVERSE HEREOF RELATING TO THE MANNER OF SUCH TRANSFER AND SUBMIT THIS CERTIFICATE TO THE TRUSTEE. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE AND THE PAYING AND TRANSFER AGENT TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS; and

7. acknowledge that we, the Paying and Transfer Agent, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agree that if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify us, the Paying and Transfer Agent and the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Singapore

Each purchaser of the Notes acknowledges that this offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each purchaser of the Notes has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

RATINGS

The Notes have been provisionally rated "BB-" by Standard and Poor's Rating Services, "BB" by Fitch Ratings and "Ba3" by Moody's Investor Service. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant. Each such rating should be evaluated independently of any other rating on the Notes, on other of our securities, or on us.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Sidley Austin as to matters of Hong Kong, United States federal and New York law, Carey Olsen as to matters of Jersey law, Harneys Westwood & Riegels as to matters of BVI law and Zong Heng Law Firm as to matters of PRC law. Certain legal matters will be passed upon for the Initial Purchasers by Davis Polk & Wardwell LLP as to matters of United States federal and New York law and Jingtian & Gongcheng and as to matters of PRC law.

AUDITOR

The audited consolidated financial information of the Company as of and for each of the years ended December 31, 2007, 2008 and 2009, included in this offering memorandum, had been audited by PricewaterhouseCoopers, certified public accountants, as stated in the Accountant's Report set forth in Appendix I to the prospectus dated August 10, 2010 for our IPO and reproduced herein.

With respect to the unaudited condensed consolidated interim financial information of the Company as of and for the nine months ended September 30, 2010 included in this offering memorandum, PricewaterhouseCoopers reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated January 12, 2011 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

For the purpose of the offers and sales outside the United States in reliance on Regulation S and within the United States to "qualified institutional buyers" in reliance on Rule 144A under the Securities Act, PricewaterhouseCoopers has acknowledged the references to its name and the inclusion of its reports in the form and context in which they are respectively included in this offering memorandum.

GENERAL INFORMATION

Consents

We have obtained all necessary consents, approvals and authorizations in the Jersey, the British Virgin Islands and Hong Kong in connection with the issue and performance of the Notes and the Subsidiary Guarantees. The entering into of the Indenture governing the Notes and the issue of the Notes have been authorized by a resolution of our board of directors dated January 6, 2011.

Documents Available

For so long as any of the Notes are outstanding, copies of the Indenture governing the Notes may be inspected free of charge during normal business hours on any weekday (except public holidays) at the specified offices of the paying agents.

For so long as any of the Notes are outstanding, copies of our Accountant's Report for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010, if any, may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the paying agents.

Clearing System and Settlement

The Notes have been accepted for clearance through the facilities of Euroclear, Clearstream and DTC. Certain trading information with respect to the Notes is set forth below:

	CUSIP	ISIN	Common Code
Restricted Global Notes	952107 AA8	US952107AA85	058036536
Regulation S Global Notes.	G9550B AA1	USG9550BAA10	058036544

Only Notes evidenced by a Global Note have been accepted for clearance through Euroclear, Clearstream and DTC.

Listing of the Notes

Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this offering memorandum. Admission to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors or any other subsidiary or associated company of the Company, the Notes or the Subsidiary Guarantees. The Notes will be traded on the SGX-ST in a minimum board lot size of US$200,000 for so long as the Notes are listed on the SGX-ST.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a Paying Agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that a Global Note is exchanged for definitive Notes. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange shall be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the Paying Agent in Singapore.

INDEX TO CONSOLIDATED FINANCIAL INFORMATION

Audited financial information as of and for the three years ended December 31, 2007, 2008 and 2009 and as of and for the four months ended April 30, 2010

Accountant's Report F-2

Consolidated Balance Sheet F-5

Balance Sheet F-7

Consolidated Statement of Comprehensive Income F-8

Consolidated Statement of Changes in Equity F-9

Consolidated Cash Flow Statement F-10

Notes to the Consolidated Financial Information F-11

Reviewed condensed consolidated interim financial information as of and for the nine months ended September 30, 2010

Report on Review of Condensed Consolidated Interim Financial Information F-61

Condensed Consolidated Interim Balance Sheet F-62

Condensed Consolidated Interim Statement of Comprehensive Income F-64

Condensed Consolidated Interim Statement of Changes in Equity F-65

Condensed Consolidated Interim Cash Flow Statement F-66

Notes to the Condensed Consolidated Interim Financial Information F-67

The following attached Accountant's Report on our consolidated financial information as of December 31, 2007, 2008 and 2009 and April 30, 2010, and for the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 is a reproduction of Appendix I to the prospectus for our IPO dated August 10, 2010, with different page numbering herein.

The following attached Report on Review of Condensed Consolidated Interim Financial Information of the Group is a reproduction of the report on review of condensed consolidated interim financial information of the Group as of and for the nine months ended September 30, 2010 issued to the Board of Directors of the Company, with the page references included in such report referring to pages set out in such condensed consolidated interim financial information.

The following is the reproduction of the accountant's report, prepared for the purpose of inclusion in the prospectus dated August 10, 2010 in connection with our IPO on the Main Board of The Stock Exchange of Hong Kong Limited with different page number herein.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

The Directors
West China Cement Limited

ICBC International Capital Limited
Deutsche Bank AG, Hong Kong Branch

August 10, 2010

Dear Sirs,

We report on the financial information of West China Cement Limited (the "Company") and its subsidiaries (together, the "Group") which comprises the consolidated balance sheets as at December 31, 2007, 2008 and 2009 and April 30, 2010, the balance sheets of the Company as at December 31, 2007, 2008 and 2009 and April 30, 2010, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated August 10, 2010 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in Jersey with limited liability under the Companies (Jersey) Law 1991, as amended on October 16, 2006. The Company listed its shares on AIM of London Stock Exchange plc on December 4, 2006.

As at the date of this report, the Company has direct and indirect interest in its subsidiaries, as set out in Note 1 of Section II below. All of these companies are private companies. All companies comprising the Group have adopted December 31 as their financial year end date.

The directors of the Company prepared its statutory financial statements for the Relevant Periods (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards as adopted by the European Union. The 2007 and 2008 statutory financial statements were audited by PKF (UK) LLP and the 2009 statutory financial statements were audited by PricewaterhouseCoopers LLP in accordance with International Standards on Auditing (UK and Ireland) pursuant to separate terms of engagement with the Company.

The statutory financial statements or management financial statements of the subsidiaries of the Company were prepared in accordance with the local applicable accounting standards and regulations enforced in their respective places of incorporation/establishment. The statutory financial statements of these subsidiaries, where there is a statutory audit requirement, were not audited by us but by other auditors in their respective places of incorporation/establishment as stated in Note 1 of Section II below.

The financial information has been prepared based on the Underlying Financial Statements, after making such adjustments as are appropriate.

Directors' responsibility for the financial information

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

Reporting accountant's responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We performed audit procedures on the Underlying Financial Statements and carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Company as at December 31, 2007, 2008 and 2009 and April 30, 2010 and of the state of affairs of the Group as at December 31, 2007, 2008 and 2009 and April 30, 2010 and of the Group's results and cash flows for each of the Relevant Periods then ended.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the four months ended April 30, 2009 and a summary of significant accounting policies and other explanatory notes (the "Stub Period Comparative Financial Information").

The directors are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section I below which are in conformity with IFRSs.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is

substantially less in scope that an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of the Prospectus, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below which are in conformity with IFRSs.

I. FINANCIAL INFORMATION

The following is the financial information of the Group as at December 31, 2007, 2008, 2009 and April 30, 2010 and for each of the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 (the "Financial Information") after making such adjustments as are appropriate.

Consolidated balance sheets

		As at December 31,			As at April 30,
	Note	2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	961,507	1,540,533	2,611,502	3,128,079
Land use rights	7	17,806	76,521	124,571	178,412
Mining rights	8	25,500	27,907	46,373	45,681
Other intangible assets	9	—	—	65,104	64,413
Deferred income tax assets	10	12,364	798	13,540	13,540
		1,017,177	1,645,759	2,861,090	3,430,125
Current assets					
Inventories	12	45,653	81,507	128,979	143,633
Trade and other receivables and prepayments	13	101,454	125,770	317,670	382,194
Cash and cash equivalents	14	29,997	37,038	346,258	53,724
Restricted cash	14	24,336	35,999	19,582	9,415
		201,440	280,314	812,489	588,966
Total assets		1,218,617	1,926,073	3,673,579	4,019,091
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	15	96,811	96,811	97,623	98,634
Share premium	15	662,636	662,636	672,775	687,922
Share options reserve	16	5,228	6,708	5,439	686
Reverse acquisition reserve	17	(341,304)	(341,304)	(341,304)	(341,304)
Statutory reserve	17	36,420	63,163	118,140	118,140
Retained earnings	18	222,650	442,070	717,553	870,627
		682,441	930,084	1,270,226	1,434,705
Non-controlling interests		—	—	25,000	26,220
Total equity		682,441	930,084	1,295,226	1,460,925

Consolidated balance sheets (continued)

	Note	As at December 31, 2007	As at December 31, 2008	As at December 31, 2009	As at April 30, 2010
		RMB'000	RMB'000	RMB'000	RMB'000
LIABILITIES					
Non-current liabilities					
Borrowings	19	63,800	407,069	360,058	746,336
Warrants classified as liabilities	20	—	32,908	—	—
Provisions for other liabilities and charges	21	—	—	6,265	6,389
Deferred income tax liabilities	10	—	—	8,079	8,079
Other liabilities	22	13,487	17,317	117,049	143,539
		77,287	457,294	491,451	904,343
Current liabilities					
Trade and other payables	23	186,536	269,511	559,395	898,450
Current income tax liabilities		—	—	38,639	35,715
Borrowings	19	272,353	269,184	1,288,868	719,658
		458,889	538,695	1,886,902	1,653,823
Total liabilities		536,176	995,989	2,378,353	2,558,166
Total equity and liabilities		1,218,617	1,926,073	3,673,579	4,019,091
Net current liabilities		(257,449)	(258,381)	(1,074,413)	(1,064,857)
Total assets less current liabilities		759,728	1,387,378	1,786,677	2,365,268

Balance sheets

	Note	As at December 31, 2007	As at December 31, 2008	As at December 31, 2009	As at April 30, 2010
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Investments in subsidiaries	11	447,285	447,285	447,285	447,285
Current assets					
Other receivables	13	287,361	658,673	741,283	716,807
Dividend receivable from a subsidiary		—	3,026	44,078	44,078
Cash and cash equivalents	14	5,391	4,200	27,758	2,958
Restricted cash	14	—	14,659	14,572	—
		292,752	680,558	827,691	763,843
Total assets		740,037	1,127,843	1,274,976	1,211,128
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	15	96,811	96,811	97,623	98,634
Share premium	15	662,636	662,636	672,775	687,922
Share options reserves	16	5,228	6,708	5,439	686
Accumulated losses	18	(26,145)	(50,705)	(211,977)	(263,254)
Total equity		738,530	715,450	563,860	523,988
LIABILITIES					
Non-current liabilities					
Borrowings	19	—	371,269	77,258	503,671
Warrants classified as liabilities	20	—	32,908	—	—
		—	404,177	77,258	503,671
Current liabilities					
Other payables		1,507	8,216	10,790	12,811
Borrowings	19	—	—	623,068	170,658
		1,507	8,216	633,858	183,469
Total liabilities		1,507	412,393	711,116	687,140
Total equity and liabilities		740,037	1,127,843	1,274,976	1,211,128
Net current assets		291,245	672,342	193,833	580,374
Total assets less current liabilities		738,530	1,119,627	641,118	1,027,659

Consolidated statements of comprehensive income

	Note	Year ended December 31,			Four months ended April 30,	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	5	525,929	866,126	1,516,766	349,421	675,309
Cost of sales	24	(350,165)	(556,073)	(878,087)	(198,537)	(429,710)
Gross profit		175,764	310,053	638,679	150,884	245,599
Selling and marketing expenses	24	(9,796)	(12,018)	(15,064)	(4,745)	(6,082)
Administrative expenses	24	(29,038)	(55,224)	(77,846)	(16,778)	(24,912)
Other income	26	35,708	40,617	71,526	8,546	28,444
Other gains/(losses) — net	27	2,273	(184)	(1,057)	50	(513)
Operating profit		174,911	283,244	616,238	137,957	242,536
Finance income	28	1,572	2,600	1,190	347	138
Finance costs						
— Loss on redemption of warrants	28	—	—	(168,451)	—	—
— Other finance costs	28	(26,210)	(28,115)	(73,830)	(39,855)	(58,582)
Finance costs — net		(24,638)	(25,515)	(241,091)	(39,508)	(58,444)
Profit before income tax		150,273	257,729	375,147	98,449	184,092
Income tax expense	29	—	(11,566)	(44,687)	(7,626)	(29,798)
Profit for the year/period		150,273	246,163	330,460	90,823	154,294
Other comprehensive income		—	—	—	—	—
Total comprehensive income for the year/period		150,273	246,163	330,460	90,823	154,294
Attributable to						
— Equity holders of the Company		150,273	246,163	330,460	90,823	153,074
— Non-controlling interests		—	—	—	—	1,220
Earnings per share for profit attributable to the equity holders of the Company during the year/period (expressed in Renminbi per share)						
Basic earnings per share	30(a)	2.35	3.84	5.12	1.42	2.36
Diluted earnings per share	30(b)	2.33	3.83	5.07	1.42	2.34
Dividends		—	—	—	—	—

Consolidated statements of changes in equity

	Note	Attributable to equity holders of the Company								
		Share capital	Share premium	Reverse acquisition reserve	Share options reserve	Statutory reserve	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007		96,191	655,370	(341,304)	4,646	20,463	88,334	523,700	—	523,700
Profit for the year	18	—	—	—	—	—	150,273	150,273	—	150,273
Transfer to statutory reserve	18	—	—	—	—	15,957	(15,957)	—	—	—
Share options scheme		—	—	—	1,962	—	—	1,962	—	1,962
Proceeds from shares issued	15	620	7,266	—	(1,380)	—	—	6,506	—	6,506
At December 31, 2007		96,811	662,636	(341,304)	5,228	36,420	222,650	682,441	—	682,441
At January 1, 2008		96,811	662,636	(341,304)	5,228	36,420	222,650	682,441	—	682,441
Profit for the year	18	—	—	—	—	—	246,163	246,163	—	246,163
Transfer to statutory reserve	18	—	—	—	—	26,743	(26,743)	—	—	—
Share options scheme		—	—	—	1,480	—	—	1,480	—	1,480
At December 31, 2008		96,811	662,636	(341,304)	6,708	63,163	442,070	930,084	—	930,084
At January 1, 2009		96,811	662,636	(341,304)	6,708	63,163	442,070	930,084	—	930,084
Profit for the year	18	—	—	—	—	—	330,460	330,460	—	330,460
Transfer to statutory reserve	18	—	—	—	—	54,977	(54,977)	—	—	—
Share options scheme		—	—	—	1,161	—	—	1,161	—	1,161
Proceeds from shares issued	15	812	10,139	—	(2,430)	—	—	8,521	—	8,521
Capital contribution from non-controlling interests	35	—	—	—	—	—	—	—	25,000	25,000
At December 31, 2009		97,623	672,775	(341,304)	5,439	118,140	717,553	1,270,226	25,000	1,295,226
At January 1, 2010		97,623	672,775	(341,304)	5,439	118,146	717,553	1,270,226	25,000	1,295,226
Profit for the period	18	—	—	—	—	—	153,074	153,074	1,220	154,294
Share options scheme		—	—	—	285	—	—	285	—	285
Proceeds from shares issued	15	1,011	15,147	—	(5,038)	—	—	11,120	—	11,120
At April 30, 2010		98,634	687,922	(341,304)	686	118,140	870,627	1,434,705	26,220	1,460,925

	Attributable to equity holders of the Company						
	Share capital	Share premium	Reverse acquisition reserve	Share options reserve	Statutory reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Unaudited:							
At January 1, 2009	96,811	662,636	(341,304)	6,708	63,163	442,070	930,084
Profit for the period	—	—	—	—	—	90,823	90,823
Share options scheme	—	—	—	328	—	—	328
Proceeds from shares issued	143	1,669	—	(317)	—	—	1,495
At April 30, 2009	96,954	664,305	(341,304)	6,719	63,163	532,893	1,022,730

Consolidated cash flow statements

	Note	Year ended December 31,			Four months ended April 30,	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Cash flows from operating activities						
Cash generated from operations	31	196,145	349,709	696,738	256,201	335,247
Interest paid		(25,176)	(26,617)	(57,975)	(21,540)	(40,954)
Income tax paid		—	—	(19,087)	(5,425)	(32,721)
Net cash generated from operating activities		170,969	323,092	619,676	229,236	261,572
Cash flows from investing activities						
Proceeds from disposal of property, plant and equipment	31	2,172	138	1,899	—	684
Interest received		1,572	1,023	803	340	138
Acquisition of subsidiary, net of cash acquired	34	—	—	(120,922)	—	—
Holding deposit for a potential acquisition	13	—	—	(100,000)	—	—
Purchase of property, plant and equipment		(345,515)	(603,246)	(599,998)	(250,930)	(374,800)
Purchase of land use rights		(1,124)	(61,731)	(27,398)	—	—
Purchase of mining rights	8	(12,500)	(4,107)	(1,807)	—	—
Purchase of other intangible assets	9	—	—	(80)	—	—
Net cash used in investing activities		(355,395)	(667,923)	(847,503)	(250,590)	(373,978)
Cash flows from financing activities						
Proceeds from issuance of ordinary shares		6,506	—	8,521	1,495	11,120
Proceeds from bank borrowings		231,850	625,104	1,066,205	180,000	529,832
Proceeds from other borrowings		4,162	10,031	8,374	911	—
Decrease/(Increase) in restricted cash	14	(21,768)	(11,663)	16,417	4,221	10,167
Repayments of bank borrowings		(162,354)	(260,400)	(302,848)	(103,000)	(598,447)
Repayments of other borrowings		(36,362)	(11,200)	(53,167)	(1,167)	(132,800)
Redemption of the warrants	20	—	—	(206,455)	—	—
Net cash generated from/(used in) financing activities		22,034	351,872	537,047	82,460	(180,128)
Net (decrease)/ increase in cash and cash equivalents		(162,392)	7,041	309,220	61,106	(292,534)
Cash and cash equivalents at beginning of year/period	14	192,389	29,997	37,038	37,038	346,258
Cash and cash equivalents at end of year/period	14	29,997	37,038	346,258	98,144	53,724

II. NOTES TO THE FINANCIAL INFORMATION

1. General information

West China Cement Limited (the "Company") and its subsidiaries (together the "Group") is principally engaged in the production and sale of cement.

The Company was incorporated on October 16, 2006 in Jersey under the Companies (Jersey) Law 1991. The address of the registered office is 47 Esplanade, St Helier, Jersey JE1 0BD and the principal place of business is Unit 1903, Tower A, Gaoke Plaza, 4th Gaoxin Road, Xi'an Hi-Tech Industrial Development Zone, Xi'an, Shaanxi Province, the People's Republic of China (the "PRC").

The Company is an investment holding company. As at the date of this report, the Company has direct or indirect interests in the following subsidiaries:

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
			%	%	
(a) Enterprise incorporated outside the PRC					
West China Cement Co., Ltd. Δ ("West China BVI")	British Virgin Islands July 14, 2006	HKD7,800	100%	—	Investment holding
Faithful Alliance Limited Δ ("Faithful Alliance") 集誠有限公司	Hong Kong January 14, 2010	HKD100	—	100%	Investment holding
(b) Enterprises established by the Group and operating in the PRC					
Shaanxi Yaobai Special Cement Co., Ltd.* ("Shaanxi Yaobai") 陝西堯柏特種水泥有限公司	Shaanxi, PRC December 21, 2000	RMB530,000,000	—	100%	Production and sale of cement
Xi'an Lantian Yaobai Cement Co., Ltd.* ("Lantian Yaobai") 西安藍田堯柏水泥有限公司	Shaanxi, PRC December 16, 2005	RMB100,000,000	—	100%	Production and sale of cement
Ankang Yaobai Cement Co., Ltd.* ("Ankang Yaobai") 安康堯柏水泥有限公司	Shaanxi, PRC April 12, 2007	RMB345,000,000	—	100%	Production and sale of cement
Hanzhong Yaobai Cement Co., Ltd.* ("Hanzhong Yaobai") 漢中堯柏水泥有限公司	Shaanxi, PRC July 10, 2008	RMB135,000,000	—	100%	Production and sale of cement
Hanzhong Mianxian Yaobai Cement Co., Ltd.* ("Mianxian Yaobai") 漢中勉縣堯柏水泥有限公司	Shaanxi, PRC December 22, 2008	RMB140,000,000	—	100%	Production and sale of cement
Xi'an Yaobai Material Co., Ltd.* ("Xi'an Yaobai") 西安市堯柏物資有限公司	Shaanxi, PRC July 27, 2009	RMB35,000,000	—	100%	Purchase and sale of raw materials

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
			%	%	
Hanzhong Xixiang Yaobai Cement Co., Ltd.* ("Xixiang Yaobai") 漢中西鄉堯柏水泥有限公司	Shaanxi, PRC August 11, 2009	RMB21,000,000	—	100%	Production and sale of cement
Shangluo Yaobai Longqiao Cement Co., Ltd.Δ ("Longqiao Yaobai") 商洛堯柏龍橋水泥有限公司	Shaanxi, PRC December 31, 2009	RMB75,000,000	—	80%	Production and sale of cement
(c) The subsidiary acquired by the Group in August 2009 and its operation is in the PRC					
Shangluo Yaobai Xiushan Cement Co., Ltd.* ("Xiushan Yaobai") 商洛堯柏秀山水泥有限公司	Shaanxi, PRC March 25, 2005	RMB20,000,000	—	100%	Production and sale of cement

Δ No statutory audited financial statements

* The statutory financial statements of the companies were audited by Xi'an Xigema Certified Public Accountants Co, Ltd. (西安希格瑪會計師事務所有限責任公司).

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The Financial Information of the Company has been prepared in accordance with IFRSs.

The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial instruments at fair value through profit or loss.

The preparation of the Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the directors to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

Standards, amendments and interpretations that have been issued but are not yet effective and have not been early adopted by the Group for the Relevant Periods are as follows:

	Effective for accounting periods beginning on or after
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010
IFRS 9 Financial Instruments	January 1, 2013

The application of these standards, amendments and interpretations is not expected to have a material effect on the Group's operating results or financial position.

Going concern basis

As at April 30, 2010, the Group's current liabilities exceeded its current assets by approximately RMB1,064,857,000. The Group's current liabilities mainly included bank borrowings, trade and other payables and advances from customers. The directors have prepared cash flow projections for the period from May 1, 2010 to September 30, 2011 and have assessed the compliance of loan covenants. (Note 3.1(c) and Note 37). The directors are of the opinion that, having taken into consideration of the expected cash flows and available financial resources of the Group, the Group has sufficient financial resources to meet its liabilities as and when they fall due in the foreseeable future. On the above basis, the directors believe that the Group will continue as going concern and consequently have prepared the Financial Information on a going concern basis.

2.2 Consolidation

The Financial Information includes the financial statements of the Company and its subsidiaries.

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of comprehensive income.

IFRS 3 (revised), 'Business combinations' is effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

No acquisitions have taken place in the 4 months to April 30, 2010 which would require this standard to be applied.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the Financial Information to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(b) *Transactions with non-controlling interests*

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group and are recorded in the consolidated statement of comprehensive income. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

The Group applied IAS 27 (revised) from January 1, 2010. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss.

There have been no transactions with non-controlling interests during the Relevant Periods.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the directors that makes strategic decisions.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Renminbi ("RMB"), which is the functional and the presentation currency of the Company and the subsidiaries.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other gains/(losses) - net'.

Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss.

2.5 Property, plant and equipment ("PPE")

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and provision for any impairment in value. Historical cost includes its purchase price and any other expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the consolidated statement of comprehensive income during the period in which they are incurred.

Except for mining assets (see Note (a) and (b) below), depreciation on property and plant, motor vehicles, electronic and other equipment and machinery is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

— Property and plant	20 years
— Motor vehicles	8 years
— Electronic and other equipment	5 years
— Machinery	12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction in progress ("CIP") represents buildings, machinery and equipment on which construction work has not been completed. It is carried at cost which includes construction expenditure and other direct costs less any impairment loss. On completion, construction in progress is transferred to the appropriate categories of property, plant and equipment at cost. No depreciation is provided for construction in progress until it is completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains/(losses) - net", in the consolidated statement of comprehensive income.

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

(a) *Stripping costs*

Stripping costs incurred during the development of a limestone mine are capitalized into PPE. Stripping costs incurred during the production phase are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred. Capitalized stripping costs are depleted on a unit of production basis, using estimated resources as the depletion base.

(b) *Decommissioning, restoration and similar liabilities ("Asset retirement obligation" or "ARO")*

The Company recognizes provision for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and mineral assets under PPE, when those obligations result from the acquisition, construction, or normal operation of the assets. Initially, a provision for an asset retirement obligation is recognized as its present value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using the unit of production method. Following initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

2.6 Lease prepayments - land use rights

Lease prepayments represent payments made to acquire land use rights. Land use rights are stated at cost less accumulated amortization and impairment losses. Amortization of land use rights is charged to the consolidated statement of comprehensive income on a straight-line basis over the respective periods of the land use rights.

2.7 Mining rights

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

2.8 Other intangible assets

(a) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the acquisition date. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(b) *Computer software*

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire the specific software. These costs are amortized over five years.

(c) *Customer relationships*

Customer relationships acquired in a business combination are recognized at fair value at the acquisition date. Customer relationships have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationships.

2.9 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life, which are not subject to amortization, are tested annually for impairment and where there are indicators of impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each balance sheet date.

Impairment testing of investments in subsidiaries is required when a company becomes entitled to dividends from the investments and the dividend exceeds the total comprehensive income of the subsidiary in the period in which the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Financial Information of the investee's net assets including goodwill.

2.10 Financial assets - loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents' and 'restricted cash' in the balance sheet (Note 2.12, 2.13 and 2.14). Loans and receivables are carried at amortized cost using the effective interest method.

2.11 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses and costs to complete.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.14 Restricted cash

Restricted cash is short-term cash deposits held in a separate reserve account to be used only for a specific purpose. These monies are pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee; and as security deposits under bank borrowing agreement. Restricted cash cannot be withdrawn until the relevant trade facilities or loan are repaid.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs that are directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to be ready for their intended use or sale are capitalized as part of the costs of the assets. All other borrowing costs are expensed.

2.18 Derivative

Derivative financial instrument are recognized at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement of fair value is charged immediately to the consolidated statement of comprehensive income.

2.19 Current and deferred income tax

The tax expense for the Relevant Periods comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized directly in equity. In this case, the tax is recognized directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

(a) *Pension obligations*

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. The non-PRC employees are not covered by the pension plans.

(b) *Housing benefits*

The PRC employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by the housing benefits.

(c) *Share-based compensation*

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the options is recognized as an expense on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. These share-based payments are measured at fair value at the date of grant. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognizes the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income with a corresponding adjustment to equity.

For equity-settled transactions with non-employees, the costs are recognized through the consolidated statement of comprehensive income (or where they relate to issue costs, taken against the share premium account if appropriate) with measurement based on the fair value of goods or services received.

2.21 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are recognized in the consolidated statement of comprehensive income they are intended to compensate on a systematic basis, which otherwise, grants with no future related costs are recognized in the statement of comprehensive income over the periods in which the Group recognizes the costs they are intended to compensate on receipt basis.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the related assets.

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sale of goods*

The Group produces and sells cement products to customers in the Shaanxi Province of the PRC. Customers include distributors, constructors and property development companies. Sales of goods are recognized when a group entity has delivered products and transferred the significant risks and rewards of ownership of the product to the customers, when there is no unfulfilled obligation that could affect the customers' acceptance of the products, and collectability of the related receivables is reasonably assured.

(b) *Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2.23 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

2.25 Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, the outflow of benefits is then recognized as a provision.

3. Financial risk management

The Group's major financial instruments include cash and bank deposits, trade and other receivables and prepayments, trade and other payables, borrowings, other liabilities and warrants classified as liabilities. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how the Group mitigates these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) *Market risk*

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollar. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The Group does not hedge against any fluctuation in foreign currency.

At December 31, 2007, the Group did not have significant assets or liabilities denominated in foreign currency.

At December 31, 2008, if RMB had weakened/strengthened by 1% against US$ with all other variables held constant, post-tax profit for the year would have been approximately RMB3,562,000 lower/higher, mainly as a result of foreign exchange losses/gains on translation of US$-denominated borrowings and related warrants.

At December 31, 2009, if RMB had weakened/strengthened by 1% against US$ with all other variables held constant, post-tax profit for the year would have been approximately RMB6,634,000 lower/higher, mainly as a result of foreign exchange losses/gains on translation of US$-denominated borrowings.

At April 30, 2010, if RMB had weakened/strengthened by 1% against US$ with all other variables held constant, post-tax profit for the period would have been approximately RMB6,742,000 lower/higher mainly as a result of foreign exchange losses/gains on translation of US$-denominated borrowings.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from short-term and long-term borrowings. Short-term borrowings are issued at variable floating rates and expose the Group to cash flow interest-rate risk. Long-term borrowings are issued at fixed rates and expose the Group to fair value interest-rate risk. The group does not have formal policies on interest rate risk. During the Relevant Periods, the Group's borrowings at variable rate were denominated in RMB and the US dollar (Note 19).

The Group's long-term borrowings and loans to subsidiaries were issued at fixed rates and interest free respectively, and expose the Group to fair value interest-rate risk (Note 19).

At December 31, 2007, 2008, 2009 and April 30, 2010, if interest rates on borrowings had been 10 percent higher/lower with all other variables held constant, post-tax profit for the year/period would have been approximately RMB2,214,000, RMB2,567,000, RMB2,649,000 and RMB2,042,000 lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowing.

(b) *Credit risk*

The Group's credit risk is primarily attributable to its trade receivables. The Group has adopted a policy of only dealing with creditworthy counterparties. The credit risk on trade receivables is low. Based on past experience, the customer payment default rate is low.

The Group has no significant concentration of credit risk, with exposure spread over a large number of customers. Ongoing credit evaluation is performed on accounts receivable balances. The Group does not hold any collateral for trade and other receivables.

(c) *Liquidity risk*

The directors of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financing including short-term and long-term bank loans and issuance of new ordinary shares to meet its construction commitments. Due to the dynamic nature of the underlying business, the Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through ensuring availability of appropriate sources of financing.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity grouping, based on the remaining period from the balance sheet date to the contractual maturity date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
At December 31, 2007					
Borrowings	272,353	28,000	35,800	—	336,153
Trade and other payables	173,355	—	—	—	173,355
Other liabilities	—	1,900	11,100	487	13,487
	445,708	29,900	46,900	487	522,995
At December 31, 2008					
Borrowings	269,184	445,876	—	—	715,060
Warrants classified as liabilities	—	46,593	—	—	46,593
Trade and other payables	241,379	—	—	—	241,379
Other liabilities	—	3,700	7,400	487	11,587
	510,563	496,169	7,400	487	1,014,619
At December 31, 2009					
Borrowings	1,288,868	254,888	135,000	—	1,678,756
Trade and other payables	532,421	—	—	—	532,421
Other liabilities	—	73,860	3,700	487	78,047
	1,821,289	328,748	138,700	487	2,289,224
At April 30, 2010					
Borrowings	719,658	662,113	102,000	—	1,483,771
Trade and other payables	878,553	—	—	—	878,553
Other liabilities	—	101,993	3,700	—	105,693
	1,598,211	764,106	105,700	—	2,468,017

The Group has entered into a loan agreement for syndicated bank borrowings of RMB330,000,000. The agreement stipulates a capital expenditures limit for the six months ended June 30, 2010 (the "Limit"). During the four months ended April 30, 2010, the Group's capital expenditure incurred exceeded the Limit. As at April 30, 2010, the carrying amount of the syndicated bank borrowings was RMB320,665,000 which comprises current portion amounting to RMB99,000,000 and non-current portion of RMB221,665,000. The Group has obtained a waiver letter dated July 21, 2010 from the facility agent representing the lenders confirming that they had granted the Group a waiver from compliance with the Limit by April 30, 2010. This is sufficient pursuant to the agreement for the Limit to be waived, and therefore the non-current bank borrowings of RMB221,665,000 have not been reclassified as current bank borrowings. The waiver received in connection with the syndicated loan also means that capital expenditure in excess of the Limit do not trigger any cross default events of other borrowings.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents and restricted cash. Total capital is calculated as net debt plus equity as shown in the consolidated balance sheet.

The gearing ratios at December 31, 2007, 2008, 2009 and April 30, 2010 were as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Total borrowings and warrants (Note 19 and 20)	336,153	709,161	1,648,926	1,465,994
Less: Cash and cash equivalents and restricted cash (Note 14)	(54,333)	(73,037)	(365,840)	(63,139)
Net debt	281,820	636,124	1,283,086	1,402,855
Total equity	682,441	930,084	1,295,226	1,460,925
Total capital	964,261	1,566,208	2,578,312	2,863,780
Gearing ratio	29%	41%	50%	49%

The increase in the gearing ratio during 2008 resulted primarily from the new bank borrowing of US$ 60 million and accompanying warrants (Notes 19 and 20). The bank borrowings in 2008 were specifically used for the construction of Ankang Yaobai. The increase in the gearing ratio during 2009 resulted primarily from the new bank borrowings of US$50 million and RMB330 million (Note 19). The bank borrowings in 2009 were mainly used for redemption of the warrant, the construction of new plants and working capital funding. As the cement industry is a capital intensive industry and the competition is fierce, the directors consider it reasonable to increase the gearing ratio to support the high growth of the Group.

3.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date, quoted market prices or dealer quotes for similar instruments or estimated discounted cash flows.

The carrying amounts of trade and other receivables, trade and other payables, and current borrowings approximate to their fair value due to their short term maturity.

The fair values of non-current borrowings and warrants classified as liabilities are estimated by discounting the future cash flows at the current market interest rate available to the Group for similar financial instruments.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The directors make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) *Carrying value of non-current assets*

Non-current assets, including property, plant and equipment, land use rights, mining rights and other intangible assets, are carried at cost less accumulated depreciation/amortization. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts are revised, and this may have an impact on the Group's results of operations or financial position.

(b) *Useful lives of property, plant and equipment*

The directors determine the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. These estimates may change in the future as a result of technical innovations and competitor actions. The directors will increase depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) *Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units to which goodwill has been allocated have been determined based on fair value less costs to sell using the purchase price paid in August 2009 as the estimate of fair value. The purchase price assumed that economies of scale would be achieved from combining the acquired business with the Group's existing activities. If these economies of scale are not achieved then an impairment of goodwill may arise in future years.

(d) *Income tax*

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the year in which such determination is made.

(e) *Fair value of derivatives and other financial instruments*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for various financial instruments that are not traded in active markets.

(f) *Allowance for bad and doubtful debts*

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customers' current credit-worthiness, as determined by a review of current credit information.

(g) *Estimated impairment of inventories*

The Group writes down inventories to net realizable value based on an assessment of the realizability of inventories. The assessment of write-downs requires the directors' judgment and estimates. Where expectation is different from an original estimate, the difference will impact the carrying values of inventories and may result in write-downs of inventories in the period in which such estimates have been changed.

(h) *Environmental provision*

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, the Group is presently not involved in any environmental remediation and has not incurred any amounts for environmental remediation relating to its operations. The environmental provision is based on the directors' best estimate in accordance with the information provided by a third party (Note 21). Under existing legislation, the directors believe that there are no further probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, may move further towards the adoption of more stringent environmental standards, which could require increased expenditure in the future.

(i) *Operating licenses*

The Group's licences to operate at each of mines expire at various dates from August 2010 to December 2022. Management believes that the Group will be able to renew these licenses at their option and at minimal cost, provided the Group complies with the terms of the license. The useful life of some of the Group's tangible and intangible assets would be reduced and the Group's operation results would be affected accordingly if any licenses could not be renewed.

5. Revenue and segment information

The Group's subsidiaries are engaged in the production and sale of cement. The chief operating decision maker reviews the results of individual plants to make decisions about the allocation of resources. These have similar economic characteristics and are therefore presented as a single reportable segment in these financial statements. All of the revenue and operating results of the Group is derived in Shaanxi Province, the PRC. The revenue represents the sale of cement during the Relevant Periods.

6. **Property, plant and equipment**

Group	Property and plant	Motor Vehicles	Electronic and other equipment	Machinery	Mining Assets	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007							
Cost	171,305	4,503	2,094	222,250	20,066	300,461	720,679
Accumulated depreciation	(39,452)	(1,108)	(945)	(55,973)	(2,302)	—	(99,780)
Net book amount	131,853	3,395	1,149	166,277	17,764	300,461	620,899
Year ended December 31, 2007							
Opening net book amount	131,853	3,395	1,149	166,277	17,764	300,461	620,899
Transfer in from CIP	167,324	—	—	304,653	9,389	(481,366)	—
Additions	263	7,795	3,096	3,568	17,180	356,409	388,311
Disposals	(1,356)	(381)	(537)	(323)	—	—	(2,597)
Depreciation	(13,199)	(1,153)	(693)	(28,873)	(1,188)	—	(45,106)
Closing net book amount	284,885	9,656	3,015	445,302	43,145	175,504	961,507
At December 31, 2007							
Cost	336,670	11,296	4,596	529,031	46,635	175,504	1,103,732
Accumulated depreciation	(51,785)	(1,640)	(1,581)	(83,729)	(3,490)	—	(142,225)
Net book amount	284,885	9,656	3,015	445,302	43,145	175,504	961,507
Year ended December 31, 2008							
Opening net book amount	284,885	9,656	3,015	445,302	43,145	175,504	961,507
Transfer in from CIP	8,261	—	31	60,456	—	(68,748)	—
Additions	796	2,231	754	6,363	15,510	616,183	641,837
Disposals	—	(183)	—	(29)	—	—	(212)
Depreciation	(16,597)	(1,591)	(844)	(41,014)	(2,553)	—	(62,599)
Closing net book amount	277,345	10,113	2,956	471,078	56,102	722,939	1,540,533
At December 31, 2008							
Cost	345,727	13,103	5,382	595,809	62,145	722,939	1,745,105
Accumulated depreciation	(68,382)	(2,990)	(2,426)	(124,731)	(6,043)	—	(204,572)
Net book amount	277,345	10,113	2,956	471,078	56,102	722,939	1,540,533
Year ended December 31, 2009							
Opening net book amount	277,345	10,113	2,956	471,078	56,102	722,939	1,540,533
Acquisition of a subsidiary (Note 34)	69,827	1,905	3,809	52,308	11,500	1,126	140,475
Transferred in and contributed from minority equity holder of a subsidiary (Note 35)	176,591	1,869	4,827	153,939	—	—	337,226
Transfer in from CIP	291,232	—	—	487,695	85,923	(864,850)	—
Additions	1,108	9,902	7,813	5,319	7,878	665,662	697,682
Disposals	(1,962)	(2,093)	(65)	(512)	—	—	(4,632)
Depreciation	(15,404)	(2,061)	(2,548)	(72,902)	(6,867)	—	(99,782)
Closing net book amount	798,737	19,635	16,792	1,096,925	154,536	524,877	2,611,502

Group	Property and plant	Motor Vehicles	Electronic and other equipment	Machinery	Mining Assets	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2009							
Cost	874,493	23,511	21,742	1,293,466	167,446	524,877	2,905,535
Accumulated depreciation	(75,756)	(3,876)	(4,950)	(196,541)	(12,910)	—	(294,033)
Net book amount	798,737	19,635	16,792	1,096,925	154,536	524,877	2,611,502
Four months ended April 30, 2010							
Opening net book amount	798,737	19,635	16,792	1,096,925	154,536	524,877	2,611,502
Transfer in from CIP	98,105	386	23,577	248,335	33,316	(403,719)	—
Additions	121	2,890	3,278	8,826	—	563,669	578,784
Disposals	—	(1,101)	—	—	—	—	(1,101)
Depreciation	(17,404)	(1,053)	(3,422)	(37,956)	(1,271)	—	(61,106)
Closing net book amount	879,559	20,757	40,225	1,316,130	186,581	684,827	3,128,079
At April 30, 2010							
Cost	972,719	25,686	48,597	1,550,627	200,762	684,827	3,483,218
Accumulated depreciation	(93,160)	(4,929)	(8,372)	(234,497)	(14,181)	—	(355,139)
Net book amount	879,559	20,757	40,225	1,316,130	186,581	684,827	3,128,079

The carrying amounts of the Group's construction in progress included capitalized interest of RMB513,000, RMB39,607,000, RMB40,789,000 and RMB10,017,000 (Note 28) for the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 respectively.

Interest was capitalized at a weighted average effective interest rate of 12%, 19%, 13% and 9% for the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 respectively (Note 28).

Certain items within property, plant and equipment with aggregated carrying amounts of RMB430,296,000, RMB389,109,000, RMB1,627,328,000 and RMB1,423,384,000 for the years ended 2007, 2008, 2009 and four months ended April 30, 2010 respectively were pledged to banks for securing borrowings (Note 19).

Depreciation of property, plant and equipment has been charged to cost of sales, administrative expenses and capitalized in construction in progress as follows:

	Year ended December 31			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cost of sales	42,307	57,496	92,035	17,786	58,111
Administrative expenses	2,346	4,821	7,251	3,175	2,841
Capitalized in construction in progress (Note (a))	453	282	496	68	154
	45,106	62,599	99,782	21,029	61,106

Note (a)

The depreciation of certain items of property, plant and equipment charged during the course of plant construction was capitalized in construction in progress.

7. **Land use rights**

Group

	RMB'000
At January 1, 2007	
Cost	15,068
Accumulated amortization	(833)
Net book amount	14,235
Year ended December 31, 2007	
Opening net book amount	14,235
Additions	3,775
Amortization charges	(204)
Closing net book amount	17,806
At December 31, 2007	
Cost	18,843
Accumulated amortization	(1,037)
Net book amount	17,806
Year ended December 31, 2008	
Opening net book amount	17,806
Additions	59,081
Amortization charges	(366)
Closing net book amount	76,521
At December 31, 2008	
Cost	77,924
Accumulated amortization	(1,403)
Net book amount	76,521
Year ended December 31, 2009	
Opening net book amount	76,521
Additions	27,397
Acquisition of a subsidiary (Note 34)	6,924
Contributed by a minority equity holder of a subsidiary (Note 35)	15,165
Amortization charges	(1,436)
Closing net book amount	124,571
At December 31, 2009	
Cost	127,410
Accumulated amortization	(2,839)
Net book amount	124,571
Four months ended April 30, 2010	
Opening net book amount	124,571
Additions	54,375
Amortization charges	(534)
Closing net book amount	178,412
At April 30, 2010	
Cost	181,785
Accumulated amortization	(3,373)
Net book amount	178,412

Certain land use rights with aggregate carrying amounts of RMB7,556,000, nil, RMB41,527,000 and RMB38,763,000 for the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 respectively were pledged to secure bank borrowings (Note 19) to the Group.

Land use rights are amortized over periods ranging between 36 years to 50 years.

8. Mining rights

Group

	RMB'000
Year ended December 31, 2007	
Opening net book amount	—
Additions	25,500
Amortization charges	—
Closing net book amount	25,500
At December 31, 2007	
Cost	25,500
Accumulated amortization	—
Net book amount	25,500
Year ended December 31, 2008	
Opening net book amount	25,500
Additions	4,107
Amortization charges	(1,700)
Closing net book amount	27,907
At December 31, 2008	
Cost	29,607
Accumulated amortization	(1,700)
Net book amount	27,907
Year ended December 31, 2009	
Opening net book amount	27,907
Additions	1,807
Acquisition of a subsidiary (Note 34)	5,250
Transfer in from minority equity holder of a subsidiary (Note 35)	12,930
Amortization charges	(1,521)
Closing net book amount	46,373
At December 31, 2009	
Cost	49,594
Accumulated amortization	(3,221)
Net book amount	46,373
Four months ended April 30, 2010	
Opening net book amount	46,373
Amortization charges	(692)
Closing net book amount	45,681
At April 30, 2010	
Cost	49,594
Accumulated amortization	(3,913)
Net book amount	45,681

Mining rights are granted from the respective Land and Resource Bureaus in Shaanxi Province. The useful lives of the mining rights range from 10 years to 40 years.

For the mining right of RMB25,500,000, it was acquired in December 2007, and the related exploitation commenced in 2008. Amortization of mining rights is calculated on a unit of production method, and thus no amortization was made in 2007.

9. Other intangible assets

Group

	Goodwill	**Customer relationships**	**Computer software**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At January 1, 2007, December 31, 2007 and 2008				
Cost	—	—	45	45
Accumulated amortization	—	—	(45)	(45)
Net book amount	—	—	—	—
Year ended December 31, 2009				
Opening net book amount	—	—	—	—
Additions	—	—	80	80
Acquisition of a subsidiary (Note 34)	45,274	20,610	—	65,884
Amortization charges	—	(859)	(1)	(860)
Closing net book amount	45,274	19,751	79	65,104
At December 31, 2009				
Cost	45,274	20,610	80	65,964
Accumulated amortization	—	(859)	(1)	(860)
Net book amount	45,274	19,751	79	65,104
Four months ended April 30, 2010				
Opening net book amount	45,274	19,751	79	65,104
Amortization charges	—	(687)	(4)	(691)
Closing net book amount	45,274	19,064	75	64,413
At April 30, 2010				
Cost	45,274	20,610	80	65,964
Accumulated amortization	—	(1,546)	(5)	(1,551)
Net book amount	45,274	19,064	75	64,413

The customer relationships amounting to RMB20,610,000 are non-contractual customer relationships acquired through the acquisition of Xiushan Yaobai. In the past few years, Xiushan Yaobai has provided cement service for some large companies. Management estimated the Group will keep their business relationship with some or all of the existing customers in the future. It is believed by the management that the customer relationships will bring in net future cash flows to the Group, and is thus identified as an intangible asset. They are amortized over a period of 10 years, which the directors believe is the period over which the Group can retain the customers.

The goodwill arising on the acquisition of Xiushan Yaobai in 2009 was tested for impairment at the end of the year. The impairment test was carried out using fair value less costs to sell and no impairment was identified as being necessary. Management believes that the fair value of the subsidiary has not fallen since the acquisition.

10. Deferred income tax

Group

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:				
— to be recovered after more than 12 months . .	—	—	8,874	8,874
— to be recovered within 12 months.	12,364	798	4,666	4,666
	12,364	798	13,540	13,540
Deferred tax liabilities:				
— to be settled after more than 12 months	—	—	(7,366)	(7,366)
— to be settled within 12 months.	—	—	(713)	(713)
	—	—	(8,079)	(8,079)

Deferred tax assets:

	Unused tax credit Note(a)	Allowance & provision	Deferred income	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007 and December 31, 2007.	11,342	1,022	—	—	12,364
Charged to the consolidated statement of comprehensive income	(11,342)	(224)	—	—	(11,566)
At December 31, 2008	—	798	—	—	798
Credited to the consolidated statement of comprehensive income	—	2,679	9,357	706	12,742
At December 31, 2009 and April 30, 2010.	—	3,477	9,357	706	13,540

(a) Unused tax credit represents the remaining balance of deferred tax assets arising from acquiring domestic equipment on an investment project.

Deferred tax liabilities:

	Assets booked at fair value on acquisition
	RMB'000
At December 31, 2008	—
Acquisition of a subsidiary (Note 34)	(8,376)
Credited to the consolidated statement of comprehensive income	297
At December 31, 2009 and April 30, 2010	(8,079)

11. Investments in subsidiaries

Company

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investment	447,285	447,285	447,285	447,285

Unlisted investment represents the investment cost of acquiring West China BVI (Note 17).

12. Inventories

Group

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
Raw materials	28,856	51,719	81,751	87,346
Work in progress	10,515	18,585	23,618	40,943
Finished goods	8,411	13,332	25,739	17,473
	47,782	83,636	131,108	145,762
Provision for impairment loss:				
Raw materials	(2,129)	(2,129)	(2,129)	(2,129)
Inventories, net	45,653	81,507	128,979	143,633

The cost of inventories recognized as an expense and included in 'cost of sales' amounted to approximately RMB281,968,000, RMB467,713,000, RMB742,513,000 and RMB348,088,000 for the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 respectively.

13. Trade and other receivables and prepayments

Group

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Bills receivable	4,350	5,719	5,370	10,350
Trade receivables (Note (a))	56,006	69,291	95,676	92,598
Less: provision for impairment of receivables (Note (c))	(2,800)	(3,465)	(4,881)	(4,881)
	57,556	71,545	96,165	98,067
Other receivables (Note (b))	25,120	28,964	54,975	40,045
Holding deposit for a potential acquisition (Note (d))	—	—	100,000	100,000
Less: provision for impairment of receivables (Note (c))	(191)	(414)	(370)	(370)
	24,929	28,550	154,605	139,675
Prepayments	18,969	25,675	66,900	144,452
Trade and other receivables and prepayments — net	101,454	125,770	317,670	382,194

The carrying amounts of trade and other receivables and prepayments approximate to their fair values.

Note (a)

Trade receivables are all due from third parties. The ageing analysis of trade receivables at the respective balance sheet dates is as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	42,209	45,340	64,220	63,518
Over 90 days and within 180 days	4,189	12,651	9,198	15,598
Over 180 days and within 360 days	3,801	4,880	6,947	6,906
Over 360 days and within 720 days	1,607	2,923	11,365	3,546
Over 720 days	4,200	3,497	3,946	3,030
	56,006	69,291	95,676	92,598

The average credit period taken on sale of goods is between 60-90 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sale of goods. This provision has been determined by reference to past default experience.

As at December 31, 2007, 2008, 2009 and April 30, 2010 respectively, trade receivables of RMB2,800,000, RMB3,465,000, RMB4,881,000 and RMB4,881,000 were impaired.

As at December 31, 2007, 2008, 2009 and April 30, 2010, the trade receivables that were neither past due nor impaired were RMB40,208,000, RMB38,908,000, RMB59,296,000 and RMB53,913,000 respectively.

The ageing analysis of trade receivables overdue but not impaired is as follows:

	As at December 31,			As at April 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Overdue for 1 to 90 days	5,331	15,578	12,731	12,286
Overdue for 91 to 180 days	4,290	6,742	6,723	11,934
Overdue for 181 to 360 days	1,342	4,091	12,045	3,482
Overdue for 360 to 720 days	674	507	—	6,102
Overdue for 720 days	1,361	—	—	—
	12,998	26,918	31,499	33,804

Note (b)

Details of other receivables are as follows:

	As at December 31,			As at April 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Value-added tax, government incentive and income tax receivable	11,705	20,307	17,839	30,264
Receivable from minority equity holder of a subsidiary (Note 35(c))	—	—	30,000	—
Others	13,415	8,657	7,136	9,781
	25,120	28,964	54,975	40,045

Note (c)

Movements in impairment of trade receivables are as follows:

	Year ended December 31,			Four months ended April 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At beginning of the year/period	(4,007)	(2,800)	(3,465)	(4,881)
Provision for impairment of trade receivables	(1,776)	(691)	(1,416)	—
Receivables written off during the year/period as uncollectible	—	26	—	—
Reversal of impairment of trade receivables	2,983	—	—	—
At end of the year/period	(2,800)	(3,465)	(4,881)	(4,881)

Movements in impairment of other receivables are as follows:

	Year ended December 31,			Four months ended April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	—	(191)	(414)	(370)
Provision for impairment of other receivables	(191)	(486)	(190)	—
Reversal of impairment of other receivables	—	263	234	—
At end of the year/period	(191)	(414)	(370)	(370)

Impairment provision for trade and other receivables is charged to administrative expenses in the consolidated statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering of additional cash.

Note (d)

On October 31, 2009, Shaanxi Yaobai entered into a non-binding memorandum of understanding (the "MOU") for the proposed acquisition of 100% of the registered capital of Ankang Jianghua Cement Co. Ltd. (the "Target") (the "Proposed Acquisition"). The MOU was effective until December 31, 2009. As the deposit for the Proposed Acquisition, Shaanxi Yaobai made a payment of RMB 100 million without interest to the third party to secure exclusivity.

As no formal acquisition agreement for Proposed Acquisition was signed before December 31, 2009. On January 25, 2010, Shaanxi Yaobai entered into an extension agreement (the "Extension Agreement") with the Target, whereby the two parties agreed to extend the exclusive negotiation until December 31, 2010. The acquisition would be subject to legal and financial due diligence of the Target satisfactory to the Group. The Target will repay Shaanxi Yaobai the RMB 100 million deposit if the Company decides to cease the negotiation or Shaanxi Yaobai does not enter into formal acquisition agreement with the Target within the exclusive negotiation period.

Company

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from subsidiary undertakings (Note (a))	287,361	658,647	726,691	690,323
Others	—	26	14,592	26,484
	287,361	658,673	741,283	716,807

(a) Amounts due from subsidiary undertakings

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from West China BVI	189,143	410,063	417,866	417,873
Amounts due from Shaanxi Yaobai	98,218	248,584	308,825	272,450
	287,361	658,647	726,691	690,323

The amounts due from subsidiaries are unsecured, interest free and repayable on demand. The carrying amounts of loans to subsidiaries approximate to their fair value.

14. Cash and cash equivalents and restricted cash

Group

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand (Note (a))	54,333	73,037	365,840	63,139
Less: Restricted cash (Note (b))	(24,336)	(35,999)	(19,582)	(9,415)
Cash and cash equivalents	29,997	37,038	346,258	53,724

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand is denominated in:				
— RMB	24,598	32,832	318,497	50,693
— GBP	5,391	3,755	5,378	2,766
— US$	—	445	22,380	264
— HKD	8	6	3	1
	29,997	37,038	346,258	53,724
Restricted cash is denominated in:				
— RMB	24,336	21,340	5,010	9,415
— US$	—	14,659	14,572	—
	24,336	35,999	19,582	9,415

Company

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand (Note (a))	5,391	18,859	42,330	2,958
Less: restricted cash (Note (b))	—	(14,659)	(14,572)	—
Cash and cash equivalents	5,391	4,200	27,758	2,958

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand is denominated in:				
— GBP	5,391	3,755	5,378	2,766
— US$	—	445	22,380	192
	5,391	4,200	27,758	2,958

The restricted cash of the Company is all denominated in US$.

(a) *Bank deposits bear interests at rates based on bank deposit rates as agreed with banks for each of the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 respectively. The weighted average effective interest rate on deposits was 1.26%, 1.61%, 0.37% and 0.20% per annum for the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010, respectively.*

(b) *Restricted cash represents cash set aside as a result of issuance of trade facilities such as bills payable and bankers' guarantee, and a security deposit pledged to a bank under a bank borrowing agreement.*

(c) *Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.*

15. Share capital and premium

Group and Company

	Number of issued shares	Ordinary shares	Share premium	Total
	thousand	RMB'000	RMB'000	RMB'000
At January 1, 2007	63,688	96,191	655,370	751,561
Employee share option scheme:				
— proceeds from shares issued	425	620	7,266	7,886
At December 31, 2007 and 2008	64,113	96,811	662,636	759,447
Employee share option scheme:				
— proceeds from shares issued	749	812	10,139	10,951
At December 31, 2009	64,862	97,623	672,775	770,398
Employee share option scheme:				
— proceeds from shares issued	986	1,011	15,147	16,158
At April 30, 2010	65,848	98,634	687,922	786,556

On incorporation, the authorized share capital of the Company was GBP 10,000 divided into 10,000 ordinary shares of GBP 1 each.

On October 27, 2006, each ordinary share of GBP 1 was subdivided into 10 ordinary shares of 10p each and the authorized share capital of the Company was increased from GBP 10,000 to GBP 20,000,000 by the creation of an additional 199,900,000 ordinary shares of 10p each. The Company issued new ordinary shares of 42,735,965 pursuant to the acquisition of West China BVI. On December 4, 2006, the Company issued new ordinary shares of 20,952,381 of 10p each by way of placement on AIM.

The total authorized number of ordinary shares is 200 million shares with a par value of GBP 0.1 per share throughout the Relevant Periods. All issued shares are fully paid.

The balance in share premium represents the premium arising on the issue of ordinary shares to acquire West China BVI, the premium arising on the issue of ordinary shares on AIM of GBP 1.05 each, less expenses incurred and the premium arising on the exercise of share option.

Pursuant a shareholders' resolution dated July 20, 2010, each ordinary shares of GBP0.1 will be subdivided into 50 ordinary shares of GBP0.002 each, which will take effect upon Listing. Since the subdivision has not been effected at the date of this report, the number of shares and earnings per share as disclosed in this report have not taken into account the subdivision.

16. Share-based payment

Group and Company

Share options and warrants are granted to brokers, advisors and directors of the Company. The options and warrants are exercisable immediately or starting after two years from the grant date. The options and warrants have a contractual option term of three or five years. The Group has no legal or constructive obligation to repurchase or settle the options and warrants in cash. The existing share options and warrants will not be cancelled or replaced upon Listing.

Movements in the number of share options and warrants outstanding and their related weighted average exercise prices are as follows:

	Year ended December 31,						Four months ended April 30,	
	2007		2008		2009		2010	
	Average exercise price in GBP per share	Options (thousands)	Average exercise price in GBP per share	Options (thousands)	Average exercise price in GBP per share	Options (thousands)	Average exercise price in GBP per share	Options (thousands)
At beginning of the year/period	1.05	2,070	1.05	1,645	1.13	1,965	1.22	1,466
Granted	—	—	1.56	320	1.42	250	—	—
Exercised	1.05	(425)	—	—	1.05	(749)	1.10	(986)
At end of the year/period	1.05	1,645	1.13	1,965	1.22	1,466	1.49	480

The related weighted average share price in the market at the time of exercise in years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 was GBP 1.61, N/A, GBP 2.15 and GBP 6.50 per share respectively.

Share options and warrants outstanding at the end of the year/period have the following expiry dates and exercise prices:

		Options (thousands)			
		As at December 31,			As at April 30,
Expiry date	Exercise price in GBP per share	2007	2008	2009	2010
2009	1.05	849	849	—	—
2010	1.05	—	—	100	—
2011	1.05	796	796	796	—
2013	1.56	—	320	320	230
2014	1.42	—	—	250	250
		1,645	1,965	1,466	480

The weighted average fair value of options and warrants granted during years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 was N/A, GBP 0.26, GBP 0.64 and N/A per option, determined using the Black-Scholes valuation model. The significant inputs into the model were as follows:

	Year ended December 31,	
	2008	2009
Weighted average share price	GBP 0.96	GBP 1.39
Exercise price	GBP 1.56	GBP 1.42
Expected volatility	42%	51%
Expected dividend yield	0%	0%
Expected option life	5 years	5 years
Annual risk-free interest rate	4.09%	2.55%

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the past years.

17. Other reserves

Group

Reverse acquisition reserve

The acquisition of West China BVI by the Company on October 27, 2006 was accounted for as a reverse acquisition, in accordance with IFRS 3, 'Business Combinations'.

The Company became the legal parent of West China BVI by way of a share exchange agreement. According to the share exchange agreement, the shareholders of West China BVI transferred the entire issued share capital of West China BVI to the Company in consideration for 42,735,965 ordinary shares of GBP 10p each. This business combination is regarded as a reverse acquisition whereby West China BVI, the legal subsidiary, is the acquirer and has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities.

The reverse acquisition reserve represents the difference between the fair value and carrying amount of net assets of West China BVI at the acquisition date.

Statutory reserve

In accordance with relevant rules and regulations in the PRC and provision of the articles of association of the group companies established in the PRC, the group companies in the PRC are required to appropriate 10% of the profit-after-taxation determined under PRC Accounting Standards to the statutory reserve until the balances reach 50% of their respective paid-in capital. The reserve can be used to offset losses incurred or to increase their respective paid-in capital. Except for offset of losses incurred, any other usage should not result in the reserve balance falling below 25% of registered capital. The appropriation of statutory reserve is based on certain percentages of the companies' profit of the year, which is based on the figures reported in the statutory financial statements, so there was no appropriation to statutory reserve for the four months period ended April 30, 2010.

Dividends distribution

According to the relevant PRC regulations, retained earnings available for distribution by the Group's PRC subsidiaries should be the retained earnings recorded in the statutory financial statements that are prepared under the accounting principles and financial regulations applicable in the PRC.

China withholding tax ("WHT") for dividend paid to foreign investors

According to the PRC Corporate Income Tax law and the detailed implementation regulations, foreign shareholders are subject to a 10% WHT for the dividend repatriated by the Group's PRC subsidiaries starting from January 1, 2008. For certain treaty jurisdictions such as Hong Kong which has signed tax treaties with the PRC, the WHT rate is 5%.

According to Cai Shui [2008] Circular 1 jointly issued by the Ministry of Finance and the State Administration of Taxation of China on February 22, 2008, where the Group's PRC subsidiaries declare dividend in 2008 and beyond out of the cumulative retained earnings as at December 31, 2007 (i.e. 2007 retained earnings), such dividends earned by the foreign shareholders are exempted from WHT. For dividend which arises from the Group's PRC subsidiaries' profit earned after January 1, 2008, WHT is levied on the foreign shareholders.

18. Retained earnings/(accumulated losses)

Group

	Year ended December 31,			Four months ended April 30,	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Retained earnings:					
At beginning of the year/period	88,334	222,650	442,070	442,070	717,553
Profit for the year/period	150,273	246,163	330,460	110,904	153,074
Appropriation to statutory reserve (a)	(15,957)	(26,743)	(54,977)	—	—
At end of the year/period	222,650	442,070	717,553	552,974	870,627

Company

	Year ended December 31,			Four months ended April 30,	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Accumulated losses:					
At beginning of the year/period	(5,114)	(26,145)	(50,705)	(50,705)	(211,977)
Loss for the year/period	(21,031)	(24,560)	(161,272)	(13,340)	(51,277)
At end of the year/period	(26,145)	(50,705)	(211,977)	(64,045)	(263,254)

(a) The appropriation to statutory reserve is requested annually, and accordingly there is no transfer to statutory reserve in the four months ended April 30, 2010.

19. Borrowings

Group

	As at December 31,			As at April 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Non-current				
Bank borrowings-secured (Note (a))	88,800	430,069	704,522	994,994
Other borrowings (Note (b))	—	—	32,000	21,000
Less: Current portion of non-current borrowings	(25,000)	(23,000)	(376,464)	(269,658)
	63,800	407,069	360,058	746,336
Current				
Bank borrowings-secured (Note (a))	230,400	230,400	790,604	450,000
Other borrowings (Note (b))	16,953	15,784	121,800	—
Current portion of non-current borrowings	25,000	23,000	376,464	269,658
	272,353	269,184	1,288,868	719,658
Total borrowings	336,153	676,253	1,648,926	1,465,994

(a) Bank borrowings

The Group's bank borrowings are denominated in the following currencies:

	As at December 31,			As at April 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
RMB				
- borrowed by subsidiaries	319,200	289,200	745,600	770,666
- transferred in from a minority equity holder of a subsidiary (Note 35)	—	—	49,200	—
US$				
- US$60 million (iii)	—	371,269	358,921	—
- US$50 million from Superb Miles Limited (iv)	—	—	341,405	339,496
- US$50 million from financial institutions (v)	—	—	—	334,832
	319,200	660,469	1,495,126	1,444,994

Bank borrowings were secured as follows:

	As at December 31,			As at April 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Jointly secured by land use rights and PPE (i)	319,200	289,200	478,000	450,000
Jointly secured by land use rights, PPE and equity interests of subsidiaries (ii) .	—	—	316,800	320,666
Secured by a subsidiary's equity interests (iii)	—	371,269	358,921	—
Secured by the Company's shares (iv) . . .	—	—	341,405	339,496
Secured by subsidiaries equity interests and the Company's shares (v)	—	—	—	334,832
	319,200	660,469	1,495,126	1,444,994

(i) The bank borrowings were secured by certain land use rights (Note 7) and property and plant and equipment (Note 6) of the Group, with total carrying amounts of RMB437,852,000, RMB389,109,000, RMB681,764,000 and RMB 496,091,000 as at December 31, 2007, 2008, 2009 and April 30, 2010 respectively.

(ii) The Group's bank borrowings of RMB330,000,000 as at December 31, 2009 and April 30, 2010 were jointly secured by certain land use rights (Note 7), property and plant and equipment (Note 6) of the Group with total carrying values of RMB987,091,000 as at December 31, 2009 and RMB966,056,000 as at April 30, 2010, and secured by 100% of equity interests of Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai and Mianxian Yaobai. The loan was also guaranteed by Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai and Mianxian Yaobai. During the four months ended April 30, 2010, the Group incurred capital expenditures exceeded the limit stipulated in the loan agreement. The Group has obtained the waiver from compliance with the limit from the facility agent representing the majority of the lenders (Note 3.1 (c)).

(iii) The Group's bank borrowings of US$60,000,000 (Note 20) as at December 31, 2008 and 2009 were secured by 100% of the equity interest of its subsidiary Shaanxi Yaobai. The facility was fully repaid on March 9, 2010 and all the securities have been discharged.

(iv) The Group's bank borrowings of US$50,000,000 as at December 31, 2009 were guaranteed by Mr. Jimin Zhang and secured by 19,393,776 ordinary shares of the Company held by Mr. Jimin Zhang. Pursuant to an extension agreement entered into on March 1, 2010, the borrowing will be due on July 26, 2011 or Listing or any other internationally recognized stock exchange whichever is earlier.

(v) On February 26, 2010, the Company entered into a US$50 million term loan facility agreement ("ICBC Facility") with financial institutions with the intention to utilise this loan to repay the US$60 million facility. The US$50 million loan was drawn down on March 9, 2010, and the US$60 million facility has been fully repaid.

The ICBC Facility is secured by (a) a share charge over West China BVI provided by the Company; (b) a share charge over Faithful Alliance provided by West China BVI; (c) an equity pledge over Shaanxi Yaobai provided by Faithful Alliance; (d) an assignment of shareholders' loan borrowed by West China BVI from the Company; (e) charges over the accounts of the Company; and (f) corporate guarantee in favor of Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)") and Industrial and Commercial Bank of China (Macau) Limited ("ICBC Macau"), provided by ICBC International Holdings Limited ("ICBCI Holdings"). ICBCI Holdings also granted to the lenders a put option, upon the exercise of which ICBCI Holdings is required to purchase the ICBC Facility from ICBC (Asia) and ICBC Macau together with all rights attached thereto. Such put option may only be exercised at any time after the occurrence of an event of default as set out in the ICBC Facility Agreement.

In addition, a second charge over 19,393,776 Shares held by Mr. Zhang, was created and a personal guarantee was provided by Mr. Zhang in favor of ICBCI Holdings, as the guarantor to the ICBC Facility, ranking immediately behind the charge created under the ICBCI Facility. The second charge over the Shares held by Mr. Zhang and the personal guarantee will be released before or upon Listing.

The exposure of the Group's bank borrowings to interest rate changes and the contractual repricing dates or maturity date whichever is earlier are as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
6 months or less	140,000	168,000	626,563	332,829
6-12 months	115,400	85,400	540,505	386,829
1-2 years	28,000	407,069	204,596	639,654
2-5 years	35,800	—	123,462	85,682
	319,200	660,469	1,495,126	1,444,994

The fair value of current bank borrowings equal their carrying amount as the discounting impact is not significant.

The carrying amounts and fair value of the non-current bank borrowings are as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount				
— US$ bank borrowings (i)	—	371,269	77,258	503,671
— RMB bank borrowings (ii)	63,800	35,800	250,800	221,665
	63,800	407,069	328,058	725,336
Fair value				
— US$ bank borrowings (i)	—	371,269	114,819	503,671
— RMB bank borrowings (ii)	63,800	35,800	250,800	221,665
	63,800	407,069	365,619	725,336

(i) The carrying amount of US$ bank borrowings represented the non-current portion of US$60,000,000 loan (Note 20) and the ICBC Facility as at December 31, 2008, 2009 and April 30, 2010. The fair values are estimated based on discounted cash flows using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates.

(ii) The fair values of non-current RMB bank borrowings approximate their carrying amounts at each of the balance sheet dates as all non-current RMB bank borrowings carry floating interest rates.

The weighted average effective interest rates at each balance sheet date were as follows:

	As at December 31,			As at April 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
RMB bank borrowings	7.78%	8.44%	7.27%	7.12%
US$ bank borrowings	—	20.23%	12.94%	6.64%

(b) Other borrowings

	As at December 31,			As at April 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Loan from employees	16,953	15,784	—	—
Loan from third parties				
— transferred in from a minority equity holder of a subsidiary (Note 35)	—	—	150,800	18,000
— other	—	—	3,000	3,000
	16,953	15,784	153,800	21,000

Other borrowings are all unsecured and denominated in RMB.

Other borrowings are repayable as follows:

	As at December 31,			As at April 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
6 months or less(i)	16,953	15,784	92,800	—
6-12 months(i)	—	—	29,000	—
1-2 years	—	—	29,000	18,000
2-5 years	—	—	3,000	3,000
	16,953	15,784	153,800	21,000

The fair values of other borrowings approximate to their carrying amount at each of the balance sheet date because the impact of discounting is not significant.

Other borrowings of RMB3,000,000 as at December 31, 2009 and April 30, 2010 are interest free. The weighted average effective interest rates for the remaining other borrowings as at December 31, 2007, 2008, 2009 and April 30, 2010 were 11.82%, 11.64%, 9.16% and 3.09% respectively.

Company

The borrowings of the Company represent all the US$ bank borrowings of the Group.

20. Loan facility and warrants classified as liabilities

Bank borrowing of US$60 million

On May 29, 2008, the Company entered into a loan facility agreement for US$60 million with a financial institution. The interest rate was 13.5% per annum, 50% of the loan was repayable on a date falling 24 months from the date of utilization and the remaining 50% on a date falling 36 months from the date of utilization of the facility.

According to the loan facility agreement, the Company should use its commercially reasonable efforts to achieve a "Qualifying Re-listing" ("QRL") with various other conditions within 30 months from the date of utilization of the facility.

No assurance is, however, given by the Company as to the achievability of this undertaking. However, should such a QRL not take place, the Company must repay the principal of the loan outstanding together with accrued interests and break costs on the date falling 30 months from the date of agreement. If the Company issues any equity interest upon a QRL, the Company must pay 50% of the outstanding loan together with accrued interest and break costs immediately after QRL.

QRL means any initial public offering and/or secondary offering of shares of the Company with a resulting listing of shares in the Company on (i) the Hong Kong Stock Exchange, the Singapore Stock Exchange, the London Stock Exchange, the New York Stock Exchange and the Frankfurt Stock Exchange or (ii) any other internationally recognized stock exchange provided that such stock exchange shall have reasonably sufficient liquidity which is acceptable to the lender.

Warrant instrument agreement

On May 29, 2008, the Company also entered into a warrant agreement as part of the loan facility. According to the warrant agreement, the warrant holders had the following rights:

(1) *Rights to subscribe warrant shares and strike price ("subscription right")*

The warrant holders received warrants to subscribe for 7,802,142 ordinary shares in the Company at a strike price of US$2.6916, representing a 15% premium to the average equivalent closing price per share over the 20 trading days immediately preceding the date of the warrant agreement, subject to strike price resets under certain circumstances. The warrants could have been exercised at any time up to 36 months after the issuance.

(2) *Cash settlement option*

The warrant holders had the option to require the Company to pay cash to it in lieu of issuing warrant shares. The warrant holder could only elect for cash settlement in respect of all, but not only part, of the warrant shares in respect of which such subscription rights are exercised.

(3) *Put option*

The warrant holders were also given the option to put the outstanding warrants ("Put Option") for an amount that would provide an internal rate of return of 19% on the bank borrowing of US$60 million. The Put Option could have been exercised after 30 months in certain circumstances, or earlier in the event of default.

As the exercise price of the warrant is denominated in a currency ("US$") other than the Group's functional currency ("RMB"), IFRS requires that it be classified as a liability in the Group's balance sheet and adjusted to fair value at each balance sheet date, with the change in fair value recorded within the consolidated statement of comprehensive income.

The directors have identified that the warrants attached to the bank borrowing of US$60 million are embedded derivatives. The value of the warrants was derived from the strike price, the Company's share performance and the cash flow relating to the Put Option. The warrants are therefore a financial derivative, classified as a financial liability at fair value through profit and loss.

Redemption of warrants

On October 21, 2009, the Company agreed an amendment deed with the warrant holder. Under the amendment deed, the Company redeemed the warrants by paying the warrant holder with total amount of approximately US$30,188,000. On November 3, 2009, the Company completed the settlement of warrant redemption with total payment of RMB206,435,000.

The difference between the redemption amount and fair value of the Put Option as at the date of redemption was recognized as finance costs in the consolidated statement of comprehensive income.

Carrying amount of the bank borrowing of US$60 million and the warrant

As at December 31, 2008, the directors concluded that the QRL was not within the control of the Company, the bank borrowings of US$60 million and warrants (put option) were the obligations to the Company that arose 30 months from the date of utilization of the bank borrowing of US$60 million. Accordingly the bank borrowing of US$60 million was initially recorded at cost of US$53,106,000, being the fair value, and subsequently at amortized cost. The Put Option was recognized as an other liability at cost, US$4,414,000, being the fair value, and amortized over a 30 month period. The fair values of the bank borrowing of US$60 million and Put Option were calculated by discounting the future cash flow of the loan and interest payments. Directly attributable transaction costs were debited to the loan liability.

IAS 39 does not permit the initial value of the derivative to be recognized as a loss at initiation. The Group's accounting policy in respect of this initial loss is to recognize it through the statement of comprehensive income on a straight-line basis except to the extent of any subsequent reversal (if higher). Given the considerably lower share price at the 2008 year end, the directors were of the opinion that the value of the derivative at the 2008 year end was approximately nil, and consequently no net gain or loss had been recognized in this respect in the year and an insignificant amount has been deferred as a loss to future periods.

After the redemption of the warrants, the warrants classified as liabilities were derecognized.

As at December 31, 2009, 75% of the bank borrowings of US$60 million were classified as current liabilities.

The carrying amount and effective interest rate of bank borrowings of US$60 million and the Put Option as at December 31, 2008 and 2009 are as follows:

	December 31, 2008	**December 31, 2009**
	RMB'000	**RMB'000**
Carrying amount of bank borrowing of US$60 million	371,269	358,921
Carrying amount of Put Option	32,908	N/A

	December 31, 2008	**December 31, 2009**
Effective interest rate of bank borrowing of US$60 million	20.23%	20.23%
Effective interest rate of Put Option	17.78%	N/A

The Company repaid bank borrowings principal of US$5 million in December 2009 and repaid the remaining balance in full with the accrued interest and early repayment charges in March 2010.

21. Provisions for other liabilities and charges

	Environmental Restoration
	RMB'000
At December 31, 2008	—
Provision for the year	6,265
At December 31, 2009	6,265
Unwinding of discount for the period (Note 28)	124
At April 30, 2010	6,389

According to the new regulation issued in 2009 by the Ministry of Land and Resources of the People's Republic of China, the owner of a mine should undertake the obligation of environmental restoration. A provision is recognized for the present value of costs to be incurred for the restoration of the limestone mines of the Group based on the best estimate of

future expenditure by the management. However, so far the local Land and Resource Bureau has not issued specific rules for the restoration standard, and if the restoration standard is released, the estimate of restoration costs may be subject to revision in the future. The amounts provided in relation to restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time, and the provisions are updated accordingly.

22. Other liabilities

Group

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Long-term payables for mining rights (Note (a))	13,000	11,100	7,400	7,400
Deferred income for purchase of equipment (Note (b))	—	5,730	39,002	37,846
Payable to a minority equity holder of a subsidiary (Note 35(b))	—	—	70,160	98,293
Others	487	487	487	—
	13,487	17,317	117,049	143,539

(a) Long-term payables represent amounts payable for the purchase of mining rights from the Ministry of Land and Resource of Lantian County, which is interest free and repayable in installments up to 2012. The carrying amount of the payable approximates to its fair value.

(b) Deferred income represents government grants to the Company's subsidiaries for the purchase of domestic equipment. The balance will be amortized based on the useful life of the equipment.

23. Trade and other payables

Group

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Bills payable	15,000	15,000	—	—
Trade payables	57,532	83,802	185,950	301,577
Other payables	20,771	43,323	141,343	434,062
Payable to a minority equity holder of a subsidiary (Note 35(b))	—	—	70,161	—
Acquisition consideration payable (Note 34(b))	—	—	36,050	823
Bonus payable	—	6,000	6,000	6,000
Advances from customers	20,057	22,959	56,920	91,270
Staff salaries and welfare payables	4,894	9,219	17,204	15,513
Interest payable	975	1,932	3,007	2,029
Accrued taxes other than income tax (Note (a))	16,000	32,021	32,288	19,897
Other liabilities	51,307	55,255	10,472	27,279
	186,536	269,511	559,395	898,450

The carrying amounts of trade and other payables approximate to their fair values.

The ageing analysis of the trade payables were as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	41,663	56,622	147,187	247,076
Over 90 days and within 180 days	6,825	9,198	21,926	51,309
Over 180 days and within 360 days	4,012	9,821	12,851	825
Over 360 days and within 720 days	1,365	8,161	3,967	2,324
Over 720 days	3,667	—	19	43
	57,532	83,802	185,950	301,577

(a) Accrued taxes other than income tax are analyzed as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Value added tax ("VAT") (i)	11,065	24,453	20,433	3,461
Resource tax, bulk cement special funds and other taxes	4,935	7,568	11,855	16,436
	16,000	32,021	32,288	19,897

(i) The sales of self-manufactured products of the PRC subsidiaries are subject to VAT. The applicable tax rate for domestic sales is 17%.

Input VAT on purchases of raw materials, fuel, utilities and other production materials can be deducted from output VAT. VAT payable is the net difference between output and deductible input VAT. Effective from January 1, 2009, the input VAT on purchased equipment can be offset against the output VAT.

24. Expenses by nature

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Changes in inventories of finished goods and work in progress (Note 12)	(13,519)	(12,991)	(17,440)	(17,032)	(9,059)
Raw materials and consumables used	133,044	157,641	303,015	67,165	114,618
Employee benefit expenses (Note 25)	30,207	44,870	57,653	14,304	25,479
Depreciation and amortization (Notes 6, 7, 8 and 9)	44,857	64,383	103,103	21,750	62,869
Utilities and electricity	162,443	323,063	456,938	117,187	244,349
Marketing expense	5,232	5,030	3,773	1,674	1,983
Transportation expenses	3,765	6,259	7,500	2,978	3,668
Vehicle expenses	1,644	2,669	2,959	916	1,271
(Write-back)/provision for impairment loss on receivables (Note 13)	(1,016)	914	1,372	—	—
Administration and advertising expenses	6,717	7,937	17,190	3,855	7,150
Auditor remuneration	1,170	1,480	1,898	649	108
Taxes and levies	6,727	11,805	16,220	3,929	4,833
Operating lease payments	194	488	1,556	719	58
Other expenses	7,534	9,767	15,260	1,966	3,377
Total cost of sales, selling and marketing and administrative expenses	388,999	623,315	970,997	220,060	460,704

25. Employee benefit expenses

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Wages and salaries	27,262	38,111	51,685	12,363	20,582
Pension costs — defined contribution plans	577	997	1,983	167	871
Other social security costs	32	632	552	120	289
Share options granted to directors (Note (a))	1,962	1,480	976	266	226
Other allowances and benefits	374	3,650	2,457	1,388	3,511
Total including director's emoluments	30,207	44,870	57,653	14,304	25,479

The numbers of employees are 788, 1,353, 2,606 and 2,978 as at December 31, 2007, 2008, 2009 and April 30, 2010 respectively.

(a) On December 4, 2006, 796,104 share options were granted to non-executive directors (Note 16). The exercise price of the options is equal to the market price on the date of the grant. On April 23, 2009, 250,000 share options were granted to the director and the Chief Financial Officer of the Company (Note 16).

(b) Directors' emoluments

Directors' emoluments for the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2009 and 2010 are set out below:

	Year ended December 31,			**Four months ended April 30,**	
Name of Director	**2007**	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Robert Sinclair Robertson					
— Salaries	761	960	801	244	264
— Share options scheme accrued	1,570	1,184	567	189	90
Brett Lance Miller					
— Salaries	532	673	561	171	185
— Share options scheme accrued	392	296	144	48	23
Po Ling Low (i)					
— Salaries	—	153	720	247	264
— Share options scheme accrued	—	—	265	29	113
Jimin Zhang					
— Salaries, bonus and pension scheme	602	3,466	1,200	405	408
Jianli Wang					
— Salaries, bonus and pension scheme	300	641	450	74	76
Zhenjun Tian (ii)					
— Salaries, bonus and pension scheme	300	587	—	—	—
	4,457	7,960	4,708	1,407	1,423

No director has waived or agreed to waive any emoluments.

Notes:

(i) Appointed as director on October 21, 2008.

(ii) Resigned as director on October 21, 2008. Mr. Zhenjun Tian maintained as general manager of Lantian Yaobai.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2009 and 2010 are as follows:

	Number of individuals			Four months ended April 30,	
	2007	**2008**	**2009**	**2009**	**2010**
				(unaudited)	
Directors	4	4	5	5	5
Non-director individuals	1	1	—	—	—

The details of emoluments paid to the five highest individuals who were directors of the Company during the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2009 and 2010 have been included in Note (b) above. Details of emoluments paid to the remaining non-director individuals are as follows:

	Year ended December 31,			Four months ended April 30,	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Basic salaries, housing allowances, other allowances and benefits in kind	388	638	—	—	—

(d) During the Relevant Periods, no director or the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

26. Other income

	Year ended December 31,			Four months ended April 30,	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Tax refund (Note (a))	30,528	39,167	65,035	6,683	25,217
Government grants	5,180	1,450	6,491	1,863	3,227
	35,708	40,617	71,526	8,546	28,444

(a) The tax refund mainly represents the refund of VAT for sales of certain types of cement where wasted natural materials have been used.

27. **Other gains/(losses) — net**

	Year ended December 31,			Four months ended April 30,	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Write-back of aged payables	2,981	1,153	1,344	—	—
Donations	(689)	(1,499)	(825)	(5)	(390)
Net loss from disposal of PPE	(425)	(74)	(2,733)	—	(417)
Others	406	236	1,157	55	294
	2,273	(184)	(1,057)	50	(513)

28. **Finance income and costs**

	Year ended December 31,			Four months ended April 30,	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Finance income					
— Interest income on short-term bank deposits	1,572	1,023	803	340	138
— Net foreign exchange gains on financing activities (Note (a))	—	1,577	387	7	—
	1,572	2,600	1,190	347	138
Finance costs					
— Interest expense on bank borrowings	(23,688)	(65,816)	(113,443)	(34,837)	(58,704)
— Interest expense on other borrowings	(3,035)	(1,906)	(1,176)	(391)	(2,010)
— Early repayment charges	—	—	—	—	(7,479)
— Unwinding of discount (Note 21)	—	—	—	—	(124)
— Net foreign exchange loss on financing activities (Note (a))	—	—	—	—	(282)
— Fair value loss on financial instruments	—	—	—	(10,949)	—
Less: amounts capitalized (Note (b))	513	39,607	40,789	6,322	10,017
	(26,210)	(28,115)	(73,830)	(39,855)	(58,582)
Loss on redemption of warrants (Note 20)	—	—	(168,451)	—	—
	(26,210)	(28,115)	(242,281)	(39,855)	(58,582)
Net finance costs	(24,638)	(25,515)	(241,091)	(39,508)	(58,444)

(a) Net foreign exchange gains or loss mainly relate to the translation of the bank borrowings from US$ to RMB during the Relevant Periods. The US$ currency was depreciating as compared to RMB during the Relevant Periods.

(b) *Interest expense was capitalized as construction in progress at the rate of 12%, 19%, 13% and 9% per annum for each of the years ended December 31, 2007, 2008, 2009 and four months ended April 30, 2010 respectively (Note 6).*

29. Income tax expense

The Group is subject to income tax on an entity basis on profits arising on or derived from the jurisdictions in which members of the Group are domiciled and operate.

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current tax	—	—	57,429	7,626	29,798
Deferred tax (Note 10)	—	11,566	(12,742)	—	—
Income tax expense	—	11,566	44,687	7,626	29,798

Tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group as follows:

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before tax	150,273	257,729	375,147	98,449	184,092
Tax calculated at statutory income tax	49,590	64,432	93,787	24,612	46,023
Tax effects of:					
Expenses not deductible for tax purposes	—	454	614	—	1,656
Tax effect of tax exemption and reduced tax rate under tax holiday (Note (a))	(53,750)	(59,654)	(101,429)	(26,688)	(28,252)
Tax credit (Note (b))	—	(3,772)	(4,355)	—	—
Unrecognized tax losses	4,160	2,536	56,070	9,702	10,371
Reversal of deferred tax assets arising from tax credit expired	—	7,570	—	—	—
Tax charge	—	11,566	44,687	7,626	29,798

Pursuant to the rules and regulations of Jersey Island and the British Virgin Islands, the Company and West China BVI are not subject to any income tax in those jurisdictions.

The income tax provision of the Group in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the Relevant Periods based on existing legislations, interpretations and practices.

For the year ended December 31, 2007, PRC corporate income tax ("CIT") is provided at the rate of 33% of the profits for the PRC statutory financial reporting purposes, adjusted for those items which are not assessable or deductible for the PRC corporate income tax purpose.

On March 16, 2007, the National People' s Congress approved the Corporate Income Tax Law of the People' s Republic of China (the "new CIT Law"), which was effective from January 1, 2008. Under the new CIT Law, the corporate income tax rate applicable to the Group' s subsidiaries located in Mainland China from January 1, 2008 is 25%, replacing the applicable tax rate of 33%.

Since the deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and liabilities of the Group's subsidiaries located in the PRC.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% upon the PRC tax bureau's approval at the time of dividend claim. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of their earnings generated from January 1, 2008.

(a) *Shaanxi Yaobai and Lantian Yaobai are foreign invested enterprises. They can enjoy a preferential national enterprise income tax rate of 15% and a tax holiday of a two-year exemption from national corporate income tax, followed by a three-year of a 50% tax reduction commencing from the first profit-making year net of losses carried forward from previous 5 years.*

In addition, given that Shaanxi Yaobai, Lantian Yaobai and Ankang Yaobai are established in the western development zone of China, they are entitled to the preferential tax treatment for Western Development Policy ("WDP Policy") if they are engaged in projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development (as amended in 2000) as their principal business and the revenue from the principal operations accounts for over 70% of their total revenue. The applicable reduced preferential CIT rate under the WDP Policy is 15%. The operations of Shaanxi Yaobai, Lantian Yaobai and Ankang Yaobai have met the requirements under the WDP Policy and have obtained approval.

The actual CIT rates of Shaanxi Yaobai, Lantian Yaobai and Ankang Yaobai during the Relevant Periods are as follows:

	Year ended December 31,			**Four months ended April 30,**	
	2007	**2008**	**2009**	**2009**	**2010**
Shaanxi Yaobai	0%	7.5%	7.5%	7.5%	7.5%
Lantian Yaobai	0%	0%	7.5%	7.5%	7.5%
Ankang Yaobai	33%	25%	15%	15%	15%

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC during the Relevant Periods.

(b) Tax credit represents credit on corporate income tax for purchase of domestically produced equipment or environment protection related equipment pursuant to the applicable PRC tax laws and regulations.

30. Earnings per share

(a) *Basic*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Relevant Periods.

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit attributable to equity holders of the Company	150,273	246,163	330,460	90,823	153,074
Weighted average number of ordinary shares in issue (thousands)	63,979	64,113	64,531	64,116	64,996
Basic earnings per share (RMB per share)	2.35	3.84	5.12	1.42	2.36

(b) *Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options as well as warrants. For the share options and warrants, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and warrants.

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit attributable to equity holders of the Company	150,273	246,163	330,460	90,823	153,074
Profit used to determine diluted earnings per share	150,273	246,163	330,460	90,823	153,074
Weighted average number of ordinary shares in issue (thousands)	63,979	64,113	64,531	64,116	64,996
Adjustments for share options and warrants (thousands)	388	81	653	—	460
Weighted average number of ordinary shares for diluted earnings per share (thousands)	64,367	64,194	65,184	64,116	65,456
Diluted earnings per share (RMB per share)	2.33	3.83	5.07	1.42	2.34

31. Cash generated from operations

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit for the year/period before income tax	150,273	257,729	375,147	98,449	184,092
Adjustments for:					
— Depreciation and amortization (Notes 6, 7, 8 and 9)	44,857	64,383	103,103	21,750	62,869
— Loss on disposal of PPE (Note 27)	425	74	2,733	—	417
— (Write-back)/provision for impairment loss for receivables (Note 13)	(1,016)	914	1,372	—	—
— Provision for impairment loss for inventories	211	—	—	—	—
— Share-based payment	1,962	1,480	1,161	328	285
— Finance costs — net (Note 28)	24,638	25,515	241,091	39,508	58,444
Changes in working capital (excluding the effects of acquisition:					
— Inventories	(21,674)	(35,854)	(29,881)	(22,909)	(14,654)
— Trade and bills receivables	(29,234)	(14,654)	(4,936)	(58,843)	(1,901)
— Other receivables and prepayments	(30,326)	(10,954)	(52,632)	(17,059)	(62,622)
— Trade and other payables	56,029	61,076	59,580	194,977	108,317
Cash generated from operations	196,145	349,709	696,738	256,201	335,247

In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net book amount (Note 6)	2,597	212	4,632	—	1,101
Loss on disposal of property, plant and equipment (Note 27)	(425)	(74)	(2,733)	—	(417)
Proceeds from disposal of property, plant and equipment	2,172	138	1,899	—	684

32. Contingencies

During the Relevant Periods, the Company and the Group did not have any contingent liabilities.

33. Commitments

(a) *Capital commitments*

Capital expenditure contracted for at the balance sheet date, but not yet incurred was as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	556,656	449,035	558,336	502,988

(b) *Operating lease commitments — Group companies as lessee*

The Group leases various buildings as offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and the majority of lease agreements are renewable at the end of the Relevant Periods at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
No later than 1 year	345	484	74	—
Later than 1 year and no later than 5 years	533	217	209	—
Later than 5 years	504	496	446	—
	1,382	1,197	729	—

34. Business combinations

(a) *Acquisition of Xiushan Cement*

Shaanxi Yaobai, a wholly owned subsidiary of the Company, entered into Equity Transfer Agreements with Shaanxi Xiushan Cement Group Limited ("Xiushan Cement") to acquire 100% of its equity interest on August 15, 2009 (the "Equity Transfer Agreement"). The sellers of Xiushan Yaobai are Mr. Changshui Zhang (who owned 36% interest) and other 41 individuals, they are not related parties of the Group. The total consideration for the acquisition of Xiushan Cement was RMB180,700,000 according to the Equity Transfer Agreements. There is no contingent consideration.

On August 1, 2009, the Group took control of Xiushan Cement, and therefore the acquisition date was August 1, 2009. After the acquisition, Xiushan Cement was renamed to Xiushan Yaobai.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
— Cash paid	130,000
— Consideration payable to Xiushan Yaobai (Note (a))	14,650
— Consideration payable (Note (b), Note 23)	36,050
Total purchase consideration	180,700
Provisional fair value of assets acquired (see below)	135,426
Goodwill	45,274

(a) *According to the Equity Transfer Agreement and revised agreements between Shaanxi Yaobai and the original equity holders of Xiushan Cement, certain trade and other receivables due from original equity holders or third parties were transferred as amounts due from Shaanxi Yaobai on the acquisition date. This balance is eliminated in the consolidated balance sheet.*

(b) *The balance represents the outstanding payables to the original equity holders of Xiushan Cement.*

The goodwill is attributable to the economies of scale anticipated as a result of combining the operations within the Group.

Management considers the fair value of the business acquired has not changed since acquisition and accordingly value of goodwill is not impaired. The fair values of the acquired assets and liabilities as of August 1, 2009 are as follows:

	Provisional fair value	Acquiree's carrying amount
	RMB'000	RMB'000
Cash and cash equivalents	9,078	9,078
Property, plant and equipment (Note 6)	140,475	130,542
Land use rights (Note 7)	6,924	5,176
Trademarks	—	461
Mining rights (Note 8)	5,250	3,576
Customer relationship (Note 9)	20,610	—
Long-term deferred expenditures	266	266
Inventories	17,591	17,591
Trade and other receivables	35,555	35,555
Trade and other payables	(59,938)	(59,938)
Borrowings	(32,009)	(32,009)
Deferred tax liabilities (Note 10)	(8,376)	—
Fair value of net assets acquired	135,426	110,298
Goodwill (Note 9)	45,274	—
Total purchase consideration	180,700	110,298
Purchase consideration settled in cash	—	130,000
Cash and cash equivalents in subsidiary acquired	—	(9,078)
Cash outflow on acquisition	—	120,922

Following acquisition, Xiushan Yaobai contributed revenue of RMB86,329,000, RMB46,539,000 and net profit of RMB15,773,000, RMB5,483,000 to the Group for the five months ended December 31, 2009 and four months ended April 30, 2010.

There were no acquisitions in the years ended December 31, 2007, 2008 and four months ended April 30, 2010 respectively.

35. Formation of a subsidiary

On December 28, 2009, Shaanxi Yaobai entered into an agreement with Shaanxi Danshui Construction Materials Co., Ltd. ("Shaanxi Danshui") to form a new company, Longqiao Yaobai. The registered paid-in capital of Longqiao Yaobai is RMB125,000,000, each of Shaanxi Yaobai and Shaanxi Danshui holds 80% and 20% of the equity interests of Longqiao Yaobai respectively. According to the agreement, Shaanxi Yaobai is required to contribute cash amounting to RMB100,000,000 and Shaanxi Danshui is required to contribute certain plant and equipment with a fair value of RMB25,000,000. In addition to the capital contribution, Shaanxi Danshui also transferred a number of assets valued at RMB340,321,000 and liabilities valued at RMB200,000,000 to Longqiao Yaobai. The value of the transferred assets over liabilities was recorded as amounts due to Shaanxi Danshui.

As at December 31, 2009, Longqiao Yaobai received the following assets and liabilities:

	RMB'000
As registered capital:	
Cash contributed from Shaanxi Yaobai (Note (a))	50,000
PPE contributed from Shaanxi Danshui (Note 6)	25,000
	75,000
Other assets transferred from Shaanxi Danshui:	
PPE (Note 6)	312,226
Land use rights (Note 7)	15,165
Mining rights (Note 8)	12,930
	340,321
Liabilities transferred from Shaanxi Danshui:	
Bank borrowings (Note 19)	(49,200)
Other borrowings (Note 19)	(150,800)
	(200,000)
Amount due to Shaanxi Danshui (Note (b))	(140,321)

(a) *Shaanxi Yaobai contributed another RMB 50,000,000 of cash to Longqiao Yaobai in February 2010.*

(b) *The amount due to Shaanxi Danshui represented the value of the assets over the liabilities transferred from Shaanxi Danshui, and was recorded as a non-interest bearing amount due to minority equity holder of a subsidiary. On January 1, 2010, Longqiao Yaobai entered into a supplementary agreement with Shaanxi Danshui. Pursuant to the supplementary agreement, the amount due to Shaanxi Danshui will be fully repaid on December 31, 2011, and therefore the amount due to Shaanxi Danshui of RMB98,293,000 as at April 30, 2010 was classified as non-current liabilities.*

(c) *In November and December 2009, Shaanxi Yaobai paid RMB 30 million to Shaanxi Danshui as advance (Note 13(b)). This receivable balance was offset with other borrowings in January 2010.*

36. Related-party transactions

(a) *Key management compensation*

Key management includes directors (executive and non-executive) and senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	Year ended December 31,			Four months ended April 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and other short-term employee benefits	3,167	4,632	5,821	1,461	1,548
Bonus	—	3,600	—	—	—
Share-based payments	1,962	1,480	976	266	226
	5,129	9,712	6,797	1,727	1,774

(b) *Loans from key management*

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Zhixin Chen	900	900	—	—
Wenyu Li	580	580	—	—
	1,480	1,480	—	—

The loans from key management are interest free, unsecured and repayable within 12 months.

(c) *Amount due from key management*

	As at December 31,			As at April 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Yongji Li	—	—	2,662	2,662
	—	—	2,662	2,662

The amount due from Mr. Yongji Li is relating to one of our customers in 2009 offered to settle its debts it owed to the Company by transferring its real property to the Company. Mr. Yongji Li accepted the property and assumed the liability from the customer to the Company. The amount is interest free, unsecured and repayable by June 15, 2010. The amount has been fully paid in June 2010.

(d) The details of security provided by Mr. Jimin Zhang for bank borrowings are set out in Note 19(a)(iv) and Note 19(a)(v).

37. Events after the balance sheet date

On March 30, 2010, Shaanxi Yaobai entered into a loan facility agreement with a local financial institution. According to the loan facility arrangement, Shaanxi Yaobai has been granted a working capital loan of RMB 60,000,000. The loan was drawn down in May 2010. The loan was jointly secured by certain land use rights, property, plant and equipment of Xiushan Yaobai and Longqiao Yaobai.

As at June 30, 2010, the Group did not meet one of the covenants stipulated in the loan agreement for the syndicated bank borrowings of RMB330,000,000 regarding the ratio of total liabilities to total assets (the "Ratio"). The agreement stipulates the ratio of total liabilities to total assets should not be more than 50%. The Group has obtained a waiver letter dated July 21, 2010 from the facility agent representing the lenders confirming that they had granted the Group a waiver from compliance with such ratio by June 30, 2010. This is sufficient pursuant to the agreement for the Ratio to be waived. The waiver received in connection with the syndicated loan means that it would not trigger any cross default events of other borrowings.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements of the Group have been prepared for the Company and its subsidiaries in respect of any period subsequent to April 30, 2010. Up to the date of this report, no dividend or distribution has been declared, made or paid by the Company or any of its subsidiaries in respect of any period subsequent to April 30, 2010.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following Report on review of condensed consolidated interim financial information of the Group is the reproduction of the Report on review of interim financial information of the Group as of and for the nine months ended September 30, 2010 issued to the Board of Directors of the Company, with the page references included in such Report referring to pages set out in such condensed consolidated interim financial information.

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF WEST CHINA CEMENT LIMITED
(incorporated in Jersey with limited liability)

Introduction

We have reviewed the condensed consolidated interim financial information set out on pages 2 to 21, which comprises the condensed consolidated interim balance sheet of West China Cement Limited (the "Company") and its subsidiaries (together, the "Group") as at September 30, 2010 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Company are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". The comparative condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the nine-month period ended September 30, 2009 and the related explanatory notes were not reviewed or audited. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, January 12, 2011

Condensed Consolidated Interim Balance Sheet
As at September 30, 2010
(All amounts in RMB thousands unless otherwise stated)

	Note	As at September 30, 2010	As at December 31, 2009
		(Unaudited)	
ASSETS			
Non-current assets			
Property, plant and equipment	4	3,684,075	2,611,502
Land use rights	5	177,405	124,571
Mining rights	6	55,495	46,373
Other intangible assets	7	63,502	65,104
Deferred income tax assets	8	22,083	13,540
		4,002,560	2,861,090
Current assets			
Inventories		180,350	128,979
Trade and other receivables and prepayments	9	452,033	317,670
Restricted cash	10(b)	16,161	19,582
Cash and cash equivalents	10	374,222	346,258
		1,022,766	812,489
Total assets		5,025,326	3,673,579
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	11	118,850	97,623
Share premium	11	2,001,917	672,775
Share options reserve	12	528	5,439
Reverse acquisition reserve		(341,304)	(341,304)
Statutory reserve		118,140	118,140
Retained earnings		1,269,124	717,553
		3,167,255	1,270,226
Non-controlling interests		30,397	25,000
Total equity		3,197,652	1,295,226

	Note	As at September 30, 2010	As at December 31, 2009
		(Unaudited)	
LIABILITIES			
Non-current liabilities			
Borrowings	13	215,532	360,058
Provisions for other liabilities and charges	14	8,325	6,265
Deferred income tax liabilities	8	14,532	8,079
Other liabilities		83,717	117,049
		322,106	491,451
Current liabilities			
Trade and other payables	15	724,237	559,395
Current income tax liabilities		55,567	38,639
Borrowings	13	725,764	1,288,868
		1,505,568	1,886,902
Total liabilities		1,827,674	2,378,353
Total equity and liabilities		5,025,326	3,673,579
Net current liabilities		(482,802)	(1,074,413)
Total assets less current liabilities		3,519,758	1,786,677

The notes on pages 7 to 21 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Comprehensive Income
For the nine months ended September 30, 2010
(All amounts in RMB thousands unless otherwise stated)

	Note	Nine months ended September 30, 2010	Nine months ended September 30, 2009
		(Unaudited)	
Revenue	3	2,017,666	1,063,637
Cost of sales		(1,211,051)	(620,393)
Gross profit		806,615	443,244
Selling and marketing expenses		(18,854)	(11,189)
Administrative expenses	16	(129,953)	(43,298)
Other income		80,033	38,775
Other gains/(losses) — net		711	(662)
Operating profit		738,552	426,870
Finance income	17	259	619
Finance costs	17	(89,372)	(193,743)
Finance costs — net		(89,113)	(193,124)
Profit before income tax		649,439	233,746
Income tax expense	18	(92,470)	(33,949)
Profit for the period		556,969	199,797
Other comprehensive income		—	—
Total comprehensive income for the period		556,969	199,797
Attributable to			
— Equity holders of the Company		551,572	199,797
— Non-controlling interests		5,397	—
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in Renminbi per share)			
Basic earnings per share	19(a)	0.15	0.06
Diluted earnings per share	19(b)	0.15	0.06
Dividends		—	—

The notes on pages 7 to 21 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Changes in Equity

For the nine months ended September 30, 2010

(All amounts in RMB thousands unless otherwise stated)

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Reverse acquisition reserve**	**Share options reserve**	**Statutory reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
					(Unaudited)				
At January 1, 2010	97,623	672,775	(341,304)	5,439	118,140	717,552	1,270,225	25,000	1,295,225
Comprehensive income									
Profit for the period	—	—	—	—	—	551,572	551,572	5,397	556,969
Transaction with owners									
Recognition of vested benefit in relation to employee share option scheme	—	—	—	353	—	—	353	—	353
New shares issued for new listing of the Company's shares (Note 11(b))	19,972	1,310,167	—	—	—	—	1,330,139	—	1,330,139
New shares issued for employee share option scheme	1,255	18,975	—	(5,264)	—	—	14,966	—	14,966
At September 30, 2010	118,850	2,001,917	(341,304)	528	118,140	1,269,124	3,167,255	30,397	3,197,652

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Reverse acquisition reserve**	**Share options reserve**	**Statutory reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
					(Unaudited)				
At January 1, 2009	96,811	662,636	(341,304)	6,708	63,163	442,070	930,084	—	930,084
Comprehensive income									
Profit for the period	—	—	—	—	—	199,797	199,797	—	199,797
Transaction with owners									
Recognition of vested benefit in relation to employee share option scheme	—	—	—	912	—	—	912	—	912
New shares issued for employee share option scheme	812	10,139	—	(2,430)	—	—	8,521	—	8,521
At September 30, 2009	97,623	672,775	(341,304)	5,190	63,163	641,867	1,139,314	—	1,139,314

The notes on pages 7 to 21 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Cash flow Statement

For the nine months ended September 30, 2010

(All amounts in RMB thousands unless otherwise stated)

	Note	Nine months ended September 30,	
		2010	2009
		(Unaudited)	
Cash flows from operating activities		834,451	637,471
Cash flows from investing activities		(1,338,458)	(677,956)
Cash flows from financing activities		531,971	59,636
Net increase in cash and cash equivalents		27,964	19,151
Cash and cash equivalents at beginning of period	10	346,258	37,038
Cash and cash equivalents at end of period	10	374,222	56,189

The notes on pages 7 to 21 are an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. **General information**

West China Cement Limited (the "Company") and its subsidiaries (together the "Group") is principally engaged in the production and sale of cement.

The Company was incorporated on October 16, 2006 in Jersey under the Companies (Jersey) Law 1991. The address of the registered office is 47 Esplanade, St Helier, Jersey JE1 0BD and the principal place of business is Unit 1903, Tower A, Gaoke Plaza, 4th Gaoxin Road, Xi'an Hi-Tech Industrial Development Zone, Xi'an, Shaanxi Province, the People's Republic of China (the "PRC").

The Company's ordinary shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") on August 23, 2010. The Company issued 946,588,000 ordinary shares of £0.002 each at HK$1.69 per share in the share capital and received net proceeds of approximately RMB 1,282,567,000 (Note 11).

The condensed consolidated interim financial information is presented in thousands of units of Renminbi ("RMB'000") unless otherwise stated. This condensed consolidated interim financial information was approved for issue on January 12, 2011.

This condensed consolidated interim financial information has not been audited.

2. **Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the condensed consolidated interim financial information are set out below.

2.1 **Basis of preparation**

This condensed consolidated interim financial information for the nine months ended September 30, 2010 has been prepared in accordance with International Accounting Standard ("IAS") 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the accountant's report for the three years ended December 31, 2007, 2008 and 2009 and the four months ended April 30, 2010 (the "Accountant's Report") which was prepared in accordance with International Financial Reporting Standards ("IFRS") and included in the prospectus of the Company dated August 10, 2010 in connection with initial listing of shares on the HKSE.

The comparative condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the nine-month period ended September 2009 and the related explanatory notes were not reviewed or audited.

As at September 30, 2010, the Group's current liabilities exceeded its current assets by approximately RMB482,802,000. The Group's current liabilities mainly included bank borrowings, trade and other payables and advances from customers. The directors of the Company have prepared the Group's cash flow projections for the period from October 1, 2010 to March 31, 2012 and have assessed the compliance of loan covenants. The directors are of the opinion that, having taken into consideration of the expected cash flows and available financial resources of the Group, the Group has sufficient financial resources to meet its liabilities as and when they fall due in the 12 months from September 30, 2010. Based on the above basis, the directors believe that the Group will continue as a going concern and consequently have prepared the condensed consolidated interim financial information on a going concern basis.

2.2 **Significant accounting policies**

Except as described below, the accounting policies adopted are consistent with those set out in the Accountant's Report.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) *New and amended standards adopted by the group*

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2010.

- IAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of IAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term. It is not expected to have any impact on the Group's financial statements.

- Second improvements to International Financial Reporting Standards (2009) were issued in April 2009 by IASB. All improvements are effective in the financial year of 2010.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning January 1, 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after July 1, 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after July 1, 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective July 1, 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

- IFRIC 16, Hedges of a net investment in a foreign operation' effective July 1, 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group. IAS 38 (amendment), 'Intangible assets', effective January 1, 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- IAS 36 (amendment), 'Impairment of assets', effective January 1, 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS, ' Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective from January 1, 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 - Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning January 1, 2010 and have not been early adopted.

- IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until January 1, 2013 but is available for early adoption.

- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. Earlier application, in whole or in part, is permitted.

- 'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after February 1, 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'.

- IFRIC- Int 19, 'Extinguishing financial liabilities with equity instruments extinguishing July 1, 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The group will apply the interpretation from January 1, 2011.

- Prepayments of a minimum funding requirement' (amendments to IFRIC- Int 14). The amendments correct an unintended consequence of IFRIC - Int 14, 'IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC - Int 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning January 1, 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.

- Third improvements to International Financial Reporting Standards (2010) were issued in May 2010 by IASB. All improvements are effective in the financial year of 2011.

- Since October 2010, the IASB has published amendments to IFRS 7, 'Financial instruments: Disclosures on derecognition, additions to IFRS 9, 'Financial instruments — Classification and measurement' for financial liability accounting and amendments to IAS 12, 'Income taxes' on Deferred tax: Recovery of underlying assets. Management is in the process of making an assessment of their impact and is not yet in a position to state what impact, if any, they may make.

3. **Revenue and segment information**

The Group's subsidiaries are engaged in the production and sale of cement. The chief operating decision maker reviews the results of individual plants to make decisions about the allocation of resources. These have similar economic characteristics and are therefore presented as a single reportable segment in this condensed consolidated interim financial information. All of the revenue and operating results of the Group is derived in Shaanxi province, the PRC. The revenue represents the sale of cement during the nine months ended September 30, 2010 and 2009.

From January 1, 2009 onwards, the Group has expanded its operations through establishing/acquiring the following subsidiaries:

Subsidiaries established/acquired	Operation commencement/acquisition date
Ankang Yaobai Cement Co., Ltd.	Operation commenced in January 2009
Hanzhong Yaobai Cement Co., Ltd.	Operation commenced in January 2010
Hanzhong Mianxian Yaobai Cement Co., Ltd.	Operation commenced in September 2010
Shangluo Yaobai Longqiao Cement Co., Ltd.	Operation commenced in January 2010
Shangluo Yaobai Xiushan Cement Co., Ltd.	Acquired on August 1, 2009

4. **Property, plant and equipment**

	Property and plant	Motor vehicles	Electronic and other equipment	Machinery	Mining assets	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Nine months ended September 30, 2009 (unaudited)							
Opening net book amount	277,345	10,113	2,956	471,078	56,102	722,939	1,540,533
Acquisition of a subsidiary	69,827	1,905	3,809	52,308	11,500	1,126	140,475
Additions	18	7,700	4,267	4,510	—	452,497	468,992
Disposals	—	(2,417)	(194)	—	—	—	(2,611)
Depreciation	(15,621)	(605)	(1,087)	(32,934)	(1,463)	—	(51,710)
Closing net book amount	331,569	16,696	9,751	494,962	66,139	1,176,562	2,095,679
At September 30, 2009 (unaudited)							
Cost	415,572	20,111	13,264	652,627	73,645	1,176,562	2,351,781
Accumulated depreciation	(84,003)	(3,415)	(3,513)	(157,665)	(7,506)	—	(256,102)
Net book amount	331,569	16,696	9,751	494,962	66,139	1,176,562	2,095,679
Nine months ended September 30, 2010 (unaudited)							
Opening net book amount	798,737	19,635	16,792	1,096,925	154,536	524,877	2,611,502
Transfer in from CIP	147,369	—	14,457	159,277	63,431	(384,534)	—
Additions	624	5,117	33,226	—	1,337	1,179,641	1,219,945
Disposals	—	(1,864)	—	—	—	—	(1,864)
Depreciation	(39,328)	(1,783)	(3,663)	(88,623)	(12,111)	—	(145,508)
Closing net book amount	907,402	21,105	60,812	1,167,579	207,193	1,319,984	3,684,075
At September 30, 2010 (unaudited)							
Cost	1,022,486	26,764	69,425	1,452,743	232,214	1,319,984	4,123,616
Accumulated depreciation	(115,084)	(5,659)	(8,613)	(285,164)	(25,021)	—	(439,541)
Net book amount	907,402	21,105	60,812	1,167,579	207,193	1,319,984	3,684,075

The carrying amounts of the Group's construction in progress included capitalized interest of RMB 24,758,000 (unaudited) for the nine months ended September 30, 2010 (nine months ended September 30, 2009: RMB 23,998,000 (unaudited)) (Note 17).

Interest was capitalized at a weighted average effective interest rate of 8% (unaudited) per annum for the nine months ended September 30, 2010 (nine months ended September 30, 2009: 14% (unaudited)).

Certain items within property, plant and equipment ("PPE") with aggregated carrying amounts of RMB1,467,292,000 (unaudited) as at September 30, 2010 (as at December 31, 2009: RMB1,627,328,000) were pledged to banks for securing borrowings (Note 13(a)).

5. **Land use rights**

	RMB'000 (Unaudited)
Nine months ended September 30, 2009	
Opening net book amount	76,521
Acquisition of a subsidiary	6,134
Amortization charges	(291)
Closing net book amount	82,364
At September 30, 2009	
Cost	84,058
Accumulated amortization	(1,694)
Net book amount	82,364
Nine months ended September 30, 2010	
Opening net book amount	124,571
Additions	54,775
Amortization charges	(1,941)
Closing net book amount	177,405
At September 30, 2010	
Cost	182,185
Accumulated amortization	(4,780)
Net book amount	177,405

Certain land use rights with aggregate carrying amounts of RMB 41,643,000 (unaudited) as at September 30, 2010 (as at December 31, 2009: RMB41,527,000) were pledged to secure bank borrowings (Note 13(a)).

Land use rights are amortized over periods ranging between 36 years to 50 years.

6. **Mining rights**

	RMB'000 (Unaudited)
Nine months ended September 30, 2009	
Opening net book amount	27,907
Acquisition of a subsidiary	5,250
Amortization charges	(772)
Closing net book amount	32,385
At September 30, 2009	
Cost	34,857
Accumulated amortization	(2,472)
Net book amount	32,385
Nine months ended September 30, 2010	
Opening net book amount	46,373
Additions	11,380
Amortization charges	(2,258)
Closing net book amount	55,495
At September 30, 2010	
Cost	60,974
Accumulated amortization	(5,479)
Net book amount	55,495

Mining rights are granted from the respective Land and Resource Bureaus in Shaanxi Province. The useful lives of the mining rights range from 10 years to 40 years.

7. Other intangible assets

	Goodwill	Customer relationships	Computer software	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Nine months ended September 30, 2009 (unaudited)				
Opening net book amount	—	—	—	—
Acquisition of a subsidiary	45,274	20,610	—	65,884
Closing net book amount	45,274	20,610	—	65,884
At September 30, 2009 (unaudited)				
Cost and net book amount	45,274	20,610	—	65,884
Nine months ended September 30, 2010 (unaudited)				
Opening net book amount	45,274	19,751	79	65,104
Amortization charges	—	(1,594)	(8)	(1,602)
Closing net book amount	45,274	18,157	71	63,502
At September 30, 2010 (unaudited)				
Cost	45,274	20,610	80	65,964
Accumulated amortization	—	(2,453)	(9)	(2,462)
Net book amount	45,274	18,157	71	63,502

8. Deferred income tax

	As at September 30, 2010	As at December 31, 2009
	RMB'000 (unaudited)	RMB'000
Deferred tax assets:		
— to be recovered after more than 12 months	8,884	8,874
— to be recovered within 12 months	13,199	4,666
	22,083	13,540
Deferred tax liabilities:		
— to be settled after more than 12 months	(7,662)	(7,366)
— to be settled within 12 months	(6,870)	(713)
	(14,532)	(8,079)

9. **Trade and other receivables and prepayments**

	As at September 30, 2010	As at December 31, 2009
	RMB'000 (unaudited)	RMB'000
Bills receivable (Note (a))	12,070	5,370
Trade receivables (Note (a))	183,220	95,676
Less: provision for impairment of receivables	(4,851)	(4,881)
	190,439	96,165
Other receivables	74,818	54,975
Holding deposit for a potential acquisition (Note (b))	100,000	100,000
Less: provision for impairment of receivables	(401)	(370)
	174,417	154,605
Prepayments	87,177	66,900
Trade and other receivables and prepayments — net	452,033	317,670

The carrying amounts of trade and other receivables and prepayments approximate to their fair values.

Note (a)

Bills receivable are mainly aged within three months.

Trade receivables are all due from third parties. The ageing analysis of trade receivables at the respective balance sheet dates is as follows:

	As at September 30, 2010	As at December 31, 2009
	RMB'000 (unaudited)	RMB'000
Within 90 days	131,502	64,220
Over 90 days and within 180 days	33,499	9,198
Over 180 days and within 360 days	5,765	6,947
Over 360 days and within 720 days	9,486	11,365
Over 720 days	2,968	3,946
	183,220	95,676

Note (b)

On October 31, 2009, Shaanxi Yaobai Special Cement Co. Ltd ("Shaanxi Yaobai"), a subsidiary of the Company, entered into a non-binding memorandum of understanding (the "MOU") with Ankang Jianghua Cement Co. Ltd. ("Ankang Jianghua") for the proposed acquisition of 100% of the registered capital of Ankang Jianghua (the "Proposed Acquisition"). The MOU was effective until December 31, 2009. As the deposit for the Proposed Acquisition, Shaanxi Yaobai made a payment of RMB 100 million without interest to the third party to secure exclusivity. On January 25, 2010, Shaanxi Yaobai entered into an extension agreement with Ankang Jianghua, whereby the two parties agreed to extend the exclusive negotiation up to December 31, 2010. On December 31, 2010, Shaanxi Yaobai and Ankang Jianghua entered into a formal agreement to form a joint venture (Note 21).

10. **Cash and cash equivalents and restricted cash**

	As at September 30, 2010	As at December 31, 2009
	RMB'000 (unaudited)	RMB'000
Cash at bank and on hand (Note (a))	390,383	365,840
Less: Restricted cash (Note (b))	(16,161)	(19,582)
Cash and cash equivalents	374,222	346,258

(a) Bank deposits bear interests at rates based on bank deposit rates as agreed with banks for the nine months ended September 30, 2010. The weighted average effective interest rate on deposits was 0.10% (unaudited) per annum for the nine months ended September 30, 2010 (nine months ended September 30, 2009: 1.04% (unaudited))

(b) Restricted cash represents cash set aside as a result of issuance of trade facilities and bankers' guarantee, and a security deposit pledged to a bank under a bank borrowing agreement.

(c) Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

11. **Share capital and premium**

	Number of ordinary shares in thousand	Ordinary shares	Share premium	Total
		RMB'000	RMB'000	RMB'000
Opening balance at January 1, 2009	64,113	96,811	662,636	759,447
New shares issued for employee share option scheme	749	812	10,139	10,951
At September 30, 2009 (unaudited)	64,862	97,623	672,775	770,398
Adjusted balance as at September 30, 2009 after subdivision of 1 into 50 (Note (a))	3,243,100	97,623	672,775	770,398
Opening balance at January 1, 2010 (after share subdivision)	3,243,100	97,623	672,775	770,398
New shares issued for new listing of the Company's shares (Note (b))	946,588	19,972	1,379,030	1,399,002
Share issuance cost for new listing of the Company's shares (Note (b))	—	—	(68,863)	(68,863)
New shares issued for employee share option scheme	60,812	1,255	18,975	20,230
At September 30, 2010 (unaudited)	4,250,500	118,850	2,001,917	2,120,767

(a) The Company passed equity holders' resolutions on July 20, 2010 to approve the subdivision of each existing issued and unissued shares of £0.10 each in the share capital of the Company into 50 new ordinary shares of £0.002 each so that the authorised share capital of the Company £20,000,000 is divided into 10,000,000,000 ordinary shares of £0.002 each, which is conditional upon and with effect from the date of commencement of trading of the Company's shares on the HKSE. The subdivision came into effect upon the commencement of trading of the Company's ordinary shares on the HKSE on August 23, 2010 and the movements of ordinary shares as well as the calculation of the number of shares for earnings per share as disclosed in the financial information have taken into account of the subdivision and is based on the new number of shares upon subdivision.

(b) On August 23, 2010, the Company issued 823,120,000 new ordinary shares of £0.002 each at HK$1.69 per share in the share capital of the Company for subscription under a global offering. The new ordinary shares of the Company were listed on the HKSE on August 23, 2010. On August 30, 2010, 123,468,000 shares of £0.002 each, representing 15% of the shares offered under the global offering, were issued at HK$1.69 per share as over-allotment shares. These shares were listed on the HKSE on September 2, 2010. In connection with listing of the Company's shares on the HKSE, approximately RMB68,863,000 were incurred in relation to issue of new shares and debited to share premium.

12. **Share based payment**

Share options and warrants are granted to advisors and directors of the Company. The options and warrants are exercisable starting after two years from the grant date. The options and warrants have a contractual option term of five years. The Group has no legal or constructive obligation to repurchase or settle the options and warrants in cash.

Movements in the number of share options and warrants outstanding and their related weighted average exercise prices taken into account the share subdivision are as follows:

	Nine months ended September 30,			
	2010 (unaudited)		2009 (unaudited)	
	Average exercise price in GBP per share	Options (thousand shares)	Average exercise price in GBP per share	Options (thousand shares)
At beginning of the period	0.02	73,306	0.02	98,244
Granted	—	—	0.03	12,500
Exercised	0.02	(60,806)	0.02	(37,438)
At end of the period	0.03	12,500	0.02	73,306

13. **Borrowings**

	As at September 30, 2010	As at December 31, 2009
	RMB'000 (unaudited)	RMB'000
Non-current		
Bank borrowings-secured (Note (a))	407,296	704,522
Other borrowings (Note (b))	24,000	32,000
Less: Current portion of non-current borrowings	(215,764)	(376,464)
	215,532	360,058
Current		
Bank borrowings-secured (Note (a))	510,000	790,604
Other borrowings (Note (b))	—	121,800
Current portion of non-current borrowings	215,764	376,464
	725,764	1,288,868
Total borrowings	941,296	1,648,926

(a) ***Bank borrowings***

The Group's bank borrowings are denominated in the following currencies:

	As at September 30, 2010	**As at December 31, 2009**
	RMB'000 (unaudited)	**RMB'000**
RMB		
— borrowed by subsidiaries (i) (ii)	798,786	745,600
— transferred in from non-controlling interests	—	49,200
US$		
— US$60 million (iii)	—	358,921
— US$50 million from Superb Miles Limited (iv)	—	341,405
— US$50 million from financial institutions (v)	118,510	—
	917,296	1,495,126

Bank borrowings were secured as follows:

	As at September 30, 2010	**As at December 31, 2009**
	RMB'000 (unaudited)	**RMB'000**
Jointly secured by land use rights and PPE (i)	510,000	478,000
Jointly secured by land use rights, PPE and equity interests of subsidiaries (ii)	288,786	316,800
Secured by a subsidiary's equity interests (iii)	—	358,921
Secured by the Company's shares (iv)	—	341,405
Secured by subsidiary's equity interests and the Company's shares (v)	118,510	—
	917,296	1,495,126

(i) The bank borrowings were secured by certain land use rights (Note 5) and property, plant and equipment (Note 4) of the Group, with total carrying amounts of RMB566,197,000 (unaudited) as at September 30, 2010 (December 31, 2009: RMB 681,764,000).

(ii) The Group's bank borrowings of RMB288,786,000 as at September 30, 2010 (December 31, 2009: RMB316,800,000) were jointly secured by certain land use rights (Note 5), property, plant and equipment (Note 4) of the Group with total carrying values of RMB942,738,000 (unaudited) as at September 30, 2010 (December 31, 2009: RMB987,091,000), and secured by 100% of equity interests of 4 subsidiaries of the Group: Xi'an Lantian Yaobai Cement Co. Ltd, Ankang Yaobai Cement Co. Ltd, Hanzhong Yaobai Cement Co. Ltd, and Hanzhong Mianxian Yaobai Cement Co. Ltd. The loan was also guaranteed by these subsidiaries. During the nine months ended September 30, 2010, the Group incurred capital expenditures exceeding the limit stipulated in the loan agreement. In connection with such breach of compliance, the Group obtained a waiver from compliance with the limit from the agent bank representing the majority of lending banks by April 30, 2010. On December 29, 2010, the clauses in connection with compliance of capital expenditure limit were removed from the loan agreement.

(iii) The Group's bank borrowings of US$60,000,000 from Credit Suisse, Singapore Branch ("CS Facility") as at December 31, 2009 were secured by 100% of the equity interest of its subsidiary Shaanxi Yaobai. The facility was fully repaid on March 9, 2010 and all related financial instruments have been discharged.

(iv) The Group's bank borrowings of US$50,000,000 from Superb Miles Limited, a subsidiary of ICBC International Holdings ("ICBCI Facility") as at December 31, 2009 were guaranteed by Mr. Jimin Zhang ("Mr. Zhang") and secured by 19,393,776 shares (equivalent to 969,688,800 shares after share subdivision) of the Company (the "Shares") held by Mr. Zhang. The whole amount of US$50,000,000 has been fully repaid on August 23, 2010 and the charge over the shares held by Mr. Zhang and personal guarantee provided by Mr. Zhang were released on the same date.

(v) On February 26, 2010, the Company entered into a US$50,000,000 term loan facility agreement ("ICBC Facility") with Industrial and Commercial Bank of China (Asia) Limited ("ICBC Asia") and Industrial and Commercial Bank of China (Macau) Limited ("ICBC Macau") with the intention to utilise this loan to repay the CS Facility. The US$50,000,000 loan was drawn down on March 9, 2010, and the CS Facility has been fully repaid.

The ICBC Facility is secured by (a) a share charge over West China Cement Co. Ltd ("West China BVI") by the Company; (b) a share charge over Faithful Alliance Limited ("Faithful Alliance") provided by West China BVI ; (c) an equity pledge over Shaanxi Yaobai provided by Faithful Alliance; (d) an assignment of equity holders' loan borrowed by West China BVI from the Company; (e) charges over the accounts of the Company; and (f) corporate guarantee in favor of Industrial and Commercial Bank of China (Asia) Limited ("ICBC Asia") and Industrial and Commercial Bank of China (Macau) Limited ("ICBC Macau"), provided by ICBC International Holdings Limited ("ICBCI Holdings"). ICBCI Holdings also granted to ICBC Asia and ICBC Macau a put option, upon the exercise of which ICBCI Holdings is required to purchase the ICBC Facility from ICBC Asia and ICBC Macau together with all rights attached thereto. Such put option may only be exercised at any time after the occurrence of an event of default as set out in the ICBC Facility Agreement.

In addition, a second charge over 19,393,776 shares (equivalent to 969,688,800 shares after share subdivision) held by Mr. Zhang Jimin, chairman of the Company ("Mr. Zhang"), was created and a personal guarantee was provided by Mr. Zhang in favor of ICBCI Holdings, as the guarantor to the ICBC Facility, ranking immediately behind the charge created under the ICBCI Facility. On August 23, 2010, US$25,000,000 under the ICBC Facility were repaid and the charge over the shares held by Mr. Zhang and personal guarantee provided by Mr. Zhang were released on the same date. On August 26, the Company repaid US$6,250,000 under the ICBC Facility (Note 22 (b)).

The Group's bank borrowings are repayable as follows:

	As at September 30, 2010	As at December 31, 2009
	RMB'000 **(unaudited)**	**RMB'000**
6 months or less	465,982	626,563
6-12 months	259,782	540,505
1-2 years	164,142	204,596
2-5 years	27,390	123,462
	917,296	1,495,126

The fair values of current bank borrowings approximate their carrying amounts as the discounting impact is not significant.

The carrying amounts and fair value of the non-current bank borrowings are as follows:

	As at September 30, 2010	As at December 31, 2009
	RMB'000 (unaudited)	RMB'000
Carrying amount		
— US$ bank borrowings (i)	34,746	77,258
— RMB bank borrowings (ii)	156,786	250,800
	191,532	328,058
Fair value		
— US$ bank borrowings (i)	34,746	114,819
— RMB bank borrowings (ii)	156,786	250,800
	191,532	365,619

(i) The carrying amount of US$ bank borrowings represented the non-current portion of CS Facility as at December 31, 2009, and ICBC Facility as at September 30, 2010 respectively. The fair values are estimated based on discounted cash flows using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates.

The fair value of the balance as at September 30, 2010 approximates its carrying amount as the balance carries floating interest rates.

(ii) The fair values of non-current RMB bank borrowings approximate their carrying amounts at each of the balance sheet dates as all non-current RMB bank borrowings carry floating interest rates.

b) ***Other borrowings***

	As at September 30, 2010	As at December 31, 2009
	RMB'000 (unaudited)	RMB'000
Loan from third parties		
— transferred in from non-controlling interests	18,000	150,800
— other	6,000	3,000
	24,000	153,800

Other borrowings are all unsecured and denominated in RMB.

Other borrowings are repayable as follows:

	As at September 30, 2010	As at December 31,2009
	RMB'000 (unaudited)	RMB'000
6 months or less	—	92,800
6-12 months	—	29,000
1-2 years	18,000	29,000
2-5 years	6,000	3,000
	24,000	153,800

14. **Provisions for other liabilities and charges**

	Environmental Restoration
	RMB'000 (Unaudited)
At December 31, 2009	6,265
Additional provisions	1,755
Unwinding of discount (Note 17)	305
At September 30, 2010	8,325

According to a regulation issued in 2009 by the Ministry of Land and Resources of the People's Republic of China, the owner of a mine should undertake the obligation of environmental restoration. A provision is recognized for the present value of costs to be incurred for the restoration of the limestone mines of the Group based on the best estimate of future expenditure by the management. However, so far the local Land and Resource Bureau has not issued specific rules for the restoration standard, and if the restoration standard is released, the estimate of restoration costs may be subject to revision in the future. The amounts provided in relation to restoration and environmental cleanup costs are reviewed at least annually based upon the facts and circumstances available at the time, and the provisions are updated accordingly.

15. **Trade and other payables**

	As at September 30, 2010	As at December 31, 2009
	RMB'000 (unaudited)	RMB'000
Trade payables	407,894	185,950
Other payables	159,057	141,343
Advances from customers	77,518	56,920
Other taxes	34,546	32,288
Staff salaries and welfare payables	20,945	17,204
Other liabilities	16,235	10,472
Bonus payable	6,000	6,000
Interest payable	1,219	3,007
Acquisition consideration payable	823	36,050
Payable to non-controlling interests	—	70,161
	724,237	559,395

The carrying amounts of trade and other payables approximate to their fair values.

The ageing analysis of the trade payables were as follows:

	As at September 30, 2010	As at December 31, 2009
	RMB'000 (unaudited)	RMB'000
Within 90 days	284,779	147,187
Over 90 days and within 180 days	74,256	21,926
Over 180 days and within 360 days	47,689	12,851
Over 360 days and within 720 days	1,170	3,967
Over 720 days	—	19
	407,894	185,950

16. **Administrative expenses**

For the nine months ended September 30, 2010, included in administrative expenses were expenses of RMB61,842,000 (unaudited) incurred in connection with the listing of the Company's shares on the HKSE (nine months ended September 30, 2009: nil).

17. **Finance income and costs**

	Nine months ended September 30,	
	2010	**2009**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Finance income		
— Interest income on short-term bank deposits	259	619
Finance cost		
— Interest expense on bank borrowings and other borrowings	(107,045)	(80,938)
— Net foreign exchange gains/(loss) on financing activities	699	(3,698)
— Early repayment charges	(7,479)	—
— Unwinding of discount (Note 14)	(305)	—
— Fair value loss on financial instruments	—	(133,105)
Less: amounts capitalized (Note 4)	24,758	23,998
	(89,372)	(193,743)
Net finance costs	(89,113)	(193,124)

18. **Income tax expense**

The Group is subject to income tax on an entity basis on profits arising on or derived from the jurisdictions in which members of the Group are domiciled and operate.

	Nine months ended September 30,	
	2010	**2009**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Current tax	94,560	33,949
Deferred tax (Note 8)	(2,090)	—
Income tax expense	92,470	33,949

The income tax provision of the Group in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the nine months ended September 30, 2010 and nine months ended September 30, 2009 based on existing legislations, interpretations and practices.

19. **Earnings per share**

As mentioned in Note 10, each ordinary share of GBP0.1 of the Company has been subdivided into 50 ordinary shares of GBP0.002 effective on August 23, 2010, the earnings per share calculation below has taken into account of the share subdivision and based on the increased number of shares after subdivision.

(a) ***Basic***

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the nine months ended September 30, 2010 and nine months ended September 30, 2009.

	Nine months ended September 30,	
	2010	**2009**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Profit attributable to equity holders of the Company	551,572	199,797
Weighted average number of ordinary shares in issue (thousands)	3,623,230	3,226,527
Basic earnings per share (RMB per share)	0.15	0.06

(b) ***Diluted***

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the share options and warrants issued by the Company, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and warrants.

	Nine months ended September 30,	
	2010	**2009**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Profit attributable to equity holders of the Company	551,572	199,797
Weighted average number of ordinary shares in issue (thousands)	3,623,230	3,226,527
Adjustments for dilutive potential ordinary shares (thousands)	22,465	21,917
Weighted average number of ordinary shares for diluted earnings per share (thousands)	3,645,695	3,248,444
Diluted earnings per share (RMB per share)	0.15	0.06

20. **Commitments**

(a) ***Capital commitments***

Capital expenditure contracted for at the balance sheet dates, but not yet incurred was as follows:

	As at September 30, 2010	As at December 31, 2009
	RMB'000 (unaudited)	RMB'000
Property, plant and equipment	266,027	558,336

(b) ***Operating lease commitments - Group companies as lessee***

The Group leases various buildings as offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and the majority of lease agreements have been terminated by the end of the nine months ended September 30, 2010.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at September 30, 2010	As at December 31, 2009
	RMB'000 (unaudited)	RMB'000
No later than 1 year	—	74
Later than 1 year and no later than 5 years	—	209
Later than 5 years	—	446
	—	729

21. **Related-party transactions**

(a) ***Key management compensation***

Key management includes directors (executive and non-executive) and senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	Nine months ended September 30,	
	2010	2009
	RMB'000 (unaudited)	RMB'000 (unaudited)
Salaries and other short-term employee benefits	3,549	3,285
Share-based payments	274	786
	3,823	4,071

(b) ***Amount due from key management***

	As at September 30, 2010	As at December 31, 2009
	RMB'000 (unaudited)	RMB'000 (unaudited)
Yongji Li	—	2,662

The amount due from Mr. Yongji Li is relating to one of the Company's customers in 2009 offered to settle its debts it owed to the Company by transferring its real property to the Company. Mr. Yongji Li accepted the property and assumed the liability from the customer to the Company. The amount was interest free, unsecured and fully repaid in June 2010.

(c) The details of security provided by Mr. Jimin Zhang for bank borrowings are set out in Note 13(a)(iv) and Note 13(a)(v).

22. **Subsequent events**

(a) On December 14, 2010, the Company entered into a bridge loan agreement of US$85 million with ICBC International Finance Limited (the "ICBC Bridge Loan"). The ICBC Bridge Loan is secured by (i) an equity pledge over Shaanxi Yaobai provided by Faithful Alliance; (ii) a share mortgage over the shares in Faithful Alliance executed by West China BVI; and (iii) a personal guarantee provided by Mr. Jimin Zhang in favor of the lender. In addition, share certificates of 1,000,000 issued shares of the Company held by Mr. Jimin Zhang were delivered to the lender under a custody arrangement.

(b) On December 21, 2010, the remaining balance of ICBC Facility amounting to approximately US$19 million was fully repaid.

(c) On December 31, 2010, Shaanxi Yaobai and Shaanxi Ankang Jianghua Group Co., Ltd. ("Ankang Jianghua") signed an agreement to establish a joint venture, namely Ankang Yaobai Jianghua Cement Co., Ltd. ("Yaobai Jianghua") 安康堯柏江華水泥有限公司, with an equity holding of 80% and 20% respectively. The investment in the joint venture consists of the capital contributions from Shaanxi Yaobai of cash of RMB320 million including the deposit of RMB100 million placed for this transaction in 2009 (Note 9 (b)) and Ankang Jianghua of a group of assets and liabilities of a net value of approximately Rmb80 million into Yaobai Jianghua respectively. Yaobai Jianghua obtained its business licence on January 6, 2011. Its principal business activity is production and sale of cement.

(d) On January 10, 2011, the Group signed an agreement with the non-controlling shareholder of Shangluo Yaobai Longqiao Cement Co., Ltd. ("Longqiao Yaobai") 商洛堯柏龍橋水泥有限公司to acquire the remaining 20% equity interests in Longqiao Yaobai from the non-controlling shareholder with a cash consideration of RMB25 million. As a result of the acquisition, the Group holds 100% equity interests in Longqiao Yaobai.

(e) Pursuant to a resolution passed in a board meeting held on January 6, 2011, the Group plans to issue guaranteed senior notes in the principal amount of up to US$500 million on Singapore Exchange Securities Trading Limited. As at January 12, 2011, the exact terms of the guaranteed senior notes are yet to be finalised.

PRINCIPAL AND REGISTERED OFFICES OF THE COMPANY

West China Cement Limited

Headquarters and principal place of business in the PRC
Room 1903, Building A
Gaoke Plaza
Hi-Tech Industrial Development Zone
Xi'an, Shaanxi Province
People's Republic of China

Place of business in Hong Kong
Units 3401-2
34th Floor AIA Tower
183 Electric Road
North Point
Hong Kong

Registered office
47 Esplanade
St. Helier
Jersey JE1 0BD

TRUSTEE, PRINCIPAL PAYING AGENT, TRANSFER AGENT AND REGISTRAR

Deutsche Bank Trust Company Americas
60 Wall Street,
MSNYC 60-2710,
New York, New York 10005
United States of America

LEGAL ADVISERS TO THE COMPANY

as to United States and Hong Kong law

Sidley Austin
Level 39
Two International Finance Centre
8 Finance Street
Central
Hong Kong

as to BVI law

Harneys Westwood & Riegels
Craigmuir Chambers
PO Box 71, Road Town,
Tortola
British Virgin Islands

as to PRC law

Zong Heng Law Firm
Room 500
Textile Industry Bureau Building
12 East Chang'An Avenue
Beijing 100742
People's Republic of China

as to Jersey law

Carey Olsen
47 Esplanade
St. Helier
Jersey JE1 0BD

LEGAL ADVISERS TO THE INITIAL PURCHASERS

as to PRC law

Jingtian & Gongcheng
34/F, Tower 3 China Central Place
77 Jianguo Road
Chaoyang District
Beijing 100025
People's Republic of China

as to United States law

Davis Polk & Wardwell LLP
18th Floor,
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

AUDITOR

PricewaterhouseCoopers
22/F, Prince's Building
Central
Hong Kong