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CHINA TIANRUI GROUP CEMENT COMPANY LIMITED
中國天瑞集團水泥有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1252)

PROPOSED ISSUE OF SENIOR NOTES AND EXTRACT OF OPERATING AND FINANCIAL INFORMATION

The Company proposes to conduct an international offering of senior notes and will commence a series of roadshow presentations beginning on or around 19 April 2012 to certain institutional investors in Asia, Europe and the United States. In connection with the offering, the Company will provide certain institutional investors with recent corporate and financial information regarding the Group, including updated risk factors, management's discussion and analysis, description of new projects, related party transactions and indebtedness information, certain of which information has not previously been made public. An extract of such recent information is attached to this announcement, and will also be available on the Company's website at *www.trcement.com* at approximately the same time when such information is released to the institutional investors.

The completion of the Proposed Notes Issue is subject to, among others, market conditions and investor interest. The Notes are proposed to be guaranteed by the Subsidiary Guarantors and secured by the pledge of the shares of the Subsidiary Guarantors. Deutsche Bank, as the sole lead manager and the sole bookrunner, is managing the Proposed Notes Issue. As at the date of this announcement, the principal amount, the interest rates, the payment date and certain other terms and conditions of the Proposed Notes Issue are yet to be finalised. Upon finalising the terms of the Notes, it is expected that Deutsche Bank, the Subsidiary Guarantors and the Company, among others, will enter into the Purchase Agreement. The Company intends to use the proceeds from the Notes to make certain acquisitions, expand production capacity, refinance some existing debt obligations, and for general corporate purposes.

The Company intends to seek a listing of the Notes on the SGX-ST. Admission of the Notes to the Official List of the SGX-ST and quotation of the Notes on the SGX-ST are not to be taken as an indication of the merits of the Company or the Notes. No listing of the Notes has been sought in Hong Kong.

As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialise. Potential investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company.

Further announcement in respect of the Proposed Notes Issue will be made by the Company should the Purchase Agreement be signed.

THE PROPOSED NOTES ISSUE

Introduction

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The Notes will only be offered (i) in the United States, to qualified institutional buyers in reliance on the exemption from, or in a transaction not subject to, the registration requirements of the Securities Act provided by Rule 144A, and (ii) outside the United States, in compliance with Regulations S under the Securities Act. None of the Notes will be offered to the public in Hong Kong and none of the Notes will be placed with any connected persons of the Company.

Reasons for the Proposed Notes Issue

The Group is a leading clinker and cement producer in Henan and Liaoning provinces in the PRC in terms of production volume for the year ended December 31, 2010. The Group's operations range from the excavation of limestone to the production, sale and distribution of clinker and cement. The Group's cement is sold under the brand "天瑞 TIANRUI" which has been recognized as a "Chinese Famous Trademark" by the State Administration for Industry and Commerce of China. The Group's products are primarily used in the construction of infrastructure projects such as highways, bridges, railways and roads, as well as residential buildings. Majority of the Group's customers are located in Henan and Liaoning provinces in the PRC.

The Group intends to strengthen its leading market position in Henan and Liaoning provinces in the PRC through organic growth and selective acquisitions. It also intends to expand into the Tianjin market in the PRC. The Group recently signed non-binding memoranda of understanding on potential acquisitions of certain clinker and cement production lines in Henan province (comprising four clinker production lines with an aggregate production capacity of approximately 9.0 million tonnes per annum and four cement production lines with an aggregate production capacity of approximately 12.0 million tonnes per annum) and Liaoning province (comprising two clinker production lines with an aggregate production capacity of approximately 3.1 million tonnes per annum and two cement production lines with an aggregate production capacity of 6.6 million tonnes per annum), which may or may not lead to the signing of binding definitive acquisition agreements. As at the date of this announcement, the Group has not entered into any binding definitive acquisition agreements with any of these potential target companies. Therefore, all the substantive terms regarding any of such potential acquisitions, including but not limited to, the clinker and cement production lines to be acquired and the acquisition price, are subject to further negotiation and definitive agreement.

The Proposed Notes Issue is being undertaken to supplement the Group's funding of its acquisitions, expansion plans, financing activities and business development. The Company believes that the Proposed Notes Issue will further improve its ability to access the international debt capital markets to support the growth of the Group.

The Company intends to use the proceeds from the Notes for (i) acquisitions that may provide access to additional markets, production capacity, limestone reserves, and capital expenditure to build new production lines; (ii) refinancing the existing debt obligations with maturity within one year; and (iii) general corporate purposes. The Company may adjust the foregoing plans in response to changing market conditions and thus, reallocate the use of proceeds.

Listing

The Company intends to seek a listing of the Notes on the SGX-ST. Admission of the Notes to the Official List of the SGX-ST and quotation of the Notes on the SGX-ST are not to be taken as an indication of the merits of the Company or the Notes. No listing of the Notes has been sought in Hong Kong.

GENERAL

As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialise. Potential investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company.

Further announcement in respect of the Proposed Notes Issue will be made by the Company should the Purchase Agreement be signed.

DEFINITIONS

In this announcement, the following terms shall have the meanings set out below unless the context requires otherwise:

"Board"	the board of directors of the Company
"Company"	China Tianrui Group Cement Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
"connected person"	has the meaning ascribed to it under the Listing Rules
"Deutsche Bank"	Deutsche Bank AG, Singapore Branch
"Directors"	the directors of the Company
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Notes"	the senior notes proposed to be issued by the Company
"PRC"	the People's Republic of China, excluding Hong Kong, the Macao Special Administrative Region of the People's Republic of China and Taiwan for the purpose of this announcement
"Proposed Notes Issue"	the proposed issue of the Notes by the Company
"Purchase Agreement"	the agreement proposed to be entered into between, among others, the Company, the Subsidiary Guarantors and Deutsche Bank in relation to the Proposed Notes Issue
"Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"SGX-ST"	Singapore Exchange Securities Trading Limited
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Subsidiary Guarantors"	the subsidiaries of the Company incorporated outside of the PRC which are expected to provide a guarantee for the payment of the Notes and these Subsidiary Guarantors will not include any subsidiaries of the Company established under the laws of the PRC
"United States"	the United States of America

By the order of the Board of Directors
China Tianrui Group Cement Company Limited
Li Liufa
Chairman

Hong Kong, 19 April 2012

As at the date of this announcement, the Board consists of:

Chairman and Non-executive Director
Mr. Li Liufa

Executive Directors
Mr. Li Heping, Mr. Liu Wenying and Mr. Yu Yagang

Non-executive Director
Mr. Tang Ming Chien

Independent Non-executive Directors
Mr. Wang Yanmou, Mr. Poon Chiu Kwok, Mr. Song Quanqi and Mr. Ma Chun Fung Horace

This announcement contains forward-looking statements relating to the business outlook, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond control of the Group. The forward-looking statements may prove to be incorrect and may not be realised in future. Underlying the forward-looking statements are a large number of risks and uncertainties. Further information regarding these risks and uncertainties is included in the Company's other public disclosure documents.

Extract of Operating and Financial Information of China Tianrui Group Cement Company Limited (As of 31 December 2011)

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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 China Tianrui Group Cement Company Limited itself, or to China Tianrui Group Cement Company 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 Purchaser or its respective directors and advisors, and neither we, the Initial Purchaser nor our or its 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.

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 PRC government and private publications. The Initial Purchaser does 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.

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 RMB6.2939 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 December 30, 2011, and all translations from H.K. dollars into U.S. dollars were made at the rate of HK$7.7663 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 December 30, 2011. 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. Referrences to "BVI" are to the British Virgin Islands.

"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.

In addition, this offering memorandum contains certain defined terms, including:

"Antai Cement" means Lushan Antai Cement Company Limited (魯山縣安泰水泥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Chairman Li" means Li Liufa (李留法), the founder, chairman and a Controlling Shareholder of our Group.

"Controlling Shareholder(s)" means, in the context of this offering memorandum, Chairman Li, Li Xuanyu, Yu Kuo, Yu Qi and/or Holy Eagle.

"Dalian Cement" means Dalian Tianrui Cement Company Limited (大連天瑞水泥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Guangshan Cement" means Tianrui Group Guangshan Cement Company Limited (天瑞集團光山水泥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Holy Eagle" means Holy Eagle Company Limited (神鷹有限公司), a company incorporated in the BVI with limited liability, which is wholly owned by Chairman Li and one of our Controlling Shareholders.

"IFC" means International Finance Corporation, a former investor of our Company and the lender of the IFC Loan.

"IFC Loan" means a loan of US$50 million that IFC advanced to Tianrui Cement pursuant to a loan agreement dated June 28, 2007 between IFC and Tianrui Cement.

"Investors" means Titan Investments (Cayman), JPMorgan PCA and Wan Qi.

"IPO" means our initial public offering on The Stock Exchange of Hong Kong Limited in December 2011.

"JPM" means JP Morgan Chase Bank (China) Company Limited Shanghai Branch.

"JPM Facility" means a credit facility of up to RMB1,993 million granted by a syndicate led by JPM to Tianrui Cement and nine of its subsidiaries in the PRC pursuant to a facility agreement entered into among the syndicate, Tianrui Cement and such nine subsidiaries on August 22, 2007.

"JPMorgan PCA" means JPMorgan PCA Holdings (Mauritius) I Limited, a company established in Mauritius with limited liability and one of the Investors.

"Liaoyang Cement" means Liaoyang Tianrui Cement Company Limited (遼陽天瑞水泥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Li Xuanyu" means a Controlling Shareholder and the son of Chairman Li.

"MIIT" means the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部).

"Mr. Tang" means Tang Ming Chien (唐明千), a Canadian citizen and the sole shareholder of Wan Qi.

"Nanzhao Cement" means Tianrui Group Nanzhao Cement Company Limited (天瑞集團南召水泥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Ningling Cement" means Tianrui Group Ningling Cement Company Limited (天瑞集團寧陵水泥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Ruzhou Cement" means Tianrui Group Ruzhou Cement Company Limited (天瑞集團汝州水泥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Sanmenxia Tianyuan Aluminum" means Sanmenxia Tianyuan Aluminum Company Limited (三門峽天元鋁業股份有限公司), a joint stock company incorporated in the PRC, a subsidiary of Tianrui Group and whose shares are listed on the Growth Enterprise Market operated by the Stock Exchange.

"Shangqiu Cement" means Shangqiu Tianrui Cement Company Limited (商丘天瑞水泥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Tianjin Cement" means Tianjin Tianrui Cement Company Limited (天津天瑞水泥有限公司), a company established in the PRC with limited liability and a subsidiary of our Company.

"Tianrui Cement" means Tianrui Group Cement Company Limited (天瑞集團水泥有限公司), a wholly foreign-owned enterprise established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Tianrui Group" means Tianrui Group Company Limited (天瑞集團有限公司), a company established in the PRC with limited liability and a company held as to 51.25% and 48.75% by Chairman Li and Li Xuanyu, respectively.

"Tianrui (HK)" means China Tianrui (Hong Kong) Company Limited (中國天瑞(香港)有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of our Company.

"Titan Investments (Cayman)" means Titan Investments Limited, a company incorporated in the Cayman Islands with limited liability and one of the Investors.

"Wan Qi" means Wan Qi Company Limited, a company established in the BVI with limited liability and one of the Investors.

"Weihui Cement" means Weihui Tianrui Cement Company Limited (衛輝市天瑞水泥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Xiaoxian Cement" means Tianrui Group Xiaoxian Cement Company Limited (天瑞集團蕭縣水泥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Xuchang Cement" means Tianrui Group Xuchang Cement Company Limited (天瑞集團許昌水泥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Yingkou Cement" means Yingkou Tianrui Cement Company Limited (營口天瑞水泥有限公司) (formerly known as Yingkou ETD Zone Golden Earth Cement Co., Ltd (營口經濟技術開發區金地球水泥有限公司)), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Yu Kuo" means Yu Kuo Company Limited (煜闊有限公司), a company incorporated in the BVI with limited liability, which is 51.25% owned by Holy Eagle and 48.75% owned by Yu Qi, and a Controlling Shareholder.

"Yu Qi" means Yu Qi Company Limited (煜祺有限公司), a company incorporated in the BVI with limited liability, which is wholly owned by Li Xuanyu, and a Controlling Shareholder.

"Yuzhou Cement" means Yuzhou Zhongjin Cement Company Limited (禹州市中錦水泥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Yuzhou Mining" means Yuzhou Zhongjin Mining Company Limited (禹州中錦礦業有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Zhengzhou Cement (Xingyang)" means Tianrui Group Zhengzhou Cement Company Limited (天瑞集團鄭州水泥有限公司) (formerly known as Tianrui Group Xingyang Cement Company Limited (天瑞集團滎陽水泥有限公司)), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Zhengzhou Tianrui" means Zhengzhou Tianrui Cement Company Limited (鄭州天瑞水泥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

"Zhong Yuan Cement" means Zhong Yuan Cement Company Limited (中原水泥有限公司), a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of our Company.

"Zhoukou Cement" means Tianrui Group Zhoukou Cement Company Limited (天瑞集團周口水泥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of our Company.

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 and titles 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; and
- future developments, trends and conditions in our industry in China.

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 may not occur.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terms used in this offering memorandum as they relate to our Company and as they are used in this offering memorandum in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions.

"cement"	a grey powder, made by calcining lime and silicious raw material, which hardens when mixed with water and is generally used in producing mortar and concrete
"clay"	a natural mineral having plastic properties and composed of very fine particles, moldable when wet and fused into permanent form at very high temperatures
"clinker"	a major semi-finished product in the cement production process
"cm"	centimeter(s)
"Composite Portland Cement"	a type of cement produced by Ordinary Portland Cement along with 15% to 50% of aggregates, such as flyash
"FAI"	fixed asset investment
"flyash"	residues generated from the combustion of coal which can be used in lieu of virgin materials in cement production
"GWh"	gigawatt-hour, the standard 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
"km"	kilometer(s)
"KW"	kilowatt, 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 calcium carbonate
"MPa"	megapascal, one million units of pascal, which is one newton of force applied to one square meter
"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, an energy efficient technology, in which raw materials are heated in conical vessels using high temperature gas from the kiln
"Ordinary Portland Cement"................	a type of quick hardening cement with relatively strong initial compressive strength and resistant to abrasion
"production capacity"..........................	as used in this offering memorandum, unless the context otherwise requiries, production capacity represents the volume of clinker/cement that can be produced based on the specifications of relevant production facilities as of a relevant date and clinker production capacity refers to clinker produced using NSP technology only
"production volume"	as used in this offering memorandum, unless the context otherwise requiries, production volume represents the actual volume of clinker/cement produced at relevant production facilities in a relevant period
"Slag Portland Cement".......................	a type of cement produced by mixing clinker with iron blast furnace slag and other additives
"slag"..	a partially vitreous by-product of smelting ore that can be used as an additive in the production of cement

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 statements and related notes thereto, before making an investment decision.

Overview

We are a leading clinker and cement producer in Henan and Liaoning provinces in terms of production volume for the year ended December 31, 2010. We ranked 10th among all the cement producers in China in terms of production volume for the year ended December 31, 2010, according to the China Cement Association, and we ranked 11th among all the clinker producers in China in terms of production capacity as of December 31, 2011, according to China Cement Net (中國水泥網). Our operations range from the excavation of limestone, to the production, sale and distribution of clinker and cement. The PRC government has promulgated policies aiming at consolidating China's cement industry and has recognized us as one of the 12 national cement producers entitled to government support in the form of priority with respect to project approvals, land use right grants and credit approvals when undertaking mergers, acquisitions and project investments in the cement industry. We are also the only non-state-owned enterprise designated by the MIIT as one of the seven leading cement companies that the PRC government supports for undertaking cement industry-specific mergers and consolidation in Central China. Under the PRC government's current cement industry policies, small-scale cement producers with obsolete production technologies that are not environmentally-friendly shall be phased out, which we believe will eventually lead to an optimal balance between the supply and demand of cement in China. The State Council recently issued guidelines on developing the central economic zone that primarily covers Henan province, one of our primary markets, with the aim to, among other things, promote its urbanization and further develop its infrastructure. As a leading cement producer in Henan and Liaoning provinces, we believe that we can benefit from these PRC government policy initiatives by further expanding our production capacity and products coverage in order to strengthen our market position.

According to data from the respective Building Materials Industry Associations (建築材料工業協會) of Henan and Liaoning provinces, we were the largest clinker producer in each of Henan and Liaoning provinces in terms of clinker production capacity using NSP technology as of June 30, 2011, and we were the largest cement producer in Henan province and the second largest cement producer in Liaoning province in terms of production volume for the year ended December 31, 2010. As of December 31, 2011, we had a total of 15 clinker production lines and 35 cement grinding lines, with an annual clinker and cement production capacity of 22.2 million tonnes and 35.2 million tonnes, respectively. In 2009, we also constructed and put in operation a clinker production line that has a daily production capacity of 12,000 tonnes, which is one of the largest clinker production lines in the world. In 2009, 2010 and 2011, we sold 16.7 million, 22.1 million and 23.6 million tonnes of cement, and 4.8 million, 6.1 million and 6.4 million tonnes of clinker, respectively. We have finished the construction of the production facility in Tianjin in the first quarter of 2012 and are currently constructing the Yuzhou Phase II Project. We may further increase our production capacity through acquisitions of cement and clinker producers or production facilities to strengthen our market position (see "Business — Planned Capacity and Other Expansions") and through innovation and development of our production technology.

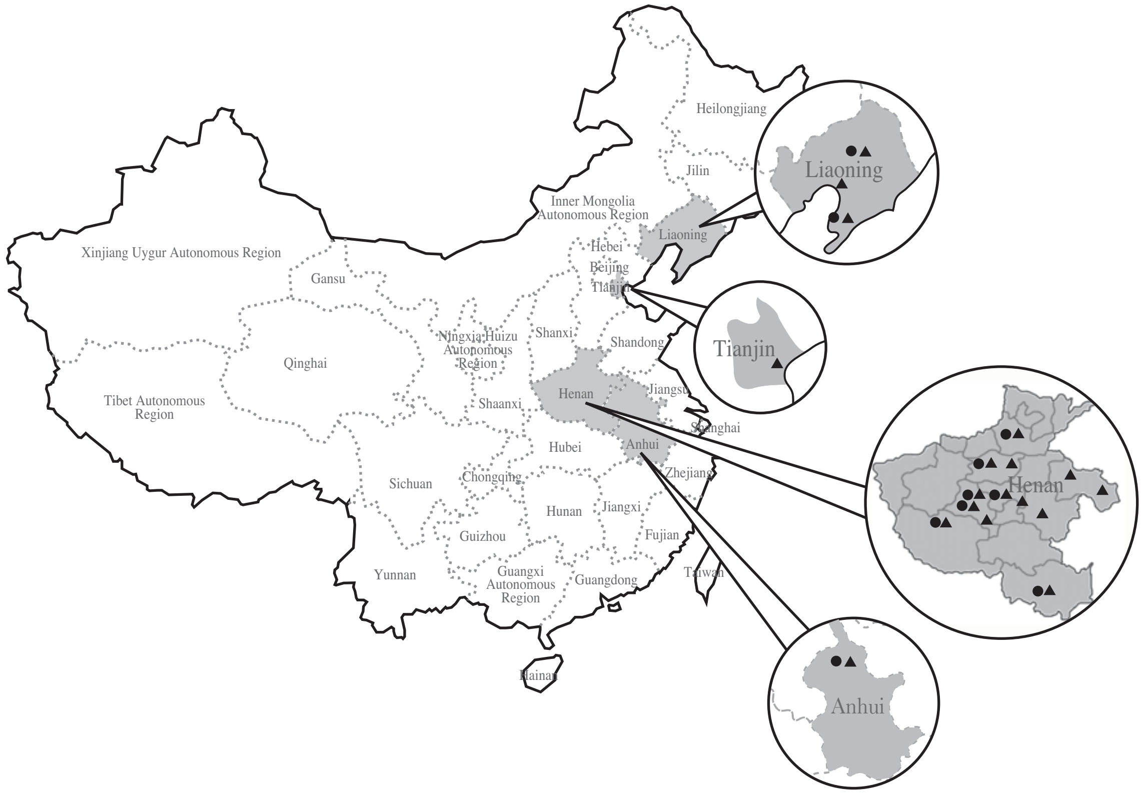
Limestone is the principal raw material used in producing cement. For the years ended December 31, 2009, 2010 and 2011, costs for excavating and externally sourcing limestone constituted approximately 9.4%, 8.5% and 8.1% of our total cost of sales, respectively. We source a majority of our limestone from limestone quarries we are licensed to excavate, which have sufficient limestone reserves to support our operations. As all of our clinker production facilities are located near our limestone quarries, we believe our production facilities enjoy a stable supply of limestone with low transportation costs.

We produce a wide variety of cement products using NSP technology, one of the most advanced technologies for cement production in China. All our equipment and facilities that are related to non-NSP technologies had been disposed of and been fully written off before the three years ended December 31, 2011, and during the three years ended December 31, 2011 all our newly constructed or acquired productions lines utilized NSP technology. As such, we currently have no equipment or facilities that utilize non-NSP technologies and therefore are required to be written off. NSP production lines generally emit lower levels of pollutants and are more energy-efficient than facilities employing non-NSP technologies. Although NSP technology is not unique to us, each of our clinker production lines has been equipped with this technology, compared to the average application rate of approximately 80% of NSP technology among cement producers in China as of December 31, 2010, according to Digital Cement. Our principal products also include clinker, a key intermediary component of cement. We employ residual heat recovery technology in the clinker production process.

As of December 31, 2011, we have obtained the ISO-9001 quality control system certification, the OHSAS 18000 certification and ISO 14001 certification with respect to certain of our production facilities. We are also one of the five Chinese cement companies and the only non-state-owned Chinese cement producer that is a member of Cement Sustainability Initiative ("CSI"), a global initiative sponsored by 24 major cement producers with combined operations in over 100 countries and that promotes sustainable development in the cement industry.

Our cement is sold under the brand name "天瑞TIANRUI", which has been recognized as a "Chinese Famous Trademark" by the State Administration for Industry and Commerce. We believe that our brand has become a mark of quality within the construction industry in China. Leveraging our brand name and high-quality products, we have successfully won tenders and become a qualified primary cement provider for a number of high-profile large-scale infrastructure projects in China, including, among other things, the South-North Water Transfer Project (南水北調工程), Ha'erbin-Dalian Express Railway (哈大高鐵) and Shijiazhuang-Wuhan Express Railway (石武高鐵).

The map below indicates the locations of our production facilities as of December 31, 2011:



Indicates where we have production facilities. The production facility in Tianjin was completed in the first quarter of 2012.

▲ Indicates where we have cement grinding lines.

● Indicates where we have clinker production lines.

We sell our cement products to end-users both through direct sales by our in-house sales network in our target markets and through distributors. We have 18 regional sales offices that are spread across Henan, Liaoning and Anhui provinces.

We sold 16.7 million, 22.1 million and 23.6 million tonnes of cement and 4.8 million, 6.1 million and 6.4 million tonnes of clinker for the years ended December 31, 2009, 2010 and 2011, respectively. Our revenue increased from RMB4,415.2 million in 2009 to RMB6,129.4 million in 2010 and to RMB8,263.4 million in 2011, representing a CAGR of 23.2% from 2009 to 2011. For the years ended December 31, 2009, 2010 and 2011, our net profit was RMB163.3 million, RMB397.8 million and RMB1,273.2 million, respectively.

The PRC cement industry is heavily influenced by, among other things, overall economic development, PRC government policies in general, the real estate industry in particular and the scale of infrastructure investment. We have benefitted from China's fast growing economy, large infrastructure development projects, including those under the PRC government's now-expired RMB4 trillion stimulus package, and PRC government policies to phase out obsolete cement production capacity. We also believe we can benefit from the PRC government's plan to develop 36 million affordable housing units for low income urban residents by 2016.

Competitive Strengths

We believe that our competitive strengths include the following:

- strong market position as the largest clinker producer in Henan and Liaoning provinces, the largest cement producer in Henan province and the second largest cement producer in Liaoning province;

- significant growth opportunities in the construction industry in Henan and Liaoning provinces;

- strategic geographic locations of our production facilities;

- strong research and development capabilities and advanced and environmentally-friendly technologies;

- significant cost advantages and benefits achieved through sound production, marketing and management models; and

- experienced management team with a proven track record.

Strategies

We intend to further strengthen our leading market position in Henan and Liaoning provinces 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 and expand into new markets through organic growth and selective acquisitions;

- further improve our production efficiency and reduce production costs;

- develop new cement products and raw materials to enhance our overall competitiveness; and

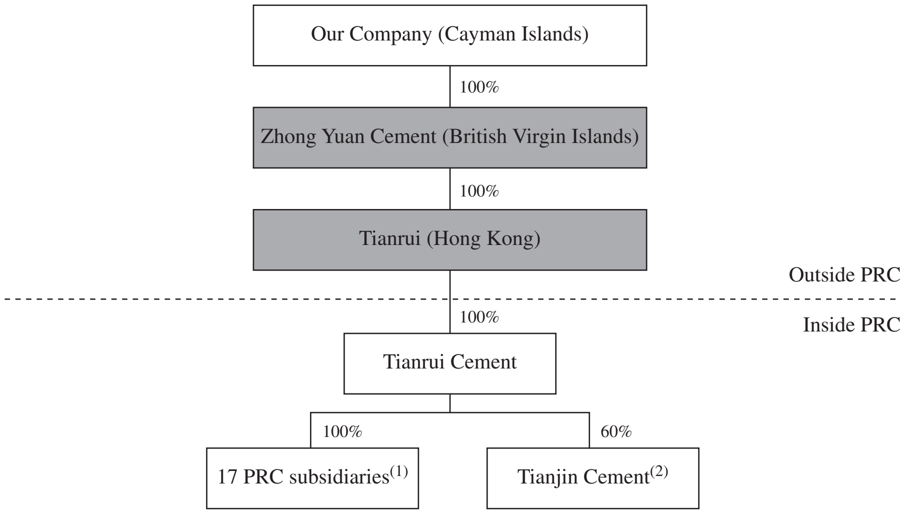
- enhance our brand awareness and marketing efforts.

General Information

Our Company is a limited liability company incorporated in the Cayman Islands on February 17, 2011. Our registered office is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Caymand Islands. Our headquarters and principal place of business in the PRC is located at No. 63 Guangcheng Road East, Ruzhou City, Henan Province, People's Republic of China. Our place of business in Hong Kong registered under Part XI of the Companies Ordinance is Rooms 2201-2203, 22/F, World-Wide House, 19 Des Voeux Road Central, Hong Kong. Our website is www.trcement.com. Information contained on our website does not constitute a part of this offering memorandum.

Corporate Structure

The following chart sets forth our corporate structure as of the date of this offering memorandum. Entities that are shaded grey will be Subsidiary Guarantors.



Notes:

(1) The 17 wholly-owned PRC subsidiaries of our Group are Ruzhou Cement, Zhoukou Cement, Weihui Cement, Shangqiu Cement, Zhengzhou Cement (Xingyang), Dalian Cement, Yingkou Cement, Nanzhao Cement, Liaoyang Cement, Yuzhou Cement, Xuchang Cement, Guangshan Cement, Zhengzhou Tianrui, Xiaoxian Cement, Ningling Cement, Antai Cement and Yuzhou Mining.

(2) The remaining 40% of the equity interests of Tianjin Cement are owned by minority shareholders having no other relationship with the Group.

Summary Consolidated Financial Data

You should read the summary consolidated financial data presented below in conjunction with the consolidated financial statements of China Tianrui Group Cement Company Limited, related notes to such consolidated financial statements and other financial information, contained in this offering memorandum. You should also read the section of this offering memorandum entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The following summary consolidated financial data as of and for the years ended December 31, 2009, 2010 and 2011 (other than US dollar amounts, which are provided for illustrative purpose only) has been derived from the audited consolidated financial statements of China Tianrui Group Cement Company Limited, included elsewhere in this offering memorandum. Our consolidated financial statements as of and for the years ended December 31, 2009, 2010 and 2011 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and have been audited by Deloitte Touche Tohmatsu, independent auditors, in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Summary Consolidated Statements of Comprehensive Income

	For the year ended December 31,			
	2009	2010	2011	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Revenue	4,415,224	6,129,438	8,263,395	1,312,921
Cost of sales	(3,695,422)	(5,080,258)	(5,830,467)	(926,368)
Gross profit	719,802	1,049,180	2,432,928	386,553
Other income	134,812	188,454	293,817	46,683
Selling and distribution expenses	(200,130)	(225,473)	(260,783)	(41,434)
Administrative expenses	(125,278)	(174,604)	(296,832)	(47,162)
Other expenses	(15,682)	(7,587)	(7,308)	(1,161)
Share of loss of an associate	(101,832)	—	—	—
Finance costs	(166,652)	(303,266)	(475,269)	(75,513)
Profit before taxation	245,040	526,704	1,686,553	267,966
Income tax expense	(81,779)	(128,917)	(413,365)	(65,677)
Profit for the year and total comprehensive income for the year	163,261	397,787	1,273,188	202,289
Profit for the year and total comprehensive income for the year attributable to:				
Owners of the Company	162,738	396,833	1,274,538	202,504
Non-controlling interest	523	954	(1,350)	(215)
	163,261	397,787	1,273,188	202,289
	RMB	RMB	RMB	USD
Earnings per share				
Basic	0.08	0.20	0.63	0.10

Summary Consolidated Statements of Financial Position

	As of December 31,			
	2009	2010	2011	2011
	RMB'000	RMB'000	RMB'000	US$'000
NON-CURRENT ASSETS				
Property, plant and equipment	7,322,017	8,666,714	10,034,915	1,594,387
Deposits paid	509,742	473,472	230,563	36,633
Prepaid lease payments	488,367	499,927	602,491	95,726
Mining rights	222,173	228,500	222,533	35,357
Goodwill	12,275	12,275	12,275	1,950
Available-for-sale investments	5,200	4,000	—	—
Amounts due from related parties	28,070	28,070	—	—
Restricted bank balances	30,000	—	—	—
Deferred tax assets	8,283	8,528	15,285	2,429
	8,626,127	9,921,486	11,118,062	1,766,482
CURRENT ASSETS				
Inventories	656,036	800,861	1,203,151	191,161
Trade and other receivables	596,062	1,179,917	2,454,932	390,049
Available-for-sale investments	—	—	4,000	636
Amounts due from related parties	5,072	12,618	572	91
Investments held for trading	—	—	250,000	39,721
Restricted bank balances	325,914	1,423,888	1,974,648	313,740
Cash and bank balances	400,096	343,396	232,480	36,937
	1,983,180	3,760,680	6,119,783	972,335
CURRENT LIABILITIES				
Trade and other payables	1,940,644	3,577,309	4,201,433	667,540
Amounts due to related parties	2,510	10,325	639	102
Income tax payable	28,047	83,886	110,629	17,577
Short term debenture	—	500,000	500,000	79,442
Borrowings - due within one year	2,994,281	3,777,373	4,946,852	785,976
	4,965,482	7,948,893	9,759,553	1,550,637
NET CURRENT LIABILITIES	(2,982,302)	(4,188,213)	(3,639,770)	(578,302)
TOTAL ASSETS LESS CURRENT LIABILITIES	5,643,825	5,733,273	7,478,292	1,188,180

	As of December 31,			
	2009	2010	2011	2011
	RMB'000	RMB'000	RMB'000	US$'000
NON-CURRENT LIABILITIES				
Borrowings - due after one year	2,351,039	2,021,000	1,410,010	224,028
Mid term debenture	—	—	300,000	47,665
Other payables	44,360	34,237	30,237	4,804
Deferred tax liabilities	24,052	23,623	24,222	3,848
Deferred income	78,684	111,726	149,804	23,801
Provision for environmental restoration	4,365	6,575	9,409	1,495
	2,502,500	2,197,161	1,923,682	305,641
NET ASSETS	3,141,325	3,536,112	5,554,610	882,539
CAPITAL AND RESERVES				
Issued capital/paid-in capital	1,397,135	1,397,135	19,505	3,099
Reserves	933,196	980,924	3,191,882	507,139
Retained earnings	805,517	1,158,053	2,304,573	366,160
Equity attributable to owners of the Company	3,135,848	3,536,112	5,515,960	876,398
Non-controlling interest	5,477	—	38,650	6,141
TOTAL EQUITY	3,141,325	3,536,112	5,554,610	882,539

Summary Consolidated Statement of Cash Flows

	For the year ended December 31,			
	2009	2010	2011	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Net cash generated from operating activities	992,494	1,285,023	2,428,015	385,773
Net cash used in investing activities	(3,034,381)	(2,814,121)	(2,163,620)	(343,765)
Net cash generated from/(used in) financing activities	2,194,410	1,472,398	(375,311)	(59,631)
Net (decrease)/increase in cash and cash equivalents	152,523	(56,700)	(110,916)	(17,623)
Cash and cash equivalents at beginning of year/period	247,573	400,096	343,396	54,560
Cash and cash equivalents at end of the year/period	400,096	343,396	232,480	36,937

Other Financial Data:

EBITDA[1]	711,533	1,252,559	2,682,095	426,142
EBITDA margin[2]	16.1%	20.4%	32.5%	32.5%
EBITDA/Gross interest expense[3]	2.8	3.2	5.0	5.0
Total debt/EBITDA	7.5	5.0	2.7	2.7

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

	For the year ended December 31,			
	2009	2010	2011	
	RMB'000	RMB'000	RMB'000	USD'000
Profit for the year	163,261	397,787	1,273,188	202,289
Add:				
Amortization	16,154	22,066	21,886	3,477
Depreciation	283,687	400,523	498,387	79,186
Finance costs	166,652	303,266	475,269	75,513
Income tax expense	81,779	128,917	413,365	65,677
EBITDA	711,533	1,252,559	2,682,095	426,142

(2) EBITDA margin means EBITDA divided by revenue.

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

RISK FACTORS

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

We are highly leveraged, and our business, results of operations and financial condition could be materially and adversely affected by our indebtedness.

We have primarily relied on cash generated from our operations, short-term and long-term loans, and capital contributions from our shareholders to fund our capital requirements in the past, and we expect to continue to derive funding from cash generated from our operations and bank loans in the future. As of December 31, 2009, 2010 and 2011, our aggregate outstanding short-term and long-term borrowings were approximately RMB5,345.3 million, RMB5,798.4 million and RMB6,356.9 million (US$1,010.0 million), respectively. As a result of the offering of the Notes, our indebtedness will increase significantly. Our level of indebtedness could materially and adversely affect us. For example, it could:

- require us to allocate a higher portion of our cash flow from operations to fund repayments of our borrowings, thereby reducing the availability of our cash flow 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 the industry in which we operate;
- potentially restrict us from pursuing strategic business opportunities;
- restrict our ability to take on more borrowings or raise additional funds; and
- increase our exposure to interest rate fluctuations.

In particular, we may fail to service our debts or comply with the terms, conditions and covenants of our bank facility and other loan agreements. For instance, in relation to the IFC Loan and the JPM Facility, while we were able to meet our interest and principal installments obligations in a timely manner, we failed to comply with certain terms and covenants relating to the registration of the charges and mortgage over certain specified assets, the maintenance of leverage ratio as of the relevant balance sheet dates and the provision of certain financial information to the facility agent. Although we obtained waivers from the relevant lenders for our defaults under the IFC Loan and the JPM Facility and have repaid the IFC Loan and the JPM Facility in full, we cannot assure you that we will not incur similar or other defaults under our bank facility or other loan agreements in the future or that we would be able to obtain waivers with respect to any defaults. Our failure to comply with the terms of bank facility and loan agreements could, among other things, result in enforcement of mortgages and charges, realization of our pledged assets by our creditors, increases in interest rates, accelerated repayment of loans and interest, termination of facilities and legal actions against us by our creditors, any of which could have a material and adverse effect on our business, results of operations and financial condition.

Furthermore, our liquidity depends on the amount of cash we generate from operations and our access to other financial resources to fulfill our short-term payment obligations, which will be affected by our future operating performance, prevailing economic conditions and other factors, some of which are beyond our control.

We have a substantial amount of bank borrowings, some of which have floating interest rates. Increases in the interest rates on our borrowings may have an adverse effect on our financial performance.

We have borrowed, and will continue to borrow, bank loans that have floating interest rates. As of December 31, 2009, 2010 and 2011, we had total bank loans of RMB4,966.1 million, RMB4,422.7 million and RMB4,428.9 million (US$703.7 million), respectively, with floating interest rates linked to, among other things, the benchmark rates of the PBOC and LIBOR. If there is a material increase in the benchmark interest rates related to our floating rate bank loans, our finance costs may increase substantially and our results of operations and financial performance may be adversely affected. In addition, if our financing costs increase substantially, we may not be able to service our bank loan and other debt obligations in full, in a timely manner or at all, if we cannot generate sufficient cash from our operations or obtain sufficient financing from bank loans or other sources, which may cause lenders to accelerate loan repayments and may consequently have a material adverse effect on our cash flow, financial condition and results of operations.

Our business depends generally on market conditions in the construction industry in China and the regional markets in which we operate.

We operate our business primarily in Henan and Liaoning provinces, and our cement products are primarily sold to customers in these two markets. Therefore, demand for our cement products primarily depends on the general level of activity and growth in the construction industry in Henan province and Liaoning province. General national economic conditions, mortgage and interest rate levels, PRC government policies, inflation, unemployment, demographic trends and GDP growth, among other factors, may have a significant impact on the performance and growth of the construction industry in the regional markets in which we operate and, consequently, the demand for our cement products. While the economy of China and Henan and Liaoning provinces has generally experienced rapid growth in recent years, the rate of that growth has slowed and we cannot assure you that such economic growth will continue in the future. In particular, there are significant uncertainties and risks that may adversely affect the recovery of the global economy from the recent financial crisis and economic downturn. Any deterioration in the global economy could in turn adversely affect the economic conditions in China. In addition, as well as separately, China may experience a slowdown in its economic growth or even an economic downturn due to such internal factors as a downturn in the Chinese real estate sector, decreased infrastructure investment by the PRC government, high inflation or the PRC government’s failure to stimulate domestic consumption. The PRC government also may not issue stimulus packages or it may change current policies, or decrease investments in the future in infrastructure spending, which may reduce demand for high-grade cement. The PRC government recently has taken various measures to control the overheating of the real estate sector and has shown signs of being more prudent in investing in and developing infrastructure, which may decrease demand for our products. Any slowdown in the growth of the economy of China, Henan province or Liaoning province or any downturn in the construction industry, particularly in the government infrastructure project sector, in China or in any of the regional markets in which we operate, could materially and adversely affect our results of operations and financial condition.

We may not be able to continue to grow at a rate comparable to our historical growth rates or at all, and we may have difficulty managing any future growth.

Our business grew significantly during the three years ended December 31, 2011. Our revenue increased from approximately RMB4,415.2 million in 2009 to approximately RMB6,129.4 million in 2010 and to approximately RMB8,263.4 million (US$1,312.9 million) in 2011, representing a CAGR of 23.2% from 2009 to 2011. The significant increase in our revenue was 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 PRC economy in general and the construction industry in the regional markets in which we operate.

We may not be able to grow at a rate comparable to our historical growth rates or at all. Our revenue and profitability may be affected by a variety of factors, such as the economic conditions and the level of activity and growth in the construction industry in the regional markets in which we operate, as well as our ability to continue to manage our expansion and growth. For example, our plan to expand capacity in certain markets may involve our construction of additional production lines, selective acquisitions of other companies (see "Business — Planned Capacity and Other Expansions") and strategic investments, which may strain our managerial, operational, technical and financial resources. 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, results of operations and financial condition, and could jeopardize our ability to achieve our business strategies and maintain our market position.

We may be unable to identify suitable acquisition targets, any acquisition or strategic investments we undertake could be difficult to complete, and any such acquisition could be difficult to integrate or manage or otherwise may not be successful.

We have undertaken and will continue to undertake selective acquisitions or strategic investments in order to expand our business and production capacity, increase our market share and strengthen our market position. We may not be able to identify suitable acquisition or investment targets, or even if we do identify suitable targets, we may not be able to complete such transactions on terms acceptable to us or at all, or we may fail to obtain the required governmental and other approvals for such acquisitions or investments. The inability to identify suitable acquisition or investment targets or the inability to complete such transactions may adversely affect our competitiveness or growth prospects. Acquisitions involve risks, including challenges in retaining personnel, risks and difficulties associated with integrating acquired businesses and diversion of management's attention and other resources. In addition, acquisitions may result in the incurrence of additional debt and other liabilities, assumption of potential legal liabilities in respect of the acquired businesses and incurrence of impairment charges related to goodwill and other intangible assets, any of which could harm our results of operations and financial condition. In particular, if any of the acquired businesses fail to perform to the level that we have previously expected, we may be required to recognize a significant impairment charge, which may materially and adversely affect our results of operations. As a result, we cannot assure you that we will be able to achieve the strategic purpose of any acquisition, the desired level of operational synergy or our investment return target.

Significant fluctuations in cement prices may materially and adversely affect our profitability.

Cement prices fluctuated significantly during the three years ended December 31, 2011. For the years ended December 31, 2009, 2010 and 2011, the average selling price of our cement was approximately RMB214.9 per tonne, RMB225.6 per tonne and RMB277.1 per tonne, respectively. Our gross profit was RMB719.8 million, RMB1,049.2 million and RMB2,432.9 million (US$386.5

million) and our gross margin was approximately 16.3%, 17.1% and 29.4% for the same periods, respectively. Cement prices may continue to experience significant fluctuations in the future due to changes in the supply and demand of cement products in our existing and future markets, and our profitability and results of operations may be materially and adversely affected as a result.

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

We use a substantial amount of coal and electricity in our production process, and any shortage of or interruption in these supplies could disrupt our operations, and any increase in coal or electricity prices could increase our cost of sales and reduce our profitability. In the past, our cement production has occasionally been interrupted by electricity shortages.

For the years ended December 31, 2009, 2010 and 2011, our cost of coal as a percentage of our total cost of sales was approximately 36.0%, 42.2% and 45.1%, respectively. The pricing of coal in our supply agreements is directly linked to market prices, so we bear the risk of coal price fluctuations. Our average purchase prices of coal were approximately RMB546.7 per tonne, RMB692.6 per tonne and RMB759.1 per tonne for the years ended December 31, 2009, 2010 and 2011, respectively. In 2009, our average coal purchase price declined by 6.7% to RMB546.7 per tonne from RMB585.7 per tonne in 2008 as overall demand for coal decreased primarily as a result of the global economic downturn. In 2010, our average coal purchase price increased by 26.7% to RMB692.6 per tonne from RMB546.7 per tonne in 2009 due to rising demand as the global economy started to recover from the economic downturn. The average coal purchase price further increased by 10% to RMB759.1 per tonne for 2011 from RMB692.6 per tonne in 2010 as the market supply shortage continued. We cannot predict future price trends for coal, or the degree of any volatility. An interruption of coal supply or increase in the price of coal could have a material adverse effect on our business, results of operations and financial condition.

For the years ended December 31, 2009, 2010 and 2011, our cost of electricity as a percentage of our total cost of sales was 17.8%, 17.0% and 15.5%, respectively. Electricity prices for industrial enterprises are generally regulated by the PRC government. Our average purchase price per KWh for externally sourced electricity was approximately RMB0.49, RMB0.52 and RMB0.54 for the years ended December 31, 2009, 2010 and 2011, respectively. We cannot predict future price trends for electricity, or the degree of any volatility. We have experienced difficulties in passing the increase in prices of coal and electricity to our customers in the past, and we cannot assure you that we will be able to pass on such price increases to customers in the future. An interruption in the electricity supply or an increase in the electricity price could have a material adverse effect on our business, results of operations and financial condition.

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.

Our production depends on reliable sources of large quantities of a variety of raw materials, such as gypsum, flyash and pyrite cinder. For the years ended December 31, 2009, 2010 and 2011, our cost of raw materials accounted for approximately 37.2%, 31.6% and 30.1% of our total cost of sales, respectively. These raw materials are subject to price volatility caused by external conditions, such as commodity price fluctuations and changes in governmental policies. If prices of the raw materials required for our production increase significantly and we cannot pass on the cost increments to our customers, our business, results of operations and financial condition could be materially and adversely affected.

We source our raw materials from selected suppliers in each of the regional markets in which we operate. For the years ended December 31, 2009, 2010 and 2011, our top five raw material suppliers accounted for approximately 22.6%, 23.0% and 25.3%, respectively, of our total purchases of raw materials. We cannot assure you that our key suppliers will continue to supply us with raw materials at reasonable prices or at all.

We may not be able to renew our existing mining rights or secure additional mining rights on favorable terms or at all, or the rate of resource tax that we are required to pay may increase.

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 must obtain mining rights before undertaking any mining activities, and the mining rights are limited to a specific area for a specified term. We have obtained mining licenses with respect to all of our limestone quarries. We may apply for additional mining rights to limestone quarries in the future. We cannot assure you that we will be able to renew our existing mining rights once such rights expire or secure additional mining rights on favorable terms or at all. See the section headed "Business — Raw Materials" of this offering memorandum for details of our existing mining rights. Our operations and expansion could be adversely affected if we were to fail to renew our existing mining rights or secure additional mining rights.

In addition, our mining rights are subject to annual review, and could be unilaterally terminated if we fail to comply with the requirements of our mining leases, by the relevant government departments governing land and resources in the areas in which we operate. We cannot assure you that we will pass the annual reviews or avoid any penalties as a result of legal or regulatory non-compliance in the future.

Furthermore, we are also required to pay a resource tax at a rate of RMB2.0 per tonne of limestone excavated to the local governments where our mining activities are conducted. For the years ended December 31, 2009, 2010 and 2011, we paid resource taxes of approximately RMB33.8 million, RMB57.6 million and RMB71.2 million (US$11.3 million), respectively. If the resource tax rate increases in the future, our results of operations and financial condition could be materially and adversely affected.

We currently receive certain PRC government priorities, tax incentives and VAT refunds. Expiration of, or unfavorable changes to, these tax incentives and VAT refunds could materially and adversely affect our results of operations and financial condition.

Certain of our subsidiaries in the PRC are entitled to government support in the form of priority with respect to project approvals, land use right grants and credit approvals in undertaking project investments. PRC government bodies have also granted us certain government incentives and enterprise income tax exemptions during the three years ended December 31, 2011. Tianrui Cement obtained preferential tax treatment from local tax authorities, which provides a full tax exemption on its assessable profit in 2007 and 2008 and a 50% reduction of the applicable enterprise income tax rate on its assessable profit in 2009, 2010 and 2011. In addition, we received government incentives of RMB41.0 million, RMB33.8 million and RMB45.0 million (US$7.1 million) in 2009, 2010 and 2011, respectively, for setting up a cement production business in Dalian and for technological improvements at Tianrui Cement. For the years ended December 31, 2009, 2010 and 2011, these PRC government incentive subsidies accounted for approximately 30.4%, 17.9% and 15.3% of our other income, respectively. The discontinuation of these government incentives and subsidies may have an adverse effect on our business, financial condition and results of operations.

In addition, pursuant to the *Notice regarding Policies relating to Value-Added Tax on Products Made Through Comprehensive Utilization of Resources and Certain 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部分資源綜合利用及其他產品增值稅政策問題的通知), we receive VAT refunds for cement products we produce that utilize recycled materials, such as slag and flyash. For the years ended December 31, 2009, 2010 and 2011, these VAT refunds amounted to approximately RMB83.6 million, RMB114.5 million and RMB164.4 million (US$26.1 million), respectively, representing 62.0%, 60.7% and 56.0% of our other income during the same periods. This incentive is currently in effect, and we are not aware of any intention of the PRC government to discontinue it. However, there is no assurance that we will be able to continue to receive these tax incentives or VAT refunds on the same terms, or at all, in the future. Discontinuation of, or unfavorable changes to, these tax incentives or VAT refunds in the future may adversely and materially affect our business, financial condition and results of operations.

We may not be able to renew our quarry land use rights upon their expiry.

As of June 30, 2011, we had obtained two-year temporary land use rights approval letters in respect of all of our 14 parcels of quarry land with an aggregate area of approximately 10.6 million square meters. Pursuant to these approval letters, we are entitled to the land use right for these 14 parcels of quarry land within two years from the date of the respective approval letter. Pursuant to the *Land Administration Law* (土地管理法), the term of temporary land use rights generally may not extend beyond two years. After the expiry of the temporary land use rights approval letters, we intend to apply for renewal for another term of two years. As there are no specific provisions under the Land Administration Law and other relevant laws and regulations regarding the renewal of the temporary land use rights approval letters, there is legal uncertainty as to our ability to renew these temporary land use rights. If we are unable to renew these land use rights upon expiry of these approval letters, we might not be able to carry out mining or related operations on relevant lands and, as a result, our business, results of operations and financial performance may be adversely affected.

We recorded net current liabilities as of each of the three years ended December 31, 2011, and we may continue to record net current liabilities in the future, which may adversely affect our liquidity.

As of December 31, 2009, 2010 and 2011, we had net current liabilities of RMB2,982.3 million, RMB4,188.2 million and RMB3,639.8 million (US$578.3 million), respectively. Our net current liability position as of the relevant balance sheet dates was attributable primarily to outstanding short-term bank borrowings and trade and other payables. We used a significant amount of cash generated from our operations to finance the construction of our production facilities and to purchase equipment. We normally record such assets as non-current assets rather than current assets. As of December 31, 2009, 2010 and 2011, we had also incurred RMB1,940.6 million, RMB3,577.3 million and RMB4,201.4 million (US$667.5 million) of trade and other payables, respectively, primarily in relation to our purchases of coal and other supplies for production. The increase in our trade and other payables and bank borrowings contributed to our increased net current liabilities position as of December 31, 2009 and 2010.

We expect that we will continue to record net current liabilities in the foreseeable future. Our net current liabilities position exposes us to liquidity risk. 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 and financing activities. Our continuing access to financing is subject to a variety of factors, such as market conditions, the PRC government's monetary and other economic policies, the overall availability of credit to the cement industry and our credit capacity. The global capital markets and credit markets remain volatile following the recent global financial crisis and economic downturn. This market volatility may adversely affect our ability to raise funds. As of December 31, 2011, while we had not experienced any significant liquidity problems in settling our payables or rolling over our short-term bank loans in the ordinary course of business when they fell due in the past, we cannot assure you that we will always be able to raise sufficient funds to refinance our short-term borrowings upon maturity and finance our capital commitments. If we are unable to refinance our short-term borrowings or obtain sufficient alternative funding on reasonable terms, we will have to repay these borrowings, and we cannot assure you that we will be able to generate sufficient cash flow to do so. In such circumstances, our business operations, liquidity, financial position and prospects may be materially and adversely affected.

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

Our operating activities and short-term bank loans generate working capital that we depend on for our business operations and capital expenditures. As of December 31, 2009, 2010 and 2011, we had total short-term loans of RMB2,994.3 million, RMB3,777.4 million and RMB4,946.9 million (US$786.0 million), respectively. Our future success depends on our ability to continue to secure and successfully manage sufficient amounts of working capital. Successful management involves:

- timely payment of, or rolling over of, our short-term indebtedness and securing new loans on acceptable terms;
- timely payment of, or re-negotiation of our payment terms for, our trade payables;
- efficient utilization of banking facilities;
- timely collection of trade receivables; and
- preparing and following accurate and feasible budgets for our business operations.

If we cannot manage our working capital successfully, our business, results of operations and financial condition could be materially and adversely affected. We cannot assure you that we will be able to effectively manage our working capital. Should we fail to effectively implement sufficient internal control procedures and management systems to manage our working capital and other sources of financing, we may have insufficient capital to maintain and grow our business, and we may breach the terms of our financing agreements with banks and other lenders, face claims under cross-default provisions and be unable to obtain new financing, any of which would have a material adverse effect on our business, results of operations and financial condition.

We may be subject to risks associated with contingent or hidden liabilities, non-compliance or other irregularities relating to or involving companies we may acquire.

We may be subject to risks associated with contingent or hidden liabilities, non-compliance or other irregularities relating to or involving companies we acquire. For example, we acquired a 2.91% equity interest in Zhengzhou Tianrui from certain of its previous shareholders in 2007 and certain equity interests in Zhoukou Cement from certain of its previous shareholders in 2006 and 2010. The transfer of these equity interests did not go through an asset valuation or open bidding process that is generally required for similar transactions and, therefore, such transfers may be subject to the risk of being cancelled or revoked by relevant courts.

Our business operations and construction of new facilities may be disrupted by reasons beyond our control.

Our business operations and construction of new facilities may be disrupted by, among other things, extreme climatic and weather conditions, fire, natural disasters, raw material shortages, equipment and system failures, labor force shortages and epidemics. Any significant disruption to our operations could adversely affect our ability to produce and sell products to meet our customers' needs, which could materially and adversely affect our business, results of operations and financial condition. For example, our monthly sales volume of cement products decreased from 2.3 million tonnes in August 2011 to 1.7 million tonnes in September 2011 primarily due to abnormally rainy weather in September 2011 that impacted the level of construction activities in our sales areas. In addition, due to the nature of our business and notwithstanding our compliance with safety requirements and standards, our operations are subject to operational risks associated with the production of clinker and cement, such as storage tank leaks, explosion, discharge of hazardous substances and malfunctioning of production machinery, among other things. These risks may result in personal injuries, property damage and imposition of civil or even criminal liabilities.

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

The quality of our products is critical to the success of our business, and quality depends on the effectiveness of our quality control system, which, in turn, depends on a number of factors, including the design of our system, our quality control training program, and the implementation and application of our quality control policies and guidelines. Any significant failure or deterioration of our quality control system could result in defective or substandard products, which, in turn, may result in delays in the delivery of our products and the need to replace defective or substandard products. As a result, our reputation, business, results of operations and financial condition could be materially and adversely affected.

We put in place stringent quality control standards for our production process from the purchase of raw materials to the delivery of finished products. During the three years ended December 31, 2011, we were not subject to any litigation concerning product quality claims, nor did any third parties have any material claims against us concerning product quality. However, there is no assurance that product claims will not be brought against us in the future if we fail to meet or conform to applicable requirements and specifications or if any of our products contain defects.

The global market fluctuations and economic downturn that began in 2008 could materially and adversely affect our business, results of operations and financial condition.

The global capital and credit markets have experienced significant volatility and disruptions since 2008. 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 contributed to market volatility and diminished expectations of growth for the global economy and the capital and consumer markets in the future. These factors, together with volatile oil prices, declining business activities and consumer confidence and increased unemployment, precipitated an economic slowdown that started in the second half of 2008 and continued through 2009. Although the global economy has started to recover from the economic downturn, there exist significant uncertainties in global economic growth outlook, particularly the uncertainties arising from the sovereign debt crisis in Europe. These uncertainties may adversely affect the PRC economy, which, in turn, could materially and adversely affect the construction industry, particularly the government infrastructure project sector, in China generally and in each of the regional markets in which we operate. As a result, the demand for our products may significantly decrease, thereby materially and adversely affecting our business, results of operations and financial condition.

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

Our results of operations are subject to seasonal fluctuations. We generally record lower sales volume in winter when construction activities in our markets are generally slow due to the cold weather (particularly in Liaoning province) and Chinese New Year holiday, which falls in January or February each year. We generally record higher sales volumes in other periods when construction activities remain at a relatively stable level. As a result of these seasonal fluctuations, our sales volume and revenue in the second half of a given year are generally higher than the first half of the same year and, in particular, our operating income and earnings have historically been lower during the first quarter than other quarters. In the first two months of 2012, taking into account seasonality of market demand for cement products, we undertook maintenance work for certain of our production facilities, which affected our production volume and increased our costs. Consequently, we anticipate our operating results, such as cost of sales and gross profit, for the first quarter of 2012 may compare unfavorably to the first quarter of 2011, for which the impact of market seasonality was significantly mitigated by the increase in market demand for our products mainly due to the phasing out of smaller cement production facilities with obsolete technology as mandated by the PRC government policies.

Our business depends on the retention and services of Chairman Li, our executive directors, senior management and a skilled labor force.

Our success depends, to a large extent, on the continued services of Chairman Li, our executive directors, senior management and key personnel. We depend on their experience and expertise in corporate and financial management, strategic development, sales and marketing and the cement industry for the success of our business. If one or more of our executive directors or senior management are unable or unwilling to continue their employment with us, 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 joins a competitor or forms a competing company, we may lose some of our know-how and customers.

Furthermore, recruiting and retaining a skilled labor force, particularly experienced engineers and technicians familiar with our production processes, are critical to maintaining the quality of our products, improving our production processes and supporting the expansion of our production capacity. There is substantial competition for qualified personnel in the cement industry in China, and 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, results of operations and financial condition may be materially and adversely affected.

We may have limited insurance coverage and may be subject to liabilities resulting from potential operational risks and losses that may not be covered by our insurance policies.

We are exposed to potential liabilities for personal injury and loss of life, damage to or destruction of property, plant and equipment, transportation accidents and delays and environment pollution. In particular, our business involves the operation and handling of heavy machinery, which, if operated improperly, may result in personal injuries or death. Accidents have occurred in the past due to improper operation and handling of machinery, equipment malfunction or employee negligence. During the three years ended December 31, 2011, there were no accidents at our production facilities resulting in fatality or injuries that would have had a material impact on our operations. We cannot assure you that accidents will not happen in the future that could have a material impact on our operations.

If an accident occurs, we could be liable to pay compensation for personal injuries, loss of life or damage to property or for fines or penalties for violation of applicable PRC laws and regulations, and we may be subject to business interruptions caused by shutdowns or suspension of operations due to government investigations or the requirement to implement additional safety measures. If we were to incur substantial losses or liabilities and our insurance coverage were unavailable or inadequate to cover the losses or liabilities, our business, results of operations and financial condition could be materially and adversely affected.

Any significant product liability claims made against us, whether successful or not, could harm our business, results of operations and financial condition.

We are exposed to product liability claims if the use of our cement products results in damage or injury. Our cement products are mainly used by our customers as construction materials. We cannot assure you that product liability claims against us will not arise, whether due to product defects or other causes. Furthermore, we cannot assure you that we will be able to defend against such claims successfully. If any such claims were ultimately successful, we could be required to pay substantial damages, which could materially and adversely affect our business, results of operations and financial condition.

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

We rely on the PRC intellectual property and competition laws and contractual restrictions to protect our brand names, trademarks and other intellectual property rights. Our brand names, trademarks and other intellectual property rights are important to our business. Our cement products are sold under the brand "天瑞 TIANRUI". Any unauthorized use of our brand names, trademarks 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 names, trademarks and other intellectual property rights and to minimize the possibility that our key brand names and trademarks are associated with products of inferior quality will be sufficient. In addition, the application and interpretation of the PRC laws governing intellectual property rights in China are uncertain, which undermines the level of legal protection these laws may offer. If we are unable to adequately protect our brand names, trademarks and other intellectual property rights, our business, results of operations and financial condition could be adversely and materially affected.

We may not be able to comply with environmental regulations on a cost-effective basis.

We are subject to national and local environmental protection laws and regulations. These laws and regulations include provisions for the prevention and treatment of noise, water, soil and air pollution and other industrial pollution. Failure to comply with these laws and regulations may result in penalties, fines, administrative sanctions, proceedings and/or suspension or revocation of our licenses or permits to conduct our business. The PRC government has adopted various environmental policies to reduce the adverse effects of the cement industry on the environment. With the increasing awareness of environmental protection issues, we anticipate that the PRC environmental regulatory framework will become increasingly stringent. Government requirements that affect our operations include those relating to air quality, solid waste management and waste water treatment. These requirements are complex and subject to change. We cannot assure you that the PRC government will not introduce new rules and regulations that impose more stringent controls over industrial pollution. We may be unable to comply with additional environmental regulations in the future on a cost-effective basis if at all. In such an event, our business, results of operations and financial condition could be materially and adversely affected.

We are subject to safety and health laws and regulations in China, and any non-compliance could adversely affect our operations.

We are required to comply with production safety standards in the operation of our business. Our production plants and the facilities we use are subject to regular inspections for compliance with the *Production Safety 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 regarding occupational safety and health conditions for employees. We also provide our employees with work safety training, protective tools and facilities, and regular health examinations for those who are engaged in work involving occupational hazards. Failure to meet the relevant legal requirements for production and labor safety could subject us to warnings from governmental authorities, governmental orders to rectify non-compliance and fines of up to RMB500,000. We may also be required to suspend our production temporarily or cease our operations permanently for significant non-compliance. Any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

We do not possess valid legal title or the right to lease with respect to certain properties that we occupy.

We have not obtained land use rights and building ownership certificates relating to some of the properties we occupy. For instance, we are in the process of applying for the land use right certificates in respect of a parcel of land in Xingyang. We also do not have proper title to another piece of land in Lushan County. If any ownership dispute or claim regarding such properties occurs, or we could not obtain the land use rights certificates for such properties and could not secure alternative and comparable sites and properties at reasonable costs or at all, our operating rights and production in connection with these properties may be adversely affected, which could in turn materially and adversely affect our business, results of operations and financial condition. In addition, there is no assurance that we would not be subject to any claims for compensation with respect to any actual or alleged illegal and/or unauthorized use of land or buildings owned by third parties.

RISKS RELATING TO THE CEMENT INDUSTRY IN CHINA

The cement industry is capital intensive, and our future growth depends to a large extent on our ability to obtain external financing.

The cement industry in which we operate is capital intensive. We require a significant amount of capital to build our production facilities, to purchase production equipment and to develop and implement new technologies. In addition, we are planning to construct additional production lines and may pursue external expansion by acquiring suitable targets. We expect that our capacity expansion plan will allow us to capture additional market share in our target markets. As a result, we will need significant amounts of capital to fund our future growth.

Our internally generated capital resources, the net proceeds from the issuance of the Notes and our available bank facilities may not be sufficient to finance our capital expenditures and growth plans. We may have to seek additional financing from third parties, including banks, venture capital firms, joint-venture partners and other strategic investors. If we are unable to obtain financing in a timely manner, at a reasonable cost and on reasonable terms, we may be forced to delay our expansion plans, which may have a material and adverse effect on our business, results of operations, financial condition and future prospects.

We face intense competition in the cement industry, which may reduce demand for our products.

The cement industry is intensely competitive and price sensitive. Our major competitors include small regional producers in the markets in which we operate as well as national companies, such as China United Cement Corporation (中國聯合水泥集團有限公司) and China Shanshui Cement Group Ltd. (中國山水水泥集團有限公司). We also compete, to a certain extent against, foreign companies and major competitors in other provinces of the PRC who sell cement products in the provinces in which we operate.

We compete directly with these and other competitors for customers, raw materials, energy resources and distribution networks. We compete primarily on the basis of the price of our products, the quality and variety of product offerings, access to resources, sales and marketing and production capacity and efficiency. Some of our current and potential competitors may have better brand recognition in the markets in which they operate, more competitive pricing or greater financial, technical or marketing resources than we do. As a result, we may fail to compete successfully against our competitors, which in turn could materially and adversely affect our business, results of operations and financial condition.

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, MOFCOM and the Ministry of Construction of the PRC, have the authority to issue and implement regulations governing various aspects of cement production and excavation activities of raw materials.

In order to engage in cement production, we are required to maintain certain licenses and permits, such as cement production permits and production safety permits. In addition, our products are required to meet certain standards stipulated by various PRC government authorities. For example, the General Administration of Quality Supervision Inspection and Quarantine issued the GB175-1999 standards that govern certain aspects of the production and sales of cement products in China. Cement producers in China are required to comply with these standards, and cement products that fail to meet the relevant quality standards may not be sold in China. These standards provide strict guidelines regarding the composition and technical specifications for cement products. 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 new licenses, permits or approvals in a timely manner or at all. If we are not able to meet all applicable licensing conditions or regulatory requirements, our business, results of operations and financial condition could be materially and adversely affected.

The PRC government's current policies in respect of the cement industry are generally market-oriented. However, the PRC government closely monitors the cement industry and may from time to time issue regulations and policies to regulate the industry. For example, on February 18, 2007, the NDRC issued the *Notice Regarding Phase-Out 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), which requires local governments to gradually phase out cement producers with annual output of less than 200,000 tonnes and those with production methods that do not meet applicable environmental standards. In addition, according to the *State Council's Notice Approving the NDRC and Certain Other Departments'*

Guidelines on Redundant Construction, Curbing Overcapacity in Certain Industries for Healthy Industrial Development (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, new cement production capacity must be strictly controlled, and obsolete cement production capacity must be phased out. Specifically, each production line, including those under construction, must have an annual production capacity of over 200,000 tonnes.

Furthermore, projects involving significant capital investment require the approval of or filings with various PRC government authorities. Compliance with these regulations and policies and efforts to obtain these approvals may require us to make significant adjustments to our current or future development plans, increase our costs and divert our management resources, which, in turn, may adversely affect our profitability, competitiveness and growth prospects.

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

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

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

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

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

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

RISKS RELATING TO THE PRC

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

All of our cement products are sold to customers in China. Accordingly, our business, results of operations and financial condition are significantly affected by economic, political and legal developments in China. Demand for our products is dependent on the pace of economic growth in China and, in particular, the general level of activity and growth in the construction industry in the areas in which 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 China or in any of the regional markets in which we operate could materially and adversely affect our business, results of operations and financial condition.

The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures, 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 in China may negatively affect the real estate market and consequently impede the growth of the construction industry. Policies and measures that were introduced and those that may be introduced by the PRC government may lead to changes in market conditions, including price instability and an imbalance between the supply of, and demand for, properties in China. Any weakening in the PRC property sector in our target regional markets could adversely affect our financial condition and results of operations.

As a result, any adverse change in government economic policies or economic conditions in China could have a material adverse effect on overall growth in China, which, in turn, could lead to a reduction in the demand for our products and consequently have a material adverse effect on our business, financial position and results of operations.

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

Substantially all of our business and operations are conducted in China and are governed by PRC laws, rules and regulations. Our PRC subsidiaries are generally subject to laws, rules and regulations applicable to foreign investments in China and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has significantly enhanced PRC legislation and regulations to provide protections to various forms of foreign investments in China. However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently address all relevant aspects of economic activities in China. As many of these laws, rules and regulations are relatively new, and because of the limited volume and precedential value of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that could have 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 China may be protracted and could result in substantial costs and diversion of resources and management attention, which could have a material and adverse effect on our business, results of operations and financial condition.

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

Under the new PRC Enterprise Income Tax Law that took effect on January 1, 2008, enterprises established outside of China whose "de facto management bodies" are located in China 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 for this new tax law which defines "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 SAT on Issues Relating to Determining the Resident Enterprise Status of Overseas Registered Chinese Holding Enterprises Based on the 'de facto management bodies' Standard* (國家稅務總局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 retroactive effect from January 1, 2008, provides specific tests regarding under what situations an enterprise's "de facto management body" would be considered to be located in China. The Company holds its shareholders' meeting and board meetings outside China and keeps its shareholders' list outside China. However, substantially all of our management is currently based in China, and we expect them to continue to be located in China for the foreseeable future. Therefore, we and our non-PRC subsidiaries may be treated as "resident enterprises" for enterprise income tax purposes, in which case 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."

In addition, pursuant to 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 on December 10, 2009, even if we or our overseas subsidiaries are considered 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 overseas holding companies will not be subject to a PRC 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 PRC-source 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). In addition, any gain realized on the transfer of our Notes by "non-resident enterprises" 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 may be treated as income derived from sources within the PRC and be subject to PRC income tax (which would be withheld at source). Further, in the event that our Company is considered a "resident enterprise," gain from the transfer of our Notes may be treated as income derived from sources within the PRC and be subject to PRC income tax. Although it is unclear under PRC tax law whether the Company has a "de facto management body" located in China for PRC tax purposes, the Company 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. 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 Contract Labor Law, and our labor costs may increase.

The PRC Labor Contract Law imposes requirements concerning, among other things, 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. 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.

Furthermore, if labor costs increase in China, our production costs will increase and 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, results of operations and financial condition may be materially and adversely affected.

Government control over currency conversion may affect the value of your investment and 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 China. 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 SAFE, by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses, such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Under our current corporate structure, we derive a significant portion of our income from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents 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 future cash flow from operations will continue to be largely denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of China or otherwise fund our business activities that are conducted in foreign currencies. This could affect the ability of our subsidiaries in China 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, results of operations and financial condition.

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 China. 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 and most other western countries. Thus, it may be difficult for you to enforce any judgments obtained from non-PRC courts against us or our directors in the PRC.

Our business and results of operations may be adversely affected by the occurrence of an epidemic.

A threatened or actual outbreak of any widespread public health problem in China, such as severe acute respiratory syndrome, avian influenza or swine influenza, could have a negative effect on our business and results of operations. Our operations may be affected by a number of health-related factors, including quarantines or closures of some of our offices and production facilities, travel restrictions, illness among our key officers and employees, import and export restrictions and a general slowdown in China'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 that do not guarantee the Notes.

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. The Notes will not be guaranteed by any current or future PRC subsidiaries 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 affect the value of your investment and 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 December 31, 2011, our PRC subsidiaries had indebtedness in the amount of RMB7,156.9 million (US$1,137.1 million) and capital commitments and contingent liabilities arising from guarantees of approximately RMB1,479.4 million (US$235.1 million) and RMB50.0 million (US$7.9 million), respectively. See "Description of Other Material Indebtedness." The Notes and the Indenture do not restrict the ability of us or our subsidiaries to incur additional indebtedness and other liabilities, subject to certain limitations. There can be no assurance that our PRC subsidiaries' assets will be sufficient to fully repay their indebtedness, other liabilities and the Notes or that our PRC subsidiaries will be able to repay their indebtedness and other liabilities if there is an acceleration of such indebtedness or other liabilities. 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, 2009, 2010 and 2011, our aggregate outstanding short-term and long-term borrowings amounted to RMB5,345.3 million, RMB5,798.4 million and RMB6,356.9 million (US$1,010.0 million), respectively.

Our substantial indebtedness could have important consequences to our business and 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. There can be no assurance that we will generate sufficient cash flow to meet our anticipated operating expenses and to service our debt obligations as they become due. For the years ended December

31, 2009, 2010 and 2011, our net cash generated from operating activities was RMB992.5 million, RMB1,285.0 million and RMB2,428.0 million (US$385.8 million), respectively. 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 adversely 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.

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

Our ability to make payments on and to refinance our indebtedness, including the Notes, and to fund planned capital expenditures and project development will depend on our future performance and ability to generate cash. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. As of February 29, 2012, our total borrowings amounted to RMB7,002.5 million (US$1,112.6 million). See "Description of Other Material Indebtedness."

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

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

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, shareholders' agreements (if any), 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 consolidated EBITDA under the Notes 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."

Most of our business operations and our assets are at our PRC subsidiaries. PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Such profits differ from profits determined in accordance with IFRS in certain significant respects, including the use of different bases of recognition of turnover and expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends by the board of directors. In addition, 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 and holders of the Notes 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 28.8% from July 21, 2005 to December 31, 2011, according to rates published by Bloomberg. 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, it is possible that they may result in devaluation of the Renminbi against the U.S. dollar, in which case 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, and we currently do not use any such instrument to reduce the risk of exchange rate fluctuations. 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 Purchaser 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. If an event constituting a change of control occurs at a time when we are prohibited from repurchasing the Notes, we may seek the consent of the lenders under such indebtedness to purchase the Notes or may attempt to refinance the borrowings that contain such prohibition. If such a consent to repay such borrowings is not obtained, we may be unable to repurchase the Notes. Our failure to make the offer to purchase or 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.

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

In addition, the definition of change of control 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 the Cayman Islands, 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 the Cayman Islands, 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 the Cayman Islands 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 the Cayman Islands, an insolvency proceeding relating to us, even if brought in the United States, would likely involve the Cayman Islands 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, the PRC or Hong Kong and the insolvency laws of the British Virgin Islands, the PRC 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 conduct substantially all of our business operations through PRC-incorporated subsidiaries in China. Our PRC subsidiaries are subject to the bankruptcy and insolvency laws of

China. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of other jurisdictions with which the holders of the Notes are familiar. You should analyze the risks and uncertainties carefully before you invest in our Notes.

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

We may reallocate the use of proceeds of this offering based on a variety factors.

We intend to use the net proceeds of this offering as set forth in "Use of Proceeds". However, we may reallocate or adjust the stated use of proceeds based on a variety of factors as described under "Use of Proceeds".

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.

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

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

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

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

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.

From time to time the Group has been required to seek amendments, waivers and consents in connection with financial and other covenants under the Group's debt facilities. Such amendments, waivers and consents have all been granted by the applicable creditors and such incidents have not caused any material adverse impact on our operation and financial conditions. There is no assurance that we will not need to seek such amendments, waivers or consents in the future or that they will be granted.

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, the Indenture 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 Notes, 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;
- engage in any business other than permitted business;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; 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. See "Description of the Notes — Certain Covenants." 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 from the SGX-ST for the listing of the Notes on 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. If no active trading market develops, you may not be able to resell your Notes at their fair market value or at all. Future trading prices of the Notes will depend on many factors, including prevailing interest rates, our operating results and the market for similar securities. We have been advised that the Initial Purchaser intend to make a market in the Notes, but the Initial Purchaser 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. Therefore there can be no assurance that an active trading market for the Notes will develop or be sustained. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

In addition, the Notes may trade at prices that are higher or lower than the price at which the Notes have been issued. The price at which the Notes trade depends on many factors, including:

- prevailing interest rates and interest rate volatility;
- our results of operations, financial condition and future prospects;
- changes in our industry and competition;
- the market conditions for similar securities; and
- general economic conditions, almost all of which are beyond our control.

As a result, there can be no assurance that you will be able to resell the Notes at an attractive price or at all.

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

The Notes have been provisionally rated "B2" by Moody's, and "B" by Standard & Poor's. 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 Purchaser 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 Purchaser 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. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.

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.

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

We are a company listed on the Hong Kong Stock Exchange. There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other jurisdictions. In addition, our financial statements are prepared and presented in accordance with IFRS, which differ in certain significant respects from generally accepted accounting principles or other accounting standards in other jurisdictions, which might be material to the financial information contained in this Offering Memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between

IFRS and generally accepted accounting principles or other accounting standards in other jurisdictions. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisors for an understanding of the differences between IFRS and generally accepted accounting principles and other accounting standards in other jurisdictions and how those differences might affect the financial information contained in this Offering Memorandum.

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

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

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

RISKS RELATING TO THE SUBSIDIARY GUARANTEES AND THE COLLATERAL

Our initial Subsidiary Guarantors do not currently have significant operations.

None of our current PRC subsidiaries, which are our operating 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, the Cayman Islands 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.

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 December 30, 2011, the value of the Renminbi appreciated by approximately 22.3% 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)			
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7696	6.8330	6.6000
2011	6.2939	6.4630	6.6364	6.2939
2012 (through April 13)	6.3022	6.3074	6.3330	6.2935

(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 2012, which are determined by averaging the daily rates during the respective periods.

On April 13, 2012, the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi was US$1.00 = RMB6.3022 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)			
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	7.7810	7.7687	7.8040	7.7501
2011	7.7663	7.8406	7.8087	7.7634
2012 (through April 13)	7.7590	7.7603	7.7678	7.7532

(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 2012, which are determined by averaging the daily rates during the respective periods.

On April 13, 2012, the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars was US$1.00 = HK$7.7590 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 December 31, 2011 on an actual basis and on an adjusted basis after giving effect to (1) the repayment of the IFC Loan and the JPM Facility in February 2012, and (2) the issuance of the Notes in this offering with estimated net proceeds of US$ 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 statements and related notes included in this offering memorandum.

	As of December 31, 2011					
	Actual		As Adjusted (1)		As Adjusted(2)	
	RMB'000	US$'000	RMB'000	US$'000	RMB'000	US$'000
Current Borrowings:						
Short-term borrowings	4,946,852	785,976	4,060,080	645,082	4,060,080	645,082
Short-term debenture(3)	500,000	79,442	500,000	79,442	500,000	79,442
Non-Current Borrowings:						
Long-term borrowings	1,410,010	224,028	1,410,010	224,028	1,410,010	224,028
Mid-term debenture	300,000	47,665	300,000	47,665	300,000	47,665
Notes to be issued(4)	—	—	—	—		
Total borrowings	7,156,862	1,137,111	6,270,090	996,217		
Equity:						
Total shareholders' equity	5,554,610	882,539	5,554,610	882,539	5,554,610	882,539
Total capitalization(5)	12,711,472	2,019,650	11,824,700	1,878,756		

(1) As adjusted after giving effect to the repayment of the IFC Loan and JPM Facility, which were fully repaid in February 2012.

(2) As adjusted after giving effect to the repayment of the IFC Loan and JPM Facility and the issuance of the Notes in this offering.

(3) Upon maturity and repayment of a tranche of short-term financing bonds with an aggregate amount of RMB500 million, which we issued in the PRC interbank debenture market in November 2010, we reissue in January 2012 the same tranche of short-term financing bonds for the same aggregate amount, namely, RMB500 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Statement of Indebtedness — Short-term Financing Bonds."

(4) 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$ million have been used.

(5) 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 December 31, 2011.

SELECTED CONSOLIDATED FINANCIAL DATA

You should read the selected consolidated financial data presented below in conjunction with the consolidated financial statements of China Tianrui Group Cement Company Limited, related notes to such consolidated financial statements and other financial information, contained in this offering memorandum. You should also read the section of this offering memorandum entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The following selected consolidated financial data as of and for the years ended December 31, 2009, 2010 and 2011 (other than US dollar amounts, which are provided for illustrative purpose only) has been derived from the audited consolidated financial statements of China Tianrui Group Cement Company Limited included elsewhere in this offering memorandum. Our consolidated financial statements as of and for the years ended December 31, 2009, 2010 and 2011 have been prepared in accordance with IFRS and have been audited by Deloitte Touche Tohmatsu, independent auditors, in accordance with HKSA issued by the HKICPA.

Selected Consolidated Statements of Comprehensive Income

	For the year ended December 31,			
	2009	2010	2011	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Revenue	4,415,224	6,129,438	8,263,395	1,312,921
Cost of sales	(3,695,422)	(5,080,258)	(5,830,467)	(926,368)
Gross profit	719,802	1,049,180	2,432,928	386,553
Other income	134,812	188,454	293,817	46,683
Selling and distribution expenses	(200,130)	(225,473)	(260,783)	(41,434)
Administrative expenses	(125,278)	(174,604)	(296,832)	(47,162)
Other expenses	(15,682)	(7,587)	(7,308)	(1,161)
Share of loss of an associate	(101,832)	—	—	—
Finance costs	(166,652)	(303,266)	(475,269)	(75,513)
Profit before taxation	245,040	526,704	1,686,553	267,966
Income tax expense	(81,779)	(128,917)	(413,365)	(65,677)
Profit for the year and total comprehensive income for the year	163,261	397,787	1,273,188	202,289
Profit for the year and total comprehensive income for the year attributable to:				
Owners of the Company	162,738	396,833	1,274,538	202,504
Non-controlling interest	523	954	(1,350)	(215)
	163,261	397,787	1,273,188	202,289
	RMB	RMB	RMB	USD
Earnings per share				
Basic	0.08	0.20	0.63	0.10

Selected Consolidated Balance Sheet Information

	At of December 31,			
	2009	2010	2011	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
NON-CURRENT ASSETS				
Property, plant and equipment	7,322,017	8,666,714	10,034,915	1,594,387
Deposits paid	509,742	473,472	230,563	36,633
Prepaid lease payments	488,367	499,927	602,491	95,726
Mining rights	222,173	228,500	222,533	35,357
Goodwill	12,275	12,275	12,275	1,950
Available-for-sale investments	5,200	4,000	—	—
Amounts due from related parties	28,070	28,070	—	—
Restricted bank balances	30,000	—	—	—
Deferred tax assets	8,283	8,528	15,285	2,429
	8,626,127	9,921,486	11,118,062	1,766,482
CURRENT ASSETS				
Inventories	656,036	800,861	1,203,151	191,161
Trade and other receivables	596,062	1,179,917	2,454,932	390,049
Available-for-sale investments	—	—	4,000	636
Amounts due from related parties	5,072	12,618	572	91
Investments held for trading	—	—	250,000	39,721
Restricted bank balances	325,914	1,423,888	1,974,648	313,740
Cash and bank balances	400,096	343,396	232,480	36,937
	1,983,180	3,760,680	6,119,783	972,335
CURRENT LIABILITIES				
Trade and other payables	1,940,644	3,577,309	4,201,433	667,540
Amounts due to related parties	2,510	10,325	639	102
Income tax payable	28,047	83,886	110,629	17,577
Short term debenture	—	500,000	500,000	79,442
Borrowings - due within one year	2,994,281	3,777,373	4,946,852	785,976
	4,965,482	7,948,893	9,759,553	1,550,637
NET CURRENT LIABILITIES	(2,982,302)	(4,188,213)	(3,639,770)	(578,302)
TOTAL ASSETS LESS CURRENT LIABILITIES	5,643,825	5,733,273	7,478,292	1,188,180

	At of December 31,			
	2009	2010	2011	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
NON-CURRENT LIABILITIES				
Borrowings - due after one year	2,351,039	2,021,000	1,410,010	224,028
Mid term debenture	—	—	300,000	47,665
Other payables	44,360	34,237	30,237	4,804
Deferred tax liabilities	24,052	23,623	24,222	3,848
Deferred income	78,684	111,726	149,804	23,801
Provision for environmental restoration	4,365	6,575	9,409	1,495
	2,502,500	2,197,161	1,923,682	305,641
NET ASSETS	3,141,325	3,536,112	5,554,610	882,539
CAPITAL AND RESERVES				
Issued capital/paid-in capital	1,397,135	1,397,135	19,505	3,099
Reserves	933,196	980,924	3,191,882	507,139
Retained earnings	805,517	1,158,053	2,304,573	366,160
Equity attributable to owners of the Company	3,135,848	3,536,112	5,515,960	876,398
Non-controlling interest	5,477	—	38,650	6,141
TOTAL EQUITY	3,141,325	3,536,112	5,554,610	882,539

Selected Consolidated Statement of Cash Flows

	As of December 31,			
	2009	2010	2011	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Net cash generated from operating activities	992,494	1,285,023	2,428,015	385,773
Net cash used in investing activities	(3,034,381)	(2,814,121)	(2,163,620)	(343,765)
Net cash generated from/(used in) financing activities	2,194,410	1,472,398	(375,311)	(59,631)
Net (decrease)/increase in cash and cash equivalents	152,523	(56,700)	(110,916)	(17,623)
Cash and cash equivalents at beginning of year/period	247,573	400,096	343,396	54,560
Cash and cash equivalents at end of the year/period	400,096	343,396	232,480	36,937
Other Financial Data:				
EBITDA(1)	711,533	1,252,559	2,682,095	426,142
EBITDA margin(2)	16.1%	20.4%	32.5%	32.5%
EBITDA/Gross interest expense(3)	2.8	3.2	5.0	5.0
Total debt/EBITDA	7.5	5.0	2.7	2.7

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

	Year ended December 31,			
	2009	2010	2011	
	RMB'000	RMB'000	RMB'000	USD'000
Profit for the year	163,261	397,787	1,273,188	202,289
Add:				
Amortization	16,154	22,066	21,886	3,477
Depreciation	283,687	400,523	498,387	79,186
Finance costs	166,652	303,266	475,269	75,513
Income tax expense	81,779	128,917	413,365	65,677
EBITDA	711,533	1,252,559	2,682,095	426,142

(2) EBITDA margin means EBITDA divided by revenue.

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

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

The following discussion should be read in conjunction with "Selected Consolidated Financial Data" and our consolidated financial statements, 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 clinker and cement producer in Henan and Liaoning provinces in terms of production volume for the year ended December 31, 2010. We ranked 10th among all the cement producers in China in terms of production volume for the year ended December 31, 2010, according to the China Cement Association, and we ranked 11th among all the clinker producers in China in terms of production capacity as of December 31, 2011, according to China Cement Net (中國水泥網). Our operations range from the excavation of limestone to the production, sale and distribution of clinker and cement. The PRC government has promulgated policies aiming at consolidating China's cement industry and has recognized us as one of the 12 national cement producers entitled to government support in the form of priority with respect to project approvals, land use right grants and credit approvals when undertaking mergers, acquisitions and project investments in the cement industry. We are also the only non-state-owned enterprise designated by the MIIT as one of the five leading cement companies that the PRC government supports for undertaking cement industry-specific mergers and consolidation in the Central China region. Under the PRC government's current cement industry policies, small-scale cement producers with obsolete production technologies that are not environmentally-friendly shall be phased out, which we believe will eventually lead to an optimal balance between the supply and demand of cement in China. The State Council recently issued guidelines on developing the central economic zone that primarily covers Henan province, one of our primary markets, with the aim to, among other things, promote its urbanization and further develop its infrastructure. As a leading cement producer in Henan and Liaoning provinces, we believe that we can benefit from these PRC government policy initiatives by further expanding our production capacity and products coverage in order to strengthen our market position.

According to data from the respective Building Materials Industry Associations (建築材料工業協會) of Henan and Liaoning provinces, we were the largest clinker producer in each of Henan and Liaoning provinces in terms of clinker production capacity as of June 30, 2011, and we were the largest cement producer in Henan province and the second largest cement producer in Liaoning province in terms of production volume for the year ended December 31, 2010. As of December 31, 2011, we had a total of 15 clinker production lines and 35 cement grinding lines, with an annual clinker and cement production capacity of 22.2 million tonnes and 35.2 million tonnes, respectively. In 2009, we also constructed and put in operation a clinker production line that has a daily production capacity of 12,000 tonnes, which is one of the largest clinker production lines in the world. In 2009, 2010 and 2011, we sold 16.7 million, 22.1 million and 23.6 million tonnes of cement, respectively, and 4.8 million, 6.1 million and 6.4 million tonnes of clinker, respectively. We have finished the construction of the Tianjin Project in the first quarter of 2012 and are currently constructing the Yuzhou Phase II Project. We may further increase our production capacity through acquisitions of selected target companies or assets and through innovation and development of our production technology.

We have achieved significant growth in revenue and profit during the three years ended December 31, 2011. Our revenue increased from approximately RMB4,415.2 million in 2009 to approximately RMB6,129.4 million in 2010 and to approximately RMB8,263.4 million in 2011, representing a CAGR of 23.2% from 2009 to 2011. Our profit was approximately RMB163.3 million, RMB397.8 million and RMB1,273.2 million for the years ended December 31, 2009, 2010 and 2011, respectively, representing a CAGR of 96.4% from 2009 to 2011.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Economic growth in the PRC and in particular growth of the construction industry in our target markets

All of our products are sold in the PRC, in particular, Henan province and Liaoning province. All of our revenue is generated from our sales of cement and clinker products. Demand for our cement products is largely dependent on the pace of economic growth in the PRC and, in particular, the general level of activity and the growth rate in the construction industry in Henan province and Liaoning province. General national economic conditions in the PRC, especially in the regions in which we operate, have a significant impact on all aspects of our operations. Infrastructure spending, urban development, mortgage and interest rate levels, PRC government policies, inflation, unemployment rate, demographic trends and GDP growth are among the factors which have a significant impact on the performance and growth of the construction industry in the regions in which we operate and, consequently, the demand for our cement products. For the years ended December 31, 2009, 2010 and 2011, the PRC's FAI reached approximately RMB22,484.6 billion, RMB27,814.0 billion and RMB30,193.3 billion, respectively, and the PRC's FAI for the years ended December 31, 2010 grew at a rate of 23.8% compared to the year ended December 31, 2009, and the FAI for the year ended December 31, 2011 grew at a rate of 23.8% compared to the year ended December 31, 2010. This FAI growth has led to a significant increase in infrastructure, real estate construction and rural construction activities in the PRC, which in turn has led to an increase in cement consumption. Our target markets comprise Henan province and Liaoning province. For the year ended December 31, 2009, the FAI of Henan and Liaoning grew at a rate of 30.6% and 22.7%, respectively, compared to the year ended December 31, 2008. For the year ended December 31, 2010, the FAI of Henan and Liaoning grew at a rate of 21.0% and 30.5%, respectively compared to the year ended December 31, 2009. We believe the economic growth in the PRC and, in particular, FAI growth in our target markets, will continue to have a significant impact on our results of operations and financial condition.

PRC government policies

The PRC government may from time to time adopt new industry policies to adjust the level of investment in infrastructure projects and real estate development using both economic incentives and disincentives and administrative means. In recent years, the PRC government's regulation of the cement industry, its overhaul and invigoration plans specific to the cement industry, and its industry policies on resource development and the property market have had and may continue to have a material impact on the investment in, and the growth of, the PRC's cement industry and other industries related to our businesses, bringing us new opportunities and challenges. See the sections headed "Industry Overview" and "Risk Factors" in this offering memorandum for details regarding certain recent major policies on the PRC's cement industry. The State Council of the PRC recently issued guidelines on developing the Central China economic zone that primarily covers Henan province, one of our primary markets, with the aim to, among other things, promote urbanization and further develop infrastructure in the region. We believe we will benefit from those guidelines. These and any other future PRC government policy changes would affect the demand for our products to a large extent and therefore affect our financial condition and results of operations.

Production capacity

Our results of operations depend on our ability to fulfill customer orders, which partly depends on our production capacity. During the three years ended December 31, 2011, we expanded our annual cement production capacity from 21.1 million tonnes as of December 31, 2009 to 35.2 million tonnes as of December 31, 2011 and our annual clinker production capacity from 14.5 million tonnes as of December 31, 2009 to 22.2 million tonnes as of December 31, 2011. In connection with our expansion, we incurred expenditures of approximately RMB2,621.1 million, RMB1,746.2 million and RMB1,609.7 million on acquiring additional mining rights, property, plant and equipment in 2009, 2010 and 2011, respectively. Partly due to the increase in our production capacity, our revenue grew by 31.4% in 2009, 38.8% in 2010 and 34.8% in 2011 as compared to their respective preceding years. We believe that demand for our products will continue to increase, and we therefore intend to increase our annual production capacity in both cement and clinker. We plan to add more cement grinding lines and clinker production lines while at the same time increase the operational efficiency and utilization rate of our existing production lines. 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 proceeds from the offering of the Notes.

Pricing and product mix

The following table sets out the breakdown of the average selling prices (excluding taxes and transportation fees) per tonne of our products by areas of sales for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
	(RMB)	(RMB)	(RMB)
Central China			
Low-grade cement(1)	197.5	208.7	270.7
High-grade cement(2)	240.0	251.9	278.3
Clinker	171.8	185.0	277.4
Northeast China			
Low-grade cement(1)	215.4	202.8	260.6
High-grade cement(2)	268.2	250.9	298.2
Clinker	173.3	187.7	263.6
Overall			
High and low-grade cement	214.9	225.6	277.1
Clinker	172.3	186.2	269.3

(1) Low-grade cement products are used in general industrial construction such as the production of surface, underground and underwater concrete as well as reinforced concrete, pre-stressed concrete structures and commercial concrete products.

(2) High-grade cement products refer to cement with compressive strength greater than or equal to 42.5 MPa. They are generally used in major construction projects with special requirements, such as bridges, roads, high-rise buildings and high performance concrete, and projects in which a high initial level of strength is required.

The average selling prices of our clinker and cement are primarily dependent on the overall local supply and demand of cement and clinker products in our target regions. During the three years ended December 31, 2011, the selling prices of our clinker and cement products fluctuated significantly in our target regions, which affected our business, results of operations and profitability. Because China's cement industry is geographically fragmented, the prices of cement and clinker differ in different regions of China. The average selling price of our cement in Central China was approximately RMB206.0 per tonne, RMB223.9 per tonne and RMB274.8 per tonne in 2009, 2010 and 2011, respectively. The average selling price of our clinker in Central China was approximately RMB171.8 per tonne, RMB185.0 per tonne and RMB277.4 per tonne in 2009, 2010 and 2011, respectively. From 2009 to 2011 the average selling prices of our cement and clinker in Central China increased mainly due to various PRC government authorities' strict implementation of environmental protection measures to phase out cement and clinker production lines with obsolete technologies, which in turn reduced the supply of cement and clinker and drove up the average selling prices.

The average selling price of our cement in Northeast China was approximately RMB249.9 per tonne, RMB231.3 per tonne and RMB283.9 per tonne, while the average selling price of our clinker in the same region was RMB173.3 per tonne, RMB187.7 per tonne and RMB263.6 per tonne, in 2009, 2010 and 2011, respectively. From 2009 to 2011, the average selling prices of our clinker and cement products in Northeast China increased due to the same environmental protection measures as discussed above.

We sell different grades of cement with various physical characteristics at different selling prices. The average selling price of our high-grade cement is higher than that of our low-grade cement. As high-grade cement has higher strength, it is primarily used in major construction projects with special requirements. Low-grade cement is primarily used in general industrial constructions. As a result of an increase in the investment in large-scale public infrastructure projects in our target markets and the PRC government's RMB4 trillion stimulus package, our revenue derived from sales of high-grade cement increased significantly during the three years ended December 31, 2011. We sold 4.9 million tonnes, 9.0 million tonnes and 13.1 million tonnes of high-grade cement in 2009, 2010 and 2011, respectively, which represented 29.2%, 40.9% and 55.5% of our total cement sales volume and 27.9%, 37.1% and 45.1% of our total revenue for the relevant periods.

For the years ended December 31, 2009, 2010 and 2011, the sales of cement as a percentage of revenue were 81.4%, 81.4% and 79.0%, respectively, and the sales of clinker as a percentage of revenue were 18.6%, 18.6% and 21.0%, respectively. The increase in the proportion of clinker sales as a percentage of our total revenue during the three years ended December 31, 2011 was due to the fact that the increase in our clinker production capacity had outpaced the increase in our cement production capacity and the fact that in the first half of 2011 the average selling price of our clinker products increased more significantly than that of our cement products.

Competition

Our sales and results of operations are also affected by competition in the markets in which we operate. The PRC cement industry is highly fragmented and competitive. According to the China Cement Association, there were approximately 12 and eight major cement producers in Central China and Northeast China, respectively, in 2010. In recent years, the number of competitors has decreased due to intensifying industry consolidation and restructuring efforts of the PRC government. For example, the "Policies on the Development of the Cement Industry" restricts the use of low-efficiency production equipment and the "Guidelines on Catalog of Structural Adjustment (2005)" restricts the use of vertical kilns, consequently encouraging industry participants to use more advanced NSP technology. We believe that these PRC government policies have led to the closure of a number of cement producers. We intend to leverage our leading market position and capitalize on the consolidation trend to expand our customer base and increase our market share. However, we expect the competition to intensify principally due to the entry of new foreign companies and the cross-province expansion by major competitors in China. Our ability to maintain or increase our profitability will depend on our ability to successfully compete with our competitors.

Costs of coal and electricity

Our results of operations are significantly affected by the costs of coal and electricity. The cost of coal is one of the principal components of our cost of sales and constituted 36.0%, 42.2% and 45.1% of our cost of sales for the years ended December 31, 2009, 2010 and 2011, respectively. We endeavor to improve our production efficiency and reduce our coal costs. However, due to market conditions, we may find it necessary to purchase certain types of coal that may prevent us from achieving maximum production efficiency due to their lower quality. Our average purchase price for coal was approximately RMB546.7 per tonne, RMB692.6 per tonne and RMB759.1 per tonne in 2009, 2010 and 2011, respectively. During the three years ended December 31, 2011, our business and results of operations were affected by the significant fluctuation of coal prices. We generally enter into one-year contracts with our coal suppliers that set forth a minimum purchase quantity for the respective year. A purchase price is usually determined based on the prevailing market price when we place a particular purchase order.

Our operations also require a significant amount of electricity. Our electricity costs as a percentage of cost of sales were approximately 17.8%, 17.0% and 15.5% for the years ended December 31, 2009, 2010 and 2011, respectively. For the years ended December 31, 2009, 2010 and 2011, our average electricity purchase price per KWh was approximately RMB0.49 per KWh, RMB0.52 per KWh and RMB0.54 per KWh, respectively. We have installed residual heat recovery systems in most of our production lines, which generated 355.8 GWh, 534.5 GWh and 657.9 GWh of electricity in 2009, 2010 and 2011, respectively, and consequently reduced our external electricity consumption. In addition, provincial governments in the PRC regulate electricity prices for industrial use, and prices are fixed within a set range. This reduces volatility in our electricity costs. For details of the price range in various provinces, see the section headed "Industry Overview — Major Cost Factors in Cement Production in the PRC" of this offering memorandum.

Any significant increase in the prices of coal and/or electricity could have a significant impact on our cost of sales, which could in turn have a material adverse effect on our business, financial condition and results of operations if we are unable to pass on a portion or all of such increased costs to our customers. During the three years ended December 31, 2011, we were generally able to pass on the increased costs of coal and electricity to our customers when the market conditions were favorable. However, during the three years ended December 31, 2011, we experienced periodic difficulties in passing on these increased costs to our customers when the market conditions were unfavorable or the competition intensified.

Cost and availability of raw materials

We currently source most of our limestone, a principal raw material for our clinker products, from the quarries we are licensed to excavate. We also source from third-parties a portion of limestone, sandstone, gypsum flyash, sulfuric acid residue and slag requirements for our operations. Our results of operations are also affected by the costs and availability of these raw materials. Costs of raw materials as a percentage of cost of sales was 37.2%, 31.6% and 30.1% in 2009, 2010 and 2011, respectively. If the costs of these raw materials increase, or if we are unable to retain access to sufficient amount of limestone, our cost of sales may increase, and results of our operations may be negatively affected.

Income tax expenses

Our net profit is affected by certain tax exemptions, government incentives and VAT refunds granted to us which, if discontinued, would adversely affect our profitability and financial condition. The effective tax rates of our Group were 33.4%, 24.5% and 24.5% in 2009, 2010 and 2011, respectively. Our income tax expenses were approximately RMB81.8 million, RMB128.9 and RMB413.4 million, in 2009, 2010 and 2011, respectively. Our effective tax rate was 24.5% in 2010 and 2011, primarily because one of our subsidiaries enjoyed a preferential tax rate of 12.5% from 2009 to 2011. The PRC Enterprise Income Tax Law has consolidated two previous tax regimes that were separately applied to foreign and domestic enterprises in China. Under the PRC Enterprise Income Tax Law, some of our subsidiaries in China have been subject to the uniform enterprise income tax rate of 25% applicable to both foreign and domestic enterprises from January 1, 2008. Please see note 9 in the consolidated financial statements for the years ended December 31, 2008, 2009, 2010 and the six months ended June 30, 2011 and note 10 in the consolidated financial statements for the year ended December 31, 2011 included in this offering memorandum for further details.

Seasonality

Our results of operations are subject to seasonal fluctuations. We generally record lower sales volume in winter when construction activities in our markets are generally slow due to the cold weather (particularly in Liaoning province) and Chinese New Year holiday, which falls in January or February each year. We generally record higher sales volumes in other periods when construction activities remain at a relatively stable level. As a result of these seasonal fluctuations, our sales volume and revenue in the second half of a given year are generally higher than the first half of the same year and, in particular, our operating income and earnings have historically been lower during the first quarter than other quarters. In the first two months of 2012, taking into account seasonality of market demand for cement products, we undertook maintenance work for certain of our production facilities, which affected our production volume and increased our costs. Consequently, we anticipate our operating results, such as cost of sales and gross profit, for the first quarter of 2012 may compare unfavorably to the first quarter of 2011, for which the impact of market seasonality was significantly mitigated by the increase in market demand for our products mainly due to the phasing out of smaller cement production facilities with obsolete technology as mandated by the PRC government policies.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our consolidated financial statements in conformity with IFRS issued by the International Accounting Standards Board, which requires us to make estimates and assumptions that affect the reported amounts of, among other things, assets, liabilities, revenue and expenses. 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

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes. Revenue from the sale of goods is recognized when goods are delivered and legal title is passed. Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified under the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year in which the item is derecognized.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of such assets until such time as such assets are substantially prepared for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the acquisition date less any accumulated impairment losses, if any, and is presented separately in the consolidated statements of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to the relevant cash-generating units that are expected to benefit from the synergy of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately as an expense.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately as income.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs are calculated using the weighted average method basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

All of our revenue is generated from the sales of our cement and clinker products. Our revenue from operations in any given period is affected by our sales volume, selling prices and product mix. During the three years ended December 31, 2011, our production capacity and cement sales volume experienced a significant increase. Our cement sales volume was approximately 16.7 million tonnes, 22.1 million tonnes and 23.6 million tonnes for the years ended December 31, 2009, 2010 and 2011, respectively. Our clinker sales volume was approximately 4.8 million tonnes, 6.1 million tonnes and 6.4 million tonnes for the years ended December 31, 2009, 2010 and 2011, respectively. The increase in our cement sales was mainly driven by the increase in construction activities, particularly infrastructure projects, which were primarily affected by the general economic development in our target market regions and the PRC government's policies concerning real estate, infrastructure developments and the cement industry, including the PRC government's RMB4 trillion stimulus package implemented in 2008. In addition, our cement products have been selected and used in certain high profile, large infrastructure projects that require cement products of high-quality. Such projects include the South-North Water Transfer Project (南水北調工程), Ha'erbin-Dalian Express Railway (哈大高鐵) and Shijiazhuang-Wuhan Express Railway (石武高鐵).

In order to capitalize on the rapidly increasing demand for cement in the PRC, particularly in our target markets, we have significantly expanded our production capacity. For example, we constructed and commenced operating our new Xingyang cement and clinker production lines in Central China and Liaoyang clinker production line in Northeast China in 2009. During the three years ended December 31, 2011, we expanded our annual cement production capacity from 21.1 million tonnes as of December 31, 2009 to 35.2 million tonnes as of December 31, 2011 and our annual clinker production capacity from 14.5 million tonnes as of December 31, 2009 to 22.2 million tonnes as of December 31, 2011.

During the three years ended December 31, 2011, the average selling prices of our cement and clinker products fluctuated primarily due to changes in the general market conditions as well as the supply and demand for our products. The average selling price per tonne of our cement products was approximately RMB214.9, RMB225.6 and RMB277.1 for the years ended December 31, 2009, 2010 and 2011, respectively. The average selling price per tonne of our clinker products was approximately RMB172.3, RMB186.2 and RMB269.3 for the years ended December 31, 2009, 2010 and 2011, respectively. Our management will continue to evaluate the market demand for our products and may from time to time adjust our product prices and production volume to meet market demand.

Our revenue is also affected by our product mix. The table below sets forth a breakdown of our sales volume and revenue by products and the revenue from different products as a percentage of our total revenue for the periods indicated:

	Year ended December 31,								
	2009			2010			2011		
	Sales volume	Revenue	% Revenue	Sales volume	Revenue	% Revenue	Sales volume	Revenue	% Revenue
	(Tonne ’000)	(RMB in million)	(%)	(Tonne ’000)	(RMB in million)	(%)	(Tonne ’000)	(RMB in million)	(%)
Low-grade Cement[(1)]	11,846.0	2,360.4	53.5	13,083.3	2,717.7	44.3	10,436.6	2,802.6	33.9
High-grade Cement[(2)]	4,875.9	1,232.9	27.9	9,040.2	2,274.4	37.1	13,130.6	3,727.9	45.1
Clinker	4,769.3	821.9	18.6	6,106.5	1,137.3	18.6	6,435.6	1,732.9	21.0
Total	21,491.2	4,415.2	100.0	28,230.0	6,129.4	100.0	30,002.8	8,263.4	100.0

Notes:

(1) Low-grade cement products are used in general industrial construction such as the production of surface, underground and underwater concrete as well as reinforced concrete, pre-stressed concrete structures and commercial concrete products.

(2) High-grade cement products refer to cement with compressive strength greater than or equal to 42.5 MPa. They are generally used in major construction projects with special requirements, such as bridges, roads, high-rise buildings and high performance concrete, and projects in which a high initial level of strength is required.

Our revenue from sales of low-grade cement increased from approximately RMB2,360.4 million in 2009 to approximately RMB2,717.7 million in 2010 and further to RMB2,802.6 million in 2011. The increase in our revenue of low-grade cement was primarily due to the general economic growth and the resulting increase in the demand for low-grade cement in the regions in which we operate.

Our revenue from sales of high-grade cement increased from approximately RMB1,232.9 million in 2009 to approximately RMB2,274.4 million in 2010 and further to RMB3,727.9 million in 2011. The increase in our revenue of high-grade cement was primarily due to increased demand from public infrastructure projects during the three years ended December 31, 2011 as a result of economic development in our target regions and the PRC government’s RMB4 trillion stimulus package.

The table below sets forth a breakdown of our revenue by the specific geographical location in which we operated and their percentage of our total revenue for the periods indicated:

	Year ended December 31,					
	2009		2010		2011	
	Revenue	**% Revenue**	**Revenue**	**% Revenue**	**Revenue**	**% Revenue**
	(RMB'000)	**%**	**(RMB'000)**	**%**	**(RMB'000)**	**%**
Central China.	3,274,251	74.2	4,403,309	71.8	5,579,384	67.5
Northeast China	1,140,973	25.8	1,726,129	28.2	2,684,011	32.5
Total	4,415,224	100.0	6,129,438	100.0	8,263,395	100.0

Our revenue derived from sales of our cement and clinker products in Central China increased by 25.6% from approximately RMB3,274.3 million in 2009 to approximately RMB4,403.3 million in 2010 and further increased by 21.1% to approximately RMB5,579.4 million in 2011. Our revenue derived from sales of our cement and clinker products in Northeast China increased by 51.3% from approximately RMB1,141.0 million in 2009 to approximately RMB1,726.1 million in 2010 and further increased by 35.7% to approximately RMB2,684.0 million in 2011.

Cost of sales

Our cost of sales was approximately RMB3,695.4 million, RMB5,080.3 million and RMB5,830.5 million for the years ended December 31, 2009, 2010 and 2011, respectively. Our cost of sales consists of raw materials, coal, electricity, depreciation, labor costs, and other costs. Cost of sales as a percentage of our total revenue was approximately 83.7%, 82.9% and 70.6% for the years ended December 31, 2009, 2010 and 2011, respectively.

We took various measures to reduce our material costs, including equipping all of our clinker and cement production lines with advanced NSP technology, and equipping most of our production lines with residual heat recovery systems that recycle heat generated in the clinker production process. We used flyash and other industrial wastes in our cement production process to reduce our raw materials cost and to minimize the impact of our operations on the environment. We also used desulfurized gypsum to replace natural gypsum in our production of cement.

The table below sets forth breakdowns of our cost of sales in absolute amounts and as a percentage of cost of sales for the periods indicated:

	Year ended December 31,					
	2009		2010		2011	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Raw materials	1,375,468	37.2	1,605,351	31.6	1,755,940	30.1
Coal	1,330,973	36.0	2,145,121	42.2	2,627,090	45.1
Electricity	658,284	17.8	862,220	17.0	906,326	15.5
Depreciation	264,559	7.2	381,708	7.5	422,446	7.2
Labor costs	45,558	1.3	64,786	1.3	85,666	1.5
Others	20,580	0.5	21,072	0.4	32,999	0.6
Total	3,695,422	100.0	5,080,258	100.0	5,830,467	100.0

Costs of raw materials

Our costs of raw materials primarily comprise excavation costs of limestone, purchase costs of sandstone, gypsum, flyash, sulfuric acid residue and slag, and to a lesser extent ingredients used in the production of cement, such as clinker. Our costs of raw materials represented approximately 37.2%, 31.6% and 30.1% of our total cost of sales for the years ended December 31, 2009, 2010 and 2011, respectively.

We contract independent third party contractors to excavate limestone from our licensed limestone quarries (except for the quarry located in Weihui, Henan province, which we excavate ourselves). We pay contractors a fixed excavation fee for each tonne of limestone excavated, and fixed fees are adjusted at the beginning of each year based on changes in excavation costs and consumable materials used in the relevant limestone quarries. Our agreements with contractors are for a term of one year, and each of our contractors is required to excavate a certain minimum volume of limestone per year. All limestone excavated by our contractors can only be supplied to us, and our contractors are not allowed to supply this limestone to any other party.

Costs of coal and electricity

Cost of coal is a principal component of our cost of sales. Our cost of coal was approximately RMB1,331.0 million, RMB2,145.1 million and RMB2,627.1 million for the years ended December 31, 2009, 2010 and 2011, respectively, representing approximately 36.0%, 42.2% and 45.1% of our total cost of sales. For the years ended December 31, 2009, 2010 and 2011, our average purchase price of coal per tonne was approximately RMB546.7, RMB692.6 and RMB759.1, respectively. Nonetheless, the coal procurement contracts typically need to be renewed annually and the purchase prices are based on the prevalent market prices at the time when we place the purchase orders.

Cost of electricity is also a principal component of our cost of sales. The price of electricity increased during the three years ended December 31, 2011, and our average electricity purchase price per KWh was approximately RMB0.49, RMB0.52 and RMB0.54, respectively, for the years ended December 31, 2009, 2010 and 2011. Our cost of electricity was approximately RMB658.3 million, RMB862.2 million and RMB906.3 million for the years ended December 31, 2009, 2010 and 2011, respectively, representing approximately 17.8%, 17.0% and 15.5% of our total cost of sales during those periods.

We began using our residual heat recovery system to generate electricity in 2008. For the years ended December 31, 2009, 2010 and 2011, we generated approximately 355.8 GWh, 534.5 GWh and 657.9 GWh of electricity from our residual heat recovery system, respectively. As a result, we achieved cost savings of approximately RMB142.9 million, RMB228.7 million and RMB291.0 million for the years ended December 31, 2009, 2010 and 2011, respectively. The cost savings were calculated by multiplying the amount of the electricity generated from our residual heat recovery system by the difference between the average electricity purchase price per KWh during the same periods and the average cost of generating the electricity using our residual heat recovery system.

Provincial governments in the PRC regulate electricity prices for industrial use and the price per KWh is fixed within a set range. This reduces volatility in electricity costs. For details of the range of price per KWh in various provinces, see the section headed "Industry Overview — Major Cost Factors in Cement Production in the PRC" of this offering memorandum.

We expect that coal, raw materials and electricity will continue to account for a majority of our cost of sales.

Gross profit and gross profit margin

Our gross profit, which is equal to our revenue less cost of sales, was approximately RMB719.8 million, RMB1,049.2 million and RMB2,432.9 million for the years ended December 31, 2009, 2010 and 2011, respectively. Our gross profit margin, which is equal to gross profit divided by revenue, was approximately 16.3%, 17.1% and 29.4% for the years ended December 31, 2009, 2010 and 2011, respectively. The increase in our gross profit from 2009 to 2011 was primarily due to increases in the demand for our products, expansion of our production capacity and the corresponding increases in our sales volume. For the years ended December 31, 2009, 2010 and 2011, our gross profit margin for cement products was 18.8%, 19.9% and 29.8%, respectively, and our gross profit margin for clinker products was 5.2%, 4.8% and 28.2%, respectively. The increase in our gross profit margin for cement products from 2009 to 2011 was primarily due to the recovery of cement selling prices as a result of PRC government authorities' strict implementation of the policy to phase out cement production capacity with obsolete production technology and the overall market recovery, which was partially offset by the increase in our average purchase price for coal during the same period. Our profit margin for clinker products further decreased from 2009 to 2010 as a result of the increase in coal purchase prices. However, the increase in our profit margin for clinker products from 2010 to 2011 was mainly attributable to an increase in our average selling price for clinker products from RMB186.2 per tonne for 2010 to RMB267.0 per tonne for 2011 due to PRC government authorities' strict implementation of the policy to phase out cement and clinker production capacity with obsolete production technology, which in turn reduced the supply of cement and clinker and drove up their selling prices.

Other income

Our other income was approximately RMB134.8 million, RMB188.5 million and RMB293.8 million for the years ended December 31, 2009, 2010 and 2011, respectively. Other income primarily consists of value-added tax ("VAT") refunds, incentive subsidies, foreign exchange gains and others, including interest on bank deposits, rental income, release of deferred income and sales of scrap.

The table below sets forth a breakdown of our other income for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Value Added Tax ("VAT") refund	83,580	114,463	164,424
Incentive subsidies	41,034	33,777	44,961
Foreign exchange gain (net)	60	8,843	11,102
Others[1]	10,138	31,371	73,330
Total	134,812	188,454	293,817

(1) Others include income from interest on bank deposits, rental income, release of deferred income, gains on sales of scrap, gains on disposal of property, plant and equipment and other sources of income.

VAT refunds are granted for low-grade cement products we produce with industrial waste materials constituting not less than 30% of raw materials. We expect that these VAT refunds will be recurring in nature as we expect to continue to use adequate waste materials in our production of low-grade cement. In 2009, 2010 and 2011, these VAT refunds amounted to approximately RMB83.6 million, RMB114.5 million and RMB164.4 million, respectively. We do not expect these VAT refund policies to be cancelled in the near future, as the Ministry of Finance and the State Bureau of Taxation have issued various circulars since the implementation of the VAT refund policy in 1995 to reiterate the policy of encouraging the use of waste materials.

See "Regulations — PRC VAT Tax" for details of relevant regulations regarding the requirements for granting such VAT refunds.

The incentive subsidies we received in 2009, 2010 and 2011 were mainly in the form of governmental grants from local governments to promote and develop local business. In addition, we received subsidies in 2009 for phasing out obsolete production technology.

Our foreign exchange gain for the years ended December 31, 2009, 2010 and 2011 resulted from a loan of US$50.0 million we obtained from IFC. The gain was recognized as Renminbi appreciated against US Dollars during the same period. According to Hong Kong Accounting Standard 21, monetary items denominated in foreign currencies should be retranslated at the exchange rates prevailing on the dates of the consolidated statements of financial position. Exchange differences arising on settlement of monetary items, and on the translation of monetary items, are recognized as a profit or loss in the year or period in which they arise. For the years ended December 31, 2009, 2010 and 2011, we recognized foreign exchange gains of RMB0.1 million, RMB8.8 million and RMB11.1 million, respectively, as we would require less Renminbi to repay our US dollar-denominated loan from IFC.

Our rental income primarily consisted of income from leasing Zhengzhou Tianrui's mixing station to third-parties. Our release of deferred income primarily consisted of the amortization of land premium refunded by local governments to Dalian Cement, Liaoyang Cement and Nanzhao Cement, and the energy-saving technology improvement capital refunded by local governments to Tianrui Cement and Ruzhou Cement. Our amortization of land premium refunded to Dalian Cement, Liaoyang Cement, Nanzhao Cement and Shangqiu Cement was RMB1.5 million, RMB1.5 million, RMB1.5 million and RMB0.8 million respectively, for the year ended December 31, 2009, RMB3,000, RMB40,000, RMB40,000 and nil respectively, for the year ended December 31, 2010, and RMBnil, RMB1,500,000, RMB39,678 and RMB20,434 respectively, for the year ended December 31, 2011. As a means to promote local economy, these land premium refunds were granted by certain local governments to companies that invested and set up enterprises locally.

Selling and distribution expenses

Our selling and distribution expenses were approximately RMB200.1 million, RMB225.5 million and RMB260.8 million for the years ended December 31, 2009, 2010 and 2011, respectively. Our selling and distribution expenses primarily include packaging costs, staff costs, transportation costs and marketing expenses. Our selling and distribution expenses increased throughout the three years ended December 31, 2011 in line with our expansion of operations. As we continue to expand our operations, we expect to strengthen our sales efforts, and our selling and our distribution expenses may increase accordingly.

The table below sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Staff costs	29,200	32,468	39,639
Marketing expenses	8,823	9,339	13,580
Transportation expenses	7,880	12,086	48,117
Others, including			
Packaging	127,083	131,352	107,544
Electricity	10,677	16,755	20,351
Depreciation	5,371	7,876	11,567
Normal distribution cost	6,661	10,068	13,892
Others	4,435	5,529	6,093
Subtotal	154,227	171,580	159,447
Total	200,130	225,473	260,783

Administrative expenses

Our administrative expenses mainly consist of staff costs, general administration expenses, depreciation and amortization, government levies and other expenses. Our administrative expenses were approximately RMB125.3 million, RMB174.6 million and RMB296.8 million for the years ended December 31, 2009, 2010 and 2011, respectively.

The table below sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Staff costs	39,278	50,313	94,787
General administrative expenses	36,762	55,181	120,723
Depreciation and amortization	15,001	21,054	30,555
Government levies	23,720	35,945	43,321
Others	10,517	12,111	7,446
Total	125,278	174,604	296,832

Other expenses

Other expenses represent other business expenses and non-operational expenses, which primarily include cost of sales of waste materials, cost of rental, loss on retirement of fixed assets, and bad and doubtful debt provisions. Our other expenses were approximately RMB15.7 million, RMB7.6 million and RMB17.3 million for the years ended December 31, 2009, 2010 and 2011, respectively.

Share of loss of associate

Share of loss of associate primarily related to our investment in Ruiping Shilong. Our share of loss of associate was approximately RMB101.8 million for the year ended December 31, 2009.

In November 2009, after incurring continuing loss of associate for two years due to operational difficulties, Ruiping Shilong decided to suspend its operations until such operational difficulties are resolved. Because we cannot foresee when such difficulties will be resolved and production will resume, we recognized an impairment loss, and our investment value of Ruiping Shilong was nil upon the impairment recognition for the year ended December 31, 2009. Ruiping Shilong resumed partial operations in October 2010, and whether Ruiping Shilong will resume full operations will depend on the prevailing market conditions.

Our loss of associate was nil and nil for the years ended December 31, 2010 and 2011, respectively.

Finance costs

Finance costs primarily include interest on bank loans and other borrowings. Our finance costs were approximately RMB166.7 million, RMB303.3 million and RMB475.3 million for the years ended December 31, 2009, 2010 and 2011, respectively.

Profit before taxation

Our profit before taxation was approximately RMB245.0 million, RMB526.7 million and RMB1,686.6 million for the years ended December 31, 2009, 2010 and 2011, respectively.

Income tax expenses

Our income tax expenses primarily include PRC income tax and deferred tax. Our income tax expenses were approximately RMB81.8 million, RMB128.9 million and RMB413.4 million for the years ended December 31, 2009, 2010 and 2011, respectively. Our effective tax rate was approximately 33.4%, 24.5% and 24.5% for the years ended December 31, 2009, 2010 and 2011, respectively.

The PRC EIT Law imposes a unified enterprise income tax rate of 25% on both domestic enterprises and foreign-invested enterprises. Under the PRC EIT Law, enterprises that enjoyed a preferential tax rate prior to January 1, 2008 will gradually be subject to the 25% tax rate over five years, starting January 1, 2008. Enterprises that previously enjoyed a fixed period of tax exemption and reduction will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced due to an absence of profit, such preferential tax treatment period commences January 1, 2008.

If the relevant government authorities classify our overseas holding companies as resident enterprises, these holding companies will be subject to a 25% tax rate on their global income. In such case, dividend income from other qualified resident enterprises, including dividends payable by our PRC subsidiaries, will be exempt from PRC enterprise income tax. If the relevant government authorities classify our overseas holding companies as non-resident enterprises, their dividend income from sources within China will be subject to a 10% enterprise income tax rate, as applicable. Our financial performance will be adversely affected if such dividends are subject to PRC enterprise income tax.

Profit and total comprehensive income

Our profit and total comprehensive income was approximately RMB163.3 million, RMB397.8 million and RMB1,273.2 million for the years ended December 31, 2009, 2010 and 2011, respectively.

RESULTS OF OPERATIONS

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

	Year ended December 31,		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Revenue	4,415,224	6,129,438	8,263,395
Cost of sales	(3,695,422)	(5,080,258)	(5,830,467)
Gross profit	719,802	1,049,180	2,432,928
Other income	134,812	188,454	293,817
Selling and distribution expenses	(200,130)	(225,473)	(260,783)
Administrative expenses	(125,278)	(174,604)	(296,832)
Other expenses	(15,682)	(7,587)	(7,308)
Share of loss of an associate	(101,832)	—	—
Finance costs	(166,652)	(303,266)	(475,269)
Profit before taxation	245,040	526,704	1,686,553
Income tax expense	(81,779)	(128,917)	(413,365)
Profit for the year/period and total comprehensive income for the year/period	163,261	397,787	1,273,188

Year ended December 31, 2011 compared to year ended December 31, 2010

Revenue

Our revenue was approximately RMB8,263.4 million in 2011, representing an increase of RMB2,134.0 million, or 34.8%, from approximately RMB6,129.4 million in 2010.

Our revenue from sales of cement was approximately RMB6,530.5 million in 2011, representing an increase of RMB1,538.4 million, or 30.8%, from approximately RMB4,992.1 million in 2010. This increase was primarily attributable to (i) a significant increase in the average selling price of our cement products by RMB51.5 per tonne, or 22.8%, from RMB225.6 per tonne in 2010 to RMB277.1 per tonne in 2011; and (ii) an increase in the cement sales volume by 1.5 million tonnes, or 6.8%, from 22.1 million tonnes in 2010 to 23.6 million tonnes in 2011. The significant increase in the average selling price of cement products was primarily because PRC governmental authorities continued to strictly enforce the policy to phase out cement production capacity with obsolete production technology, which drove up the cement selling prices in the market. The increase in our cement sales volume was primarily due to (i) the general increase in the market demand for our cement products, particularly the increase in demand from concrete mixture station customers who bought our high-grade cement products and used them for infrastructure projects; and (ii) the phasing out of smaller production facilities with obsolete technology from the market.

Our revenue from sales of clinker was RMB1,732.9 million in 2011, representing an increase of RMB595.6 million, or 52.4%, from approximately RMB1,137.3 million in 2010. The increase was primarily due to a significant increase in the average clinker selling price by RMB83.1 per tonne, or 44.6%, from RMB186.2 per tonne in 2010 to RMB269.3 per tonne in 2011, as PRC governmental authorities continued to strictly enforce the policy to phase out clinker production capacity using obsolete production technology, which drove up the clinker selling prices in the market. Our clinker sales volume increased by 0.3 million tonnes, or 4.9%, from 6.1 million tonnes in 2010 to 6.4 million tonnes in 2011 primarily due to the increase in demand for our products.

Our revenue from sales of cement as a percentage of revenue was approximately 79.0% in 2011 as compared to 81.4% in 2010. Our revenue from sales of clinker as a percentage of revenue was approximately 21.0% in 2011 as compared to 18.6% in 2010.

Cost of sales

Our cost of sales was approximately RMB5,830.5 million in 2011, representing an increase of RMB750.2 million, or 14.8%, from approximately RMB5,080.3 million in 2010. The increase was primarily attributable to the growth of our business. Our cost of sales as a percentage of revenue decreased to approximately 70.6% in 2011 from 82.9% in 2010 primarily due to the significant increases in the average selling prices of our cement and clinker products in 2011. The cost of coal as a percentage of our cost of sales increased from 42.2% to 45.1% of our revenue due to the increase in the average coal purchase price, which increased by 10% to RMB759.1 per tonne for 2011 from RMB692.6 per tonne in 2010 due to the global rising demand for coal. Our cost of electricity as a percentage of the cost of sales decreased from 17.0% in 2010 to 15.5% in 2011, primarily due to the fact that in 2011, we installed more residual heat recovery systems and purchased less electricity from external sources than otherwise we would have. Costs of other components of cost of sales as percentages of the cost of sales remained relatively stable during the same periods.

Gross profit and gross profit margin

As a result of the foregoing reasons, our gross profit increased significantly from approximately RMB 1,049.2 million in 2010 to approximately RMB2,432.9 million in 2011, representing an increase of RMB1,383.7 million, or 131.9%. Our gross profit margin increased to approximately 29.4% in 2011 from 17.1% in 2010.

Other income

Other income was RMB293.8 million in 2011, an increase of RMB105.3 million, or 55.9%, from RMB188.5 million in 2010. The increase was primarily due to the increase in value-added tax refunds from the PRC government because to a number of our subsidiaries that, since starting operations in late 2010 or in 2011, met the conditions to qualify for such refunds since they produced low-grade cement products with industrial waste materials constituting not less than 30% of raw materials. The increase in other income was also due to the increase in gain on sale of scrap materials as two of our subsidiaries increased sales of these materials to external third parties, and the increase in interest in bank deposits as a result of our higher average deposit balances in the year.

Selling and distribution expenses

Our selling and distribution expenses were approximately RMB260.8 million in 2011, an increase of RMB35.3 million, or 15.7%, from RMB225.5 million in 2010. The increase was primarily attributable to the growth of our business. Transportation expenses increased significantly from RMB12.1 million in 2010 to RMB48.1 million in 2011 primarily because an increasing number of customers, especially those in the Tianjin area, requested us to deliver products to their premises.

Administrative expenses

Our administrative expenses were approximately RMB296.8 million in 2011, representing an increase of RMB122.2 million, or 70.0%, from RMB174.6 million in 2010. Among the Administrative expenses, our staff costs increased by 88.4% from RMB50.3 million in 2010 to RMB120.7 million in 2011, and our general administrative expenses increased by 118.7% from RMB55.2 million in 2010 to RMB120.7 million in 2011. These increases were primarily due to the growth of our business as we hired more administrative personnel and the expenses related to our IPO in December 2011.

Other expenses

Other expenses were approximately RMB7.3 million in 2011, a decrease of RMB0.3 million, or 3.9%, from approximately RMB7.6 million in 2010. The decrease was primarily due to the recovery of certain trade receivables which we had written off as bad debts in prior periods.

Finance costs

Finance costs were approximately RMB475.3 million in 2011, representing an increase of RMB172 million, or 56.7%, from approximately RMB303.3 million in 2010. The increase was primarily attributable to the PBOC's increase of benchmark loan interest rates during the year. The increase in finance costs was also due to fewer projects which we had under construction in 2011, as a result of which we were not able to capitalize finance costs to the same extent as in prior years.

Profit before taxation

As a result of the foregoing, our profit before taxation was approximately RMB1,686.6 million in 2011, an increase of RMB1,159.8 million, or approximately 220.2%, from approximately RMB526.7 million in 2010.

Income tax expenses

Our income tax expenses were approximately RMB413.4 million in 2011, representing a significant increase of RMB284.5 million, or approximately 220.7%, from approximately RMB128.9 million in 2010 mainly due to the increase in profit.

Profit and total comprehensive income for the year

As a result of the foregoing, our profit and total comprehensive income for the year was approximately RMB1,273.2 million in 2011, an increase of RMB875.4 million, or approximately 220.0%, from approximately RMB397.8 million in 2010. The net profit margin increased from 6.5% in 2010 to 15.4% in 2011, mainly attributable to the increase in the average selling prices of our cement and clinker products in Central China as a result of certain PRC government authorities' strict implementation of the policy to phase out obsolete production technology, which reduced the supply of cement and consequently drove up their selling prices.

Year ended December 31, 2010 compared to the year ended December 31, 2009

Revenue

Our revenue was approximately RMB6,129.4 million in 2010, an increase of RMB1,714.2 million, or 38.8%, from approximately RMB4,415.2 million in 2009.

Our revenue from sales of cement was approximately RMB4,992.1 million in 2010, an increase of RMB1,398.7 million, or 38.9%, from approximately RMB3,593.4 million in 2009. This increase was a result of an increase in the sales volume of our cement products, the expansion of our cement production capacity and an increase in the average selling price of our products in Central China. Our cement production capacity increased by 30.3% from approximately 27.0 million tonnes in 2009 to approximately 35.2 million tonnes in 2010 as we commenced the operations of certain cement production lines in Liaoyang, Xiaoxian, Nanzhao and Xuchang, which helped us address the increased market demand for our products. Consequently our cement sales volume increased by 5.4 million tonnes, or 32.3%, to approximately 22.1 million tonnes in 2010. The sales volume of our cement products in the Central China and Northeast China was 17.0 million tonnes and 5.1 million tonnes in 2010, respectively, representing an increase of approximately 27.7% and 50.4%, or 3.7 million tonnes and 1.7 million tonnes, from 2009, respectively. The average selling price of our cement products in Central China and Northeast China were approximately RMB224.0 and RMB231.3 per tonne in 2010, an increase of RMB18.0 and a decrease of RMB18.6 per tonne, or a 8.7% increase and 7.4% decrease, from RMB206.0 and RMB249.9 per tonne in 2009, respectively. The price increase in Central China for our cement was primarily due to certain PRC government authorities' strict implementation of environmental protection measures designed to phase out production facilities utilizing obsolete technology, which in turn reduced the supply of cement and drove up its selling prices. The price decrease in Northeast China for our cement was primarily due to increased local competition, which decreased our prices.

Our revenue from sales of clinker was RMB1,137.3 million in 2010, an increase of RMB315.5 million, or 38.4%, from RMB821.8 million in 2009. The increase was primarily due to an increase in sales volume of clinker products, the expansion of our clinker production capacity and an increase in the average selling prices of our clinker. Our clinker production capacity increased by 24.4% from approximately 16.9 million tonnes in 2009 to approximately 21.0 million tonnes in 2010. Our clinker sales volume was approximately 6.1 million tonnes in 2010, an increase of 1.3 million tonnes, or 27.1%, from approximately 4.8 million tonnes in 2009. The average selling price of clinker in Central China and Northeast China was approximately RMB185.0 per tonne and RMB187.7 per tonne in 2010, or an increase of 7.7% and 8.3%, from RMB171.8 per tonne and RMB173.3 per tonne in 2009. The price increase in clinker in both Central China and Northeast China was primarily due to certain PRC government authorities' implementation of environmental protection measures reducing local clinker production capacities, which in turn reduced the supply of clinker and thus increased its selling prices.

Our revenue from sales of cement as a percentage of our revenue was approximately 81.4% in both 2009 and 2010, respectively. Our revenue from sales of clinker as a percentage of our revenue was approximately 18.6% in 2009 and 18.6% in 2010, respectively.

Cost of sales

Our cost of sales was approximately RMB5,080.3 million in 2010, representing an increase of RMB1,384.9 million, or 37.5%, from approximately RMB3,695.4 million in 2009. The increase was primarily attributable to the growth of our business. Our cost of sales as a percentage of revenue decreased slightly to approximately 82.9% in 2010 from 83.7% in 2009 primarily because we used more waste materials and equipped more residual heat recovery systems in our production. Our cost of coal as a percentage of cost of sales increased from approximately 36.0% in 2009 to 42.2% in 2010, primarily due to an increase in coal prices. Consequently, our costs of raw materials and costs of electricity as a percentage of cost of sales decreased from 37.2% in 2009 to 31.6% in 2010 and from 17.8% in 2009 to 17.0% in 2010, respectively.

Gross profit and gross profit margin

As a result of the foregoing reasons, our gross profit increased from approximately RMB719.8 million in 2009 to approximately RMB1,049.2 million in 2010, representing an increase of RMB329.4 million, or 45.8%. Our gross profit margin increased from 16.3% in 2009 to approximately 17.1% in 2010, primarily due to the increase in the average selling price of our cement in Central China and, to a lesser extent, an increase in the average selling price of our clinker in Central China and Northeast China.

Other income

Other income was RMB188.5 million in 2010, an increase of RMB53.7 million, or 39.8%, from RMB134.8 million in 2009. The increase was primarily due to an increase in VAT refunds for using recycled waste materials in our cement production.

Selling and distribution expenses

Our selling and distribution expenses were approximately RMB225.5 million in 2010, an increase of RMB25.4 million, or 12.7%, from RMB200.1 million in 2009. The increase was primarily due to the expansion of our operations in 2010, including our commencement of certain clinker and cement production lines in various subsidiaries.

Administrative expenses

Our administrative expenses were approximately RMB174.6 million in 2010, an increase of RMB49.3 million, or 39.3%, from RMB125.3 million in 2009. The increase was primarily due to the expansion of our operations in 2010, including our commencement of certain clinker and cement production lines in various subsidiaries.

Other expenses

Other expenses were approximately RMB7.6 million in 2010, a decrease of RMB8.1 million, or 51.6%, from approximately RMB15.7 million in 2009. The decrease was primarily due to a decrease in our provision for bad and doubtful debts.

Share of loss of associate

Our loss of associate was nil for the year ended December 31, 2010.

Finance costs

Our finance costs were approximately RMB303.3 million in 2010, an increase of RMB136.6 million, or 81.9%, from approximately RMB166.7 million in 2009. The increase was primarily attributable to the increase in short-term borrowings and our issue of short-term financing bonds. See "— Liquidity and Capital Resources — Short-term Financing Bonds".

Profit before taxation

As a result of the foregoing, our profit before taxation was approximately RMB526.7 million in 2010, an increase of RMB281.7 million, or 115.0%, from approximately RMB245.0 million in 2009.

Income tax expenses

Our income tax expenses were approximately RMB128.9 million in 2010, an increase of RMB47.1 million, or 57.6%, from approximately RMB81.8 million in 2009. The increase was primarily due to our increased profit before tax in 2010.

Profit and total comprehensive income for the year

As a result of the foregoing, our profit and total comprehensive income for the year was approximately RMB397.8 million in 2010, an increase of RMB234.5 million, or 143.6%, from approximately RMB163.3 million in 2009. The net profit margin increased from 3.7% in 2009 to 6.5% in 2010, mainly attributable to the recovery in the average selling prices of our cement and clinker products in Central China as a result of certain PRC government authorities' strict implementation of its policy to phase out obsolete production technology, which reduced the supply of cement and consequently drove up its selling prices.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity have historically been cash generated from operations and bank borrowings. We have historically used cash from such sources for working capital, production facility expansions, other capital expenditures and debt service requirements. We anticipate these uses will continue to be our principal uses of cash in the future.

Cash flow

We conduct all of our operations through our operating subsidiaries in China. Cash flows generated by our operating subsidiaries on a stand-alone basis may differ significantly from that presented in our consolidated statements of cash flows. The following table sets forth certain information regarding our consolidated statements of cash flows for the periods indicated:

	Year ended December 31,		
	2009	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**
Net cash generated from operating activities	992,494	1,285,023	2,428,015
Net cash used in investing activities	(3,034,381)	(2,814,121)	(2,163,620)
Net cash generated from/(used in) financing activities	2,194,410	1,472,398	(375,311)
Net (decrease)/increase in cash and cash equivalents	152,523	(56,700)	(110,916)
Effect of foreign exchange rate changes	—	—	—
Cash and cash equivalents at beginning of year/period	247,573	400,096	343,396
Cash and cash equivalents at the end of year/period	400,096	343,396	232,480

Net cash generated from operating activities

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

	Year ended December 31,		
	2009	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**
Operating cash flows before movements in working capital	823,024	1,236,932	2,652,851
Change in working capital — generated/(used)	278,520	121,843	167,944
Cash generated from operations	1,101,544	1,358,775	2,820,795
Tax paid	(109,050)	(73,752)	(392,780)
Net cash generated from operating activities	992,494	1,285,023	2,428,015

Our net cash generated from operating activities was approximately RMB992.5 million in 2009. This net cash inflow was primarily a result of (i) profit before taxation in the amount of approximately RMB245.0 million, (ii) adjustments for depreciation on property, plant and equipment in the amount of approximately RMB283.7 million and finance costs in the amount of approximately RMB166.7 million, and (iii) an increase in trade and other payables in the amount of approximately RMB774.1 million as we purchased more supplies for production, which was partially offset by (x) an increase in trade and other receivables in the amount of approximately RMB386.8 million as a result of an increase in sales, (y) income tax paid in the amount of approximately RMB109.1 million, and (z) an increase in inventories in the amount of approximately RMB108.9 million in line with the growth of our business.

Our net cash generated from operating activities was approximately RMB1,285.0 million in 2010. This net cash inflow was primarily a result of (i) profit before taxation in the amount of approximately RMB526.7 million, (ii) adjustments for depreciation on property, plant and equipment in the amount of approximately RMB400.5 million and finance costs of approximately RMB303.3 million, and (iii) an increase in trade and other payables in the amount of approximately RMB854.2 million as we purchased more supplies for production, which was partially offset by (x) an increase in trade and other receivables in the amount of approximately RMB586.1 million as a result of an increase in sales, (y) an increase in inventories in the amount of approximately RMB144.8 million in line with the growth of our business, and (z) income tax paid in the amount of approximately RMB73.8 million.

Our net cash generated from operating activities was approximately RMB2,428.0 million for the year ended December 31, 2011. This net cash inflow was primarily a result of (i) profit before taxation in the amount of approximately RMB1,686.6 million, (ii) adjustments for depreciation on property, plant and equipment in the amount of approximately RMB498.4 million and finance costs of approximately RMB475.3 million, and (iii) an increase in trade and other payables in the amount of approximately RMB2,085.9 million as we purchased more supplies for production, and as a result of our increased use of discounted bills[(1)] to pay our suppliers. The cash inflow was partially offset by (x) an increase in trade and other receivables in the amount of approximately RMB1,269.5 million as a result of an increase in sales and our customers' increased use of discounted bills[(1)] to pay for our products, and (y) an increase in inventories in the amount of approximately RMB402.3 million due to the growth of our business. The increase in inventories was also due to the Chinese New Year holiday in 2012 occurring in January, which resulted in our increased storage of inventories at the end of 2011 to prevent possible difficulties in procuring inventory in post-Chinese New Year; and (z) income tax paid in the amount of approximately RMB392.8 million.

Net cash used in investing activities

Our net cash used in investing activities was approximately RMB3,034.4 million in 2009, primarily reflecting (i) payment of approximately RMB1,449.8 million for property, plant and equipment, (ii) the deposit of approximately RMB1,096.5 million we paid for property, plant and equipment, (iii) the increase in restricted bank balances of approximately RMB310.7 million, (iv) the payment for land use rights of RMB108.9 million, and (v) the payment of approximately RMB74.8 million for the acquisition of mining rights.

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(1) discounted bills are debt instruments issued by companies discounted to various banks with full recourse, and they are routinely used by us and our suppliers and customers to settle transactions.

Our net cash used in investing activities was approximately RMB2,814.1 million in 2010, primarily reflecting (i) the deposit of approximately RMB1,303.9 million we paid for property, plant and equipment, (ii) the increase in restricted bank balances of approximately RMB1,068.0 million, (iii) payment of approximately RMB422.8 million for property, plant and equipment, (iv) the payment for land use rights of RMB24.6 million, and (v) the payment of approximately RMB19.5 million for the acquisition of mining rights.

Our net cash used in investing activities was approximately RMB2,163.6 million for the year ended December 31, 2011, primarily reflecting (i) the deposit of approximately RMB1,397.9 million we paid for property, plant and equipment, (ii) the increase in restricted bank balances of approximately RMB550.8 million, (iii) payment of approximately RMB195.9 million for property, plant and equipment, (iv) the payment for land use rights of RMB116.9 million and (v) the payment of approximately RMB15.9 million for the acquisition of mining rights.

Net cash generated from financing activities

Our net cash generated from financing activities was approximately RMB2,194.4 million in 2009, representing new borrowings of approximately RMB2,960.3 million, as partially offset by (i) repayment of borrowings of approximately RMB474.5 million, and (ii) payment of interest of approximately RMB263.1 million. Our cash generated from financing activities was used primarily as working capital and for our expansion of production capacity and acquisition of mining rights, property, plant and equipment.

Our net cash generated from financing activities was approximately RMB1,472.4 million in 2010, representing (i) new borrowings of approximately RMB2,400.2 million, (ii) proceeds of RMB972.5 million from discounted bills and bills payable raised, and (iii) the issue of short-term financing bonds of RMB500.0 million, as partially offset by (x) repayment of borrowings of approximately RMB1,938.3 million, and (y) payment of interest of approximately RMB375.1 million. Our cash generated from financing activities was used primarily as working capital and for our expansion of production capacity and acquisition of mining rights, property, plant and equipment.

Our net cash used in financing activities was approximately RMB375.3 million for the year ended December 31, 2011, representing (i) new borrowings of approximately RMB3,333.8 million, (ii) proceeds of RMB1,698.0 million from discounted bills and bills payable raised, (iii) the issue of new shares for reorganization of RMB565.5 million, (iv) the issue of new shares for our IPO in December 2011 of RMB705.3 million, (v) the issue of mid-term debenture of RMB300.0 million, and (vi) the issue of short-term debenture of RMB500.0 million. The cash inflow was partially offset by (w) repayment of borrowings of approximately RMB3,194.9 million, (x) settlement of bills payables of RMB2,061.8 million, (y) payment for transfer of equity interests of Tianrui Cement from Tianrui Group Company Limited of RMB565.5 million, and (z) repayment of short-term debenture RMB500.0 million. Our net cash used in financing activities was used primarily to repay outstanding liabilities and financial obligations.

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 amounts of our commitments as of the dates indicated:

	For the year ended December 31,		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Capital expenditure of our Group in respect of acquisition and construction of property, plant and equipment			
- contracted for but not provided in the consolidated financial statements(1)	861,935	791,575	550,799
- authorized but not contracted for(2)	2,734,339	1,547,821	928,609

Notes:

(1) Contracts were signed, but the contracted items have not been delivered as of each date of consolidated statements of financial position.

(2) Authorized by internal budget, but no contract has been signed as of each date of consolidated statements of financial position.

As of December 31, 2009, our capital commitments that have been contracted but not provided for primarily related to the capital commitments for the construction of clinker production lines in Dalian, Liaoyang and Xiaoxian and the Yuzhou Phase II Project. We have also incurred commitments in relation to certain new projects to be constructed. As a result, we have incurred a larger amount of capital commitments that have been authorized but not contracted for as of December 31, 2009. As of December 31, 2010, our capital commitments that have been contracted but not provided for primarily related to the capital commitments to the construction of our cement production lines in Yuzhou and Tianjin, grinding facilities in Dalian and residual heat recovery systems of our production facilities in Dalian, Nanzhao and Liaoyang. We plan to finance these capital commitments with funds generated from our operations and bank borrowings. As of December 31, 2011, our capital commitments that have been contracted but not provided for primarily related to the capital commitments to the construction of cement grinding facilities in Tianjin and Dalian, residual heat recovery systems in Liaoyang and clinker and cement production lines in Yuzhou.

Operating lease commitments

Operating lease payments represent rentals payable by us for certain of our office properties. Leases are negotiated for an average term of one year and rentals are fixed throughout the lease term. The table below sets forth our commitments for rental payments under such operating leases as of the dates indicated:

	As of December 31,		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Within one year	488	—	1,800

Contingent Liabilities

The table below sets forth the undiscounted maximum amount of potential future payments under guarantee as of the dates indicated:

	As of December 31,		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Guarantees given to banks in respect of banking facilities granted to:			
- related parties	111,000	181,000	—
- third-parties	—	50,000	50,000
	111,000	231,000	50,000

As of December 31, 2009, 2010 and 2011, we considered risks arising from contingent liabilities to be remote, and no financial guarantee liabilities were recognized in our consolidated statement of financial position.

Statement of Indebtedness

We have financed our operations primarily through cash flows from operations, loans from banks, and proceeds from the issuance of short-term financing bonds. The table below sets forth our borrowings as of the dates indicated:

	As of December 31,		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Bank borrowings			
- fixed-rate(1)	376,500	1,154,500	1,497,267
- variable-rate(2)	2,946,014	3,081,780	3,542,175
IFC loan at variable-rate(3)	341,670	247,358	183,041
Syndicated loans at variable-rate(4)	1,678,416	1,093,515	703,730
	5,342,600	5,577,153	5,926,213
Short-term debenture	—	500,000	500,000
Mid-term debenture	—	—	300,000
Bank borrowing relating to bills discounted with recourse(5)	—	218,500	430,649
Other loans at fixed-rate(6)	2,720	2,720	—
Total	5,345,320	6,298,373	7,156,862
Secured	4,800,600	5,665,653	6,131,862
Unsecured	544,720	632,720	1,025,000
Total	5,345,320	6,298,373	7,156,862

Notes:

(1) The fixed rate borrowings carry interest rates ranging from 4.9%-9.2%, 5.3%-10.7%, and 5.3%-11.8% per annum for the years ended December 31, 2009, 2010 and 2011, respectively.

(2) The variable rate borrowings carry interest rates ranging from 4.9%-8.5%, 5.3%-7.7%, and 6.3%-8.2% per annum for the years ended December 31, 2009, 2010, and 2011, respectively. Such interest rates are determined based on the benchmark interest rate announced by the People's Bank of China.

(3) As of December 31, 2009, 2010, and 2011, the interest rate for our IFC Loan is determined based on LIBOR plus 2.288%, 2.288% and 2.288%, respectively.

(4) As of December 31, 2009, 2010 and 2011, the interest rate for the Group's syndicated load is 95% of the 3-5 years Benchmark Interest Rates announced by the People's Bank of China.

(5) As of December 31, 2010, such amount represented intercompany bills receivables of RMB218,500,000 arising from intercompany transactions discounted to various financial institutions with full recourse. Such discounted bills carried fixed interest rates, ranging from 3.21% to 4.75% per annum as of December 31, 2010. The intercompany bills represented (i) an aggregate borrowing of RMB180.0 million from Huaxia Bank (Dalian Development Zone Sub-branch) (華夏銀行大連開發區支行) (the underlying bills were issued for Yingkou Cement to purchase clinker from Dalian Cement and Liaoyang Cement); (ii) an aggregate borrowing of RMB15.0 million from China Bohai Bank (Dalian Branch) (渤海銀行大連分行) (the underlying bills were issued for Yingkou Cement to purchase clinker from Dalian Cement); and (iii) an aggregate borrowing of RMB23.5 million from Yingkou Bank (Dalian Branch) (營口銀行大連分行) (the underlying bills were issued for Liaoyang Cement to purchase coal through centralized purchase by Yingkou Cement to benefit from a lower unit purchase price of coal as a result of our centralized purchases from a coal supplier based in Yingkou. Yingkou Cement purchased clinker from Dalian Cement and Liaoyang Cement to satisfy its clinker needs for the production of cement products because Yingkou Cement itself does not have any clinker production facilities. These bills had expired by August 13, 2011, and their settlements have all been completed. Our entering into the intercompany bill arrangements was mainly due to their low interest rates compared to interest rates for bank loans. As of December 31, 2011, such amount represented (i) intercompany bills receivables amounted to RMB200,000,000 arising from intercompany transactions discounted to various financial institutions with full recourse, and (ii) bills receivables amounted to RMB230,648,59, received from customers discounted to various banks with full recourse. The discounted bills carried fixed interests ranging from 3.58% to 7.68% per annum as at December 31, 2011.

(6) As of December 31, 2009 and 2010, such amounts represented loans from an independent third party, Zhengzhou Baisha Town Labor Protection Bureau (鄭州市白沙鎮勞保所), of RMB2.7 million and RMB2.7 million which carried a fixed-interest rate of 9.6% per annum. Such borrowings are unsecured and repayable on demand. Such loan was fully settled during the year 2011.

As of December 31, 2009, 2010 and 2011, our Group had bank and other borrowings of approximately RMB5,345.3 million, RMB6,298.4 million and RMB7,156.9 million, of which approximately RMB544.7 million, RMB632.7 million and RMB1,025.0 million were unsecured. Our bank borrowings carry variable interest rates ranging from approximately 4.9% to 8.5% in 2009, 5.3% to 7.7% in 2010, and 6.3% to 8.2% in 2011.

The table below sets forth the maturity profile of our borrowings, short-term and mid-term debenture as of the dates indicated:

	As of December 31,		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
On demand or within one year	2,994,281	4,277,373	5,446,852
More than one year, but not exceeding two years	639,636	577,000	718,010
More than two years, but not exceeding five years	1,626,403	1,413,000	992,000
More than five years	85,000	31,000	—
	5,345,320	6,298,373	7,156,862
Less: amount due within one year shown under current liabilities	(2,994,281)	(4,277,373)	(5,446,852)
Amount due after one year	2,351,039	2,021,000	1,710,010

Recent Developments

Tianrui Cement entered into a US$50.0 million loan agreement with IFC on June 28, 2007, and subsequently fully drew down the loan. In addition, Tianrui Cement and nine of its subsidiaries in the PRC, namely, Ruzhou Cement, Antai Cement, Zhoukou Cement, Shangqiu Cement, Yingkou Cement, Liaoyang Cement, Nanzhao Cement, Weihui Cement and Zhengzhou Tianrui (together, the "Borrowers"), entered into a facility agreement on August 22, 2007 with a syndicate of financial institutions led by JPM on a joint and several basis. Under the JPM Facility, the syndicate granted the Borrowers a credit facility of up to RMB1,993 million. The interest rates on amounts drawn under the JPM Facility were determined with reference to the benchmark interest rate promulgated by PBOC at the time when the JPM Facility was entered into. As of February 29, 2012, we had fully repaid the outstanding principal amount of principal, interest and fees payable under the IFC Loan and the JPM Facility. See "Risk Factors — We are highly leveraged, and our business, results of operations and financial condition may be materially and adversely affected by our indebtedness" in this offering memorandum for further details.

Short-term Financing Bonds

We issued the first tranche short-term, unsecured financing bonds of the short-term financing bonds with an aggregate principal amount of RMB500.0 million in November 2010. The bonds bear interest at a rate of 4.1% per annum, payable upon the maturity of the bonds. We issued the second tranche Short-term Bonds in the same principal amount in March 2011, with an interest rate of 5.55% per annum payable upon the maturity of the second tranche financing bonds. Both the first tranche Short-term Bonds and the second tranche Short-term Bonds were registered with the National Association of Financial Market Institutional Investors of the PRC (中國銀行間市場交易商協會) and were issued in the PRC interbank debenture market (全國銀行間債券市場) to institutional investors. Upon maturity and repayment of the first tranche of the Short-term Bonds, we reissued in January 2012 the first tranche of these Short-term Bonds for the same aggregate principal amount, which was RMB500 million. The bonds bear interest at a rate of 8.48% per annum, payable upon the maturity of the reissued first tranche Short-term Bonds. The second tranche of the Short-term Bonds matured in March 2012, and we expect to reissue these second tranche Short-term Bonds for the same aggregate principal amount in the second quarter of 2012.

Under the terms of the Short-term Bonds, we have undertaken to investors to, among others, (1) disclose our corporate information in a full, fair, accurate and timely manner in accordance with PRC legal requirements, and that the disclosure contains or will contain no false or misleading statements or material omissions; (2) pay the principal and interest of the Short-term Bonds in a timely manners; and (3) for the duration of the Short-term Bonds, be subject to the regulation and supervision of the PRC National Association of Financial Market Institutional Investors. The events of default for the Short-term Notes include, among others, default in the payment of principal or interest when due, and dissolution, bankruptcy, and default in payment of other material indebtedness. If any event occurs that materially or may materially affect the repayment of the Short-term Notes, we will need to make full and timely disclosure of such event and/or organize a bondholder's meeting to deal with such event.

Mid-term Notes ("Mid-term Notes")

We had entered into an underwriting agreement with Guangdong Development Bank and China Bohai Bank on 21 June 2011 for the issuance of mid-term notes in an aggregate amount of RMB500.0 million and received an approval from National Association of Financial Market Institutional Investors of the PRC (中國銀行間市場交易商協會) dated 23 November 2011 for the offering of these mid-term notes. We issued the first tranche Mid-term Notes in a principal amount of RMB300.0 million on 6 December 2011 for a term of three years, carrying an interest rate of 8.4% per annum, calculated and payable on an annual basis. We expect to issue the second tranche Mid-term Notes in a principal amount of RMB200.0 million in the second quarter of 2012.

Under the terms of the Mid-term Notes, we have undertaken to investors to, among others, (1) disclose our corporate information in a full, fair, accurate and timely manner in accordance with PRC legal requirements, and that the disclosure contains or will contain no false or misleading statements or material omissions; (2) pay the principal and interest of the Mid-term Notes in a timely manners; and (3) for the duration of the Mid-term Notes, be subject to the regulation and supervision of the PRC National Association of Financial Market Institutional Investors. The events of default for the Mid-term Notes include, among others, default in the payment of principal or interest when due, and dissolution, bankruptcy, and default in payment of other material indebtedness. If any event occurs that materially or may materially affect the repayment of the Mid-term Notes, we will need to make full and timely disclosure of such event and/or organize a bondholder's meeting to deal with such event.

PLEDGED ASSETS

The table below sets forth the carrying amounts of our pledged assets as of the dates indicated:

	As of December 31,		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	2,309,021	2,853,195	2,202,502
Prepaid lease payments	216,273	265,906	263,117
Mining rights	66,843	64,861	63,695
Trade and other receivables	63,613	70,928	495,542
Restricted bank balances	30,000	171,750	101,750
	2,685,750	3,426,640	3,126,606

As of December 31, 2009, 2010 and 2011, approximately RMB2,685.8 million, RMB3,426.6 million and RMB3,126.6 million were pledged as security for the JPM Facility, the IFC Loan and other bank loans and facilities.

As of December 31, 2009, 2010 and 2011, the restricted bank balances carried market interest rates of 0.4% to 2.5%, 0.4% to 2.8% and 0.4% to 3.5% per annum, respectively. The restricted bank balances will be released upon the settlement of relevant bank loans and the bank's acceptance bills. There was an increase in restricted bank balances from RMB30.0 million as of December 31, 2009 to RMB171.8 million as of December 31, 2010 due to the fact that we significantly increased the amounts of bank's acceptance bills in making payments to our suppliers, which consequently required a larger amount of restricted bank balances pledged for the bank's acceptance bills.

Apart from the assets pledged set out above, Tianrui Cement has pledged all of its equity interests in Ruzhou Cement, Antai Cement, Shangqiu Cement, Zhengzhou Tianrui, Weihui Cement, Yuzhou Cement, Ruiping Shilong, and part of its equity interests in Zhoukou Cement, Dalian Cement, Yingkou Cement, Liaoyang Cement, Nanzhao Cement for certain loans.

CAPITAL EXPENDITURES

Our capital expenditures comprise expenditures for the construction of production facilities and the acquisition of buildings, plant and machinery, motor vehicles, office equipment, construction in progress and mining rights. Historically, we have funded our capital expenditures through cash generated from our operations, bank borrowings and issuances of short-term bonds.

	As of December 31,		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	1,449,826	422,795	195,940
Mining rights	74,761	19,469	15,850
Deposits paid for property, plant and equipment	1,096,488	1,303,937	1,397,885
Total	2,621,075	1,746,201	1,609,675

Our capital expenditures in 2009 related primarily to the construction of cement grinding facilities in Zhoukou and Ruzhou and clinker production lines in Nanzhao, Dalian, Liaoyang, Xingyang and Xiaoxian. Our capital expenditures in 2010 related primarily to the construction of cement grinding facilities in Weihui, Tianjin and Yingkou, clinker production lines in Nanzhao, Dalian, Xiaoxian and Liaoyang and residual heat recovery systems in Xingyang. Our capital expenditure in 2011 related primarily to the construction of cement grinding facilities in Tianjin, residual heat power recovery systems in Nanzhao, Xiaoxian, Dalian and Liaoyang and the clinker and cement production lines in Yuzhou. The facilities in Tianjin has finished construction in the first quarter of 2012.

Following the issuance of the Notes, we will continue to incur capital expenditures to grow our business. Our planned capital expenditures are primarily for the construction of the Yuzhou Phase II Project and Tianjin Project. We estimate that our total capital expenditures for 2012 will be approximately RMB489.4 million. We expect to fund our capital expenditures through our cash and bank balances, cash flow from operations and unutilized banking facilities.

WORKING CAPITAL

Current Assets and Current Liabilities

The table below sets forth a breakdown of our current assets and current liabilities as of the dates indicated:

	As of December 31,		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
CURRENT ASSETS			
Inventories	656,036	800,861	1,203,151
Trade and other receivables	596,062	1,179,917	2,454,932
Available-for-sale investments	—	—	4,000
Amounts due from related parties	5,072	12,618	572
Investments held for trading	—	—	250,000
Restricted bank balances	325,914	1,423,888	1,974,648
Cash and bank balances	400,096	343,396	232,480
Total	1,983,180	3,760,680	6,119,783
CURRENT LIABILITIES			
Trade and other payables	1,940,644	3,577,309	4,201,433
Amounts due to related parties	2,510	10,325	639
Income tax payable	28,047	83,886	110,629
Short term debenture	—	500,000	500,000
Borrowings — due within one year	2,994,281	3,777,373	4,946,852
Total	4,965,482	7,948,893	9,759,553
NET CURRENT LIABILITIES	(2,982,302)	(4,188,213)	(3,639,770)

We had net current liabilities of approximately RMB2,982.3 million, RMB4,188.2 million and RMB3,639.8 million as of December 31, 2009 and 2010, and 2011, respectively. The increase in net current liabilities from approximately RMB2,982.3 million as of December 31, 2009 to approximately RMB4,188.2 million as of December 31, 2010 was primarily due to the fact that (i) we used an increased amount of cash generated from our operations for the construction and development of our production facilities, with related payables recorded as current liabilities and related facilities recorded as non-current assets; and (ii) we used bank's acceptance bills more frequently and in greater amounts in 2010 to purchase raw materials and coal to support our business operations. The decrease in our net current liabilities from RMB4,188.2 million as of December 31, 2010 to RMB3,639.8 million as of December 31, 2011 was primarily due to our IPO in December 2011, which increased our current assets.

Our cash used in our purchases of mining rights, properties, plant and equipment, primarily in connection with new production lines, was approximately RMB2,621.1 million, RMB1,746.2 million and RMB1,609.7 million for the years ended December 31, 2009, 2010 and 2011, respectively. During the three years ended December 31, 2011, our trade and other payables increased substantially, which contributed significantly to our net current liabilities position as of the relevant balance sheet dates. As of December 31, 2009, 2010 and 2011, our trade and other payables were RMB1,940.6 million, RMB3,577.3 million, and RMB4,201.4 million, respectively, which were primarily for our purchase of coal and other supplies for production. As our purchases of coal and other supplies increased in line with our production expansion, our trade and other payables, which we normally record as current liabilities, increased as of the relevant balance sheet dates while we used a significant amount of sale proceeds of our products to finance the construction or acquisition of non-current assets. As of December 31, 2009, 2010, and 2011, our bills payables amounted to RMB327.7 million, RMB1,653.4 million, and RMB1,014.9 million, respectively. Bills payables increased from 2009 to 2010 as we used an increasing amount of bank acceptance bills to pay for our supplies as a result of our business growth and also because of relatively low costs in using bank acceptance bills as compared to bank borrowings. The decrease in bills payables in 2011 was primarily due to our practice of paying our suppliers less with the discounted bills issued under our names and more with those issued under our customers' names. As of December 31, 2009, 2010 and 2011, our trade payables was RMB812.1 million, RMB1,247.4 million and RMB2,319.2 million, respectively. The increase of trade payables during the three years ended December 31, 2011 was primarily due to our increased use of discounted bills to pay our suppliers.

As of December 31, 2011, we had unutilized, uncommitted bank facilities of approximately RMB2,570 million. See "Description of Other Material Indebtedness — Term Loan Agreements". We also seek to improve our loan and other maturity profile by increasing the proportion of long-term borrowings. We entered into an underwriting agreement with two banks on June 21, 2011 for the issuance of mid-term notes in an aggregate amount of RMB500.0 million and received an approval from National Association of Financial Market Institutional Investors dated November 23, 2011 for the offering of these mid-term notes. We issued our first tranche mid-term notes in a principal amount of RMB300.0 million on December 6, 2011 for a term of three years, carrying an interest rate of 8.4% per annum, calculated and payable on an annual basis. We intend to use proceeds from the issuance of the first tranche mid-term notes to repay certain short-term bank loans, thereby improving our debt structure. We expect to issue our second tranche mid-term notes in a principal amount of RMB200.0 million in the first quarter of 2012 and use the proceeds for similar uses.

Current Ratio and Gearing Ratio

The table below sets forth our current ratio and gearing ratio as of the dates indicated:

	As of December 31,		
	2009	2010	2011
Current ratio(1)	0.40	0.47	0.63
Gearing ratio(2)	0.61	0.63	0.55

Notes:

(1) Current ratio is calculated based on current assets divided by current liabilities.

(2) Gearing ratio is calculated based on total borrowings, net of cash and bank balances, divided by total borrowings, net of cash and bank balances, plus total equity.

Current Ratio

Our current ratio was 0.40, 0.47 and 0.63 as of December 31, 2009, 2010 and 2011, respectively. Our current ratio increased from 0.40 as of December 31, 2009 to 0.47 as of December 31, 2010, and further increased to 0.63 as of December 31, 2011, primarily due to the fact that the increase in our current assets outweighed the increase in our current liabilities.

Gearing Ratio

Our gearing ratio was 0.61, 0.63 and 0.55 as of December 31, 2009, 2010 and 2011, respectively. Our gearing ratio increased from 0.61 as of December 31, 2009 to 0.63 as of December 31, 2010, primarily due to an increase in our total bank and other borrowings. Our gearing ratio decreased to 0.55 as of December 31, 2011, primarily due to our IPO in December 2011, which increased our total equity.

Cash Flow and Capital Management

We seek to effectively manage our cash flow and capital commitments and to ensure that we have sufficient funds to meet our existing and future cash requirements. Our ability to fund our working capital needs, repay our indebtedness and finance other obligations depends on our future operating performance and cash flow, which are in turn subject to prevailing economic conditions, the level of spending by our customers and other factors, many of which are beyond our control. Any future significant acquisition or expansion may also require additional capital, and we cannot assure you that such capital will be available to us on acceptable terms or at all.

In general, we have the ability to generate adequate cash from our operations to fund our ongoing operating cash needs. We have not experienced and do not expect to experience any material difficulties in meeting our obligations as they become due or in raising funds with our principal banks or in rolling over short-term loans borrowed from various banks.

OFF-BALANCE SHEET ARRANGEMENTS

As of February 29, 2012, we did not have any outstanding derivative financial instruments, off-balance sheet guarantees or foreign currency forward contracts, nor did we engage in trading activities involving non-exchange traded contracts.

MARKET RISKS

Interest Rate Risk

We are exposed to interest rate risks resulting from our long-term and short-term borrowings. We undertake borrowings for general working capital purposes and our expansion needs. Our borrowings are subject to both fixed interest rates and variable interest rates. Borrowing at fixed rates and payables for mining rights expose us to a fair value interest rate risk. The variable-rate borrowings and syndicated loans, restricted bank balances and bank balances expose us to cash flow interest rate risk. Upward fluctuations in interest rates increase the cost of new borrowings and the interest costs of our outstanding borrowings. We do not currently have an interest rate hedging policy for fixed-rate borrowings, but we review the mix of our borrowings regularly to monitor our interest rate exposure, and will consider hedging significant interest rate exposure should the need arise. In respect of our IFC Loan, we entered into an interest rate swap contract in 2011, which enabled us to fix LIBOR interest rate at 1.43%. Our exposure to interest rate risk relates primarily to our interest-bearing bank loans, and our policy is to keep our borrowings at variable rates of interest so as to minimize fair value interest rate risk, and to manage our interest rate exposure from all of our interest-bearing loans through the use of a mix of fixed and variable rates.

The range of interest rates on our bank loans was 4.9% to 9.2% in 2009, 5.3% to 10.7% in 2010, and 5.3% to 11.8% in 2011. The terms of our bank loans are disclosed in note 30 in the consolidated financial statements for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011 and note 31 in the consolidated financial statements for the year ended December 31, 2011 included in this offering memorandum.

The above sensitivity analysis is prepared by using certain assumptions on a hypothetical situation. In reality, market interest rates would not change in isolation. The analysis is used for reference purposes and should not be considered a projection of future profits or losses.

Credit Risk

Our maximum exposure to credit risk arises from the amount of contingent liabilities relating to financial guarantees issued by us. Such exposure to credit risk will cause us financial loss in the event that we fail to discharge an obligation under such financial guarantees. We also face credit risk with respect to our trade receivables. We generally do not offer credit terms to our customers except that we may, depending on the credit history of relevant customers and profile of relevant projects, occasionally grant credit terms ranging from 30 to 180 days to customers involved in large infrastructure projects.

In order to minimize our credit risk, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts from credit customers and related parties. In addition, we review the recoverable amount of each debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Additionally, our credit risk is significantly reduced by having our bank balances (including bank balances and restricted bank balances) mainly deposited in state-owned banks, such as the Bank of China, China Construction Bank, Guangdong Development Bank, Shanghai Pudong Development Bank, China Everbright Bank and Agricultural Bank of China, all of which are creditable financial institutions.

We have no significant concentrations of credit risk with exposure spread over a large number of customers across different geographical areas in the PRC.

Liquidity Risk

We have established an appropriate liquidity risk management of our short, medium and long-term funding and liquidity management requirements. We manage the liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in (both actual and forecast) cash flows. Our management also monitors the utilization of bank borrowings and ensures compliance with loan covenants.

We are exposed to liquidity risk as we had net current liabilities as of December 31, 2009, 2010 and 2011. In order to manage our liquidity risk, our management regularly monitors our operating cash flow to meet our short-term and long-term liquidity requirements. We also monitor our utilization of bank borrowings and ensure we comply with loan obligations. We breached certain covenants of the JPM Facility and the IFC Loan. See “Risk Factors — Risks Relating to Our Business — We are highly leveraged, and our business, results of operations and financial condition could be materially and adversely affected by our indebtedness”.

The following table sets forth out remaining contractual maturity for our financial liabilities for non-derivative liabilities, The table has been prepared to reflect the undiscounted cash flows of financial liabilities based on the earliest date on which we are required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate	On demand or less than 30 days	31 to 180 days	181 to 365 days	1-2 years	2-3 years	Over 3 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2009									
Trade and other payables		348,943	342,411	1,098,767	—	—	—	1,790,121	1,790,121
Amounts due to related parties		2,510	—	—	—	—	—	2,510	2,510
Financial guarantee liabilities		111,000	—	—	—	—	—	111,000	—
Borrowings									
- fixed-rate	6.4	—	130,689	227,737	30,312	—	—	388,738	379,220
- variable-rate	5.7	1,762,252	289,985	609,502	645,809	639,197	1,344,074	5,290,819	4,966,100
Other payables - fixed rate	7.3	4,500	—	—	12,330	13,222	26,651	56,703	48,860
		2,229,205	763,085	1,936,006	688,451	652,419	1,370,725	7,639,891	7,186,811
As of December 31, 2010									
Trade and other payables		964,878	1,902,129	525,625	—	—	—	3,392,632	3,392,632
Amounts due to related parties		10,325	—	—	—	—	—	10,325	10,325
Financial guarantee liabilities		231,000	—	—	—	—	—	231,000	—
Borrowings									
- fixed-rate	6.4	50,000	650,952	644,186	57,454	—	—	1,402,592	1,375,720
- variable-rate	5.8	1,316,680	402,200	759,950	553,099	706,838	960,418	4,699,185	4,422,653
Other payables - fixed rate	7.3	10,999	—	—	3,284	13,222	24,548	52,053	45,236
Short-term debenture	4.1	—	—	518,792	—	—	—	518,792	500,000
		2,583,882	2,955,281	2,448,553	613,837	720,060	984,966	10,306,579	9,746,566
As of December 31, 2011									
Trade and other payables		1,120,710	2,314,943	462,478	—	—	—	3,898,131	3,898,131
Amounts due to related parties		—	639	—	—	—	—	639	639
Financial guarantee liabilities		50,000	—	—	—	—	—	50,000	—
Borrowings									
- fixed-rate	8.7	—	1,431,974	528,330	—	—	—	1,960,304	1,927,916
- variable-rate	6.4	926,772	896,148	1,187,633	764,004	551,391	246,973	4,622,921	4,428,946
Other payables - fixed rate	7.3	4,600	—	4,230	10,841	1,918	24,711	46,300	38,837
Short-term debenture	5.6	—	506,938	—	—	—	—	506,938	500,000
Mid-term debenture	8.4	—	—	—	—	379,661	—	379,661	300,000
		2,152,082	5,150,642	2,182,671	774,845	932,970	271,684	11,464,894	11,094,469

The amounts included above for financial guarantee contracts are the maximum amounts that we could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on our expectations as of December 31, 2011, we consider that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

As of December 31, 2010 and 2011, a principal amount of RMB50.0 million with a repayment on demand clause is included in the "on demand or less than 30 days" time frame in the above maturity analysis. Taking into account our financial position, our management does not believe that it is probable that the bank will exercise its discretionary rights to demand immediate repayment. For the purpose of managing liquidity risk, our management reviews the expected cash flow information of the term loan based on the scheduled repayment dates set out in the agreement in the table below:

	Weighted average interest rate	0-30 days	31 to 180 days	181 to 365 days	1-2 years	2-3 years	Over 3 years	Total undiscounted cash flows	Carrying amounts
	%				(RMB'000)				
As of December 31, 2010									
Borrowings	6.56	—	—	—	10,656	11,354	37,882	59,892	50,000
As of December 31, 2011									
Borrowings	6.56	—	—	10,000	10,656	11,354	24,197	56,207	50,000

Currency Risk

Our operating activities are primarily carried out in China, and our transactions are primarily denominated in Renminbi. Our Group is mainly exposed to the effects of fluctuation of the Renminbi to the US dollar and HK dollar. We are also exposed to currency risk from bank loans which are denominated in currencies other than the functional currency of the entity to which they relate. We manage our foreign currency risk by closely monitoring the foreign currency exposure and will consider hedging significant currency exposure should the need arise.

The carrying amounts of our foreign currency denominated monetary assets and liabilities as of the dates indicated are as follows:

	As of December 31,		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Liabilities denominated in US dollars	341,634	247,358	183,041
Assets denominated in HK dollars	—	—	712,688

The Renminbi is not a freely convertible currency and the conversion of the Renminbi into foreign currencies is subject to rules and regulations of foreign currency exchange control promulgated by the PRC government. As of December 31, 2011, there had been an approximately 5% appreciation of the Renminbi against the US dollar based on the median between buy and sale prices promulgated by PBOC since the removal of the Renminbi's peg to the US dollar on July 21, 2005. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further and more significant appreciation of the Renminbi against the US dollar.

Depreciation of the value of the Renminbi will increase the amount of our non-Renminbi debt service in Renminbi terms since we have to convert Renminbi into non-Renminbi currencies to service our non-Renminbi debt. In addition, since our income and profits are denominated in Renminbi, any depreciation of the Renminbi will decrease the value of, and any dividends payable on, our Shares in foreign currency terms.

The following table sets forth details of our sensitivity to a 5% increase and decrease in the Renminbi against HK Dollar and the US dollar for the years ended December 31, 2009, 2010 and 2011. These percentages represent our management's reasonable assessment of the possible change in the foreign exchange rate. This sensitivity analysis includes only outstanding foreign-currency-denominated monetary items, and adjusts their translation at the year end for a respective percentage change in foreign currency rates. The sensitivity analysis includes restricted bank balances and other receivables denominated in HK dollar and outstanding loans denominated in US dollar. A positive number below indicates an increase in post-tax profit where the Renminbi strengthens 5% against HK dollar and the US dollar. Where there is a sensitivity rate of 5% decrease in the Renminbi against HK dollar and the US dollar, there would be an equal and opposite impact on the profit.

	Year Ended December 31,		
	2009	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**
Profit (loss) for the year	12,811	9,276	(19,862)

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,			
	2009	2010	2011	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Profit for the year	163,261	397,787	1,273,188	202,289
Add:				
Amortization	16,154	22,066	21,886	3,477
Depreciation	283,687	400,523	498,387	79,186
Finance costs	166,652	303,266	475,269	75,513
Income tax expense	81,779	128,917	413,365	65,677
EBITDA	711,533	1,252,559	2,682,095	426,142

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 information and statistics concerning the national and some regional PRC cement industries 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 in this section has not been independently verified by us, the Initial Purchaser 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 grinding and mixing different proportions of gypsum, blast furnace slag and other additives with clinker, a semi-finished product. The different proportions of clinker and additives determine the ultimate performance quality of the cement.

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.

We have commissioned Digital Cement, an independent third party, for a fee of RMB50,000 to prepare research reports on the cement industry in Henan and Liaoning provinces. We used certain data from such reports in this offering memorandum. Digital Cement uses a variety of government sources and conducts market surveys to gather market information in preparation for such reports. We also used certain other data in this offering memorandum that is publicly available from Digital Cement and other entities and organizations. Digital Cement is an organization established by the China Cement Association (an independent third party), which advises the PRC government on formulating development strategies, legal policies, and industry standards and guidelines for the PRC cement sector. Digital Cement publishes cement industry publications regularly and also provides Internet-based information services and industry consulting services to the public.

Uses and Types of Cement

Cement is commonly used in the production of concrete, mortar and precast. Cement can be manufactured into concrete and formed on-site for large-scale projects such as buildings, bridges, dams and roadways. In addition, cement can also be used for mortar, acting as a bonding agent for brick walls and indoor tiling work. Alternatively, cement can be made into precast concrete products such as bricks, panels, railway sleepers, poles, precast beams and highway dividers.

There are three basic types of cement: Ordinary Portland Cement, Slag Portland Cement and Composite Portland Cement. The common grades are 32.5, 42.5 and 52.5, as well as 32.5R, 42.5R and 52.5R, which differ in their compression strength. The label "R" indicates cement with high early strength and hydration heat in its strength category.

Ordinary Portland Cement is a quick hardening cement with relatively strong initial compressive strength and is more resistant to abrasion than other types of cement. 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 iron blast furnace slag and other additives. Slag Portland Cement has lower initial strength and less stable coagulation time than Ordinary Portland Cement. It has lower heat of hydration and good adhesion with steel bars. This type of cement is used widely in underground buildings made with mass concrete such as dam, underwater and sea constructions.

Composite Portland Cement is made of Ordinary Portland Cement along with 15% to 50% of aggregates, such as flyash. Composite Portland Cement contains less clinker, which makes it 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 Its Raw Materials

Raw materials such as limestone, clay, blast furnace slag (or slate), silica sand and iron ore are fed through primary and secondary crushers or hammer mills. The next step can be either a wet or dry process. In the wet process, raw materials in controlled proportions are ground with water to form slurry and then transferred into a calcining kiln. In the dry process, the raw materials are ground and mixed without water before being transferred into a kiln.

A kiln is a large, cylindrical steel tube which acts as an oven and heats the above mixtures at temperatures of up to 1,450°C. Rotary kilns are placed horizontally at a slight angle. Slurry or dry raw materials are fed into the higher end of the rotary kiln, and as they approach the lower end, a blast flame heats and chemically alters them. The blast flame is produced by burning either coal, oil or gas. Kilns can also use waste materials such as tires, rubber, paper, sewage sludge or plastic as fuel. As the raw materials move through the kiln, they release certain elements in gas form, while the remaining material solidifies into small, marble-sized pieces called clinker.

Clinker, which possesses physical and chemical properties different from its raw materials, is then crushed into fine powder. Gypsum and other materials such as volcanic ash and flyash are added to the ground clinker, resulting in a powder that is Portland Cement. Gypsum is a key addition which adjusts the setting time of the cement when cement is eventually used in the production of concrete. The production process of cement contains a series of chemical and physical tests and specification analyses to ensure the quality of the cement.

Two main types of kilns are used in the cement production process: vertical kilns and rotary kilns. Vertical kilns employ less advanced technology, yield lower quality clinker and are less energy efficient. Vertical kilns can only use the semi-dry process of cement production. In contrast, rotary kilns employ more advanced technology (including NSP technology) that allows for enhancing the clinker quality.

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

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

Prior to 2000, most cement production lines in the PRC used vertical kilns to produce cement. Rotary kilns adopting NSP technology generally discharge fewer harmful emissions and produce better quality cement. It is the PRC government's policy to encourage the use of NSP technology to control pollution and industry waste. Rotary kilns with NSP technology are now the most common cement production technology in the world, which contributed approximately 80% of the total clinker produced in 2010, according to the MIIT.

CEMENT MARKET IN THE PRC

China's economy has grown rapidly in recent years. From 2006 to 2010, China's GDP increased from approximately RMB21,631.4 billion to approximately RMB39,798.3 billion. Such growth represented a CAGR of approximately 16.5%, making China one of the fastest growing economies in the world. This general economic expansion led to a significant rise in building and construction projects of infrastructure and other FAI across China.

The massive expansion of the construction industry in turn drove the growth of cement production and consumption in China. As a result, China's cement consumption during the last 10 years experienced a notable expansion. According to Digital Cement, China is the largest cement producing country in the world, with a total production volume of approximately 1,868 million tonnes in 2010, representing an increase of 13.6% compared to 2009, accounting for over 50% of the world's total cement production.

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

	Year ended December 31,					CAGR
	2006	2007	2008	2009	2010	2006-2010
GDP						
RMB (in billions)	21,631.4	26,581.0	31,404.5	34,050.7	39,798.3	16.5%
Growth rate (%)	12.7	14.2	9.6	9.1	10.3	
FAI						
RMB (in billions)	10,999.8	13,732.4	17,282.8	22,459.9	27,814.0	26.1%
Growth rate (%)	23.9	24.8	25.9	30.0	23.8	
Cement Production						
Tonnes (in millions)	1,236.8	1,361.2	1,423.6	1,644.0	1,868.0	10.9%
Growth rate (%)	15.7	10.1	4.6	15.5	13.6	
Cement Consumption						
Tonnes (in millions)	1,200.0	1,330.0	1,370.0	1,630.0	1,860.0	11.6%
Growth rate (%)	14.3	10.8	3.0	19.0	14.1	

Sources: China Statistical Yearbook 2010, National Development and Reform Commission, Digital Cement and National Bureau of Statistics of China (Cement Consumption data only)

The PRC government has recently raised quality standards and in turn raised the barriers of entry into the cement industry. For example, pursuant to the *Policy of Cement Industry Development* (水泥工業產業發展政策) issued on October 17, 2006, all newly constructed clinker production lines must now have sufficient limestone resources to support operations for at least 30 years, and all newly established cement grinding plants should now have a minimum annual production capacity of 0.6 million tonnes.

The table below sets forth the twelve largest producers of cement and clinker in China in terms of clinker production capacity in 2011:

Ranking	Producer	Clinker capacity* (in millions of tonnes)
1	Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司)	132.8
2	South Cement Company Limited (南方水泥有限公司)	81.1
3	China United Cement Company Limited (中國聯合水泥集團有限公司)	65.6
4	China Resources Cement Holdings Limited (華潤水泥控股有限公司)	52.6
5	China National Materials Group Corporation (中國中材集團有限公司)	51.1
6	Tangshan Jidong Cement Company (河北唐山冀東水泥股份有限公司)	49.4
7	TCC International Holdings Limited (台泥國際集團有限公司)	48.0
8	Shandong Shanshui Cement Group Company Limited (山東山水水泥集團有限公司)	36.5
9	Huaxin Cement Co., Ltd (湖北華新水泥股份有限公司)	36.3
10	Hongshi Holding Group Co., Ltd. (紅獅控股集團有限公司)	27.6
11	**Henan Tianrui Group Corporation (河南天瑞集團公司)**	27.4
12	BBMG Corporation (北京金隅股份有限公司)	24.5

* The above data represents only the NSP clinker production capacity as of December 31, 2010.

Source: China Cement Net (中國水泥網)

GOVERNMENT POLICIES TO STIMULATE DEMAND FOR CEMENT

Infrastructure Spending

As a result of the international financial turmoil in the latter half of 2008 and in 2009, the PRC government introduced a comprehensive stimulus package involving major project investment plans with an aggregate value of RMB4 trillion in order to stabilize the domestic economy and encourage domestic consumption (the "RMB4 trillion stimulus package"). As a result of this stimulus package, many government and infrastructure projects, including railways, highways, rural development, subsidized housing and post-disaster reconstructions, which together accounted for approximately 81.8% of the total stimulus package, were either accelerated or commenced in 2008 and 2009. In addition, a national railway construction plan with an aggregate value of RMB2 trillion was announced by the PRC government to stimulate infrastructure spending. The PRC government continues to develop a number of major infrastructure projects, which in turn drove a significant increase in FAI. Examples of these projects include the South-North Water Transfer Project (南水北調工程), Ha'erbin-Dalian Express Railway (哈大高鐵), the Shijiazhuang-Wuhan Express Railway (石武高鐵) and the Zhengzhou East New Area (鄭東新區). China's Twelfth Five-Year Plan (2011-2015) released in 2010 has further strengthened the government's policy of boosting public spending on major infrastructure projects.

Pursuant to the *Decision of the State Council of the Central Government of PRC Regarding the Acceleration of Water Conservancy Reform and Development* (中共中央國務院關於加快水利改革發展的決定) promulgated by the PRC government on December 31, 2010, the Central Government of the PRC decided to accelerate water conservancy development by among other things, increasing construction for farmland water conservancy projects and speeding up construction of infrastructure projects for water conservancy. Accordingly, the PRC government decided to increase public funding of water conservancy development projects with a target of doubling public funding for the construction of water conservancy projects by 2020 compared with that of the year 2010, and to make water conservancy a main area for the receipt of public funding. As such, given that water conservancy investment in China in 2010 amounted to RMB200 billion, the targeted total investment amount for water conservancy for the period from 2011 to 2020 is RMB4,000 billion. Because water conservancy construction will consume a large amount of cement, it is expected that this policy will positively affect the demand for cement in China in the near term.

New Rural Construction

On December 31, 2009, the PRC government issued the *Certain Opinions of the CPC Central Committee and the State Council on Improving the Overall Planning for Urban and Rural Development and Further Solidifying the Foundation for Agricultural and Rural Development* (中共中央國務院關於加大統籌城鄉發展力度進一步夯實農業農村發展基礎的若干意見), according to which, the PRC government voiced strong support for rural housing construction and launched a policy of "Building Materials Going to Countryside" (建材下鄉) to encourage the use of building materials in rural areas. This policy has generated significantly positive results for the use of cement. It is expected that this policy will provide more business opportunities for large and renowned cement producers that have wide market coverage, including the rural areas of China.

Government-Subsidized Housing

In 2010, the PRC government promulgated certain policies in support of the construction of three million units of government-subsidized housing. On January 27, 2011, the PRC government further issued the *Notice of the State Council on Firmly Curbing the Surging Housing Prices in Certain Cities* (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知), which provided that the land for construction of government-subsidized housing, shanty town renovation and small and medium ordinary commodity houses shall account for no less than 70% of the total volume of land supply for housing, and land lots shall be allocated with priority for those purposes. It is expected that promoting the construction of government-subsidized housing will offset the adverse impact caused by China's policy control over construction of commercial real estate in the short term, and thus provide continuing support for the demand for cement.

KEY INDUSTRY TRENDS IN THE PRC

Vertical Kiln Phase-Out and NSP Technology Application

The production of cement involves large amounts of coal and power, and in turn results in high energy costs. Vertical kilns consume significantly more coal than rotary kilns, imposing a significant cost disadvantage on producers using vertical kilns as compared to those using rotary kilns given recent increases in coal and electricity prices. Vertical kilns also discharge more pollutants than rotary kilns. Vertical kiln plants constantly risk shutdown due to their greater exposure to power shortages and the price volatility of coal and electricity.

The PRC government has issued a series of regulations intended to phase out vertical kilns. On October 17, 2006, the NDRC issued the *Policy on Cement Industry Development* (水泥工業產業發展政策), which outlaws the establishment of new production centers using vertical kilns and less advanced technologies. This policy further stated that by the end of 2008, kilns that use obsolete technologies should be replaced, and that the production quota of vertical kilns should be further reduced. The policy explicitly stated that all vertical kilns should be shut down by the end of 2008, although the policy did not specifically name any regions. In the meantime, the State Electricity Regulatory Commission and the NDRC discourage the operation of vertical kilns, and have implemented a new electricity pricing scheme that favors rotary kilns. Moreover, some government authorities have promulgated an increasing number of environmental regulations that force small scale cement producers to adopt more environmentally-friendly technologies. The increased coal consumption in the use of vertical kilns and the costs of adopting environmentally-friendly technologies present serious challenges to small scale cement producers.

Addressing environmental concerns, the PRC government offers tax rebates to cement producers that demonstrate a 30% recycling rate for raw materials. Such tax rebates favor rotary kilns, as vertical kilns have difficulties attaining such rates of raw material recycling.

In August 2010 and July 2011, the MIIT published a list of enterprises with obsolete cement production capacity to be shut down in 2010 and 2011, respectively. The table below sets forth the top six provinces in terms of the production capacity required to be shut down by the MIIT.

Region	**Ranking**	**2011**	**2010**
		(million tonnes)	**(million tonnes)**
Hebei	1	27.0	13.1
Liaoning	2	16.3	5.4
Sichuan	3	14.5	0.0
Shanxi	4	12.8	8.4
Zhejiang	5	10.2	6.3
Henan	6	9.9	8.6
China		**153.3**	**107.3**

Source: MIIT

The majority of the world's industrialized nations began phasing out vertical kilns in the 1970s. Development of NSP technology in China began in the 1980s. The key component of NSP technology is the cyclone. A cyclone is a cone-shaped vessel and was originally used to clean the dust-laden gases exiting the dry process kilns. The entire feed of dry raw materials is fed through the cyclone, resulting in an efficient heat exchange, which, in turn, results in less heat emissions to the atmosphere.

The table below presents a breakdown of cement production in China by NSP and non-NSP technology during the periods indicated:

	Year ended December 31,		
Technology	**2008**	**2009**	**2010**
Non-NSP	39%	28%	20%
NSP	61%	72%	80%
Total	100%	100%	100%

Sources: Digital Cement and MIIT

Consolidation of a Fragmented Market

The production and sale of cement is regional in nature, and the absence of dominant industrial leaders creates a fragmented market for the cement production industry. According to the MIIT, there were over 5,000 cement producers in the PRC as of November 2010. The PRC government has started to take measures to plan for the healthy development of the cement industry and to endorse cement companies with leading market positions to merge with and acquire other small scale cement producers in order to optimize the industrial environment for competition.

Along with the adjustment of technology and industrial structure, major PRC cement producers have accelerated their consolidation activities, leading to an increase in their respective market shares. Pursuant to the Twelfth Five-Year Plan (2011-15) released by the PRC government, the aggregate cement production volume of the top 10 cement producers, in terms of production volume, should account for at least 35% of the total cement production capacity of the country with an average production volume of over 70 million tonnes. Therefore, the cement industry in China still has a lot of room for consolidation in the near future.

The PRC government has been supporting larger and more efficient cement companies and helping fuel the consolidation trend with the issuance of several regulations. In the *Specialized Plan for Developing the Cement Industry* (水泥工業發展專項規劃) issued on October 17, 2006, the NDRC noted that "small factories that are overly polluted and wasteful shall be shut down; successful enterprises should be actively cultivated through mergers and acquisitions and industrial consolidation to enhance competitiveness; and large enterprises are encouraged to acquire small enterprises to accelerate industry consolidation." On the same day, the NDRC also noted in the *Policy of Cement Industry Development* (水泥工業產業發展政策) that the goal with respect to centralization and consolidation of the cement industry is to reduce the number of cement producers from 5,000 in 2006 to 2,000 by 2020. Among the 2,000 cement producers, 10 shall have annual production capacity of 30 million tonnes and 40 shall have annual production capacity of 5 million tonnes. On December 31, 2006, the NDRC, the Ministry of Land and Resources and the PBOC jointly issued a notice stating that when seeking project investments or mergers and acquisitions, the 12 national and 48 local cement companies listed in the notice will receive government support in the form of priority with respect to project approvals, land use right grants and credit approvals. Set forth below are the 12 national companies listed in the notice (in the order listed):

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

In 2009, the MIIT designated several cement companies with leading market positions in the cement industry that the PRC government supports for undertaking cement industry-specific mergers and consolidation in the Central China region, including, without limitation, Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司), Huaxin Cement Co., Ltd. (湖北華新水泥股份有限公司), China National Materials Group Corporation (中國中材集團公司), Henan Tianrui Group Corporation (河南天瑞集團公司) and China National Building Material Company Limited (中國建材股份有限公司).

Under these cement policies, small-scale cement producers with obsolete production technologies that are not environmentally-friendly shall be phased out, which we believe will create an undersupply of cement in certain regions of China. As a leading cement producer in Central China and Northeast China, we believe that we can benefit from such opportunity by further expanding our production capacity and product coverage and thereby strengthen our market position.

Increased Focus on Environmental Protection

The PRC government has implemented new environmental regulations to reduce emissions and noise pollution in the production of cement. These efforts have resulted in the increased use of rotary kilns and NSP technology and the decrease in energy consumption, production costs and environmental pollution. Recent improvements in related technologies have increased the use of energy saving and environmentally-friendly production processes, reducing energy consumption in the cement clinker production process across the industry in the PRC.

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的通知) 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 technology should have been reduced from 130 kg/tonne to 110 kg/tonne of coal equivalent, the percentage of production lines with residual heat power generation should then reach 40% and utilization rate of limestone reserves should then be increased from 60% to 80%.

We believe these policies will eventually lead to an optimal balance between the supply and demand of cement in China.

Pursuant to the *Guiding Opinions on Energy Saving and Emission Reduction in Cement Industry* (關於水泥工業節能減排的指導性意見) promulgated by the MIIT on November 25, 2010, the emission volume of cement particles should have been reduced by 50% against the same period in 2009. In the meantime, cement enterprises around major Chinese cities are required to possess basic household garbage and sewage treatment capabilities, so that cement production incorporating pollution treatment capabilities can be turned into a new type of environmental protection industry.

On November 30, 2010, the MIIT further promulgated the *Entrance Conditions for Cement Industry* (水泥行業准入條件) which requires certain government authorities to strictly control the new production capacity of cement industry in the future, to expedite the replacement of obsolete production capacity, improve pollution treatment within the cement industry, and establish sophisticated systems of data collection and monitoring and examination for industrial energy savings and emission reduction. The emphasis is to upgrade and rebuild cement production lines and replace obsolete production lines by applying NSP technology.

Curbing Oversupply

In recent years, certain industries in the PRC, including the cement industry, were over-expanding, which led the government to launch policies to limit new capacity growth. Pursuant 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復建設引導產業康發展若干意見的通知) issued by the State Council on September 26, 2009, and the *Entrance Conditions for Cement Industry* (水泥行業准入條件) issued by the MIIT on September 7, 2009, the PRC government set out rules and opinions to increase the entry barriers of new cement production companies, including imposing stricter requirements on capital, industry experience and compliance with local development plans. New cement production lines or expansion of current cement production lines must comply with the cement industrial policy of the province in which that particular production line is located.

REGIONAL CEMENT MARKETS IN HENAN, LIAONING, TIANJIN AND ANHUI

Due to the bulky product nature and high transportation costs, the market for cement products is regionalized. Production facilities are generally located near customers or suppliers to keep transportation costs low. Prices of cement products are predominantly influenced by local supply and demand conditions. The profitability of cement producers in China varies significantly by region.

The table below sets forth the top 10 provinces, municipalities and autonomous regions in China in terms of cement production volume in 2010 (in descending order):

Province	Cement production volume (in millions of tonnes)	Percentage of total production volume (%)
Jiangsu	156.5	8.4
Shandong	147.5	7.9
Sichuan	132.3	7.1
Hebei	125.9	6.7
Guangdong	115.4	6.2
Henan	114.8	6.2
Zhejiang	112.8	6.0
Hubei	89.8	4.8
Hunan	87.0	4.7
Anhui	78.7	4.2

Source: Digital Cement

The table below sets forth the demand for cement in Henan province, Liaoning province, Anhui province and Tianjin for the periods indicated:

	Henan province	Liaoning province	Anhui province	Tianjin
	(in millions of tonnes)			
2008	118.8	51.8	73.0	14.1
2009	119.6	51.9	73.5	14.8
2010	120.4	52.0	74.0	15.2

Source: Digital Cement

Henan Province

Henan province, with a population of approximately 95 million as of December 31, 2009, is one of the most important markets for cement producers.

Henan is located in the central region of China. Henan's overall urbanization level falls behind the eastern coastal region of China. The table below sets forth the urbanization rate in Henan province and the national average in the PRC for the periods indicated:

	Year ended December 31,		
Urbanization rate	**2007**	**2008**	**2009**
Henan province	34.3%	36.0%	37.7%
National average	44.9%	45.7%	46.6%

Source: National Bureau of Statistics of China

With the commencement of the PRC government's *Strengthening Economic Development in Central and Western Regions* (中西部地區經濟發展的支持) policy during the period of the Tenth Five-Year Plan (2001-2005) and the initiation of the *Energize the Development of the Central China Region* (促進中部地區崛起) policy in 2006, Henan province's economy has gone through a phase of rapid development over the past few years. During the period from 2006 to 2010, the GDP in Henan province increased at a CAGR of 16.7%, which was slightly higher than the overall growth rate of 16.5% in China. In the same period, the Henan provincial government made significant efforts to improve the infrastructure of Henan province, resulting in growth of its FAI at a CAGR of 29.5%, which was higher than the overall growth rate of 26.1% for the entire China.

The table below sets forth the GDP, FAI, cement production volume and their respective growth rates in Henan province for the periods indicated:

	Year ended December 31,					CAGR
	2006	2007	2008	2009	2010	2006-2010
GDP: RMB (in billions)						
Henan	1,236	1,501	1,802	1,948	2,294	16.7%
GDP growth rate (%)						
Henan	14.4	14.6	12.1	10.9	12.2	
China	12.7	14.2	9.6	9.1	10.3	
FAI: RMB (in billions)						
Henan	590	801	1,049	1,370	1,659	29.5%
FAI growth rate (%)						
Henan	36.9	35.7	31.0	30.6	21.0	
China	23.9	24.8	25.9	30.0	23.8	
Cement production (in million tonnes)						
Henan	74.1	92.7	102.3	117.1	114.8	11.6%
Cement production growth rate (%)						
Henan	19.4	25.1	10.3	14.5	-2.0	
China	15.7	10.1	4.6	15.5	13.6	

Sources: National Bureau of Statistic of China and Digital Cement

Due to Henan's flat terrain and its location in the central part of China, among other reasons, Henan has implemented many transport infrastructure projects, including some of the most high-profile infrastructure projects in China such as the South-North Water Transfer Project (南水北調工程) and West-East Gas Pipeline Project (Second Line) (西氣東輸二線工程), creating a substantial demand for cement. Henan province also has one of the most developed road networks in China, which provides strong support for the sale and transport of cement. With the rapid development and the growing popularity of NSP technology, which is more energy-efficient and environmentally-friendly, the traditional cement manufacturing technologies have gradually been replaced. The *List for the Elimination of Enterprises with Obsolete Production Capacities in 2010* (2010年水泥淘汰落後產能企業名單) published by the MIIT on August 6, 2010 mandated that an aggregate obsolete production capacity of 8.6 million tonnes of 33 cement enterprises in Henan province is to be eliminated, of which an aggregate obsolete production capacity of 4.2 million tonnes was attributable to five cement enterprises in Yuzhou.

The table below sets forth the top five clinker producers in terms of clinker production capacity using NSP technology and their respective market share in Henan province as of June 30, 2011:

Producers	Clinker production capacity (million tonnes)	Percentage of total production capacity (%) in Henan province
Tianrui Group Cement Co., Ltd. (天瑞集團水泥有限公司)	16.0	19.6
China United Cement Henan Division (中聯水泥河南運營管理區)	10.9	13.4
Henan Tongli Cement Co., Ltd. (河南同力水泥有限公司)	10.7	13.1
Henan Mengdian Group Cement Co., Ltd. (河南孟電集團水泥有限公司)	5.0	6.1
Henan Baofeng Dadi Cement Co., Ltd. (河南寶豐大地水泥有限公司)	3.1	3.8

Source: Henan Building Materials Industry Association (河南省建築材料工業協會)

The table below sets forth the top 10 cement producers in terms of production volume and their respective market share in Henan province in 2010:

Producers	Cement production volume (million tonnes)	Percentage of total production volume (%) in Henan province
Tianrui Group Cement Co., Ltd. (天瑞集團水泥有限公司)	17.2	14.7
China United Cement Henan Division (中聯水泥河南運營管理區)	8.8	10.9
Henan Tongli Cement Co., Ltd. (河南同力水泥有限公司)	8.2	7.2
Henan Anyang Hubo Cement Co., Ltd. (河南省安陽湖波水泥有限公司)	6.7	5.9
Henan Mengdian Group Cement Co., Ltd. (河南孟電集團水泥有限公司)	3.6	3.1
Henan Dadi Cement Co., Ltd. (河南省大地水泥有限公司)	1.9	1.6
Jiaozuo Coal (Group) Co., Ltd. (焦作煤業(集團)有限責任公司)	1.7	1.4
Huaxin Cement Co., Ltd. (湖北華新水泥股份有限公司)	1.6	1.4
Zhengzhou Coal Longli Cement Co., Ltd. (鄭煤龍力水泥有限公司)	1.4	1.2
Henan Jinrong Cement Co., Ltd. (河南錦榮水泥有限公司)	1.2	1.1

Source: Henan Building Materials Industry Association (河南省建築材料工業協會)

Liaoning Province

Since the commencement of the PRC government's revitalization of industrial base in Northeast China (振興東北老工業基地) policy during the period of the Tenth Five-Year Plan (2001-2005), Liaoning province, a traditional leading province in heavy industry located in China's northeast region, has gradually regained its competitiveness. Under the policy, the PRC government is committed to promoting the development of the Northeast China region by, among other things, improving the infrastructure, promoting frontier trade with neighboring countries, attracting foreign investments by lifting regulatory limitations in traditionally restricted sectors such as transportation, education, municipal engineering and construction, and encouraging exploration of energy, raw materials and mineral resources.

As a result of this policy, according to National Bureau of Statistic of China, FAI in Liaoning province has been growing rapidly in recent years. During the period from 2006 to 2010, Liaoning province recorded a GDP CAGR of 18.4% and an FAI CAGR of 29.6%, which were higher than China's average GDP CAGR of 16.5% and FAI CAGR of 26.1%, respectively. Rapid growth in FAI has created considerable opportunities for the development of the building materials industry. In 2010, the cement production volume in Liaoning province reached 48 million tonnes, representing an increase of 1.8% compared to 2009, accounting for approximately 2.6% of the aggregate production volume in China, according to Digital Cement and the China Statistical Yearbook 2010.

The table below sets forth the GDP, FAI, cement production volume and their respective growth rates in Liaoning province for the periods indicated:

	Year ended December 31,					CAGR
	2006	2007	2008	2009	2010	2006-2010
GDP: RMB (in billions)						
Liaoning	930	1,116	1,367	1,521	1,828	18.4%
GDP growth rate (%)						
Liaoning	14.2	15.0	13.4	13.1	14.1	
China	12.7	14.2	9.6	9.1	10.3	
FAI: RMB (in billions)						
Liaoning	569	744	1,002	1,229	1,604	29.6%
FAI growth rate (%)						
Liaoning	35.5	30.7	34.8	22.7	30.5	
China	23.9	24.8	25.9	30.0	23.8	
Cement production (in million tonnes)						
Liaoning	32.1	38.8	40.7	46.9	47.8	10.5%
Cement production growth rate (%)						
Liaoning	22.7	21.0	5.0	15.2	1.8	
China	15.7	10.1	4.6	15.5	13.6	

Sources: National Bureau of Statistics of China and Digital Cement

The cement industry in Liaoning province is highly fragmented. We believe the cement market in Liaoning province is intensely competitive and a dominant competitive position for certain cement producers does not currently exist. The leading cement producers may undertake selective acquisitions or strategic investments and replacement of obsolete production capacity to expand their market shares and strengthen their market positions. The *List for the Elimination of Enterprises with Obsolete Production Capacities in 2010* (2010年水泥淘汰落後產能企業名單) published by the MIIT on August 6, 2010 mandated an aggregate obsolete production capacity of 5.4 million tonnes of 29 cement enterprises in Liaoning province be eliminated.

The table below sets forth the top five clinker producers in terms of clinker production capacity using NSP technology and their respective market share in Liaoning province as of June 30, 2011:

Producers	Clinker production capacity (million tonnes)	Percentage of total production capacity (%) in Liaoning province
Tianrui Group Cement Co., Ltd. (天瑞集團水泥有限公司)	6.2	15.2
China Shanshui Cement Group Ltd. (中國山水水泥集團有限公司)	5.8	14.2
Shenyang Coal Trade Group Corporation Ltd. (瀋陽煤業集團有限責任公司)	3.9	9.5
Liaoning Daying Cement (遼寧大鷹水泥)	3.6	8.8
Jilin Yatai Cement Co., Ltd. (吉林亞泰水泥有限公司)	3.1	7.6

Source: Liaoning Building Materials Industry Association (遼寧省建築材料工業協會)

The table below sets forth the top ten cement producers in terms of production volume and their respective market share in Liaoning province in 2010:

Producers	Cement production volume (million tonnes)	Percentage of total production volume (%) in Liaoning province
Liaoning Shanshui (遼寧山水)	13.5	16.7
Tianrui Group Cement Co., Ltd. (天瑞集團水泥有限公司)	8.2	10.7
Liaoning Zhongbei (遼寧中北)	5.6	5.9
Liaoning Jidong (遼寧冀東)	5.4	4.7
Fuxin Daying (阜新大鷹)	4.8	4.6
Dalian Cement Group (大連大水集團)	2.4	4.2
Dalian Xiaoyetian (大連小野田)	2.0	4.2
Jinzhou Bohai Cement (錦州渤海水泥)	2.4	4.0
Yatai Tiexin (亞泰鐵新)	4.0	2.8
TCC Liaoning (遼寧台泥)	1.8	0.5

Source: Liaoning Building Materials Industry Association (遼寧省建築材料工業協會)

Municipality of Tianjin

During the period from 2006 to 2010, Tianjin's GDP grew at a CAGR of 19.5%, which was higher than the overall growth rate of 16.5% in China. Over the same period, the municipal government of Tianjin made significant efforts to improve its infrastructure and develop Tianjin Binhai New Area, resulting in growth of its FAI at a CAGR of 37.5%, which was higher than the overall growth rate of 26.1% for China.

The table below sets forth the GDP, FAI, cement production volume and their respective growth rates in the municipality of Tianjin for the periods indicated:

	Year ended December 31,					CAGR
	2006	**2007**	**2008**	**2009**	**2010**	**2006-2010**
GDP: RMB (in billions)						
Tianjin	446	525	672	752	911	19.5%
GDP growth rate (%)						
Tianjin	14.7	15.5	16.5	16.5	17.4	
China	12.7	14.2	9.6	9.1	10.3	
FAI: RMB (in billions)						
Tianjin	182	235	339	474	651	37.5%
FAI growth rate (%)						
Tianjin	21.8	29.3	44.1	39.8	37.4	
China	23.9	24.8	25.9	30.0	23.8	
Cement production (in million tonnes)						
Tianjin	6.1	6.1	5.3	6.9	8.1	7.5%
Cement production growth rate (%)						
Tianjin	17.0	0.7	-12.5	29.0	17.3	
China	15.7	10.1	4.6	15.5	13.6	

Sources: National Bureau of Statistics of China and Digital Cement

The *List for the Elimination of Enterprises with Obsolete Production Capacities in 2010* (2010年水泥淘汰落後產能企業名單) published by the MIIT on August 6, 2010 mandated an aggregate obsolete production capacity of 0.6 million tonnes of three cement enterprises in Tianjin be eliminated.

Anhui Province

During the period from 2006 to 2010, Anhui province's GDP grew at a CAGR of 19.0%, higher than the overall growth rate of 16.5% in China. Over the same period, the provincial government of Anhui made significant efforts to improve its infrastructure, accelerate its urbanization and industrialization and its overall economic growth, resulting in growth of its FAI at a CAGR of 35.3%, which was higher than the overall growth rate of 26.1% for China.

The table below sets forth the GDP, FAI, cement production volume and their respective growth rates in Anhui province for the periods indicated:

	Year ended December 31,					CAGR
	2006	**2007**	**2008**	**2009**	**2010**	**2006-2010**
GDP: RMB (in billions)						
Anhui	611	736	885	1,006	1,226	19.0%
GDP growth rate (%)						
Anhui	12.5	14.2	12.7	12.9	14.5	
China	12.7	14.2	9.6	9.1	10.3	
FAI: RMB (in billions)						
Anhui	353	509	675	899	1,185	35.3%
FAI growth rate (%)						
Anhui	39.9	44.0	32.6	33.3	31.8	
China	23.9	24.8	25.9	30.0	23.8	
Cement production (in million tonnes)						
Anhui	44.1	51.9	59.2	70.6	78.7	15.6%
Cement production growth rate (%)						
Anhui	36.9	17.8	13.9	19.3	11.6	
China	15.7	10.1	4.6	15.5	13.6	

Sources: National Bureau of Statistics of China and Digital Cement

The *List for the Elimination of Enterprises with Obsolete Production Capacities in 2010* (2010年水泥淘汰落後產能企業名單) published by the MIIT on August 6, 2010 mandated an aggregate obsolete production capacity of 4.5 million tonnes of 28 cement enterprises in Anhui province be eliminated.

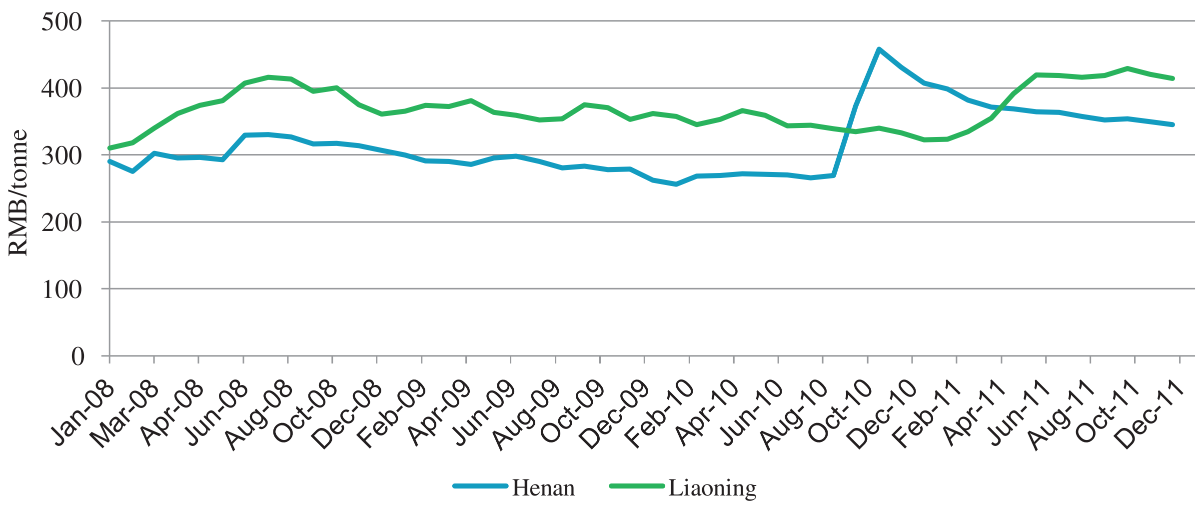
PRICE MOVEMENT OF CEMENT IN HENAN, LIAONING AND ANHUI PROVINCES AND TIANJIN

Henan and Liaoning Provinces

The average cement prices in Henan and Liaoning provinces were on the rise in the first half of 2008 but experienced gradual decline beginning the second half of 2008 as a result of the global economic crisis. The comprehensive RMB4 trillion stimulus package was introduced by the PRC government in order to increase infrastructure investment and stimulate economic growth thus underpinning the demand for cement. Together with the national policies to curb the oversupply of cement and phase out non-NSP production facilities, cement prices in some regions in the PRC started to rise in the fourth quarter of 2010. According to China Cement Net (中國水泥網), the average ex-factory price (including taxes and a portion of transportation fees) of PO 42.5 cement in Henan province increased from approximately RMB275 per tonne in February 2008 to approximately RMB330 per tonne in August 2008, but since then dropped gradually to as low as approximately RMB256 per tonne in February 2010. The average cement price rebounded since the fourth quarter of 2010 and surged to approximately RMB458 per tonne in November 2010, and then dropped gradually to as low as approximately RMB345 per tonne in December 2011. Meanwhile, the average ex-factory price of PO 42.5 cement in Liaoning province increased to as high as approximately RMB416 per tonne in August 2008 and started to decline since then to approximately RMB322 per tonne in January 2011. The average cement price started to rebound from March 2011 and reached approximately RMB429 per tonne by the end of 2011.

The chart below sets forth the average ex-factory prices (including taxes and a portion of transportation fees) of PO 42.5 cement in Henan and Liaoning provinces for the period between January 2008 and December 2011:

Price of PO 42.5 cement in Henan and Liaoning



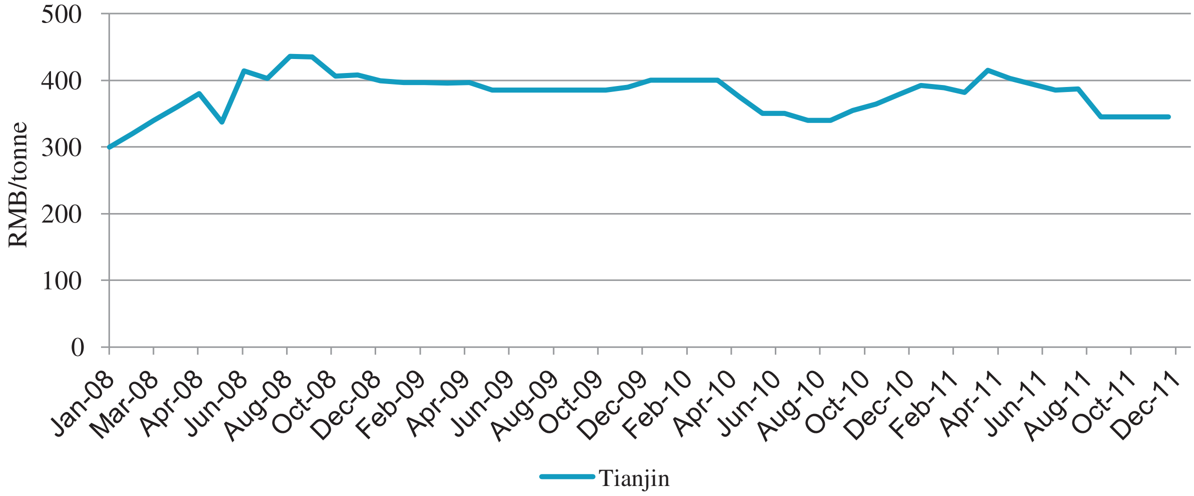
Source: China Cement Net (中國水泥網)

Tianjin

The fluctuation of average cement prices in Tianjin was comparatively significant in 2008. The price of PO 42.5 cement surged from approximately RMB280 per tonne in mid-2008 to approximately RMB436 per tonne in September 2008. Due to the global economic crisis, the price of cement gradually dropped to approximately RMB400 per tonne in the fourth quarter of 2008 and further decreased to around RMB380 per tonne during the course of 2009 and remained stable until August 2010 when the price dropped to approximately RMB340 per tonne. The price eventually picked up to approximately RMB385 per tonne in June 2011.

The chart below sets forth the average prices (including taxes and a portion of transportation fees) of PO 42.5 cement in Tianjin for the period between January 2008 and December 2011:

Price of PO 42.5 cement in Tianjin



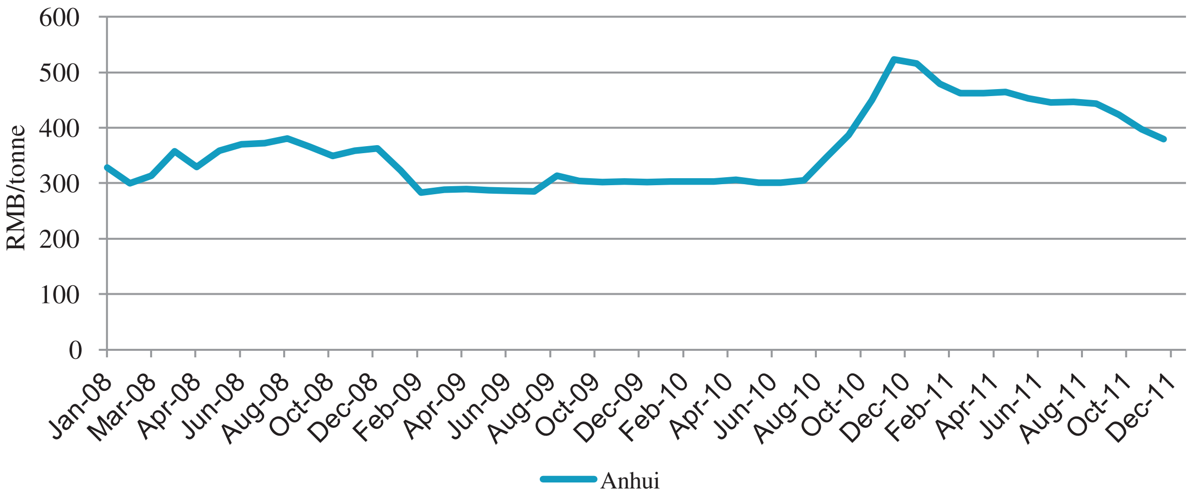
Source: China Cement Net

Anhui Province

The average price for PO 42.5 cement in Anhui province gradually increased in the first three quarters of 2008 to as high as RMB360 per tonne but then declined below RMB350 per tonne during the fourth quarter of 2008. The cement price experienced a significant fall to approximately RMB285 per tonne in the first half of 2009 and rebounded in the fourth quarter of 2010 to approximately RMB 520 per tonne. In July 2011, the average price of PO 42.5 cement dropped to approximately RMB446 per tonne.

The chart below sets forth the average price (including taxes and a portion of transportation fees) of PO 42.5 cement in Anhui province for the period between January 2008 and December 2011:

Price of PO 42.5 cement in Anhui



Source: China Cement Net

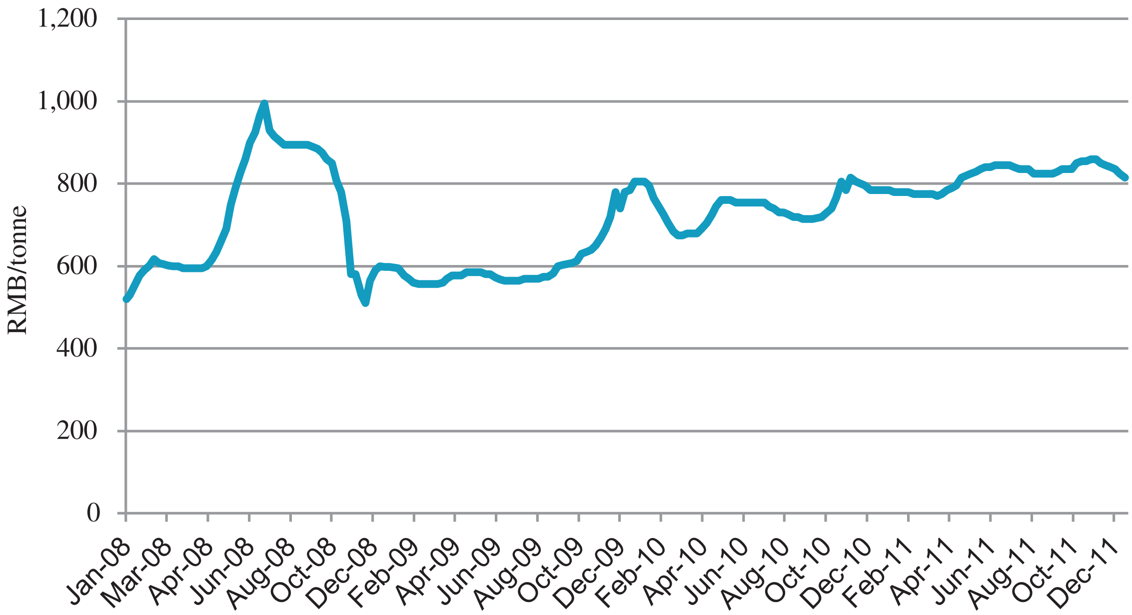
MAJOR COST FACTORS IN CEMENT PRODUCTION IN THE PRC

Coal and electricity are the most important sources of energy for cement production and the consumption of coal and electricity in China has been increasing continuously in recent years. According to the National Bureau of Statistics of China, coal and electricity consumption in China grew at a CAGR of approximately 4.7% and 10.0%, respectively, for the period between 2006 and 2010. As an industry that consumes a significant amount of energy, the price movements of coal and electricity supply are crucial to the operations of cement producers.

Coal

According to China Coal Resource, coal prices for coal with a heating value of 5,500 cal/kg in Qinhuangdao Port in the PRC experienced a substantial increase from January to July 2008, but the uptrend started to reverse in the second half of 2008. Coal prices stabilized throughout the whole year of 2009 and started to rebound from the beginning of 2010. The coal price for coal with a heating value of 5,500 cal/kg in Qinhuangdao Port in the PRC increased from approximately RMB525 per tonne in January 2008 to as high as approximately RMB1,010 per tonne in July 2008, but retreated to around RMB520 per tonne by the end of 2008, staying around this level throughout 2009. Prices started to rebound from the beginning of 2010 and reached approximately RMB790 per tonne by the end of 2010. The coal price gradually increased in the fourth quarter of 2011 and reached approximately RMB825 per tonne in December 2011.

The chart below sets forth the coal prices for coal with a heating value of 5,500 cal/kg in Qinhuangdao Port in the PRC for the period between January 2008 and December 2011:



Source: China Coal Resource

Electricity

The central and provincial governments in China regulate electricity prices for industrial enterprises. According to the NDRC, the price per KWh of electricity for industrial use in Henan province was raised to the range of RMB0.490 to RMB0.528 in June 2008 and was further raised to the range of RMB0.527 to RMB0.565 in November 2009. Also, the price per KWh of electricity for industrial use in Liaoning province was raised to the range of RMB0.465 to RMB0.501 in June 2008, and raised further to the range of RMB0.493 to RMB0.529 in November 2009. The price per KWh of electricity for industrial use in Tianjin municipality increased to the range of RMB0.547 to RMB0.577 in June 2008, and further increased to the range of RMB0.573 to RMB0.608 in November 2009. The progressive increases in electricity prices were mainly due to the increase in production costs of electricity as a result of rising coal prices in China since 2008.

OVERVIEW

We are a leading clinker and cement producer in Henan and Liaoning provinces in terms of production volume for the year ended December 31, 2010. We ranked 10th among all the cement producers in China in terms of production volume for the year ended December 31, 2010, according to the China Cement Association, and we ranked 11th among all the clinker producers in China in terms of production capacity as of December 31, 2011, according to China Cement Net (中國水泥網). Our operations range from the excavation of limestone, to the production, sale and distribution of clinker and cement. The PRC government has promulgated policies aiming at consolidating China's cement industry and has recognized us as one of the 12 national cement producers entitled to government support in the form of priority with respect to project approvals, land use right grants and credit approvals when undertaking mergers, acquisitions and project investments in the cement industry. We are also the only non-state-owned enterprise designated by the MIIT as one of the seven leading cement companies that the PRC government supports for undertaking cement industry-specific mergers and consolidation in Central China. Under the PRC government's current cement industry policies, small-scale cement producers with obsolete production technologies that are not environmentally-friendly shall be phased out, which we believe will eventually lead to an optimal balance between the supply and demand of cement in China. The State Council recently issued guidelines on developing the central economic zone that primarily covers Henan province, one of our primary markets, with the aim to, among other things, promote its urbanization and further develop its infrastructure. As a leading cement producer in Henan and Liaoning provinces, we believe that we can benefit from these PRC government policy initiatives by further expanding our production capacity and products coverage in order to strengthen our market position.

According to data from the respective Building Materials Industry Associations (建築材料工業協會) of Henan and Liaoning provinces, we were the largest clinker producer in each of Henan and Liaoning provinces in terms of clinker production capacity using NSP technology as of June 30, 2011, and we were the largest cement producer in Henan province and the second largest cement producer in Liaoning province in terms of production volume for the year ended December 31, 2010. As of December 31, 2011, we had a total of 15 clinker production lines and 35 cement grinding lines, with an annual clinker and cement production capacity of 22.2 million tonnes and 35.2 million tonnes, respectively. In 2009, we also constructed and put in operation a clinker production line that has a daily production capacity of 12,000 tonnes, which is one of the largest clinker production lines in the world. In 2009, 2010 and 2011, we sold 16.7 million, 22.1 million and 23.6 million tonnes of cement, and 4.8 million, 6.1 million and 6.4 million tonnes of clinker, respectively. We have finished the construction of the production facility in Tianjin in the first quarter of 2012 and are currently constructing the Yuzhou Phase II Project. We may further increase our production capacity through acquisitions of cement and clinker producers or production facilities to strengthen our market position (see "— Planned Capacity and Other Expansions") and through innovation and development of our production technology.

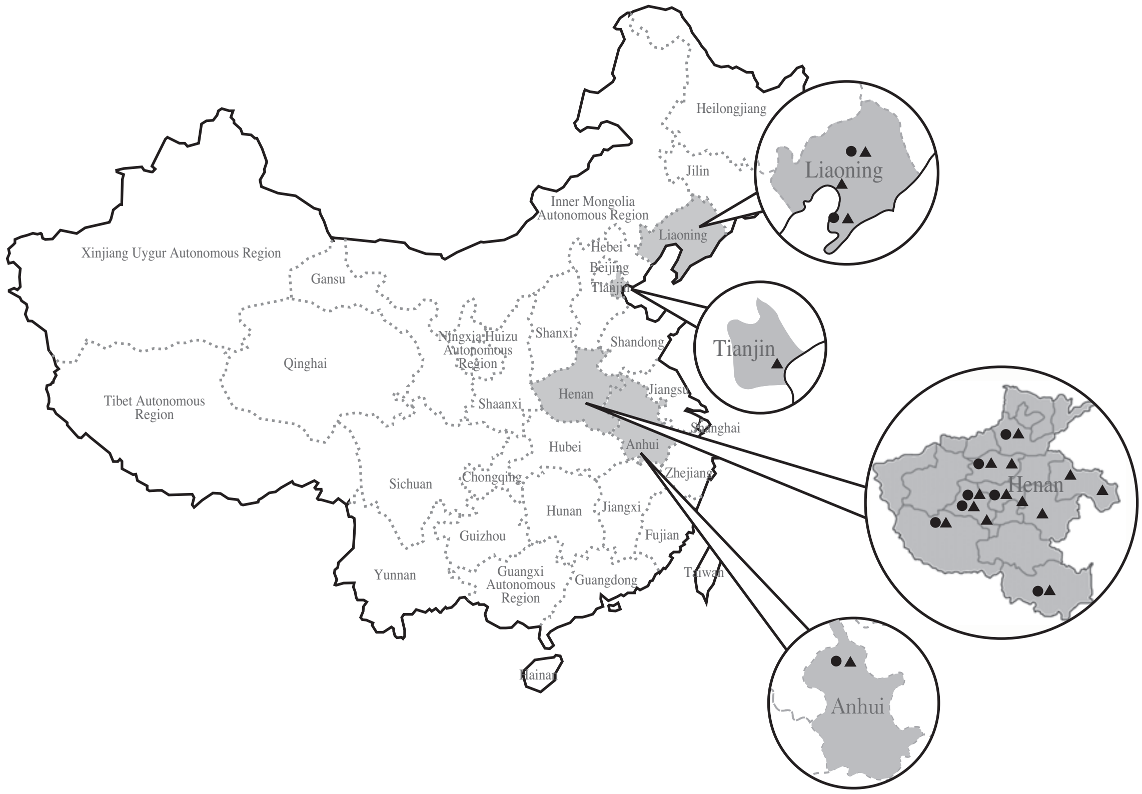
Limestone is the principal raw material used in producing cement. For the years ended December 31, 2009, 2010 and 2011, costs for excavating and externally sourcing limestone constituted approximately 9.4%, 8.5% and 8.1% of our total cost of sales, respectively. We source a majority of our limestone from the limestone quarries we are licensed to excavate which presently have sufficient limestone reserves to support our operations. As all of our clinker production facilities are located near our limestone quarries, we believe our production facilities enjoy a stable supply of limestone with low transportation costs.

We produce a wide variety of cement products using NSP technology, one of the most advanced technologies for cement production in China. All our equipment and facilities that are related to non-NSP technologies had been disposed of and been fully written off prior to January 1, 2009, and during the three years ended December 31, 2011 all our newly constructed or acquired production lines utilized NSP technology. As such, we currently have no equipment or facilities that utilize non-NSP technologies. NSP production lines generally emit lower levels of pollutants and are more energy-efficient than facilities employing non-NSP technologies. Although NSP technology is not unique to us, each of our clinker production lines has been equipped with this technology, compared to the average application rate of approximately 80% of NSP technology among cement producers in China as of December 31, 2010, according to Digital Cement. Our principal products also include clinker, a key intermediary component of cement. We employ residual heat recovery technology in the clinker production process. We are one of the few cement producers in Henan and Liaoning provinces that equip most of our production lines with residual heat recovery technology, which allows us to achieve significant cost savings on electricity and to minimize pollution.

As of December 31, 2011, we have obtained the ISO-9001 quality control system certification, the OHSAS 18000 certification and ISO 14001 certification with respect to a majority of our production facilities. We are also one of the five Chinese cement companies and the only non-state-owned Chinese cement producer that is accepted as a member of Cement Sustainability Initiative ("CSI"), a global initiative sponsored by 24 major cement producers with combined operations in over 100 countries and that promotes sustainable development in the cement industry.

Our cement is sold under the brand name "天瑞TIANRUI", which has been recognized as a "Chinese Famous Trademark" by the State Administration for Industry and Commerce. We believe that our brand has become a mark of quality within the construction industry in China. Leveraging our brand name and high-quality products, we have successfully won tenders and become a qualified primary cement provider for a number of high-profile, large-scale infrastructure projects in China, including, among other things, the South-North Water Transfer Project (南水北調工程), Ha'erbin-Dalian Express Railway (哈大高鐵) and Shijiazhuang-Wuhan Express Railway (石武高鐵).

The map below indicates the locations of our operating and under-construction production facilities as of December 31, 2011:



Indicates where we have production facilities. The production facility in Tianjin was completed in the first quarter of 2012.

▲ Indicates where we have cement grinding lines.

● Indicates where we have clinker production lines.

We sell our cement products to end-users both through direct sales by our in-house sales network in our target markets and through distributors. We have 18 regional sales offices that are spread across Henan, Liaoning and Anhui provinces.

Our revenue increased from RMB4,415.2 million in 2009 to RMB6,129.4 million in 2010 and to RMB8,263.4 million in 2011, representing a CAGR of 23.2% from 2009 to 2011. For the years ended December 31, 2009, 2010 and 2011, our net profit was RMB163.3 million, RMB397.8 million and RMB1,237.2 million, respectively.

The PRC cement industry is heavily influenced by, among other things, overall economic development, PRC government policies in general, the real estate industry in particular and the scale of infrastructure investment. We have benefitted from China's fast growing economy, large infrastructure development projects, including those under the PRC government's now-expired RMB4 trillion stimulus package, and PRC government policies to phase out obsolete cement production capacity. We also believe we can benefit from the PRC government's plan to develop 36 million affordable housing units for low income urban residents by 2016.

COMPETITIVE STRENGTHS

We consider our principal competitive strengths to be the following:

Strong market position as the largest clinker producer in Henan and Liaoning provinces, the largest cement producer in Henan province and the second largest cement producer in Liaoning province

We are a leading clinker and cement producer in Henan and Liaoning provinces in terms of production volume for the year ended December 31, 2010. Our leading market position is mainly attributable to the following:

- *Our large production scale*. According to data from the respective Building Materials Industry Associations (建築材料工業協會) of Henan and Liaoning provinces, we were the largest clinker producer in each of Henan province and Liaoning province in terms of clinker production capacity using NSP technology as of June 30, 2011, and we were the largest cement producer in Henan province and the second largest in Liaoning province in terms of production volume for the year ended December 31, 2010. According to data from China Cement Net (中國水泥網), we ranked 11th among all clinker producers in China in terms of clinker production capacity as of December 31, 2011, and according to the China Cement Association, we ranked 10th among all the cement producers in China in terms of cement production volume for the year ended December 31, 2010. Our sales volume of cement in 2011 was 23.6 million tonnes, and our market share in Henan and Liaoning provinces was approximately 14.8% and 10.8%, respectively. As of December 31, 2011, our annual clinker and cement production capacity had reached approximately 22.2 million tonnes and 39.2 million tonnes, respectively. We also have one of the largest clinker production lines in the world with a daily production capacity of 12,000 tonnes.

- *Significant support from the PRC government.* According to the *Notice of Publishing the List of Large Enterprises (Group) for Cement Industry Structure Regulation Emphatically Supported by the State* (關於公佈國家重點支持水泥工業結構調整大型企業(集團)名單的通知) jointly issued by the NDRC, the Ministry of Land and Resources and the PBOC in December 2006, we are recognized by the PRC government as one of the 12 national key cement enterprises that are entitled to receive government support in the form of priority with respect to project approvals, land use right grants and credit approvals when undertaking mergers, acquisitions and project investments in the cement industry. We are also the only non-state-owned enterprise designated by the MIIT as one of the seven leading cement companies that the PRC government supports for undertaking cement industry-specific mergers and consolidation in Central China.

- *Well-established brand name*. Our brand name "天瑞TIANRUI", under which we sell our cement, has been recognized as a "Chinese Famous Trademark" by the SAIC. We believe that it has become a mark of quality within the construction industry in China. Due to their consistent high-quality, our cement products sold under the "天瑞TIANRUI" brand name have also won a number of awards and recognitions, such as the "Premium Branded Products of Henan Province" award granted by the Henan Bureau of Quality and Technical Supervision Bureau (河南省質量技術監督局) and Henan Top Brand Strategy Promotion Committee (河南省名牌戰略推進委員會). Leveraging our brand name and high-quality products, we have successfully won tenders and become a qualified primary cement provider for a number of high-profile, large-scale infrastructure projects in China, including, among other things, the South-North Water Transfer Project (南水北調工程), Ha'erbin-Dalian Express Railway (哈大高鐵) and Shijiazhuang-Wuhan Express Railway (石武高鐵).

- We have entered into long-term strategic alliances with some of our key customers, such as the Henan Second Water Conservancy Engineering Bureau (河南第二水利工程局) and Henan Highway Engineering Materials Co., Ltd (河南公路工程物資有限公司). Our strategic relationship with our key customers allows us to expand our market share and promote our brand name.

Significant growth opportunities in the construction industry in Henan and Liaoning provinces

Currently, our primary markets are Henan and Liaoning provinces. From 2006 to 2010, the GDP of Henan and Liaoning provinces increased at a CAGR of 16.7% and 18.4%, respectively, above the 16.5% national average. In addition, the FAI growth rate in Henan and Liaoning provinces was 29.5% and 29.6%, respectively, during the same period. Rapid GDP and FAI growth in Henan and Liaoning provinces has resulted in a significant increase in the demand for building and construction materials, including cement, in recent years.

Henan and Liaoning are part of the Central China economic zone and the Bohai economic zone, respectively, both of which are among the most active economic growth areas in China. The PRC government has implemented policies to "energize the development of the Central China region" (促進中部地區崛起) and to "rejuvenate Northeast China's traditional industrial base" (振興東北老工業基地). The State Council of the PRC recently issued guidelines on developing the Central China economic zone that primarily covers Henan province with the aim to, among other things, promote its urbanization and further develop its infrastructure. We expect that the economy and infrastructure investments in Henan province, the largest economy among all the provinces in the Central China economic zone, and Liaoning province, one of the key provinces in the Northeast China region, will continue to experience strong growth. We expect that this will in turn result in sustained demand for key construction materials such as cement.

We believe that for the foregoing reasons we are well-positioned to capture opportunities in the growing cement market in Central China and Northeast China.

Strategic geographic locations of our production facilities

We believe that our strategic production facility layout allows us to broaden our market coverage and minimize logistics and transportation costs. Specifically:

- We carefully selected the locations of our production facilities. As of December 31, 2011, we operated 18 production facilities in Henan, Liaoning and Anhui provinces. We believe our cement grinding facilities are strategically located in proximity to our end markets, which lowers our transportation costs. We believe this competitive advantage puts us in a better position in these markets as opposed to our competitors located farther away from them and has helped us to establish a dominant market position in those key markets, such as Zhengzhou and Xuchang in Henan province and Dalian, Shenyang and Yingkou in Liaoning province. In Henan province, we manage our facilities as a consolidated production network through which we are able to efficiently allocate internal supplies, raw materials and clinker among these facilities. In Liaoning province, our production facilities are primarily located in major cities, such as Dalian, Liaoyang and Yingkou, placing us in a prime position to capture significant business opportunities from these markets in the province.

- Cement production requires an uninterrupted supply of limestone. Limestone excavation costs and costs of externally sourced limestone together constituted approximately 9.4%, 8.5% and 8.1% of our total cost of sales for the years ended December 31, 2009, 2010 and 2011, respectively. As of December 31, 2011, we are licensed to excavate 33 limestone quarries. We also are licensed to excavate two low-alkali limestone quarries in Henan province that produce high-quality low-alkali limestone that can be used in high-quality cement products required for large infrastructure projects. Our clinker production facilities are located close to our licensed limestone quarries. We currently source a majority of our limestone requirements from limestone quarries which we are licensed to excavate, which provide our production facilities with a stable supply of limestone at low transportation costs. Some of our plants have also installed belt conveyors to deliver limestone directly to our production facilities, thus decreasing transportation costs.

- We strategically built some of our cement grinding stations close to electric power stations, so as to obtain a stable and sufficient supply of the by-products from those electric power stations, such as flyash, slag and phosphogypsum, for the manufacture of cement in a cost-effective manner.

Strong research and development capabilities and advanced and environmentally-friendly technologies

We believe that the use of energy-efficient technology is a key factor for the sustainable development of the cement production industry in China. We have invested in the research and development of advanced and environmentally-friendly technologies to upgrade our production facilities. We established the first cement production research and development center in Henan province, through which we have developed and obtained three patents and applied for four other patents. We have also focused on applying advanced technology to our production. Specifically:

- We are the first cement producer in Henan province to install an NSP cement production line with a clinker production capacity of more than 2,500 tonnes per day. That NSP production line began operating in January 2003. The PRC government supports advanced NSP technology and has implemented a number of measures to phase out non-NSP cement production capacity, which is considered less efficient and not as environmentally-friendly. According to Digital Cement, approximately 80% of the cement production lines in China were equipped with NSP technologies as of December 31, 2010. In comparison, we have equipped all of our clinker production lines with advanced NSP technology, which enables us to reduce energy costs by consuming less coal. We believe that the trend towards the continued reduction of non-NSP cement production in China will create opportunities for us to attract additional customers and increase our market share.

- We use industrial by-products and waste materials as raw material in our production such as flyash from electric power factories, slag from steel factories, sulfuric acid slag and limestone tailings from sulfuric acid factories. Furthermore, most of our production lines are close to factories or facilities producing such industrial by-products and waste materials and use them as raw materials in our production, which enables us to use these by-products more cost-effectively than our competitors whose production lines are farther away from factories or facilities. Not only are these by-products and waste materials readily available at low costs, but by recycling them in our production, we are also entitled to VAT refunds and government grants under various PRC government policies with respect to comprehensive utilization of resources.

- Our main production facilities are designed to produce less waste, to reduce pollution and to minimize the environmental impact without compromising our competitiveness or product characteristics, such as cement quality or usability. We have made significant investments and efforts in building environmentally-friendly clinker and cement production facilities. For example, we have installed equipment meeting emission standards of no more than 50 milligrams of pollutants per cubic meter. We believe that we have the necessary resources and experience to continue to meet increasingly stringent environmental protection standards in the future.

- We have also adopted environmentally-responsible approaches in our operations. For example, the heat generated from the clinker production process is recycled through residual heat recovery systems for use in the cement production process, and the waste water generated during the cement production is minimized through a water treatment system.

Of the first five Chinese companies to join the CSI in 2009, we were the only non-state-owned company. We believe that achieving sustainable development and low-carbon emission are major trends in the cement industry in China, and we consider our CSI membership a recognition of our efforts on and our commitment to, sustainable low-carbon cement production.

Significant cost advantages and benefits achieved through sound production, marketing and management models

By leveraging our efficient production system, effective operations management, economies of production scale, effective sales and marketing strategies and integrated management system, we have achieved significant cost advantages and benefits. Specifically:

- *Efficient production system*. We are one of the few cement producers in Henan and Liaoning provinces that have equipped most of our production lines with residual heat recovery systems to recycle the heat generated from the clinker production process. Our residual heat recovery systems have allowed us to achieve significant cost savings on electricity and to minimize pollution. We estimate that the unit cost of electricity generated from our heat recovery systems was approximately 82% less than the unit cost of electricity we purchased externally for the year ended December 31, 2011.

- *Effective operations management.* We have achieved high efficiency in our production of cement by maintaining a high utilization rate of our well-designed facilities.

- *Economies of production scale.* We believe that our large-scale production output, together with advanced technologies and production processes, enable us to achieve economies of scale and manage our operations more cost-effectively.

- *Effective sales and marketing strategies.* During the three years ended December 31, 2011, we sold our cement products to end-users primarily through direct sales. Direct sales allow us to eliminate intermediary costs, exercise effective control over our sales and marketing process and quickly respond to customer needs, thereby providing data in an efficient and accurate manner that is key in our ability to formulate an appropriate production plan, optimize our inventory levels and maximize our manufacturing efficiency.

- *Greater market coverage.* We produce different types of cement products which cater to a wide range of customers in the market. High-grade cement products refer to products with compressive strength greater than or equal to 42.5 MPa. They are generally used in major construction projects with special requirements, such as bridges, roads, high-rise buildings and high performance concrete, and projects where a high initial level of strength is required. Low-grade cement products are used in general industrial construction such as the production of surface, underground and underwater concrete as well as reinforced concrete, pre-stressed concrete structures and commercial concrete products. We also supply special high-grade cement which generally has a 28-day compressive strength of 52.5 MPa, and is primarily used in circumstances that require long-term strength and improved corrosion resistance, such as bridges, roads and high-rise buildings.

Experienced management team with a proven track record

Our management team, which is built around our founder, Chairman Li, and our Executive Director Mr. Heping Li, consists of highly-experienced professionals with diverse skill sets, extensive work experience and significant expertise in the cement industry in China. The majority of our management team has been with us since the commencement of our operations and has a proven track record of generating rapid growth for us.

Our founder, Chairman Li, has over 10 years of industry experience and has successfully led us on our growth from a small-scale cement producer to a leading large-scale cement producer in Henan and Liaoning provinces. Our Executive Director, Mr. Heping Li, has over 20 years of experience in corporate management and has held a number of key positions at large-scale enterprises and provincial government agencies in Henan province, including general manager of CITIC Heavy Machinery Company and executive deputy director of the Henan Economic System and Reform Commission prior to joining us in 2009.

We believe that our senior management team's experience in the areas of stock quality, production, management, sales and marketing have contributed significantly to our success and will be instrumental to the success of our business in the future.

OUR STRATEGIES

We intend to further strengthen our leading market position in Henan and Liaoning provinces 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 and expand into new markets through organic growth and selective acquisitions

We intend to strengthen our leading market position in Henan and Liaoning provinces through organic growth and selective acquisitions. We also intend to expand into the Tianjin market. We believe that we will be able to leverage our current resources, including our existing licensed quarries and production facilities, to gain competitive advantages in the Tianjin market. For example, we we have received approvals to develop a cement grinding facility with an annual capacity of 4.0 million tonnes in Tianjin, to which we will supply clinker produced by our clinker facilities in Liaoning province at low shipping costs.

We intend to focus on improving our production efficiency and expand our production capacity. In addition, we will continue to focus on recruiting a high-quality professional workforce, providing training and development programs for our employees to enhance their professional skills, and creating a collegial culture that promotes our employees' personal and professional development. We will also continue to improve our management and employee incentive programs to align employees' compensation with their performance. As one of the seven leading cement companies endorsed by the MIIT to undertake cement industry-specific mergers and consolidation in Central China, we plan to capitalize on the PRC government's support by actively pursuing acquisition opportunities in our primary markets, Henan and Liaoning provinces, and other markets that we believe will present us with significant growth potential. We intend to evaluate acquisition opportunities that may provide us with access to additional markets, production capacity and limestone reserves.

Further improve our production efficiency and reduce production costs

We plan to continue to improve our production efficiency and reduce production costs through the following efforts:

- we will continue our efforts to reduce our raw material and coal costs through bulk purchases and by leveraging our economies of scale to increase our bargaining power with suppliers;

- as clinker is a semi-finished cement product with a profit margin lower than cement, we intend to continue our efforts to balance our production capacity of clinker and cement so as to minimize the volume of surplus clinker that cannot be used for our cement production and must be sold externally;

- we intend to continue to develop energy efficient technologies, cooling technologies, resource comprehensive utilization technologies, residual heat recovery technologies and waste utilization technologies to further improve the quality of our products and lower our costs; and

- we plan to install more residual heat recovery systems at our production facility located in Nanzhao (with a capacity of 9 MW).

Develop new cement products and raw materials to enhance our overall competitiveness

We aim to develop new cement products to enhance our overall competitiveness. We intend to:

- leverage our strong research and development capabilities and our cooperative relationships with leading research institutions, such as Tianjin Cement Industrial Design Institute (天津水泥工業設計院) and Luoyang Institute of Science and Technology (洛陽理工學院), to develop specialized cement products to meet consumers' needs; and

- introduce additional advanced technologies that use waste (such as non-industrial waste) as raw materials or fuel for our production, which not only lower our production costs, but potentially allow us to benefit from VAT rebates and government grants under various PRC government policies with respect to comprehensive utilization of resources.

Enhance our brand awareness and marketing efforts

We endeavor to further strengthen our brand name "天瑞TIANRUI" and our reputation by continuing to supply high-quality cement products and participating in major infrastructure projects, as well as through conducting a wide range of targeted advertising activities, including television commercials and other media advertisements.

In addition, we plan to strengthen our long-term relationships with major customers by continuing to provide customized services, including frequent visits to customers to collect their feedback, promptly responding to customers' inquiries and providing attentive post-sales support.

PRODUCTS

Our principal products are cement and clinker. Our cement products are sold under the brand name "天瑞TIANRUI". Our consolidated revenue was RMB4,415.2 million, RMB6,129.4 million and RMB8,263.4 million (US$1,312.9 million) in fiscal years 2009, 2010 and 2011, respectively, representing a CAGR of 23.2% from 2009 to 2011.

The following table sets forth the breakdown of our sales volumes and revenue by cement and clinker products and their percentages of our total revenue for the periods indicated.

	Year ended December 31,								
	2009			2010			2011		
	Sales volume	Revenue	% Revenue	Sales volume	Revenue	% Revenue	Sales volume	Revenue	% Revenue
	(Tonne '000)	(RMB in million)	(%)	(Tonne '000)	(RMB in million)	(%)	(Tonne '000)	(RMB in million)	(%)
Low-grade cement(1)	11,846.0	2,360.4	53.5	13,083.2	2,717.7	44.3	10,438.0	2,802.6	33.9
High-grade cement(2)	4,875.9	1,232.9	27.9	9,040.2	2,274.4	37.1	13,129.0	3,727.9	45.1
Clinker.	4,769.3	821.9	18.6	6,106.5	1,137.3	18.6	6,436.0	1,732.9	21.0
Total	21,491.2	4,415.2	100.0	28,229.9	6,129.4	100.0	30,003.0	8,263.4	100.0

(1) Low-grade cement products are used in general industrial construction such as production of surface, underground and underwater concrete as well as reinforced concrete, pre-stressed concrete structures and commercial concrete products.

(2) High-grade cement products refer to products with compressive strength greater than or equal to 42.5 MPa. They are generally used in major construction projects with special requirements, such as bridges, roads, high-rise buildings and high performance concrete, and projects where a high initial level of strength is required. Also includes sales volumes and revenue of our special, high-grade cement.

The following table sets forth the gross profit margins for our cement products and clinker in Central China and Northeast China, respectively, for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
Gross profit margin in Central China			
Low-grade cement(1)	15.5%	19.5%	35.4%
High-grade cement(2)	16.4%	21.3%	24.0%
Clinker.	3.7%	2.3%	25.4%
Gross profit margin in Northeast China			
Low-grade cement(1)	24.7%	18.2%	34.8%
High-grade cement(2)	30.9%	19.5%	29.7%
Clinker.	8.1%	7.5%	30.2%

Notes:

(1) Low-grade cement products are used in general industrial construction such as production of surface, underground and underwater concrete as well as reinforced concrete, pre-stressed concrete structures and commercial concrete products.

(2) High-grade cement products refer to products with compressive strength greater than or equal to 42.5 MPa. They are generally used in major construction projects with special requirements, such as bridges, roads, high-rise buildings and high performance concrete, and projects where a high initial level of strength is required. Also includes sales volumes and revenue of our special, high-grade cement.

During the three years ended December 31, 2011, the fluctuation in our gross profit margins for each category of our products in our target regions was primarily due to (i) the significant fluctuation of the selling prices of our clinker and cement products and (ii) the fluctuation of the coal purchase prices in our target regions.

The following sets forth further information on each of our products:

Clinker

Clinker is a semi-finished product that can be used to produce different types of cement products when mixed with different additives in the grinding process. Currently, the majority of our clinker is used internally to produce our cement products. For the years ended December 31, 2009, 2010 and 2011, approximately 66.2%, 70.4% and 68.2%, respectively, of the clinker produced by us was used to produce our cement products. Our clinker customers are mainly cement producers without sufficient clinker production facilities or none at all. The weighted-average gross profit margin for our clinker products was approximately 5.2%, 4.8% and 28.2% in 2009, 2010 and 2011, respectively. The prices of our clinker vary from region to region depending on local market conditions. Pricing of our clinker is determined primarily based on our production volume, market prices and our cost. For the years ended December 31, 2009, 2010 and 2011, the average selling price per tonne of our clinker was RMB172.3, RMB186.2 and RMB269.3, respectively.

Cement

Cement is produced by blending gypsum, blast furnace slag or other additives with clinker. We currently produce and sell a variety of cement products, which are mainly used for real estate construction and infrastructure projects, such as highways, railways, tunnels, large-scale bridges and high-rise buildings. We produce different types of cement by mixing different proportions of gypsum, flyash, slag and other additives with clinker. The following table sets forth details of our main cement products:

Type	Category	National standards	Characteristics	Applications
PO 42.5	Ordinary Portland Cement	Loss≤5.0%; SO_3≤3.5%; CI - ≤0.06%; MgO≤5.0%; 3-day compressive strength≥17MPa; 28-day compressive strength≥42.5MPa; 3-day fractural load≥3.5MPa; 28-day fractural load≥6.5MPa; initial coagulation time ≥45 min; final coagulation time ≤600 min.	High strength at the initial phase; high hydration heat; high freeze-resistance; low heat-resistance; low corrosion-resistance; low dry shrinkage.	Major construction projects with special requirements such as bridges, roads, high-rise buildings and high performance concrete.
PO 52.5	Ordinary Portland Cement	Loss≤5.0%; SO_3≤3.5%; MgO≤5.0%; 3-day compressive strength≥23MPa; 28-day compressive strength≥52.5MPa; 3-day fractural load≥4.0MPa; 28-day fractural load≥7.0MPa.	High strength at the initial phase; high hydration heat; high freeze-resistance; low heat-resistance; low corrosion-resistance; low dry shrinkage.	Major construction projects with special requirements such as bridges, roads, high-rise buildings and high performance concrete.
PC 32.5	Composite Portland Cement	SO_3≤3.5%; 3-day compressive strength≥10MPa; 28-day compressive strength≥32.5MPa; 3-day fractural load≥2.5MPa; 28-day fractural load≥5.5MPa; initial coagulation time ≥45 min; final coagulation time ≤600 min.	Low strength at the initial phase; high heat-resistance; low acid-corrosion-resistance; uses coal ash powder and coal gangue as composite raw materials and is recognized as a green building material and enjoyes preferential tax treatment; stable strength at the initial stage and late stage; low hydration heat.	General industrial construction. Also suitable for construction and production involving the use of steam-cured concrete.

PRODUCTION FACILITIES

As of December 31, 2011, we operated a total of 18 production facilities in 17 cities, with a total of 15 clinker production lines and 35 cement grinding lines. Our PRC legal adviser has advised that as of the date of this offering memorandum we had obtained necessary permits and approvals from the relevant local DRCs for each of our production lines. We have carefully selected the locations of our production facilities to minimize transportation costs. All of our clinker production lines are located near our licensed limestone quarries, and all of our cement grinding lines are near urban areas. We have strategically built one of our biggest cement grinding stations in Tianjin, which was completed in the first quarter of 2012. Our production facilities in Henan province are centrally managed as part of a network through which we efficiently allocate internal supplies, raw materials and clinker among the facilities. Our production facilities in Liaoning province are primarily located in major cities, such as Dalian, Liaoyang and Yingkou, which places us in a position to capture business opportunities from those markets.

All of our production lines employ advanced NSP technology, which is more energy-efficient and environmentally-friendly than non-NSP technologies. Our NSP technology is supported by PRC government policies to reduce industry 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 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 by more energy-efficient and environmentally-friendly technologies by the end of 2008. The NDRC's policies also require that all local governments should phase out cement enterprises with annual production capacities of less than 0.2 million tonnes or which fail to comply with relevant environmental protection requirements or cement product quality standards. We believe all of our production lines are in compliance with relevant environmental protection requirements and product quality standards.

PLANNED CAPACITY AND OTHER EXPANSIONS

In order to meet the market demand for cement products in Henan and Liaoning provinces, we intend to further expand our production capacity (i) through acquisitions of enterprises in Henan and Liaoning provinces and Tianjin and (ii) by upgrading our production technology and processes.

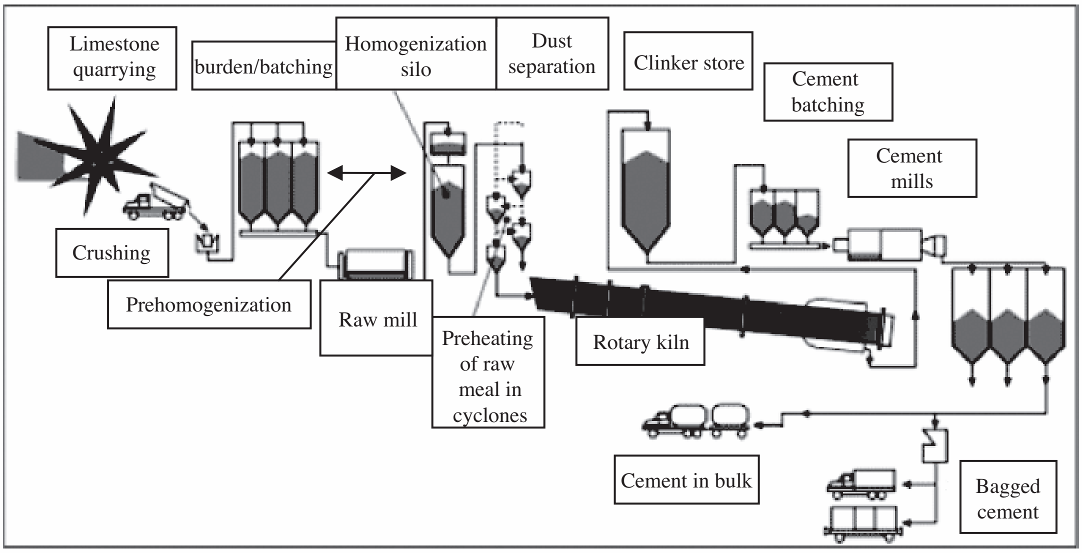
We intend to evaluate acquisition opportunities that may provide us with access to additional markets, production capacity and limestone reserves. We have entered into non-binding memoranda of understanding on potential acquisitions of certain clinker and cement production lines in Henan province (consisting of four clinker production lines with an aggregate production capacity of approximately 9.0 million tonnes per year and four cement production lines with an aggregate production capacity of approximately 12.0 million tonnes per year) and Liaoning province (consisting of two clinker production lines with an aggregate production capacity of approximately 3.1 million tonnes per year and two cement production lines with an aggregate production capacity of 6.6 million tonnes per year), which may or may not lead to binding definitive acquisition agreements. As of the date of this offering memorandum, we have not entered into any binding, definitive acquisition agreements with any of these or any other potential target companies. Therefore, all the substantive terms regarding any such potential acquisitions, including, without limitation, clinker and cement production lines to be acquired and acquisition price, are subject to further negotiation and definitive documentation.

The production facility in Tianjin was completed in the first quarter of 2012, and the Yuzhou Phase II Project is under construction as of the date of this offering memorandum. Taking into account the completion of the production facility in Tianjin and upon completion of the Yuzhou Phase II Project, our clinker production capacity is expected to increase by 1.4 million tonnes per year and our cement production capacity is expected to increase by 5.0 million tonnes per year, respectively. We will fund the capital expenditures required for our growth plans, including the planned capacity expansion described above, through cash generated from our operations, available bank facilities or other appropriate equity or debt financings.

PRODUCTION PROCESS

During the three years ended December 31, 2011, we improved our production process technology through our research and development efforts, which enabled us to improve the efficiency of our production facilities.

The diagram below illustrates our clinker and cement production process:



Clinker

The key steps of clinker production include: (i) crushing of raw materials; and (ii) sintering of clinker.

- ***Crushing of Raw Materials***

After extracting limestone from the quarries we are licensed to excavate and procuring other raw materials, such as siliceous materials, flyash, pyrite cinder and slag, from suppliers, we transport these raw materials to our crushing installations where these and other raw materials are mixed in different proportions.

- ***Calcining and Blending of Raw Materials***

The mixed crushed raw materials are then grounded and mixed without water to form a raw meal. The raw meal is then fed into the kiln system for calcination. After a series of complex physical and chemical reactions, the cement raw meals are turned into clinker.

Cement

Clinker is further fed into the cement grinding mill and grounded to a level of fineness required for cement production. Different proportions of the various aggregates are added to the mixtures to produce different types of cement products. The cement is then stored in silos and delivered to customers or distributors.

RAW MATERIALS

The primary raw materials used in our clinker and cement production are limestone, sandstone, gypsum, clay, flyash, pyrite cinder and slag. For the years ended December 31, 2009, 2010 and 2011, the costs of raw materials accounted for approximately 37.2%, 31.6% and 30.1%, respectively, of our total cost of sales.

Limestone

The principal raw material used in the production of clinker and cement is limestone. According to certain project approval documents issued by the PRC government, our reserves are sufficient to supply limestone to our respective production facilities.

Our PRC legal adviser has advised that we have obtained the necessary licenses, approvals and certificates for all of our licensed limestone quarries, and when relevant mining rights expire there shall be no material legal impediment for us to renew such mining rights provided that we satisfy certain conditions and procedural requirements, including: (i) continuing to fully and timely pay mining rights usage fees, mine resource compensation and resource taxes; (ii) commencing the renewal registration 30 days before the expiration of relevant licenses; (iii) the mine reservation is able to support continued exploitation; and (iv) the exploitation activities conforming to the prevailing laws and regulations in the PRC. The relevant governmental authorities have the authority to unilaterally terminate our mining licenses if we fail to comply with the relevant requirements of the mining licenses. See "Risk Factors — Risks Relating to Our Business — We may not be able to renew our existing mining rights or secure additional mining rights on favourable terms or at all, or the rate of resources tax that we are required to pay may increase."

The majority of limestone excavated from limestone quarries we are licensed to excavate is used for our cement production, with the remainder sold to third-parties.

Other raw materials

Other raw materials that we use primarily include sandstone, sulfuric acid slag, gypsum and flyash. We procure other raw materials from suppliers at prevailing market prices. We seek to diversify the supply sources of such other raw materials and have not in the past experienced any material disruption of our production due to insufficient supply of raw materials.

SUPPLIERS

Our purchase department is responsible for the centralized procurement of gypsum from our suppliers. Other raw materials are locally procured by our subsidiaries. Our purchase department determines the price and selects our suppliers through bidding procedures. We are typically required to make full payments for our raw materials within 10 to 90 days after delivery. Our payments are made by direct bank transfers, telegraphic transfers, checks, bank drafts and bank acceptance bills. The quality of the raw materials is inspected by our quality control department to ensure that the raw materials comply with our quality standards.

We select our suppliers of raw materials mainly through bidding procedures based primarily on quality, pricing, delivery time, distance to our facilities, after-sales services and reliability.

For the years ended December 31, 2009, 2010 and 2011, purchases from our five largest suppliers of raw materials accounted for approximately 22.6%, 23.0% and 25.3% of our total procurement cost, respectively. During the same periods, purchases from our largest supplier of raw materials accounted for approximately 14.2%, 12.5% and 10.2% of our procurement cost, respectively. We have maintained business relationships with certain of our top five raw materials suppliers for nearly ten years.

As of the date of this offering memorandum, none of our directors, their respective associates or any of the shareholders (which to the knowledge of our directors owns more than 5% of the issued share capital of our Company) had any interest in any of the top five suppliers of our Group.

ENERGY SUPPLY

Coal

We primarily use coal as fuel in our clinker and cement production process. We maintain long-term relationships with our major coal suppliers to secure adequate and stable coal supplies. We obtain our supply of coal mainly from Shanxi and Henan provinces (for our production lines in Henan province) and Qinhuangdao, Hebei province (for our production lines in Liaoning province). Most of production facilities have at least three coal suppliers with whom we have supply contracts with terms of one year. The purchase price is determined with reference to the prevailing market price when we place a purchase order. We are typically required to pay in full within 10 to 90 days after the delivery of the coal. Coal is primarily delivered to our production facilities by means of road transportation. See "Risk Factor — Risks Relating to Our Business — Our business and results of operations may be adversely affected by increases in coal or electricity prices or shortages of coal and electricity supplies."

For the years ended December 31, 2009, 2010 and 2011, we incurred costs of approximately RMB1,331.0 million, RMB2,145.1 million and RMB2,627.1 million for the purchase of coal, respectively, representing 36.0%, 42.2% and 45.1% of our cost of sales for the respective periods. We did not experience any coal shortages in our operations during the three years ended December 31, 2011.

Electricity

We require a steady supply of electricity for our cement and clinker production. All of our integrated clinker and cement production plants have power transmission lines that connect to the power grid network.

The production of our cement has occasionally been interrupted by local electricity shortages. The cement production process involves the continuous operation of heavy power-driven machinery and numerous sensors and computers in our central control systems, and a shortage in the supply of electricity may cause such machines, sensors and computers to shut down. Therefore, a stable power supply is especially crucial to our production. See "Risk Factor — Risks Relating to Our Business — Our business and results of operations may be adversely affected by increases in coal or electricity prices or shortages of coal and electricity supplies."

To alleviate the issues caused by power shortages, we have increased the utilization of residual heat recovery systems and decreased our reliance on external electricity sources, reduced our use of electricity through technology innovation and negotiated with local governments for priority in receiving power supply. Some of our subsidiaries are also located within industrial and development zones in China that provide preferential electricity rates. We have adopted residual heat recovery technology for most of our clinker production facilities. Residual heat recovery systems collect residual heat from the clinker production process to generate power that can be re-utilized for clinker production. Our average cost for electricity produced through the residual heat recovery systems was RMB0.09 per KWh in 2010, significantly lower than our average electricity purchase price of RMB0.52 per KWh during the same period. During the years ended December 31, 2009, 2010 and 2011, we generated 355.8 GWh, 534.5 GWh and 657.9 GWh of electricity through our residual heat recovery systems, respectively.

For the years ended December 31, 2009, 2010 and 2011, our total electricity costs were RMB658.3 million, RMB862.2 million and RMB906.3 million, respectively, and accounted for approximately 17.8%, 17.0% and 15.5%, of our cost of sales for the respective periods.

SALES AND MARKETING

Sales

All of our products are sold in China. In 2009, 2010 and 2011, our primary markets for our cement products were Henan and Liaoning provinces. We also sell our products in Tianjin and Anhui provinces, mainly for the construction of highways, railways, tunnels, large bridges and high-rise buildings.

The following table sets out our revenue by the specific geographical location in which we operated during the three years ended December 31, 2011:

	Year ended December 31,		
	2009	2010	2011
	(RMB'000)	(RMB'000)	(RMB'000)
Central China(1)	3,274,251	4,403,309	5,579,384
Northeast China(2)	1,140,973	1,726,129	2,684,011
Total	4,415,224	6,129,438	8,263,395

Notes:

(1) Including Henan and Anhui provinces.

(2) Including Liaoning province and Tianjin.

We sell our cement products to end-users both through direct sales via our sales network and through distributors. We have 18 regional sales offices that handle sales from our production facilities in Henan province, Liaoning province and Anhui province. We centralize the management of our sales activities by centrally setting sales targets and guidelines for sales activities in each regional sales office and by centrally monitoring their performances against the set targets and guidelines. As of December 31, 2011, we had 300 direct sales personnel who are responsible for marketing and selling our products in their assigned areas and providing post-sales support to our customers. Our direct sales personnel are required to meet annual sales targets, and we provide sales commissions to those who meet or exceed their respective targets. In order to maintain accurate sales statistics, we closely monitor the sales performance of our sales personnel through a network-based data management system that generates and maintains detailed records of each sales transaction upon receipt of payment from our customers. The following table sets forth our regional sales offices and the areas covered by such regional sales offices.

Regional sales office	Areas covered by the regional sales office
Tianjin	
1. Tianjin office	Tianjin
Henan Province	
2. Ningling office	Ningling, Juxian, Minquan
3. Ruzhou office	Ruzhou, Pingdingshan, Luohe
4. Pingdingshan office	Lushan, Ye County
5. Weihui office	Weihui, Xinxiang, Hebi
6. Shangqiu office	Shangqiu, Tuocheng, Luyi, Dancheng
7. Nanzhao office	Nanyang, Nanzhao, Fangchen, Sheqi

Regional sales office	Areas covered by the regional sales office
Tianjin	
8. Yuzhou office	Yuzhou, Xiangxian
9. Xuchang office	Xuchang, Linying
10. Luoyang office	Luoyang, Ruyang, Gaoxian
11. Zhengzhou office	Zhengzhou, Kaifeng, Weishi, Xinzheng
12. Zhoukou office	Zhoukou, Xiangcheng, Shenqiu
13. Guangshan office	Guangshan, Huangzhou, Xinyang
14. Tianrui Zhengzhou office	Zhengzhou, Xingyang, Gongyi, Xinmi
Liaoning Province	
15. Dalian office	Dalian, Wafangdian, Zhuanghe, Anshan
16. Liaoyang office	Liaoyang, Shenyang, Dandong, Fushun
17. Yingkou office	Yingkou, Haicheng, Boyuquan
Anhui Province	
18. Xiaoxian office	Xiaoxian, Xuzhou

Marketing

Our marketing department is responsible for collecting market information and coordinating marketing activities. Our marketing activities primarily include promotional media events, purchasing outdoor billboards, distributing promotional brochures and placing advertisements placed on vehicles. We also place a strong emphasis on maintaining close relationships with our customers. We provide efficient and attentive after-sales services, including a 24-hour hotline consultation service. We also send technicians to provide on-site training to our customers regarding the use and application of our products.

Customers

We have a broad customer base in our markets. Our cement products are sold to large customers, such as large-scale constructors and large property developers, and retail purchasers, including individuals and cement dealers in relation to residential building constructions in rural areas. Some of our sales are secured through our participation in “open tenders” and “tenders by invitation”. For example, we were selected through “open tenders” as one of the primary cement providers for a number of high-profile and large-scale projects in China, including the South-North Water Transfer Project (南水北調工程), Ha’erbin-Dalian Express Railway (哈大高鐵) and Shijiazhuang-Wuhan Express Railway (石武高鐵), among others.

For the years ended December 31, 2009, 2010 and 2011, sales to our five largest customers in respect of our continuing operations accounted for approximately 16.9%, 10.0% and 7.2% of the total revenue, respectively, and sales to our largest customer accounted for approximately 7.7%, 4.1% and 2.3% of our total revenue, respectively.

As of the date of this offering memorandum, none of our directors, their respective associates or any shareholder that owns more than 5% of the issued share capital of our Company had any interest in any of our top five customers.

Distributors

We typically sell cement products produced by our newly established production facilities to distributors. Once these products gain brand recognition among end-users, we commence direct sales to our end-user customers. We have worked with many of our distributors for several years. As of December 31, 2011, we had built relationships with 50 distributors for approximately five years, seven distributors for approximately two years, and three distributors for approximately one year.

Pricing policy

The prices of our products vary from region to region based on local market conditions. The prices of our products typically are not set forth in relevant sales contracts and are generally determined at or around the time of delivery primarily based on factors such as prevailing market prices, our production capacity, our cost and expected profit margin. These factors are assessed by our sales managers on a regular basis. A minimum price is set for each type of product. Each individual production plant can raise the price for certain products. However, any discounted sales price is subject to the approval of our sales managers.

Except for extraordinary circumstances, such as the earthquake in 2008 in Sichuan province, the PRC government does not exercise control over cement prices and our products were not subject to any government price controls in our markets during the three years ended December 31, 2011.

Payment terms

During the three years ended December 31, 2011, we generally did not offer credit sales to our customers, except that we did, depending on the credit of relevant customers and profile of relevant projects, occasionally grant credit terms ranging from 30 to 180 days to customers involved in large infrastructure projects.

COMPETITION

The cement industry in China is generally a fragmented and regional industry. Our target markets are mainly in Henan and Liaoning provinces. According to the MIIT, there were over 5,000 cement producers in the PRC as of December 31, 2010.

Raw materials and finished products in the cement industry possess a low value-to-weight ratio and transportation distances for raw materials and finished products influence logistics costs considerably. We believe that China's cement industry is geographically fragmented, with a maximum economically-feasible product-transportation radius of approximately 200 to 300 kilometers. As a result, selling prices, operating costs and profit margins of cement products may vary significantly among different regions. We view only those companies with a presence in or near Henan and Liaoning provinces, our two principal markets, as our primary competitors. Our major competitors include China United Cement Corporation (中國聯合水泥集團有限公司) in Henan province and China Shanshui Cement Group Ltd. (中國山水水泥集團有限公司) in Liaoning province.

The competition in Henan and Liaoning provinces was intense during the three years ended December 31, 2011 as there were over 300 small-scale cement producers that supplied cement at competitive prices in these two provinces. See "Industry Overview — Price Movement of Cement in Henan, Liaoning and Anhui Provinces and Tianjin" for the average cement price movements in Henan and Liaoning provinces. We compete with such small-scale regional cement producers in the low-grade cement product markets in Henan and Liaoning provinces. We compete to a large extent based on price, product quality, product variety, technology, location of production facilities, access to resources, sales and marketing network and brand reputation. The competition in the Chinese cement industry, and in particular in the regions in which we operate, is subject to various competitive pressures while also being characterized by significant cooperation among producers.

Our market shares in both Henan and Liaoning provinces increased steadily during the three years ended December 31, 2011. However, certain foreign or large domestic cement competitors may expand into or grow their existing operations in Henan and Liaoning provinces, which competitors may have longer operating histories, better brand recognition, better pricing or greater financial, technical or marketing resources than us, we may face increasing competition in these two markets.

RESEARCH AND DEVELOPMENT

Our research and development efforts are focused on increasing our operational efficiency and lowering production costs. Most of our research and development expenses have been made on technology innovations and know-how optimization including, among other things, (i) refurbishing a medium-temperature and medium-pressure turbo-generator used in a pure low-temperature residual heat-powered cement kiln (改造中溫中壓汽輪機組應用於水泥窖純低溫餘熱發電技術); (ii) research of the technology of converting electrostatic dust collectors in cement kilns into electrostatic-bag composite dust collectors (水泥窖尾電收塵改造為電袋復合收塵技術研究); and (iii) renovation technology of frequency change and speed control in high-voltage motors (高壓電機變頻調速技術改造). In 2007, we jointly conducted research with Tianjin Cement Industrial Design Institute on the technology of applying electrostatic-bag composite dust collectors at the end of kilns of 5000t/d cement production lines, which helped us to achieve energy savings and emissions reduction in cement production.

We have also successfully developed a "New Dry Process" cement production technology with a capacity of 12,000 tonnes per day. The technology, based on system engineering theory, integrates and optimizes each production unit system so that the investment costs of the whole production line can be significantly lowered. The equipment design and manufacturing for the New Dry Process cement production line can be carried out in China.

We have a research and development center at our headquarters in Henan province, which is the first cement technology center in Henan province. The center employed 286 research and development personnel as of December 31, 2011, the majority of whom have bachelor's degrees.

As of December 31, 2011, we have entered into cooperative relationships with Tianjin Cement Industrial Design Institute (天津水泥工業設計院) and Luoyang Institute of Science and Technology (洛陽理工學院), each a leading research institution in construction materials or cement-related technology.

INTELLECTUAL PROPERTY

We rely on a combination of patents, trademarks, domain name registrations and contractual restrictions to establish and protect our intellectual property rights. We sell all of our products under our brand name "天瑞TIANRUI", which has been registered with the Trademark Office of the SAIC (中華人民共和國工商行政管理總局商標局). We believe this brand name is an important asset of our business. We have been granted three patents by the State Intellectual Property Office of China and have four patent applications pending in China. All of our patents and patent applications relate to process technologies used in our production.

Any unauthorized use of our brand names, trademarks or 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 annual renewal, which includes confidentiality undertakings and an acknowledgement and agreement that all inventions, designs, trade secrets, works of authorship, developments and other processes developed or generated by them on our behalf are our property, and assigns to us any ownership rights that they may claim in those works.

QUALITY CONTROL

We have established stringent quality control standards for our production process, ranging from purchase of raw materials to delivery of finished products. PO52.5, PO42.5 and PC32.5 series products under our brand name "天瑞TIANRUI" were accredited with ISO-9001 quality control system certification in 2003. Our products have become a top choice for highways, railways, tunnels, large bridges and high-rise buildings in Henan province and have gained recognition as "Premium Branded Products of Henan Province" by the Henan Bureau of Quality and Technical Supervision (河南省質量技術監督局) and Henan Top Brand Strategy Promotion Committee (河南省名牌戰略推進委員會).

Our finished products are inspected and tested in accordance with a variety of national standards prior to delivery, including GB/Tl7671-l999 on compressive strength and GB/Tl76-1996 on cement chemical analysis method.

Each of our subsidiaries carries out quality controls in accordance with a quality control manual prepared pursuant to the PRC Administrative Measures on Laboratory Evaluation of Cement Enterprise. We established testing laboratories equipped with various advanced testing equipment at most of our production facilities. All of our laboratories have passed the relevant China Cement Association tests and have obtained the relevant local cement association certificates. During the three years ended December 31, 2011, we were not involved in any litigations or any settlements with any third-parties with respect disputes relating to the quality of our products.

PRODUCTION MANAGEMENT AND INVENTORY CONTROL

We plan our production and manage the inventory levels of our finished products on a monthly basis based on projected sales volumes, and we make periodic adjustments to the production schedule and volumes based on actual orders received. We have a network-based data management system that facilitates the collection, monitoring and analysis of a variety of production and inventory data in each of our production facilities. We maintain varying inventory levels of raw materials and coal based on the needs of our production.

We did not experience significant overstock or shortage of raw materials, coal or finished products during the three years ended December 31, 2011.

LOGISTICS

A majority of our raw materials and coal are delivered directly to us by our suppliers. We outsource the delivery of some of our clinker and limestone to third-party logistics companies. Our customers are generally responsible for taking delivery of our finished products at our production facilities and the associated transportation costs. For certain large infrastructure construction projects, we arrange and pay for the shipment of our products from our production facilities to construction sites for our customers. The delivery of our raw materials, coal and clinker for our subsidiaries in Henan is primarily conducted through road transportation and for our subsidiaries in Northeast China is mainly through sea and rail transportation. We typically enter into transportation agreements with pricing terms negotiated based on prevailing market prices.

REPAIR AND MAINTENANCE

We have implemented a comprehensive system for the repair and maintenance of our production facilities, operating on a daily, weekly and monthly basis, for purposes of optimizing production efficiencies and maintaining the safety of our industrial plants. Pursuant to our established procedures, day-to-day repair and maintenance of our equipment is scheduled by our production departments and carried out by our mechanical and electrical repair teams to maximize production efficiency and avoid unexpected interruption of our operations. The duration of our scheduled annual maintenance is usually two weeks. There were no major disruptions caused by equipment failure during the three years ended December 31, 2011.

SAFETY PROCEDURES

The *Production Safety Law of the PRC* (中華人民共和國安全生產法), which was promulgated on June 29, 2002 and became effective on November 1, 2002, is the principal law that seeks to strengthen the supervision and administration of production safety and labor protection. We have obtained OHSAS 18000 certification for our health and safety management systems. We have implemented a number of safety measures and established a safety supervision department in each production plant that is responsible for formulation and implementation of such safety measures. Our safety supervision department conducts inspections of our production facilities on a daily basis to ensure that all of our operations are in compliance with existing laws and regulations.

Our PRC legal adviser has advised us that we have obtained or are in the process of renewing all necessary production safety permits in compliance with existing PRC laws and regulations.

INSURANCE

We maintain insurance to cover certain potential damages to our properties and equipment, our employees and third parties. Our insurance coverage of our facilities and equipment includes coverage of certain risks relating to industrial accidents and certain types of natural disasters. We do not maintain any product liability insurance policies. To control our product liability risk, we place significant emphasis on quality control. We believe that our current insurance coverage is customary and in line with the market practice of the cement industry in China. As of December 31, 2011, we had not experienced any serious or material industrial accidents at our production facilities.

EMPLOYEES

As of December 31, 2011, we employed a total of 6,100 full-time employees. A breakdown of our employees by function is set forth below:

	Number as of December 31, 2011
Management	990
Technical	386
Production	3,724
Quality control	487
Sales and marketing	292
Back office	469
Total	6,100

Remuneration and benefits provided to our employees include basic wages, allowances, bonuses and other staff benefits. For the years ended December 31, 2009, 2010 and 2011, our total staff costs, excluding directors' emoluments, were approximately RMB114.0 million, RMB147.6 million and RMB220.0 million, respectively.

As required by applicable PRC laws and regulations, we participate in various employee benefit plans, such as pension funds, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance and housing provident funds for our employees. We are required under PRC laws to make contributions to those employee benefit plans based on specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. See "Directors, Senior Management and Staff".

GOVERNMENT INCENTIVE

Pursuant to the *Notice Regarding Value-Added Tax Policy on Comprehensive Utilization of Certain Resources and Other Products* (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) promulgated by the Ministry of Finance and the State Administration of Taxation, we enjoy VAT refunds for cement products that use a certain percentage of waste materials as raw materials, such as slag and flyash. During the years ended December 31, 2009, 2010 and 2011, our VAT refunds amounted to RMB83.6 million, RMB114.5 million and RMB164.4 million, respectively.

PROPERTY

As of December 31, 2011, we owned land use rights to 38 parcels of land with an aggregate site area of approximately 4.4 million square meters and 703 buildings with an aggregate gross floor area of approximately 0.6 million square meters. As of December 31, 2011, we had occupancy of 14 parcels of quarry land with an aggregate area of approximately 10.6 million square meters. On certain occasions, we have commenced the construction and development of certain of our facilities without obtaining all required certificates and permits due to the inadvertent oversight of our management, and as a result certain certificates or permits for certain of our properties had not yet been obtained as of December 31, 2011. See "Risk Factors — Risks Relating to Our Business — We do not possess valid legal title or the right to lease with respect to certain properties that we occupy."

ENVIRONMENTAL COMPLIANCE AND POLLUTION CONTROLS

The cement industry is categorized as a pollution-producing 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 national or the relevant local environmental protection authorities. The State Environmental Protection Administration sets national discharge standards for various emissions, 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 set fees for discharging a certain level of pollutants, and if such level is exceeded, additional fees will be assessed and local governments are also authorized to issue orders requesting for the cessation or reduction of relevant discharge of pollutants. Each of our production plants, prior to its construction, is required to be evaluated by competent authorities 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 "Regulations — PRC Laws on Regulations on Environmental Protection" of this offering memorandum.

We have equipped all of our clinker and cement production lines with advanced NSP technology, and most of our production lines with residual heat recovery systems. We are also able to use flyash, phosphorus, gypsum and other industrial wastes in our cement production process to minimize the impact on the environment.

We generate dust in our cement production process. We have installed electrostatic precipitators and bag filters for the collection and removal of dust. Electrostatic precipitators apply 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 filters are more widely used among cement producers. During the cement production process, dusty air passes through the bag filters and turns into purified gas, which is then discharged. We have also installed mufflers, acoustic claddings and soundproof doors to control the noise generated from our production.

All of our subsidiaries have met the ISO 14001 environmental management standards. As a member of CSI, we will also implement various actions required by CSI, such as applying CSI guidelines regarding fuel and raw material use, as part of our contribution to sustainable development.

LITIGATION AND COMPLIANCE

As of the date of this offering memorandum, none of the Company or any of its subsidiaries has received notice of any litigation or arbitration proceedings pending or threatened against us or any of our subsidiaries that could have a material adverse effect on our financial condition or results of operation. From time to time we may be involved in various legal or administrative proceedings arising in the ordinary course of our business.

Our PRC legal adviser has advised us that, as of December 31, 2011, we have failed to comply with certain legal and regulatory requirements, resulting in monetary fines, as a result of commencing operations at certain of our facilities without obtaining required certificates and permits. The failure to obtain these certificates was due to the inadvertent oversight of our directors and senior management since they were not aware of relevant requirements. See "Risk Factors — Risks Relating to Our Business — We may be subject to risks associated with contingent or hidden liabilities, non-compliance or other irregularities relating to or involving companies we may acquire."

INTERNAL CONTROL MEASURES

We have adopted a project development management manual and an operational management manual, each of which has been reviewed by our external legal counsel and each of which specifically sets forth the permits and licenses that are required for our project development and operational activities. Our project development department and department of operations are required to strictly follow these manuals, and any failure to do so will be taken into account in reviewing the performance of these departments and relevant staff. In addition, our internal audit department is responsible for performing audits on, among other things, how these manuals are followed in our project development and operational activities on an annual basis. Our legal and compliance department is responsible for our overall compliance work, including compliance with these manuals and whether we have obtained all required permits and licenses.

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 Court 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 cannot 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 that 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

Cement Production License

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

Pursuant to the Production License Regulations, enterprises producing industrial products that may affect production safety and public safety and fall within the *Catalogue of Implementation of Production License Management for Industrial Products* (實行生產許可證制度管理的產品目錄) (the "Categories of Industrial Products") are subject to the requirements of production license. The "Categories of Industrial Products" that are included in the Production License Regulations are determined jointly by the General Administration of Quality Supervision, Inspection and Quarantine and other relevant authorities of the State Council after soliciting opinions from consumers' association and other relevant industry association and are subject to approval by the State Council. Any enterprise that has not obtained the production license shall not produce the products within these categories, and any unit or individual shall not sell or use in operating activities such products that are within these categories for which the production licenses were not obtained. Pursuant to the prevailing "Categories of Industrial Products", cement is one of the industrial products for which a production license is required to be obtained.

Pursuant to the *Administration Regulation of Bulk Cement* (散裝水泥管理辦法) jointly promulgated by the Ministry of Commerce, Ministry of Finance, Ministry of Construction, Ministry of Railways, Ministry of Transportation, General Administration of Quality Supervision, Inspection and Quarantine, and State Administration of Environmental Protection on April 8, 2004, the administrative authority at the county level or above is responsible for the administration and supervision of bulk cement production. Cement production enterprises may produce bulk cement after obtaining relevant production permits. Entities and individuals engaged in the production, operation and utilization of bulk cement shall adopt measures to ensure that the facilities and sites for production, loading and unloading, delivery, storage and utilization are in compliance with safety and environmental protection requirements.

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 tonne and enterprises using bagged cement will need to pay special funds on the basis of maximum RMB 3 per tonne. 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.

Cement Production Using NSP Technology

Pursuant to the *Policies on the Development of the Cement Industry* (水泥工業產業發展政策) promulgated by the NDRC and came into effect on October 17, 2006, the PRC central government encourages local governments and enterprises to eliminate technology with low production capacity and promote the development of cement production using NSP technology. The government supports the construction of cement production plants with a daily production capacity of 4,000 tonnes using the New Dry Process in areas with sufficient resources, the construction of large-scale clinker production plants and the construction of large-scale cement grinding stations at locations near the relevant markets.

Pursuant to the *Guiding Catalogue of Industrial Structure Adjustment (2011)*(產業結構調整指導目錄) (2011) promulgated by the NDRC and became effective on March 27, 2011, disposal of industrial waste, urban mud and non-industrial waste using the existing New Dry Process cement furnace with a daily production capacity of 2,000 tonnes or more and energy-saving renovation of grinding system belong to the "encouraged" category of industries.

Restriction and Elimination of Low Production Capacity

Pursuant to the *Policies on the Development of the Cement Industry* (水泥工業產業發展政策) became effective by the end of 2008, every producer shall stop using production technology and equipment using less-advanced technologies, including dry hollow kilns and wet kilns, further reduce the production capacity with vertical kilns, and where possible, eliminate all vertical kilns.

Pursuant 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 MIIT, the Ministry of Supervision, the Ministry of Finance, the Ministry of Land and Resources, the Ministry of Environmental Protection, 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 government further emphasizes the following industrial policies: strictly control the newly added cement capacities and execute the principle of eliminating obsolete capacities equivalently and suspend the construction of projects that had 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.

Pursuant 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 meters, dry-process hollow kiln production line (excluding those for producing high alumina cement) with a kiln diameter below 2.5 meters and wet-process kiln cement production lines (excluding those mainly used for disposing sludge, carbide slag, etc.) with a kiln diameter below 2.5 meters, cement mills with a diameter below 3.0 meters (excluding those for producing special cement), cement earth kilns (egg-shape), ordinary shaft kilns, etc. shall be eliminated before December 31, 2012.

Pursuant to the *Entrance Conditions for Cement Industry* (水泥行業准入條件) (the "Entrance Conditions"), issued by the MIIT on November 16, 2010 and became effective on January 1, 2011, for provinces where the cement projects using the New Dry Process whose production capacity per project exceeds 900 kilograms, the newly constructed or expanded cement projects shall not be approved in principle. The principle of eliminating obsolete capacities equivalently or in decrement shall be strictly executed for the newly constructed cement projects. The newly constructed cement projects shall adopt the technology of New Dry Process. The Entrance Conditions also set out other requirements for the construction, reconstruction or enlargement of the cement projects.

Pursuant to the *Guiding Catalogue of Industrial Structure Adjustment (2011)* (產業結構調整指導目錄) (2011), the cement and clinker projects with a daily production capacity of less than 2,000 tonnes and the construction of cement grinding stations with annual production capacity of less than 0.6 million tonnes belong to the "restricted" category of industries.

Residual Heat Power Generation

Pursuant 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), enterprises are encouraged to generate power by using residual heat recovery technology.

Pursuant to the *Entrance Conditions*, newly constructed cement production lines shall equip with a set of devices for pure low temperature residual heat power generation.

Pursuant to the *Guiding Catalogue of Industrial Structure Adjustment (2011)* (產業結構調整指導目錄) (2011), pure low temperature residual heat power generation using the existing New Dry Process cement furnace with a daily production capacity of 2,000 tonnes or more belongs to the "encouraged" category of industries.

PRC LAWS AND REGULATIONS ON MINERAL RESOURCES

Mining Rights

Mineral resource exploration and mining activities in China are highly regulated by the PRC government. In accordance with the *Mineral Resources Law of the PRC* (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, mineral resources in the PRC are owned by the State and a licensing system is adopted for the exploration and development of mineral resources. An entity engaging in the exploration and exploitation of mineral resources must meet certain qualifications and obtain the rights for exploration and mining from the relevant authorities by way of application, registration and payment of use fees.

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

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

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

Transfer of Mining Rights

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

Measures for the Administration of the Usage Fee and Purchase Price of Mineral Exploration and Mining Rights

Pursuant to 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 when the exploration rights or mining rights are funded by the State and transferred to the licensees by the State, the licensees are required to pay the purchase price for such exploration or 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.

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 amended on July 3, 1997 by the State Council, the mineral resources compensation fee is calculated and collected by the departments of land and resources together with the departments of finance according to the above regulation.

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.

Taxation Relating to the Mining Industry

Pursuant to the *Interim Provisions of Resource Tax of the PRC* (中華人民共和國資源稅暫行條例) promulgated by the Ministry of Finance on December 30, 1993 and its implementation rules, enterprises and individuals producing mineral products shall pay resource tax. According to the *Notification on the Adjustment of Applicable Resource Tax Rate of Limestone, Marble and Granite* (關於調整石灰石、大理石和花崗石資源稅適用稅額的通知) promulgated by the Ministry of Finance and State Administration of Taxation on June 4, 2003 and as approved by the local tax authorities, our limestone mining is subject to resource tax at the rate of RMB2.0 per tonne.

Mining Safety

Pursuant to the *Mining Safety Law of the PRC* (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 became 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.

PRC LAWS ON REGULATIONS ON ENVIRONMENTAL PROTECTION

General Regulations

The PRC government has adopted extensive environmental laws and regulations. There are national and local standards applicable to land rehabilitation, reforestation, emission control, discharge to surface and subsurface water and the generation, handling, storage, transportation, treatment and disposal of waste materials. Pursuant to the *PRC Environmental Protection Law* (中華人民共和國環境保護法) promulgated by the Standing Committee of the National People's Congress and became effective on December 26, 1989, the State Environmental Protection Administration is empowered to formulate national environmental quality and discharge standards and monitor China's environmental system at the national level. The environmental protection bureau at the county level and above is responsible for environmental protection within its jurisdiction. Local environmental protection bureaus may set local standards that are stricter than the national standards, in which case enterprises are required to comply with the stricter of the two sets of standards.

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

Environmental Impact Appraisal

Pursuant to the *Environmental Impact Appraisal Law of the PRC* (中華人民共和國環境影響評價法) promulgated on October 28, 2002 and became effective on September 1, 2003, the *Administration Rules on Environmental Protection of Construction Project* (建設項目環境保護管理條例) promulgated on November 29, 1998, and the *Administration Measures for 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 on December 27, 2001, enterprises are required to engage qualified and certified institutes to provide environmental impact evaluations on construction projects and to prepare environmental impact assessments. Construction of any new production facilities or major expansion or renovation of an existing production facility of cement production may only be launched after such an assessment is submitted to and approved by the environmental protection administrative authority.

Construction of cement production projects is prohibited where environmental impact assessment documents have not been examined and approved by relevant authorities as prescribed. Where the cement production projects fail to be evaluated, or construction is launched where environmental impact assessment documents fail to be approved, the enterprises will be ordered to cease construction and go through formalities within the prescribed time with the environmental protection administrative authorities. Enterprises that fail to go through the formalities within the prescribed time may be fined, and their management as well as other personnel with direct responsibilities are subject to administrative penalties. According to the *Classified Directory for Environmental Protection Administration of Construction Projects* (建設項目環境保護分類管理名錄) issued under No. 14 Decree of State Administration of Environmental Protection, cement production falls into the first category, stipulating that environmental impact assessment reports of the construction projects are required to comprehensively evaluate the pollution and environmental impact generated by the projects.

Pollutant Discharge

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

Land Rehabilitation and Reforestation

Under the *PRC Land Administration Law* (中華人民共和國土地管理法) promulgated on June 25, 1986 and amended on December 29, 1988, August 29, 1998 and August 28, 2004, and the *Land Rehabilitation Regulations* (土地複墾規定) issued by the State Council in 1988 which became effective on January 1, 1989, if mining activities result in damage to arable land, grassland or forest, the mining operator must take measures to return the land to a usable status within a prescribed time frame. The rehabilitated land must meet the rehabilitation standards as required by law, and may only be used upon examination and approval by the land authority and the relevant industry administration authority. Any entity or individual that fails to fulfill its rehabilitation obligations may be required to adopt correction measures within a prescribed time frame or pay rehabilitation fees and/or fines to the local bureau of land resources.

PRC LAWS ON REGULATIONS ON TAX

The PRC taxes that are levied on our subsidiaries in the PRC include enterprise income tax ("EIT"), value added tax ("VAT") and resources tax. Under PRC law, our PRC subsidiaries are required to withhold taxes on dividends payable to us.

PRC EIT Tax

Prior to January 1, 2008, under the *Foreign-Invested Enterprise and Foreign Enterprise Income Tax Law of the PRC* (中華人民共和國外商投資企業和外國企業所得稅法) promulgated by the National People's Congress Standing Committee in 1991 ("Prior EIT Laws") and related implementation regulations, a foreign-invested enterprise was generally subject to EIT at a statutory rate of 33%. However, certain foreign-invested enterprises were either entitled to preferential tax rates, or exempted from EIT for two years starting from the first profit-making year and followed by a 50% reduction of the EIT for the next three consecutive years.

On March 16, 2007, the National People's Congress passed the PRC EIT Law, with effect from January 1, 2008. The PRC EIT Law adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, according to the *Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy* (國務院關於實施企業所得稅過渡優惠政策的通知) issued on December 26, 2007 and effective on January 1, 2008, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted by relevant tax authorities prior to the effectiveness of the PRC EIT Law. Enterprises that were subject to an enterprise income tax rate lower than 25% before the effectiveness of the PRC EIT Law may continue to enjoy the lower rate and gradually transit to the new tax rate within five years after the effective date of the PRC EIT Law. Enterprises that were granted preferential EIT treatments before the effectiveness of the PRC EIT Law may continue to enjoy the preferential EIT treatments until their expiration.

Under the PRC EIT Law, enterprises are classified as either "resident enterprises" or "non-resident enterprises". Pursuant to the PRC EIT Law and its implementation rules, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and subject to the uniform 25% EIT rate on their global taxable income. According to the implementation rules of the PRC EIT Law, "de facto management body" refers to a managing body that exercises, in substance, overall management and control over the manufacture and business, personnel, accounting and assets of an enterprise. Substantially all of our management is currently based in China and is expected to remain in China in the future. Therefore, we and our non-PRC subsidiaries may be deemed to be "resident enterprises". In addition, the PRC EIT Law provides that dividend income between "qualified resident enterprises" is exempted income, and the implementation rules refer to "qualified resident enterprises" as enterprises with "direct equity interest". As a result, dividends received from our PRC subsidiaries may be excluded from our worldwide taxable income if we are deemed to be a PRC "resident enterprise".

The implementation rules of the PRC EIT Law provide that after January 1, 2008, a 10% withholding tax will normally be applicable to dividends paid by PRC companies to their non PRC parent companies. The income tax on the dividends may be reduced pursuant to a tax treaty between China and the jurisdictions in which the recipient company is tax resident.

Regulations on Tax Collection for Share Transfer by Non-PRC Resident Enterprises

Pursuant to the *Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises* (國家稅務總局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) or SAT Circular 698, issued by the State Administration of Taxation on December 10, 2009 with retroactive effect from January 1, 2008, except for the purchase and sale of equity through a public securities market, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company, or an indirect transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate of less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor shall report to the competent tax authority of the PRC resident enterprise this indirect transfer. If the tax authority, upon examining the nature of the indirect transfer, deems that the indirect transfer has no reasonable commercial purpose other than to avoid PRC tax, the tax authority may disregard the existence of the overseas holding company that is used for tax planning purposes and re-characterize the indirect transfer.

PRC VAT tax

Pursuant to the *Interim Regulation on the Value Added Tax of the PRC* (中華人民共和國增值稅暫行條例) promulgated by the State Council on December 13, 1993 and amended on November 10, 2008 ("VAT Regulation"), and its implementation rules, any entity or individual engaged in the sale of goods, the provision of specified services or the importation of goods in China is generally required to pay VAT on the added value derived during the process of manufacture, sale or service provided. Unless stated otherwise, for VAT payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%.

Pursuant to the *Notice on Value Added Tax Policy Regarding Comprehensive Utilization of Resources and Other Products* (關於資源利用及其他產品增值稅政策的通知) and the *Supplementary Notice on Value Added Tax Policy Regarding Comprehensive Utilization of Resources and Other Products* (關於資源綜合利用及其他產品增值稅政策的補充的通知) promulgated by the Ministry of Finance and the State Administration of Taxation on December 9, 2008 and December 29, 2009, respectively, cement (including cement clinker) made from raw materials whose blending proportion of rotary kiln waste is no less than 30%, is entitled to a tax rebate of the VAT levied. The aforesaid notice does not specify the implementation time limit of the VAT refund policy which our PRC legal adviser is of the opinion that it will continue to be applicable before the promulgation of new policy.

For enterprises which produce cement products through calcining of raw meal and grinding of clinker, the formula for blending proportion of waste is: blending proportion of waste = (quantity of blending of waste at raw meal calcining stage + quantity of blending of waste at clinker grinding stage) ÷ (quantity of raw meal excluding waste + quantity of blending of waste at stages of raw meal calcining and clinker grinding + quantity of other materials) X 100%.

Tax payers who are entitled to the above value-added tax benefits shall apply for certificates of comprehensive utilization of resources (資源綜合利用認定證書) in accordance with the relevant requirements of the *Notice on Distributing the Administrative Measures on the Recognition of Comprehensive Utilization of Resource Encouraged by the State* (國家鼓勵的資源綜合利用認定管理辦法) promulgated by the NDRC, the Ministry of Finance and the State Administration of Taxation. Otherwise, the tax payers are not allowed to apply for preferential value-added tax policies. Enterprises applying for certificates of comprehensive utilization of resources shall meet the following conditions: (1) production process, technology or products conform to the national industrial policies and relevant standards; (2) gains and losses of products that apply comprehensive utilization of resources can be calculated independently; (3) sources of raw materials (fuel) used are stable and reliable, with quantities and qualities in line with the relevant requirements, and the complementary conditions, such as water and electricity, are ascertained; and (4) environmental protection requirements are satisfied, without secondary pollution. Our PRC legal adviser has confirmed that our Group has obtained all the respective certificates of comprehensive utilization of resources, approvals from relevant tax bureaus and other governmental authorities; and that our Group has fully complied with the relevant laws and regulations and there are no unfulfilled conditions.

REGULATION OF FOREIGN CURRENCY EXCHANGE

Foreign Currency Exchange

Pursuant to the *Foreign Currency Administration Rules of the PRC* (中華人民共和國外匯管理條例) promulgated by State Council on January 29, 1996 and amended on August 1, 2008 and various regulations issued by SAFE and other PRC regulatory agencies, Renminbi is freely convertible only to the extent of current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Capital account items, such as direct equity investment, loans and repatriation of investment, require the prior approval from or registration with the SAFE or its local branch for conversion of Renminbi into a foreign currency, and remittance of the foreign currency outside the PRC.

OTHER RELEVANT LAWS AND REGULATIONS

Bid and Tender Law

Under the *Bid and Tender Law of the People's Republic of China* (中華人民共和國招標投標法) promulgated by the Standing Committee of the National People's Congress dated August 30,1999 and implemented on January 1, 2000, tender is compulsory with respect to following projects such as large-scale infrastructure facilities and public utilities relating to social public interests and public security, or projects which are, completely or partly, invested by the state-owned funds or funded through state financing. Tender and bid activities for a project subject to tender according to law shall not be restricted by areas or departments. No unit or person may illegally restrict or exclude legal persons or other organizations from other areas or systems to take part in bidding or interfere in tender and bid activities in any form.

Tenders include public tenders and invitational tenders. A public tender means that a tenderer, in the form of tender announcement, invites unspecified legal persons or other unspecified organizations to submit their bids; an invitational tender means that a tenderer, in the form of invitation for submission of bid, invite specified legal persons or other specified organization to submit their bids. A tenderer who adopts the public tender method shall issue a tender announcement. The tender announcements of projects subject to tender according to law must be issued in newspaper, periodicals, information network or other media designated by the state. A tenderer who adopts the invitational tender method shall issue invitations for submission of bids to three more specified legal persons or other specified organizations capable of undertaking the project subject to tender and having a good reputation and creditworthiness. A tender announcement shall clearly contain such particulars as the name and address of the tenderer, nature of the project subject to tender, quantity, place and time of implementation and methods to acquire the tender documents.

Production Safety

The *Production Safety Law of the PRC* (中華人民共和國安全生產法) promulgated on June 29, 2002 and became effective since November 1, 2002, is the principal law governing the supervision and administration of production safety and labor protection. The law requires that all mining enterprises and production or operation entities with more than 300 workers shall establish an administrative department for production safety or be staffed with full-time personnel for the administration of production safety, and that entities with workers less than 300 shall be staffed with full-time or part-time personnel for the administration of production safety or entrust engineering technicians who have been equipped with the relevant professional technical qualifications as provided by the state to provide services in regard to the administration of work safety. Safety facilities of new construction, re-construction or expansion projects shall be designed, constructed, and put into production and used simultaneously with main construction area of the projects. Safety condition demonstrations and safety evaluations should be made for the construction of mining projects. Safety facilities of mining projects should be tested and approved in accordance with relevant laws and regulations prior to the commencement of production or use of the mining projects, and the projects may only be put into production or used after the safety facilities have passed the tests. Mining entities should establish emergency rescue organizations.

Regulations on Patents

Under the revised *Patent Law of the PRC* (中華人民共和國專利法) promulgated on December 27, 2008 and effective on October 1, 2009, there are three types of patents, including invention patents, design patents and utility model patents. Invention patents are valid for 20 years, while design patents and utility model patents are valid for 10 years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

The patent prosecution system in China is different in many ways from that in other countries. The patent system in China uses the "first to file" principle, which means when more than one person files a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, China requires absolute novelty for the sake of an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of China. Furthermore, patents issued in China are not enforceable in Hong Kong, Taiwan or Macau, each of which has an independent patent system.

Although patent rights are national rights, the Patent Cooperation Treaty ("PCT") to which China is a signatory, allows applicants in one country to seek patent protection for an invention that may simultaneously exist in a number of other member countries by filing a single international patent application. The fact that a patent application is pending is no guarantee that a patent will be granted, and even if granted, the scope of a patent may not be as broad as the subject of the initial application.

Regulations on Trademarks

Both the *Trademark Law of the PRC* (中華人民共和國商標法) promulgated by the National People's Congress Standing Committee in 1982 and amended in 2001, and the *Regulation on Implementation of Trademark Law of the PRC* (中華人民共和國商標法實施條例) promulgated by the State Council in 2002 give protection to the holders of registered trademarks. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks.

The Trademark Office under the State Administration for Industry and Commerce (國家工商行政管理總局商標局) handles trademark registrations and grants a term of 10 years to registered trademarks, renewable every 10 years where a registered trademark needs to be used after the expiration of its validity term, a registration renewal application shall be filed within six months prior to the expiration of the term.

Under the Trademark Law, any of the following acts may be regarded as an infringement upon the right to exclusive use of a registered trademark, including (i) using a trademark which is identical with or similar to the registered trademark on the same or similar commodities without authorization; (ii) selling the commodities that infringe upon the right to exclusive use of a registered trademark; (iii) forging, manufacturing the marks of a registered trademark of others without authorization, or selling the marks of a registered trademark forged or manufactured without authorization; and (iv) causing other damage to the right to exclusive use of a registered trademark of another person.

Violation of the Trademark Law of the PRC may result in the imposition of fines, confiscation and destruction of the infringing commodities.

Trademark license agreements must be filed with the Trademark Office under the State Administration for Industry and Commerce or its regional counterparts. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities.

Regulations on Domain Names

The *Measures for the Administration of Domain Names for the Chinese Internet* (中國互聯網絡域名管理辦法) ("Domain Name Measures") were promulgated by the MIIT on November 5, 2004 and became effective on December 20, 2004.The Domain Name Measures regulate registrations of domain names with the Internet country code ".cn" and domain names in Chinese.

The *Measures on Domain Name Dispute Resolution* (中國互聯網信息中心域名爭議解決辦法 (2006年修訂)) ("Domain Name Dispute Resolution Measures") (2006 Edition) were promulgated by the Chinese Internet Network Infrastructure Center on February 14, 2006 and became effective on March 17, 2006. The Domain Name Dispute Resolution Measures require domain name disputes to be submitted to institutions authorized by the Chinese Internet Network Information Center for resolution.

Labor Protection

The *Employment Contract Law of the PRC* (中華人民共和國勞動合同法) was promulgated on June 29, 2007 and became effective on January 1, 2008 and the *Implementing Regulations of the PRC Employment Contracts Law* (中華人民共和國勞動合同法實施條例) promulgated and became effective on September 3, 2008. This law and its implementation govern the establishment of employment relationships between employers and employees, and the conclusion, performance, termination of, and amendment to, employment contracts. To establish an employment relationship, a written employment contract shall be signed. In the event that no written employment contract was signed at the time of establishment of an employment relationship, a written employment contract shall be signed within one month after the date on which the employer first engages the employee.

Under applicable PRC laws, rules and regulations, including the *PRC Social Insurance Law* (中華人民共和國社會保險法), promulgated by the Standing Committee of the National People's Congress on October 28, 2010 which became effective on July 1, 2011, the *Interim Regulations on the Collection and Payment of Social Security Funds* (社會保險費徵繳暫行條例) promulgated by the State Council and became effective on January 22, 1999, the *Interim Measures concerning the Maternity Insurance* (企業職工生育保險試行辦法) promulgated by the Ministry of Labor on December 14, 1994 which became effective on January 1, 1995, the *Regulations on Occupational Injury Insurance* (工傷保險條例) promulgated by the State Council on April 27, 2003 which became effective on January 1, 2004 and amended on December 20, 2010, and the *Regulations on the Administration of Housing Accumulation Funds* (住房公積金管理條例) promulgated by the State Council and became effective on April 3, 1999 which was amended on March 24, 2002, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing provident funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

Our Board currently consists of nine Directors, comprising three executive Directors, two non-executive Directors and four independent non-executive Directors. The Board is responsible for and has general powers over the management and conduct of our business. The table below shows certain information in respect of the members of our Board:

Name	Age	Position
Li Liufa (李留法)	54	Chairman and non-executive Director
Li Heping (李和平)	55	Executive Director and Chief Executive Officer
Liu Wenying (劉文英)	62	Executive Director
Yu Yagang (郁亞杠)	60	Executive Director and Chief Financial Officer
Tang Ming Chien (唐明千)	61	Non-executive Director
Wang Yanmou (王燕謀)	78	Independent non-executive Director
Poon Chiu Kwok (潘昭國)	49	Independent non-executive Director
Song Quanqi (宋全啟)	47	Independent non-executive Director
Ma Chun Fung Horace (馬振峰) (formerly known as Ma Ka Keung (馬家強))	41	Independent non-executive Director

Chairman and Non-Executive Director

Li Liufa (李留法), aged 54, is a non-executive Director and the chairman of our Board. He is the founder of our Group and was appointed as a non-executive Director on July 2, 2011. Chairman Li is primarily responsible for our Group's overall strategic planning and the management of our Group's business. Chairman Li has extensive experience in the cement industry. He was a non-executive director of Sanmenxia Tianyuan Aluminum from March 2006 to July 2008. Chairman Li was the representative of Henan province in the Tenth National People's Congress in February 2003 and the Eleventh National People's Congress in March 2008. Chairman Li obtained his executive MBA degree from Peking University (北京大學) in 2006. Chairman Li was named "Model Worker of Henan Province (河南省勞動模範)" in 1999. In January 2005, he was awarded "Henan Province Excellent Entrepreneur (河南省優秀民營企業家)" by the People's Government of Henan Province.

Executive Directors

Li Heping (李和平), aged 55, is an executive Director and Chief Executive Officer of our Company. Mr. Li joined our Group in 2009 and was appointed as an executive Director and Chief Executive Officer on December 9, 2011. He is primarily responsible for the formulation of development strategies, executing decisions made on investment projects and our Group's overall operation and supervision. Prior to joining our Group, Mr. Li had been the chief accountant of Luoyang Mining Machinery Factory (洛陽礦山機器廠), the deputy head of the Commission for Restructuring the Economic System of Henan Province (河南省經濟體制改革委員會), the general manager of Zhongxin Heavy Machinery Company (中信重型機械公司) and director and senior management of Tianrui Group. Mr. Li was appointed as a non-executive director of Sanmenxia Tianyuan Aluminum in March 2006. He is currently the non-executive director and the chairman of the board of Sanmenxia Tianyuan Aluminum. Mr. Li graduated from Henan University of

Science & Technology (河南科技大學) (formerly known as Luoyang Institute of Agricultural Machinery (洛陽農機學院) with a bachelor's degree in mechanic engineering in 1982 and Tsinghua University (清華大學) with a master's degree in engineering in 1988. Mr. Li also holds qualifications of "Senior Engineer" and "Senior Accountant".

Liu Wenying (劉文英), aged 62, is an executive Director. Mr. Liu joined our Group in 2009 and was appointed as an executive Director on December 9, 2011. He is primarily responsible for capital management of our Group. Mr. Liu has extensive experience in corporate financial operations and organization management. Mr. Liu was an executive director of First Tractor Company Limited (Stock Code: 00038), a company listed on the Main Board of the Stock Exchange from September 2000 to July 2009. Mr. Liu graduated from the Party School of the Central Committee of CPC (中共中央黨校) majoring in economics management in 1997 and from Party School of Henan Committee of CPC majoring economics management. Mr. Liu also holds a qualification of "Senior Accountant".

Yu Yagang (郁亞杠), aged 60, is an executive Director and Chief Financial Officer of our Company. Mr. Yu joined our Group as chief financial officer of Tianrui Cement in 2009 and was appointed as an executive Director and Chief Financial Officer on December 9, 2011. He is primarily responsible for our Group's financial operation and management. Mr. Yu has over 40 years of experience in accounting. Prior to joining our Group, Mr. Yu served as deputy chief accountant and head of the finance department of Zhongxin Heavy Machinery Company (中信重型機械公司), legal representative of Luoyang Zhongzhong Founding Factory (洛陽中重鑄鍛廠) and director and senior management of Tianrui Group. Mr. Yu graduated from the Party School of the Central Committee of CPC (中共中央黨校) majoring in economics in 1994. Mr. Yu also holds a qualification of "Senior Accountant".

Non-Executive Director

Tang Ming Chien (唐明千), aged 61, is a non-executive Director. Mr. Tang was appointed as a non-executive Director on December 9, 2011. From December 1996 to December 2006, he was an executive director of Winsor Industrial Corporation, Limited whose shares were previously listed on the Stock Exchange. Mr. Tang was a non-executive director of Winsor Properties Holdings Limited (Stock Code: 01036), a company listed on the Stock Exchange, from August 2001 to May 2008. Mr. Tang is currently a director of South Enterprises Limited (新南企業有限公司), a private company principally engaged in the business of textile manufacturing. He graduated with a master's degree in fiber science and technology from the University of Leeds in the United Kingdom.

Independent Non-Executive Directors

Wang Yanmou (王燕謀), aged 78, is an independent non-executive Director. He was appointed as an independent non-executive Director on December 9, 2011. Mr. Wang has extensive experience in building materials and cement industry. Since November 1981, Mr. Wang has served as head of the Chinese Building Materials Science Research Institute (中國建築材料科學研究院), head of the National Building Materials Industry Bureau (國家建築材料工業局), honorary president of China Building Material Industry Association (中國建築材料工業協會) (currently known as China Building Material Council), chairman of the fifth board of the Chinese Ceramic Society (中國硅酸鹽學會), member of the Eighth Chinese People's Political Consultative Conference (中國人民政治協商會議第八屆全國委員會) and senior consultant of the China Cement Association (中國水泥協會). From May 1997 to May 2003, Mr. Wang served as an independent non-executive director of Anhui Conch Cement Company Limited ("Anhui Conch"), a company listed on both the Stock Exchange (Stock Code: 00914) and the Shanghai Stock Exchange (Stock Code: 600585). Mr. Wang has also been the director of Zhejiang Glass Company Limited ("Zhejiang Glass") (Stock Code: 00739), a company listed on the Stock Exchange, since October

2001. Mr. Wang currently serves as: (1) independent non-executive director of China Shanshui Cement Group Limited (Stock Code: 00691), a company listed on the Stock Exchange; (2) supervisor of Anhui Conch; and (3) independent non-executive director of Zhejiang Glass. He is also a consultant of China International Construction Consulting Company (中國國際工程諮詢公司). Mr. Wang graduated from Nanjing Institute of Technology (南京工學院) (currently known as Southeast University (東南大學)) with a bachelor's degree in chemistry in 1956 and was awarded an Associate Doctoral Degree in Science and Technology by the former Leningrad Architectural Engineering Institute of the former Soviet Union in 1962.

Save as disclosed above, in the three years preceding the date of this offering memorandum, Mr. Wang did not hold any directorship in other listed companies.

Poon Chiu Kwok (潘昭國), aged 49, is an independent non-executive Director. He was appointed as an independent non-executive Director on December 9, 2011. Mr. Poon has over 20 years of experience in regulatory affairs, commerce and investment banking, including serving as an executive director and managing director of several investment banks, acting as sponsor to companies on their listing on the Stock Exchange and providing a variety of financial advisory and merger and acquisition services from 1992 to 2006. Before that, Mr. Poon worked in the Listing Division of the Stock Exchange on compliance and regulatory matters.

In the three years preceding the date of this offering memorandum, Mr. Poon held directorships in the following publicly listed companies:

Name of the company	Stock Code	Title	Period
CATIC Shenzhen Holdings Limited	Stock Exchange: 00161	Independent non-executive director	May 31, 2003 - June 15, 2009
Tsingtao Brewery Company Limited	Stock Exchange: 00168/ Shanghai Stock Exchange: 600600	Independent non-executive director	June 23, 2005 - June 10, 2011

Mr. Poon obtained a bachelor's degree in arts, majoring in business studies, and a master's degree in arts, majoring in international accounting, from the City University of Hong Kong in 1994 and 1997, respectively. Mr. Poon also obtained a bachelor's degree in laws from the University of Wolverhampton in the United Kingdom in 2004 and a postgraduate diploma in laws in University of London in the United Kingdom in 2010 through external programmes. Mr. Poon is currently a member and associate instructor of Hong Kong Securities Institute, an associate of Institute of Chartered Secretaries and Administrators, and an associate of Hong Kong Institute of Chartered Secretaries. In addition to being our director, Mr. Poon is a director in Huabao International Holdings Limited, Yuanda China Holdings Limited, Sunac China Holdings Limited, Guangzhou Shipyard International Company Limited, Ningbo Port Company Limited, and Changan Minsheng APLL Logistics Co., Ltd., and had been a director in CATIC Shenzhen Holdings Limited and Tsingtao Brewery Company Limited.

Song Quanqi (宋全啟), aged 47, is an independent non-executive Director. He was appointed as an independent non-executive Director on December 9, 2011. Mr. Song has extensive experience in research, investments and business consulting. From 2002 to 2005, Mr. Song served as independent non-executive director of Henan Zhongfu Industry Co., Ltd. (河南中孚實業股份有限公司), a company listed on the Shanghai Stock Exchange. He has also been the director of Henan Taloph Pharmaceutical Stock Co., Ltd. (河南太龍藥業股份有限公司) (formerly known as Henan Joyline & Joysun Pharmaceutical Stock Co., Ltd. (河南竹林衆生制藥股

份有限公司)), a company listed on the Shanghai Stock Exchange, since 1999. Currently, he is also a non-executive director of Sanmenxia Tianyuan Aluminum and a director of Linzhou Heavy Machinery Group Co., Ltd. (林州重機集團股份有限公司), a company listed on the Shenzhen Stock Exchange. He is also the general manager of Shanghai Boning Financial Consultation Company Limited (上海博寧財務顧問有限公司). Mr. Song graduated from the People's University of China (中國人民大學) with a doctoral degree in economics in 1993.

Ma Chun Fung Horace (馬振峰) (formerly known as Ma Ka Keung (馬家強)), aged 41, is an independent non-executive Director. He was appointed as an independent non-executive Director on December 9, 2011. Mr. Ma is an experienced accountant with extensive experience in risk and internal control. Mr. Ma is a Certified Public Accountant (Practising) registered with the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, a Certified Internal Auditor registered with the Institute of Internal Auditors and holder of Certification of Control Self-Assessment of the Institute of Internal Auditors. Mr. Ma is currently a council member of Hong Kong Institute of Certified Public Accountants. Mr. Ma is a director in Ming Fai International Holdings Limited, Universe International Holdings Limited and Dejin Resources Group Company Limited, and had also been a director of FAVA International Holdings Limited. Mr. Ma also holds various academic degrees, including master of science and bachelor of business administration, each conferred by the Chinese University of Hong Kong. Mr. Ma has also obtained a bachelor's degree in laws conferred by the University of London through its external programmes.

SENIOR MANAGEMENT

Yang Yongzheng (楊勇正), aged 43, is the general manager of our Company. He has extensive experience in the cement industry and is primarily responsible for the daily production and operation of our Group. Mr. Yang joined our Group in 2004, and has served as the general manager of Yingkou Cement (營口公司) and the chairman and general manager of Liaoyang Cement (遼陽公司) ever since. He was appointed as general manager of Tianrui Cement in 2012. He obtained his bachelor degree in Petroleum and Engineering from Henan University (河南大學) in 1991. Currently, he is studying EMBA in Peking University. In January 2011, Mr. Yang was awarded "Advanced Worker in the Mining Industry and Building Material Industry of Small and Medium Enterprises" (遼寧省中小企業礦業建材行業先進工作者).

Jing Xianyu (井獻玉) (formerly known as Jing Xianyu (井現于)), aged 46, is an executive deputy general manager of our Company. He has extensive experience in the cement industry and is primarily responsible for managing the production, procurement and sales of our Group. Mr. Jing joined our Group in 2000 and has worked as general manager of Weihui Cement, general manager of Yuzhou Cement, director of Zhengzhou Cement (Xingyang) and director of Zhengzhou Tianrui ever since. He has been deputy general manager of Tianrui Cement in February 2008. Mr. Jing obtained his executive MBA degree from Peking University (北京大學) in 2008. Mr. Jing was recognized as "Outstanding Leader of Quality Management of National Building Material Industry (全國建材行業質量管理卓越領導者)" in July 2008 and was named "60th Anniversary of the Founding of PRC Henan Province Meritorious Entrepreneur (建國60周年河南省建材工業功勛企業家)" in September 2009.

Guo Zhiwei (郭志偉), aged 40, is a deputy general manager of our Company. He has 15 years of experience in the cement industry and is primarily responsible for managing the comprehensive work of Zhengzhou Cement (Xingyang). Mr. Guo joined our Group in 2000 and has worked as deputy general manager and general manager of Ruzhou Cement and general manager of Zhengzhou Cement (Xingyang) ever since. From March 2007 to January 2012, he has served as deputy general manager and general manager of Tianrui Cement consecutively. Mr. Guo obtained his master's degree in materials engineering from Zhengzhou University (鄭州大學) in 2006 and his executive MBA degree from Peking University (北京大學) in 2010. He holds qualifications of "Engineer" and "Senior Economist". Mr. Guo was recognized as "Outstanding Leader of Quality Authentication Activity of National Building Material Industry (全國建材工業質量認證活動卓越領導者)" in July 2010 by China Building Material Council (中國建築材料聯合會). He obtained the "Pingdingshan City May 1 Working Award (平頂山市五一勞動獎章)" in April 2004 and was named as "Model Worker of Pingdingshan City (平頂山市勞動模範)" in April 2006. In September 2007, Mr. Guo was awarded "Model Worker in National Building Material Industry (全國建材行業勞動模範榮譽稱號)".

Zhang Wujiang (張悟將), aged 54, is a deputy general manager of our Company. He has extensive experience in the cement industry and is primarily responsible for our Group's overall operation and production in Dalian. Mr. Zhang joined our Group in 2000 and has worked as general manager of Dalian Cement, general manager of Yingkou Cement, general manager of Liaoyang Cement and general manager of Tianjin Cement ever since. He also participated substantially in the construction of the production line of Shangqiu Cement. He has been the deputy general manager of Tianrui Cement since February 2008. Mr. Zhang holds a qualification of "Engineer" and was awarded "China Excellent Entrepreneur (中國優秀民營企業家)" and "Liaoning Province Excellent Entrepreneur (遼寧省優秀企業家)" in January 2010.

Li Fashen (李法伸), aged 49, (formerly known as Li Fasen (李發森), aged 49, is the deputy general manager of our Company. He has extensive experience in the cement industry and is primarily responsible for the daily production and operation of the Group in Liaoyang City and Yingkou city of Liaoning province. Mr. Li joined our Group in 2000 and has served as the general manager of Antai Cement and Ruzhou Cement ever since. He was appointed as deputy general manager of Tianrui Cement in 2007. He graduated from Henan University (河南大學), majoring in economics management, in 1991 and obtained his executive MBA degree from Renmin University of China (中國人民大學) in 2003. He holds a qualification of "Economist". Mr. Li is Chairman Li's brother.

Gao Yunhong (高運紅), aged 40, is a deputy general manager of our Company. He has extensive experience in the cement industry and is primarily responsible for the overall production and operation of the Group in Weihui, Henan Province. Mr. Gao joined the Group in 2005 and served as the general manager of Ruzhou Cement, Zhengzhou Cement and Guangshan Cement (光山公司) successively. From 2012, he has served as the chairman and general manager of Weihui Cement. He graduated from the PLA Information Engineering University majoring in computer science and technology. In 2008, Mr. Gao was awarded as "Model Worker of Zhengzhou City" and "60th Anniversary of the Founding of PRC Henan Province Excellent Entrepreneur in Building Material Industry (建國60週年河南省建材工業優秀企業家)".

Zhao Ruimin (趙睿敏), aged 42, is a deputy general manager and engineering department manager of our Company. He is primarily responsible for project construction and equipment management in our Group. Mr. Zhao joined our Group in 2000 and was substantially involved in the establishment of production lines of Ruzhou Cement and Zhengzhou Cement (Xingyang). He has served as deputy general manager of Tianrui Cement since February 2008. Mr. Zhao obtained his bachelor's degree in inorganic non-metal materials studies from Nanjing College of Chemical Technology (南京化工學院) in 1992 and his executive MBA degree from Peking University (北京大學) in 2009. He holds a qualification of "Senior Engineer".

Zhao Huibin (趙惠斌), aged 55, is a deputy general manager of our Company. He has 30 years of experience in the cement industry and is primarily responsible for the development business of our Group. Mr. Zhao joined our Group in 2002 and has worked as deputy general manager of Tianrui Cement. He also served as manager of the development department, where he was responsible for the preparation of Tianrui Cement's construction projects. Mr. Zhao obtained his master's degree from Macau University of Science and Technology (澳門科技大學) in 2008. Mr. Zhao holds a qualification of "Senior Engineer" and was awarded 2003 Excellent Entrepreneur in National Building Material Industry (2003年度全國建材行業優秀企業家) in September 2003.

Zhang Zhaokun (張照坤), aged 41, is a deputy general manager of our Company. He has extensive experience in human resources management and is primarily responsible for administrative matters and human resource affairs of our Company. Mr. Zhang joined our Group in 2000 and previously worked as deputy general manager of Antai Cement. He has been the deputy general manager of Tianrui Cement since July 2008. Mr. Zhang obtained his bachelor's degree in library science and information science from South-Central University for Nationalities (中南民族學院) in 1993 and his master's degree in business administration from Zhengzhou University (鄭州大學) in 2007. He also obtained the certification standard of Senior Administration Professional Manager Qualification in 2007 and a qualification of "Senior Human Resources Manager" in 2008.

Jia Huaping (賈華平), aged 53, is the chief engineer of our Company. He is primarily responsible for the production technology development and production and technology management of our Group. Mr. Jia has 29 years of experience in the cement industry. He joined our Group in 2008 and has worked as manager of production department, head of the technical center and deputy chief engineer of Tianrui Cement ever since. He was appointed as chief engineer of Tianrui Cement in February 2009. Mr. Jia graduated from Shandong Building Material Industry Institute (山東建築材料工業學院), majoring in inorganic material science and engineering, in 1982. Since 1987, Mr. Jia has obtained several awards relating to technology improvement. He was awarded "2009 National Excellent Chief Engineer in Cement Industry (2009年全國水泥企業優秀總工程師)" in 2010.

JOINT COMPANY SECRETARIES

Yu Chunliang (喻春良), aged 42, was appointed as one of the joint company secretaries of our Company on December 9, 2011. Mr. Yu joined our Group in 2005 as deputy head of the general office of Tianrui Cement. He was later appointed as deputy head of the human resources department of Tianrui Cement. He was later appointed as head of administrative office and head of board office of Tianrui Cement. Prior to joining our Group, he was the secretary of the disciplinary committee of Pingdingshan Xingfeng Group Cement Co., Ltd. (平頂山星峰集團水泥有限公司). Mr. Yu obtained his bachelor's degree in arts from Xinyang Normal University (信陽師範學院) in 1992 and his postgraduate degree in economic management from the Party School of CPC of Henan province (中共河南省委黨校) in 2007. He holds a qualification of "National Second Level Corporate Human Resources Manager".

Yao Yan Ping, Francis (姚恩平), aged 42, holds a bachelor's degree in accounting from the City University of Hong Kong. He is currently a fellow member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and of the Association of Chartered Certified Accountants, United Kingdom. Mr. Yao has over 18 years' experience in the financial field, the money market and capital market. Mr. Yao therefore meets the requirements under Rules 3.28 and 8.17 of the Listing Rules in respect of a company secretary.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Company reimburses our directors and members of our senior management for expenses that are necessarily and reasonably incurred for providing services to us or executing their respective functions in relation to our operations. Our directors have not received any remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and performance-related bonuses) from us for the years ended December 31, 2009, 2010 and 2011.

The aggregate amount of salary allowances and other performance-related benefits, bonuses and contributions to retirement plans paid by us to the five highest paid individuals of our Company, excluding our directors, during the years ended December 31, 2009, 2010 and 2011 was approximately RMB2,144,000, RMB2,148,000 and RMB2,738,000, respectively. Further, none of our directors has waived any remuneration during the same period.

We have not paid any remuneration to our directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the three years ended December 31, 2011.

OUR GROUP'S RELATIONSHIP WITH EMPLOYEES

We recognize the importance of a good relationship with our employees. The remuneration payable to our employees includes salaries and allowances. We endeavor to provide training to our staff to enhance technical knowledge as well as knowledge of industry quality standards and work safety standards.

Our Group offers our staff competitive remuneration packages. Our Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to our Group's profitability, our Group may also pay a discretionary bonus to our employees as an incentive for their contribution to our Group. The primary goal of our remuneration policy with respect to our executive Directors is to enable our Group to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved. The remuneration packages for our executive Directors principally include basic salaries and discretionary bonuses.

As of the date of this offering memorandum, we have not experienced any significant problems with our employees or disruption to our operations due to labor disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff. We believe that we have a good working relationship with our employees.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme on December 12, 2011. The purpose of the Share Option Scheme is to provide person(s) and parties working for the interests of our Group with an opportunity to obtain an equity interest in our Company, thus linking their interests with the interests of our Group and thereby providing them with an incentive to work better for the interests of our Group. Under the scheme, our directors may grant to all directors, any employee, any consultant or adviser to us the options to subscribe for a certain number of shares as the directors think fit. The scheme is valid for 10 years from the date of its adoption and our board of directors has the discretion in deciding the maximum number and the subscription price of the shares.

BOARD COMMITTEES

Audit Committee

Our Company established an audit committee pursuant to a resolution of our directors passed on December 12, 2011. The primary duties of the audit committee are mainly to make recommendations to the Board on the appointment and removal of our external auditor, review the financial statements and material advice in respect of financial reporting, and oversight of internal control procedures of our Company. At present, the audit committee of our Company consists of three members, namely Mr. Ma Chun Fung Horace, Mr. Poon Chiu Kwok and Mr. Wang Yanmou. Mr. Ma Chun Fung Horace is the chairman of the audit committee.

Remuneration Committee

Our Company established a remuneration committee on December 12, 2011 with written terms of reference. The primary duties of the remuneration committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group, review performance based remuneration and ensure none of our directors determine their own remuneration. The remuneration committee consists of three members, namely Mr. Song Quanqi, Mr. Poon Chiu Kwok and Mr. Liu Wenying. Mr. Song Quanqi is the chairman of the remuneration committee.

Nomination Committee

We established a nomination committee on December 12, 2011. The primary functions of the nomination committee are to make recommendations to the Board on the appointment and removal of Directors. The nomination committee consists of three members, namely Mr. Wang Yanmou, Mr. Song Quanqi and Mr. Li Heping. The chairman of the nomination committee is Mr. Wang Yanmou.

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser pursuant to the Listing Rules. Guotai Junan Capital Limited will ensure that we are properly guided and advised as to compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines in Hong Kong, including the publication of regulatory announcements, circular or financial reports and the entry into notifiable or connected transactions.

The term of the appointment commenced on the date of our IPO and will end on the date on which we comply with the Listing Rules in respect of our financial results for the first full financial year after the date of our IPO, and such appointment may be extended by mutual agreement.

PRINCIPAL SHAREHOLDERS

So far as we are aware, based on the information available on the date of this offering memorandum, the following persons have the following beneficial interests or short positions in our shares or underlying shares who would be required to be disclosed to us under the provisions of divisions 2 and 3 of part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of shares carrying the right to vote in all circumstances at general meetings of any other member of our Group.

Name	Nature of interest	Number of Shares	Percentage of shareholding interest (%)
Yu Kuo(1)	Beneficial owner	950,000,000	39.57
Holy Eagle(1)	Interest of controlled corporation	950,000,000	39.57
Yu Qi(1)	Interest of controlled corporation	950,000,000	39.57
Chairman Li(1)	Interest of controlled corporation	950,000,000	39.57
Li Xuanyu(1)	Interest of controlled corporation	950,000,000	39.57
Wan Qi(2)	Beneficial owner	449,400,000	18.72
Mr. Tang(2)	Interest of controlled corporation	449,400,000	18.72
Titan Investments (Cayman)(3)	Beneficial owner	400,000,000	16.66
KKR Asian Fund L.P.(3)	Interest of controlled corporation	400,000,000	16.66
KKR Associates Asia L.P.(3)	Interest of controlled corporation	400,000,000	16.66
KKR SP Limited(3)	Interest of controlled corporation	400,000,000	16.66
KKR Asia Limited(3)	Interest of controlled corporation	400,000,000	16.66
KKR Fund Holdings L.P.(3)	Interest of controlled corporation	400,000,000	16.66
KKR Fund Holdings GP Limited(3)	Interest of controlled corporation	400,000,000	16.66
KKR Group Holdings L.P.(3)	Interest of controlled corporation	400,000,000	16.66
KKR Group Limited(3)	Interest of controlled corporation	400,000,000	16.66
KKR & Co. L.P.(3)	Interest of controlled corporation	400,000,000	16.66
KKR Management LLC(3)	Interest of controlled corporation	400,000,000	16.66
Mr. Henry R. Kravis and Mr. George R. Roberts(3)	Interest of controlled corporation	400,000,000	16.66
JPMorgan PCA Holdings (Mauritius) I Limited (4)	Beneficial owner	200,600,000	8.36
JPMorgan Private Capital Asia Fund I, L.P.(4)	Interest of controlled corporation	200,600,000 33,433,340(5)	8.36 1.39

Name	Nature of interest	Number of Shares	Percentage of shareholding interest (%)
JPMorgan Private Capital Asia General Partner, L.P.[4]	Interest of controlled corporation	200,600,000 33,433,340[5]	8.36 1.39
JPMorgan Private Capital Asia GP Limited[4]	Interest of controlled corporation	200,600,000 33,433,340[5]	8.36 1.39
JPMorgan Private Capital Asia Corp[4]	Interest of controlled corporation	200,600,000 33,433,340[5]	8.36 1.39
JPMorgan Chase & Co.[4]	Interest of controlled corporation	200,600,000 33,433,340[5]	8.36 1.39

(1) The entire issued share capital of Yu Kuo is legally and beneficially owned by Holy Eagle and Yu Qi. Chairman Li is deemed to be interested in the Shares held by Yu Kuo by virtue of Yu Kuo being controlled by Chairman Li through Holy Eagle (the wholly-owned company of Chairman Li). Mr. Li Xuanyu is deemed to be interested in the Shares held by Yu Kuo by virtue of Yu Kuo being controlled by Mr. Li Xuanyu through Yu Qi (the wholly-owned company of Li Xuanyu).

(2) The entire issued share capital of Wan Qi is legally and beneficially owned by Mr. Tang. Mr. Tang is deemed to be interested in the Shares held by Wan Qi by virtue of Wan Qi being controlled by Mr. Tang.

(3) Each of KKR Asian Fund L.P. (as the controlling shareholder of Titan Investments (Cayman)), KKR Associates Asia L.P. (as the general partner of KKR Asian Fund L.P.), KKR SP Limited (as the voting partner of KKR Associates Asia L.P.), KKR Asia Limited (as the general partner of KKR Associates Asia L.P.), KKR Fund Holdings L.P. (as the sole shareholder of KKR Asia Limited), KKR Fund Holdings GP Limited (as a general partner of KKR Fund Holdings L.P.), KKR Group Holdings L.P. (as a general partner of KKR Fund Holdings L.P. and the sole shareholder of KKR Fund Holdings GP Limited), KKR Group Limited (as the general partner of KKR Group Holdings L.P.), KKR & Co. L.P. (as the sole shareholder of KKR Group Limited), KKR Management LLC (as the general partner of KKR & Co. L.P.), and Mr. Henry R. Kravis and Mr. George R. Roberts (as designated members of KKR Management LLC) shall be deemed to be interested in 400,000,000 Shares as of the Listing Date. Mr. Henry R. Kravis and Mr. George R. Roberts disclaim beneficial ownership of the Shares held by Titan Investments (Cayman).

(4) Each of JPMorgan Private Capital Asia Fund I, L.P. (as the controlling shareholder of JPMorgan PCA), JPMorgan Private Capital Asia General Partner, L.P. (as the general partner of JPMorgan Private Capital Asia Fund I, L.P.), JPMorgan Private Capital Asia GP Limited (as the general partner of JPMorgan Private Capital Asia General Partner, L.P.), JPMorgan Private Capital Asia Corp (as the sole shareholder of JPMorgan Private Capital Asia GP Limited) and JPMorgan Chase & Co. (as the holding company of JPMorgan Private Capital Asia Corp.) shall be deemed to be interested in 200,600,000 Shares as of the Listing Date held by JPMorgan PCA pursuant to Section(s) 316(2) and/or 316(3) under Part XV of the SFO.

(5) The Shares are held in short-position by the named shareholders.

RELATED PARTY TRANSACTIONS

The following is a summary of material transactions we have engaged in with our direct and indirect shareholders, affiliates of our shareholders and other related parties, including those in which we or our management has a significant equity interest. We believe each of these arrangements as described below has been entered into on arm's length terms or on terms that we believe have been at least as favorable to us as similar transactions with non-related parties. For a further discussion of related party transactions, see note 42 in the consolidated financial information for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011 and note 42 in the consolidated financial information for the year ended December 31, 2011 included as an attachment to this offering memorandum.

Sales and Purchase of Goods and Services with Related Parties

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

For the years ended December 31, 2009, 2010 and 2011, the aggregate amount for purchase of clinker paid by Zhoukou Cement to Ruiping Shilong was approximately RMB5.3 million, RMB21.3 million and RMB17.9 million, respectively pursuant to our clinker supply framework agreement with Ruiping Shilong. The prices payable by Zhoukou Cement for the clinker was agreed following arm's length negotiations between relevant parties with reference to the prevailing market price of clinker in Pingdingshan, Henan province.

Tianrui Cement, a subsidiary of our Company, has leased from Tianrui Group office premises in Ruzhou City, Henan province with a total area of approximately 1,850 square meters. The parties entered into a lease agreement for a term of one year commencing on January 1, 2011. The annual rent (including management fees, water, electricity, air-conditioning charges and all other relevant fees) is RMB1.8 million and was determined with reference to market rent.

Ruzhou Cement, a subsidiary of our Company has leased from Tianrui Foundry (an associate of Chairman Li as defined under the Listing Rules), a building in Ruzhou City, Henan province with a total area of approximately 2,534 square meters. The parties entered into a lease agreement on August 20, 2009 for a term of five years commencing on the date of such agreement at the annual rent of approximately RMB0.3 million.

Other Transactions with Related Parties

We have entered into a trademark license agreement (the "Trademark License Agreement") with Yu Kuo on November 28, 2011, pursuant to which Yu Kuo has granted us a non-exclusive license to use the HK Trademarks for a term of 10 years commencing on November 28, 2011 for nil consideration. The Trademark License Agreement shall not be subject to any early termination unless agreed by us in writing. Before the expiration of the Trademark License Agreement, we have an option to renew the Trademark License Agreement for a further term of 3 years for the continued use of the HK Trademarks.

Key Management Compensation

See "Directors, Senior Management and Staff — Compensation of Directors and Senior Management" and "Directors, Senior Management and Staff — Share Option Scheme".

Amounts Due from/to Related Parties

As of December 31, 2009, 2010 and 2011, amounts due from related parties (trade in nature) were RMB3.1 million, RMB4.4 million and RMB0.6 million, respectively.

As of December 31, 2009, 2010 and 2011, amounts due from related parties (non-trade in nature) were approximately RMB30.1 million, RMB36.2 million and nil, respectively. The increase in amounts due from related parties (non-trade in nature) from RMB30.1 million as of December 31, 2009 to RMB36.2 million as of December 31, 2010 was primarily due to an amount due from Ruiping Shilong. The decrease in amounts due from related parties (non-trade in nature) from RMB36.2 million as of December 31, 2010 to nil as of December 31, 2011 was primarily due to the fact that the amount due from Ruiping Shilong, Ruzhou Shi Thermal Power Plant, Ruzhou Tianrui Coking Company Limited, and Tianrui Group Yunyang Foundry Co., Ltd (天瑞集團雲陽鑄造有限公司) were settled.

In 2009, we considered that an amount due from a former director of Tianrui Cement which was unsecured, repayable on September 7, 2009 with an interest rate of 5.31% per annum (representing the one-year benchmark interest rate issued by the People's Bank of China), was not recoverable and thus the outstanding balance was fully impaired.

All amounts due from related parties were denominated in Renminbi, unsecured, interest free (except the amount due from a former director of Tianrui Cement as discussed in the preceding paragraph) and repayable on demand (except the amount due from a former director of Tianrui Cement as discussed in the preceding paragraph).

As of December 31, 2009, 2010 and 2011, amounts due to related parties (trade in nature) were approximately RMB0.1 million, RMB0.1 million and RMB0.1 million, respectively.

All amounts due to related parties with trade nature are within relevant credit terms.

As of December 31, 2009, 2010 and 2011, amounts due to related parties (non-trade in nature) were approximately RMB2.4 million, RMB10.2 million and RMB0.5 million, respectively. The increase in amounts due to related parties (non-trade in nature) from RMB2.4 million as of December 31, 2009 to RMB10.2 million as of December 31, 2010 was primarily due to the receipt of a deposit of RMB9.0 million from Tianrui Group Yunyang Foundry Co., Ltd.. The decrease in amounts due to related parties (non-trade in nature) from RMB10.2 million as of December 31, 2010 to RMB0.5 million as of December 31, 2011 was primarily due to the fact we settled the amount due to Tianrui Group Yunyang Foundry Co., Ltd.

All amounts due to related parties are unsecured, interest free and repayable on demand.

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 February 29, 2012, our total borrowings amounted to RMB7,002.5 million (US$1,112.6 million). We set forth below a summary of the material terms and conditions of these loans and other indebtedness.

Term Loan Agreements

As of February 29, 2012, we had banking facilities of approximately RMB10,407.6 million for short-term and long-term bank loans, of which RMB3,054.5 million was unutilized. Some of our PRC subsidiaries have entered into term loan agreements with various PRC financial institutions, including Industrial and Commercial Bank of China Limited, Bank of China Limited, China Merchants Bank Co., Ltd, China Everbright Bank Co., Ltd, Industrial Bank Co. Ltd., China Construction Bank Corporation, Agricultural Bank of China Limited, Bank of Luoyang, Shanghai Pudong Development Bank Co., Ltd, Zhengzhou Commercial Bank, Bank of Communications Limited, Standard Chartered Bank (China) Co. Ltd., China Minsheng Banking Corp., Ltd., Haerbin Bank Co. Ltd., Huaxia Bank, Bank of Fuxin, Shenzhen Development Bank Co., Ltd, Bank of Jinzhou, China Guangfa Bank, Xuchang Bank, Shangqiu Commercial Bank, Zhoukou Commercial Bank, Xinxiang Bank, Pingdingshan Bank, Huishang Bank, China Bohai Bank, Bank of Yingkou, Xiamen International Trust Co. Ltd., Bank of Xinyang, Xinyang Commercial Bank, Huixian Rural Commercial Bank and Rural Credit Cooperatives to finance our construction of production facilities, acquisitions and working capital requirements. These facilities are on an uncommitted basis and, as a result, may be cancelled by the lenders thereof at any time. These loans have terms ranging from three months to 90 months. As of February 29, 2012, the aggregate outstanding amount under these term loan agreements total approximately RMB7,002.5 million, of which RMB5,332.8 million was due within one year or on demand, and RMB1,669.7 million was due in greater than one year.

Interest

The principal amounts outstanding under the term loans generally bear interest at floating rates calculated by reference to the relevant bank's benchmark interest rate per annum, which in turn is generally linked to the PBOC-published rates. Floating interest rates are generally subject to review by the banks monthly, quarterly or annually, or simultaneously with the adjustment of the PBOC-published rate. Interest payments are generally payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of 31 December 2011, the interest rates on the aggregate outstanding amount of our bank loans ranged 2.7% to 11.8% per annum.

Covenants

Under these term loans, certain of our PRC subsidiary borrowers have agreed, among other things, not to take the following actions without first notifying the lender or obtaining the lenders' prior consent:

- create encumbrances on all or substantially all of their properties or assets;
- grant guarantees to any third parties or pledge or mortgage their material assets that may adversely affect their ability to repay their loans;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions and reorganizations; or
- reduce their registered capital.

Under several term loans, certain of our PRC subsidiaries have agreed not to distribute dividends to their shareholders or repay shareholder loans without written consent of the lenders or before having fully repaid the term loans.

Financial Covenants

Under some of our term loans, certain of our PRC subsidiaries have agreed to comply with financial covenants, including in connection with the ratio of total liabilities to total assets and the operating cash flow.

Events of Default

The term loans contain certain customary events of default, including cross-default, insolvency and breaches of the terms of the loan agreements. The lenders are entitled to terminate their respective agreements or demand immediate repayment of loans upon the occurrence of an event of default.

Guarantee and Security

We and certain of our PRC subsidiaries have entered into guarantee agreements with lenders in connection with certain loans pursuant to which we and our subsidiaries have agreed to guarantee the payment obligations and other liabilities of the subsidiary borrowers under these loans. In addition, certain of our PRC subsidiaries agreed to lenders to provide security interests over their assets in connection with their loans. These assets include properties, plant and equipments.

Short-term Financing Bonds

We issued the first tranche short-term, unsecured financing bonds of the short-term financing bonds with an aggregate principal amount of RMB500.0 million in November 2010. The bonds bear interest at a rate of 4.1% per annum, payable upon the maturity of the bonds. We issued the second tranche Short-term Bonds in the same principal amount in March 2011, with an interest rate of 5.55% per annum payable upon the maturity of the second tranche financing bonds. Both the first tranche Short-term Bonds and the second tranche Short-term Bonds were registered with the National Association of Financial Market Institutional Investors of the PRC (中國銀行間市場交易商協會) and were issued in the PRC interbank debenture market (全國銀行間債券市場) to institutional investors. Upon maturity and repayment of the first tranche of the Short-term Bonds, we reissued in January 2012 the first tranche of these Short-term Bonds for the same aggregate principal amount, which was RMB500 million. The bonds bear interest at a rate of 8.48% per annum, payable upon the maturity of the reissued first tranche Short-term Bonds. The second tranche of the Short-term Bonds matured in March 2012, and we expect to reissue these second tranche Short-term Bonds for the same aggregate principal amount in the second quarter of 2012.

Under the terms of the Short-term Bonds, we have undertaken to investors to, among others, (1) disclose our corporate information in a full, fair, accurate and timely manner in accordance with PRC legal requirements, and that the disclosure contains or will contain no false or misleading statements or material omissions; (2) pay the principal and interest of the Short-term Bonds in a timely manners; and (3) for the duration of the Short-term Bonds, be subject to the regulation and supervision of the PRC National Association of Financial Market Institutional Investors. The events of default for the Short-term Notes include, among others, default in the payment of principal or interest when due, and dissolution, bankruptcy, and default in payment of other material indebtedness. If any event occurs that materially or may materially affect the repayment of the Short-term Notes, we will need to make full and timely disclosure of such event and/or organize a bondholder's meeting to deal with such event.

Mid-term Notes ("Mid-term Notes")

We had entered into an underwriting agreement with Guangdong Development Bank and China Bohai Bank on 21 June 2011 for the issuance of mid-term notes in an aggregate amount of RMB500.0 million and received an approval from National Association of Financial Market Institutional Investors of the PRC (中國銀行間市場交易商協會) dated 23 November 2011 for the offering of these mid-term notes. We issued the first tranche Mid-term Notes in a principal amount of RMB300.0 million on 6 December 2011 for a term of three years, carrying an interest rate of 8.4% per annum, calculated and payable on an annual basis. We expect to issue the second tranche Mid-term Notes in a principal amount of RMB200.0 million in the second quarter of 2012.

Under the terms of the Mid-term Notes, we have undertaken to investors to, among others, (1) disclose our corporate information in a full, fair, accurate and timely manner in accordance with PRC legal requirements, and that the disclosure contains or will contain no false or misleading statements or material omissions; (2) pay the principal and interest of the Mid-term Notes in a timely manners; and (3) for the duration of the Mid-term Notes, be subject to the regulation and supervision of the PRC National Association of Financial Market Institutional Investors.The events of default for the Mid-term Notes include, among others, default in the payment of principal or interest when due, and dissolution, bankruptcy, and default in payment of other material indebtedness. If any event occurs that materially or may materially affect the repayment of the Mid-term Notes, we will need to make full and timely disclosure of such event and/or organize a bondholder's meeting to deal with such event.

INDEPENDENT AUDITORS

The audited consolidated financial statements of the Company as of and for each of the years ended December 31, 2008, 2009, 2010 and 2011, included in this offering memorandum, have been audited by Deloitte Touche Tohmatsu, independent auditors, as stated in their report for the years ended December 31, 2008, 2009, 2010 and the six months ended June 30, 2011 and the Independent Auditor's Report for the year ended December 31, 2011, in each case, included in this offering memorandum.

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, Deloitte Touche Tohmatsu 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.

LISTING AND GENERAL INFORMATION

Consents

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands, 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 April 17, 2012.

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 audited financial statements for the two most recently completed fiscal years may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the Company.

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			
Regulation S Global Notes.			

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

Listing of the Notes

Approval in-principle has been received for the listing of the Notes on 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 STATEMENTS

Audited financial statements as of and for the year ended December 31, 2011

Audited financial statements as of and for the three years ended December 31, 2008, 2009 and 2010 and as of and for the six months ended June 30, 2011 and unaudited financial statements as of and for the six months ended June 30, 2010

Deloitte.
德勤

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Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

TO THE MEMBERS OF CHINA TIANRUI GROUP CEMENT COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Tianrui Group Cement Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 3 to 62, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011	2010
		RMB'000	RMB'000
Revenue	6, 7	8,263,395	6,129,438
Cost of sales		(5,830,467)	(5,080,258)
Gross profit		2,432,928	1,049,180
Other income	8	293,817	188,454
Selling and distribution expenses		(260,783)	(225,473)
Administrative expenses		(296,832)	(174,604)
Other expenses		(7,308)	(7,587)
Finance costs	9	(475,269)	(303,266)
Profit before tax		1,686,553	526,704
Income tax expense	10	(413,365)	(128,917)
Profit for the year and total comprehensive income for the year	11	1,273,188	397,787
Profit for the year and total comprehensive income for the year attributable to:			
Owners of the Company		1,274,538	396,833
Non-controlling interest		(1,350)	954
		1,273,188	397,787
Earnings per share			
Basic	13	0.63	0.20
Diluted	13	0.63	0.20

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2011

	Notes	2011	2010
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	10,034,915	8,666,714
Deposits paid	16	230,563	473,472
Prepaid lease payments	17	602,491	499,927
Mining rights	18	222,533	228,500
Goodwill	19	12,275	12,275
Interest in an associate	20	—	—
Available-for-sale investments	21	—	4,000
Amounts due from related parties	24	—	28,070
Deferred tax assets	34	15,285	8,528
		11,118,062	9,921,486
CURRENT ASSETS			
Inventories	22	1,203,151	800,861
Trade and other receivables	23	2,454,932	1,179,917
Available-for-sale investments	21	4,000	—
Amounts due from related parties	24	572	12,618
Investments held for trading	25	250,000	—
Restricted bank balances	26	1,974,648	1,423,888
Cash and bank balances	27	232,480	343,396
		6,119,783	3,760,680
CURRENT LIABILITIES			
Trade and other payables	28	4,201,433	3,577,309
Amounts due to related parties	29	639	10,325
Income tax payable		110,629	83,886
Short term debenture	30	500,000	500,000
Borrowings - due within one year	31	4,946,852	3,777,373
		9,759,553	7,948,893
NET CURRENT LIABILITIES		3,639,770	4,188,213
TOTAL ASSETS LESS CURRENT LIABILITIES		7,478,292	5,733,273
CAPITAL AND RESERVES			
Issued capital/paid-in capital	37	19,505	1,397,135
Reserves		3,191,882	980,924
Retained earnings		2,304,573	1,158,053
Equity attributable to owners of the Company		5,515,960	3,536,112
Non-controlling interest		38,650	—
TOTAL EQUITY		5,554,610	3,536,112

	Notes	2011	2010
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Borrowings - due after one year	31	1,410,010	2,021,000
Mid-term debenture	32	300,000	—
Other payables	33	30,237	34,237
Deferred tax liabilities	34	24,222	23,623
Deferred income	35	149,804	111,726
Provision for environmental restoration	36	9,409	6,575
		1,923,682	2,197,161
		7,478,292	5,733,273

The consolidation financial statements on pages F-67 to F-114 were approved and authorised for issue by the board of directors on 23 March 2012 and signed on its behalf by:

Li Liufa	**Li Heping**
DIRECTOR	DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Issued capital/ paid-in capital	Share premium	Capital reserve	Statutory reserve fund	Other reserve	Revaluation reserve	Retained earnings	Attributable to owners of the Company	Non-controlling interest	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 37)		(note i)	(note ii)	(note iii)	(note iv)				
At 1 January 2010	1,397,135	—	789,990	111,438	—	31,768	805,517	3,135,848	5,477	3,141,325
Profit for the year and total comprehensive income for the year	—	—	—	—	—	—	396,833	396,833	954	397,787
Acquisition of additional interest in a subsidiary	—	—	—	—	3,431	—	—	3,431	(6,431)	(3,000)
Transfer	—	—	—	44,297	—	—	(44,297)	—	—	—
At 31 December 2010	1,397,135	—	789,990	155,735	3,431	31,768	1,158,053	3,536,112	—	3,536,112
Profit for the year and total comprehensive income for the year	—	—	—	—	—	—	1,274,538	1,274,538	(1,350)	1,273,188
Issue of shares for reorganization	8	—	—	—	—	—	—	8	—	8
Reserve arising from reorganization (note v)	(1,397,135)	565,516	—	—	831,615	—	—	(4)	—	(4)
Capitalisation of shares	16,240	(16,240)	—	—	—	—	—	—	—	—
Issue of new shares to public	3,257	781,659	—	—	—	—	—	784,916	—	784,916
Issue costs of new shares	—	(79,610)	—	—	—	—	—	(79,610)	—	(79,610)
Capital injection by non-controlling shareholders to Tianjin Tianrui Cement Company Limited	—	—	—	—	—	—	—	—	40,000	40,000
Transfer	—	—	—	128,018	—	—	(128,018)	—	—	—
At 31 December 2011	19,505	1,251,325	789,990	283,753	835,046	31,768	2,304,573	5,515,960	38,650	5,554,610

Note:

i Capital reserve represents the excess of capital injection over the registered capital of Tianrui Group Cement Company Limited (the "Tianrui Cement").

ii According to the relevant requirements in the memorandum of the People's Republic of China (the "PRC") subsidiaries, a portion of their profits after taxation is transferred to statutory reserve fund. The transfer to this fund must be made before the distribution of dividend to the equity owners. The statutory reserve fund can be used to make up previous years' losses, if any. The statutory reserve fund is non-distributable other than upon liquidation.

iii Pursuant to an equity transfer agreement with non-controlling interest of a subsidiary, Tianrui Cement acquired the remaining interest in a subsidiary at a consideration of RMB3,000,000 in 2010. Other reserve represents the difference between the consideration paid by Tianrui Cement and the carrying amount of non-controlling interests being acquired. In addition, it also includes the reserve arising from the reorganization set out in Note 2.(1).

iv The revaluation reserve represents the revaluation surplus of previously held interests in associates of Tianrui Cement recognized directly in equity when Tianrui Cement acquired additional interests in those entities and obtained control.

v The China Tianrui Group Cement Company Limited (the "Company") was incorporated on 7 February 2011 and became the ultimate holding company of Zhong Yuan Cement Company Limited (the "Zhong Yuan Cement") and China Tianrui (Hong Kong) Company Limited (the "Tianrui (HK)") and Tianrui Cement and its subsidiaries (collectively referred to as the "Group") on 8 April 2011. As part of reorganization, Yu Kuo Company Limited applied a bridging loan in the net amount of USD87,433,333 to pay up 474,526 shares. The amount of USD87,433,333 (equal to approximately RMB565,516,000) in excess of the par value of 474,526 shares was recognized in share premium upon the completion of the corporate reorganization (the "Corporate Reorganization") (details refer to Note 2.(1)).

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	2010
	RMB'000	RMB'000
Operating activities		
Profit before taxation	1,686,553	526,704
Adjustments for:		
Release of deferred income	(5,161)	(2,917)
Interest on bank deposits	(21,577)	(9,091)
Depreciation of property, plant and equipment	498,387	400,523
Finance costs	475,269	303,266
Foreign exchange gain	(11,102)	(8,843)
Amortisation of prepaid lease payments	11,172	9,948
Allowances for bad and doubtful debts	2,070	4,448
Impairment loss of property, plant and equipment	2,561	—
Amortisation of mining rights	10,714	12,118
Loss (gain) on disposal of property, plant and equipment	1,131	(1,434)
Provision for environmental restoration	2,834	2,210
Operating cash flows before movements in working capital	2,652,851	1,236,932
Increase in inventories	(402,290)	(144,825)
Increase in trade and other receivables	(1,269,515)	(586,136)
Increase in held for trading	(250,000)	—
Decrease (increase) in amounts due from related parties	3,869	(1,369)
Increase in trade and other payables	2,085,878	854,173
Decrease in amounts due to related parties	2	—
Cash generated from operations	2,820,795	1,358,775
Income tax paid	(392,780)	(73,752)
Net cash generated from operating activities	2,428,015	1,285,023

	2011	2010
	RMB'000	RMB'000
Investing activities		
Interest received	21,577	9,091
Purchase of property, plant and equipment	(195,940)	(422,795)
Addition of prepaid lease payments	(116,870)	(24,564)
Proceeds from disposal of property, plant and equipment	12,621	2,595
Acquisition of mining rights	(15,850)	(19,469)
Proceeds from disposal of available-for-sale investment	—	5,200
Investment in available-for-sale investment	—	(4,000)
Advances to related parties	(20,367)	(9,777)
Repayment from related parties	56,615	3,600
Deposits paid for property, plant and equipment and prepaid lease payments	(1,397,885)	(1,303,937)
Government subsidies for prepaid lease payments and property, plant and equipment	43,239	17,909
Increase in restricted bank balances	(550,760)	(1,067,974)
Net cash used in investing activities	(2,163,620)	(2,814,121)
Financing activities		
Interest paid	(551,675)	(375,058)
Net proceed from issue of new shares for reorganization	565,520	—
Net proceed from issue of new shares to public	705,306	—
Capital injection from non-controlling shareholders to Tianjin Tianrui	40,000	—
Repayment of borrowings	(3,194,903)	(1,938,330)
New borrowings raised	3,333,846	2,400,226
Advances from related parties	6,309	11,140
Proceeds from bills discounted by the Group	1,065,000	218,500
Settlement from bills discounted by the Group	(634,352)	—
Proceeds from bills payables raised	632,961	753,985
Settlement of bills payables	(2,061,810)	(91,740)
Repayment to related parties	(15,997)	(3,325)
Payment for transfer in of equity interests of Tianrui Cement from Tianrui Group Company Limited	(565,516)	—
Acquisition of additional interest in a subsidiary	—	(3,000)
Issuance of mid-term debenture	300,000	—
Issuance of short-term debenture	500,000	500,000
Repayment of short-term debenture	(500,000)	—
Net cash generated (used in) from financing activities	(375,311)	1,472,398
Decrease in cash and cash equivalents	(110,916)	(56,700)
Cash and cash equivalents at beginning of year	343,396	400,096
Cash and cash equivalents at end of the year represented by cash and bank balances	232,480	343,396

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. GENERAL INFORMATION

China Tianrui Group Cement Company Limited (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 7 February 2011. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 23 December 2011. The registered office of the Company is Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, and its principal place of business is located at No. 63, Guangcheng East Road, Ruzhou City, Henan 467500, the PRC.

The Company is an investment holding Company. The principal activity of its subsidiaries are manufacture and sale of cement and clinker. (See Note 46)

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION OF CONSOLIATED FINANCIAL STATMENTS

(1) **Corporate Reorganization**

Prior to the reorganization, Tianrui Group Company Limited ("Tianrui Group") (天瑞集團有限公司) (ultimately controlled by Mr. Li Liufa (李留法) and Mr. Li Xuanyu (李玄煜), Titan Cement Limited ("Titan Cement"), International Finance Corporation ("IFC"), JPMorgan PCA Holdings (Mauritius) I Limited ("JPMG PCA") and Wan Qi Company Limited ("Wan Qi") each owned equity interest of Tianrui Cement of 47.5%, 20%, 3.6%, 10.03% and 18.87%, respectively.

In preparing the listing of the Company's shares on the Main Board of the Stock Exchange, the following steps have been carried out:

(a) On 7 April 2010, Yu Kuo Company Limited ("Yu Kuo") and Zhong Yuan Cement Company Limited (" Zhong Yuan Cement") were incorporated in the BVI. Yu Kuo subscribed for one share in Zhong Yuan Cement at par. The ultimate shareholders of Yu Kuo are Mr. Li Liufa (李留法) and Mr. Li Xuanyu (李玄煜). On 16 April 2010, Tianrui (HK) was incorporated in Hong Kong. Tianrui (HK) alloted and issued one share to initial subscriber who then transferred the same to Zhong Yuan Cement at par value on the same date. Zhong Yuan Cement became the (i) wholly owned subsidiary of Yu Kuo and (ii) immediate holding company of Tianrui (HK).

On 7 February 2011, the Company was incorporated in the Cayman Islands with one registered share at par value of HK$0.01 and fully paid by Yu Kuo. Pursuant to the equity transfer agreement dated 21 February 2011, the Company issued 473 shares to Yu Kuo in exchange for the 100% equity interest of Zhong Yuan Cement. Yu Kuo became the immediate holding company of the Company and the Company became the immediate holding company of Zhong Yuan Cement.

(b) On 22 March 2011, Tianrui Group entered into an equity transfer agreement with Tianrui (HK), pursuant to which, Tianrui Group transferred 47.5% equity interest in Tianrui Cement to Tianrui (HK) at a consideration of approximately USD87,433,333.

(c) On 22 March and 2 April 2011, the Company, Yu Kuo, Titan Cement, IFC, JPMG PCA and Wan Qi entered into various equity transfer agreements and a subscription agreement, pursuant to which, the Company agreed to allot and issue (i) 474,526 shares to Yu Kuo at a consideration of USD87,433,333; (ii) 200,000 shares to Titan Cement, 36,000 shares to IFC, 100,300 shares to JPMG PCA and 188,700 shares to Wan Qi , credited as fully paid to exchange their respective equity interests in Tianrui Cement.

(d) On 8 April 2011, Titan Cement transferred 200,000 shares to its sole shareholder, Titan Investments S.à r.l. ("Titan Investments (Luxembourg"). On the same date, Titan Investments (Luxembourg) transferred the aforesaid 200,000 shares to its sole shareholder, Titan Investments Limited ("Titan Investments (Cayman)"). Upon completion of these transfers, all of the shares previously held by Titan Cement were directly held by Titan Investment (Cayman) and there is no change of ultimate beneficial interest of these shares.

Upon completion of the above steps on 8 April 2011, the Company became the ultimate holding company of Tianrui Cement. Yu Kuo (ultimately controlled by Mr. Li Liufa (李留法) and Mr. Li Xuanyu (李玄煜), Titan Investment (Cayman) (holding company of Titan Cement), IFC, JPMG PCA and Wan Qi each owned 47.5%, 20%, 3.6%, 10.03% and 18.87% equity interests in the Company respectively which mirrors their respective percentage of equity interest in Tianrui Cement before the reorganization set out above. Accordingly, the Group resulting from the reorganization is regarded as a continuation of Tianrui Cement.

The consolidated financial statements of the Group have been prepared as if the Company had always been the holding company of the Group. The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the reporting periods have been prepared as if the group structure after the reorganization had been in existence throughout the reporting periods, or since the respective dates of incorporation/establishment of the relevant entities where this is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2010 have been prepared to present the assets and liabilities of the entities now comprising the Group which were in existence at that date.

(2) **Going Concern Basis**

As at 31 December 2011, the Group's current liabilities exceeded its current assets by RMB3,639,770,000. The Group's current liabilities mainly included trade and other payables and borrowings.

In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis. In the opinion of the directors of the Company, the Group should be able to continue as a going concern in the coming twelve months taking into consideration of various measures to improve its financial position which include, but are not limited to, the following:

(i) banking facilities of RMB2,570,000,000 in aggregate are available which are obtained before 31 December 2011, which comprised of:

(a) a banking facility of RMB1,180,000,000 from the Bank of China which is available until 31 December 2012;

(b) a banking facility of RMB1,390,000,000 from the Agricultural Bank of China which is available until 22 June 2013;

(ii) In October 2010, the Company obtained approval from the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) to issue short term debentures in an aggregate amount of RMB1,000,000,000. The Group has repaid the first tranche debentures of RMB500,000,000 in November 2011 which has been re-issued in January 2012. The Group further issued the second tranche debentures of RMB500,000,000 in March 2011, which is repayable in March 2012.

The directors of the Company is of the view that the Group is able to identify investors and issue new debentures shortly after the settlement of the existing short term debentures on the respective maturity dates.

(iii) In November 2011, the Company obtained approval from the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) to issue mid-term debentures in an aggregate amount of RMB500,000,000, of which RMB300,000,000 was issued on 6 December 2011 for a term of three years, carrying an interest rate of 8.4% per annum. The second tranche of mid-term debenture amount to RMB200,000,000 will be issued in April 2012.

Taking into account of the aforesaid presently available banking facilities, debentures and internally generated funds of the Group, the directors of the Company are satisfied that the Group is able to meet in full its financial obligations as they fall due in the foreseeable future and therefore the consolidated financial statements are prepared on a going concern basis.

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the following new and revised standards, amendments and interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board has been effective.

Amendments to IFRSs	Improvements to IFRSs issued in 2010
IAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to IAS 32	Classification of Rights Issues
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

At the date of this report, the following new and revised IFRSs have been issued which are not yet effective:

IFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[1]
IFRS 7 (Amendments)	Disclosures - Offsetting Financial Assets and Financial Liabilities[2]
IFRS 9	Financial Instruments[3]
IFRS 9 and IFRS 7 (Amendments)	Mandatory Effective Date and Transition Disclosures[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[3]
IAS 19 (Revised 2011)	Employee Benefits[2]
IAS 27 (Revised 2011)	Separate Financial Statements[2]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[2]

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[1] *Effective for annual periods beginning on or after 1 July 2011*

[2] *Effective for annual periods beginning on or after 1 January 2013*

[3] *Effective for annual periods beginning on or after 1 January 2015*

[4] *Effective for annual periods beginning on or after 1 January 2012*

[5] *Effective for annual periods beginning on or after 1 July 2012*

[6] *Effective for annual periods beginning on or after 1 January 2014*

IFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 *Financial Instruments* (as revised in October 2010) adds requirements for financial liabilities and for derecognition.

Under IFRS 9, all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The management anticipated that IFRS 9 will be adopted in the Group's consolidated financial statements for the year ending 31 December 2015 and that the application of the new standard is not expected to have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2011.

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope. IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that the application of the other new or revised standards and amendments will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below which conform with IFRSs. These polices have been consistently applied throughout the reporting periods.

In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Companies Ordinance.

The principle accounting policies are set out below.

Basis of combination

The consolidated financial statements incorporate the financial statements of the subsidiaries controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on combination.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Total comprehensive income of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiary

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the acquisition date less any accumulated impairment losses, if any and is presented separately in the consolidated statements of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

Investment in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statements of financial position at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and other comprehensive income of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interest that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

When a group entity transacts with its associate, profits and losses resulting from the transaction with the associate are recognized in the financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognized when goods are delivered and legal title is passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year in which the item is derecognized.

Mining rights

Mining rights acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of mining rights with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Land use right

Prepaid lease payments represent payments made to acquire land use rights and are amortised on a straight-line basis over the term of the land use rights.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of relevant lease.

The Group as lessee

Operating leases payment is recognized as an expense on a straight-line basis over the term of the relevant lease.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency (foreign currencies) are recorded in the respective functional currency at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at those dates. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, goverment grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefits costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contribution.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs are calculated using the weighted average method. Net realizable value represents the estimated selling price for inventories less estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables, available-for-sale and held for trading financial assets. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that requires delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties, restricted bank balances and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale investments measured at fair value at the end of each reporting period, changes in fair value are recognized in other comprehensive income and accumulated in equity. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the equity is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other income' of the consolidated statement of comprehensive income.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as 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 financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at the amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the group entities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognized on an effective interest basis

Financial liabilities

The Group's financial liabilities including trade and other payables, amounts due to related parties, short term debenture, mid-term debenture and borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognized as an expense.

Transaction costs related jointly to concurrent offering of some shares and listing of shares are allocated using a basis of allocation that is rational and consistent with similar transactions.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognize the financial assets and recognize a collateralised borrowing for proceeds received.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Provision for environmental restoration

The Group is required to incur costs for environment restoration after the underground sites have been mined. Provision for restoration costs were recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provision is measured at the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the management is required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and the future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group assesses annually the residual value and the remaining useful life of property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation charges in the current year in which the estimates change and in future periods.

Estimated impairment of trade receivables

Where there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amount of trade receivables are RMB203,558,000 (net of allowance for doubtful debts of RMB33,301,000) (31 December 2010: RMB192,165,000 (net of allowance for doubtful debts of RMB31,231,000)).

6. REVENUE

Revenue represents the amount received and receivable for goods sold to external customers, net of sales tax.

An analysis of the Group's revenue for the year is as below:

	2011	2010
	RMB'000	RMB'000
Sales of cement	6,530,507	4,992,139
Sales of clinker	1,732,888	1,137,299
	8,263,395	6,129,438

7. SEGMENT INFORMATION

Segment information has been identified on the basis of internal management reports, which are regularly reviewed by the chief executive officer (being the chief operating decision maker) in order to allocate resources to the operating segments and to assess their performance.

The Group's chief executive officer reviews the operating results and financial information of each manufacturing plant for the purposes of resource allocation and performance assessment. Hence, each manufacturing plant is an operating segment. The nature of products, production process of each manufactory plant is the same and they are operated under similar regulatory environment and applied similar distribution methods. However, customers in different regions are of different economic characteristics. Therefore, the Group has aggregated the operating segments and presented the following two reportable segments based on the regions in which the Group operates: Central China and Northeast China.

The following is an analysis of the Group's revenue and results by reportable segment:

	Segment revenue		Segment profit	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Central China	5,579,384	4,403,309	1,147,820	435,933
Northeastern China	2,684,011	1,726,129	571,344	114,211
Total	8,263,395	6,129,438	1,719,164	550,144
Unallocated corporate administrative expenses			(32,611)	(23,440)
Profit before taxation			1,686,553	526,704

The accounting policies of the reportable segments are the same as the Group's accounting polices described in Note 4. Segment profit represents the profit before taxation without allocation unallocated corporate administrative expense including directors' emoluments.

Segment revenues are derived from sales to external customers. There are no inter-segment sales.

The following is an analysis of the Group's assets and liabilities by reportable segment:

	2011	2010
	RMB'000	RMB'000
SEGMENT ASSETS		
Central China	9,868,981	8,321,595
Northeast China	4,839,078	3,580,759
Total segment assets	14,708,059	11,902,354
Available-for-sale investments	4,000	4,000
Investments held for trading	250,000	—
Deferred tax assets	15,285	8,528
Trade and other receivables	53,373	—
Restricted bank balances	1,974,648	1,423,888
Cash and bank balances	232,480	343,396
Total assets	17,237,845	13,682,166
SEGMENT LIABILITIES		
Central China	7,114,457	6,710,804
Northeast China	4,415,695	3,327,741
Total segment liabilities	11,530,152	10,038,545
Deferred tax liabilities	24,222	23,623
Income tax payable	110,629	83,886
Trade and other payables	18,232	—
Total liabilities	11,683,235	10,146,054

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than available-for-sale investments, investments held for trading, deferred tax assets, cash and bank balances, restricted bank balances; and

- all liabilities are allocated to reportable segments other than deferred tax liabilities and income tax payable.

Other segment information

Amounts included in the measure of segment profit and segment assets:

For the year ended 31 December 2011

	Central China	Northeast China	Total
	RMB'000	RMB'000	RMB'000
Additions to property, plant & equipment	739,216	1,143,685	1,882,901
Additions to prepaid lease payments	46,753	70,117	116,870
Additions to mining rights	4,747	—	4,747
Finance costs	281,898	193,371	475,269
Provision for environmental restoration	2,062	772	2,834
Impairment of property, plant and equipment	2,561	—	2,561
Depreciation and amortisation	374,174	146,099	520,273
Allowances for bad and doubtful debts	3,090	(1,020)	2,070
Gain (loss) on disposal of property, plant and equipment	683	(1,814)	(1,131)
Value Added Tax refund	(125,248)	(39,176)	(164,424)
Foreign exchange gain, net	(10,790)	(312)	(11,102)
Incentive subsidies	(29,983)	(14,978)	(44,961)
Interest on bank deposits	(14,127)	(7,450)	(21,577)

For the year ended 31 December 2010

	Central China	Northeast China	Total
	RMB'000	RMB'000	RMB'000
Additions to property, plant & equipment	1,146,812	604,838	1,751,650
Additions to prepaid lease payments	24,564	—	24,564
Additions to mining rights	18,445	—	18,445
Finance costs	208,176	95,090	303,266
Provision for environmental restoration	1,666	544	2,210
Depreciation and amortisation	313,049	109,540	422,589
(Reversal) allowances for bad and doubtful debts	(379)	4,827	4,448
Gain (loss) on disposal of property, plant and equipment	1,148	286	1,434
Value Added Tax refund	(96,279)	(18,184)	(114,463)
Foreign exchange gain, net	(7,417)	(1,426)	(8,843)
Incentive subsidies	(16,298)	(17,479)	(33,777)
Interest on bank deposits	(6,335)	(2,756)	(9,091)

Revenue from major products has been disclosed in Note 6. All of the Group's operations, as well as all external customers and its non-current assets, are located in the PRC.

No revenue from a single customer or a group of customers under common control contributing over 10% of the total revenue of the Group for the year ended 31 December 2011.

8. OTHER INCOME

	2011	2010
	RMB'000	RMB'000
Value Added Tax refund	164,424	114,463
Incentive subsidies (Note)	44,961	33,777
Foreign exchange gain, net	11,102	8,843
Interest on bank deposits	21,577	9,091
Rental income	2,486	2,404
Release of deferred income (Note 35)	5,161	2,917
Gain on sales of scrap	35,936	9,789
Gain on disposal of property, plant and equipment	—	1,434
Others	8,170	5,736
	293,817	188,454

Note: Amounts mainly represent subsidies granted by certain local governments for encouraging domestic business development.

9. FINANCE COSTS

	2011	2010
	RMB'000	RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	366,346	319,047
Bank borrowings not wholly repayable within five years	—	16,836
Other payables	1,672	1,944
Bills discounted with recourse	134,697	52,629
Short term debenture	31,613	1,708
Mid-term debenture	1,495	—
Imputed interest on other payables	901	876
	536,724	393,040
Less: amounts capitalised	(61,455)	(89,774)
	475,269	303,266

The borrowing costs on general borrowing pool capitalized are calculated by applying capitalization rate of 6.15% per annum for the year ended 31 December 2011 (2010: 6.1% per annum).

10. INCOME TAX EXPENSES

	2011	2010
	RMB'000	RMB'000
PRC Enterprise Income Tax ("EIT")		
- current year	418,002	127,757
- under-provision in prior years	1,521	1,834
	419,523	129,591
Deferred tax (Note 34)	(6,158)	(674)
	413,365	128,917

No provision for Hong Kong taxation has been made during the year as the Group's income neither arisen nor is derived from Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "PRC EIT Law") and Implementation Regulation of the PRC EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to Ping Guo Shui Han 2007 No. 59 issued by the State Administration of Taxation at Pingdingshan, Henan province, the PRC, Tianrui Cement was entitled to an exemption from EIT in year 2007 and 2008, followed by a 50% relief for year 2009 to 2011.

The income tax expenses for the year can be reconciled to profit before taxation per consolidated statements of comprehensive income as follows:

	2011	2010
	RMB'000	RMB'000
Profit before taxation	1,686,553	526,704
Tax at the applicable rate of 25%	421,638	131,676
Tax effect of expenses that are not deductible	7,083	4,150
Tax effect of concessionary rate	(5,076)	478
Effect of tax incentives (Note)	(9,782)	(6,871)
Tax effect of tax losses not recognized	2,795	1,623
Utilisation of tax losses previously not recognized	(3,865)	(3,219)
Under-provision in prior years	1,521	1,834
Others	(949)	(754)
Tax charge for the year	413,365	128,917

Note: According to Caishui (2008) No.48 and Caishui (2008) No.115 issued by the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission, for the year ended 31 December 2011, the Group obtained incentives of additional deduction from local tax authorities for purchase of environmental protection equipments of RMB39,128,000 (2010: RMB27,484,000).

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	2011	2010
	RMB'000	RMB'000
Depreciation of property, plant and equipment	498,387	400,523
Amortisation of prepaid lease payments	11,172	9,948
Amortisation of mining rights, included in cost of sales	10,714	12,118
Total depreciation and amortisation	520,273	422,589
Cost of inventories recognized as an expense	5,830,467	5,080,258
Staff costs including retirement benefit	220,006	147,567
Allowances for bad and doubtful debts, included in other expenses	2,070	4,448
Impairment of property, plant and equipment	2,561	—
Auditor's remuneration	2,530	2,250
Loss (gain) on disposal of property, plant and equipment	1,131	(1,434)
Listing expense	34,545	—

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

The executive and non-executive directors were appointed in 23 December 2011 and their emoluments is payable from 23 December 2011, the date of listing of the Company's shares on the Main Board of the Stock Exchange. Before the appointment, their emoluments were born by Tianrui Group. Details of the emoluments paid to the directors of the Company for the year are as follows:

	2011
	RMB'000
Salaries and allowances	—
Retirement benefit scheme contribution	—
	—
Executive directors:	
Mr. Li Heping	—
Mr. Yu Yagang	—
Mr. Liu Wenying	—
Non-Executive directors:	
Mr. Li Liufa	—
Mr. Tang Ming Chien	—
Mr. Wang Yanmou	—
Mr. Poon Chiu Kwok	—
Mr. Song Quanqi	—
Mr. Ma Chun Fung Horace	—
	—

No directors waived or agreed to waive any emoluments during the year.

Employees

Of the five individuals with the highest emoluments in the Group during the year, none is director of the Company for the year ended 31 December 2011(2010: None). The details of the emoluments paid to the five highest paid individuals during the year are as follows:

	2011	2010
	RMB'000	RMB'000
Salaries and other allowances	720	480
Bonus	1,963	1,635
Retirement benefit scheme contribution	55	33
	2,738	2,148

The emolument of each of the above employees is below HK$1,000,000 (equivalent to approximately RMB810,700).

No emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company for the each of reporting period is based on the following data:

	2011	2010
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to owners of the Company (in thousands)	1,274,538	396,833
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share (in thousands)	2,009,885	2,000,000
Effect of dilutive potential ordinary shares:		
Over-allotment options	296	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,010,181	2,000,000

The calculation of the basic earnings per share is based on the consolidated profit of the Group attributable to owners of the Company for the years ended 31 December 2010 and 2011 and assuming 2,000,000,000 shares and 2,009,885,000 shares of the Company were in issue during the year ended 31 December 2010 and 2011 respectively after taking into account the reorganization and capitalization issue (details refer to Note 37).

14. DIVIDEND

No dividend has been paid or declared by any group entities during the both years.

15. **PROPERTY, PLANT AND EQUIPMENT**

	Buildings	Plant and machinery	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2010	2,954,337	3,902,473	80,596	67,772	1,202,383	8,207,561
Additions	156,958	236,630	18,772	5,267	1,334,023	1,751,650
Disposals	—	(4,249)	(5,842)	(11)	—	(10,102)
Transfer	760,898	1,202,397	—	—	(1,963,295)	—
At 31 December 2010	3,872,193	5,337,251	93,526	73,028	573,111	9,949,109
Additions	178,656	69,767	12,931	4,697	1,616,850	1,882,901
Disposals	(2,748)	(11,722)	(5,554)	(596)	—	(20,620)
Transfer	723,735	588,692	—	—	(1,312,427)	—
At 31 December 2011	4,771,836	5,983,988	100,903	77,129	877,534	11,811,390
DEPRECIATION AND IMPAIRMENT						
At 1 January 2010	221,397	584,787	34,177	45,183	—	885,544
Provided for the year	101,548	272,309	14,925	11,741	—	400,523
Eliminated on disposals	—	(392)	(3,272)	(8)	—	(3,672)
At 31 December 2010	322,945	856,704	45,830	56,916	—	1,282,395
Provided for the year	128,515	337,825	15,710	16,337	—	498,387
Impairment loss recognised in profit or loss	2,315	246	—	—	—	2,561
Eliminated on disposals	(223)	(1,949)	(4,166)	(530)	—	(6,868)
At 31 December 2011	453,552	1,192,826	57,374	72,723	—	1,776,475
CARRYING AMOUNTS						
At 31 December 2010	3,549,248	4,480,547	47,696	16,112	573,111	8,666,714
At 31 December 2011	4,318,284	4,791,162	43,529	4,406	877,534	10,034,915

Buildings are located in the PRC on medium term leasehold land. The above items of property, plant and equipment, other than construction in progress, are depreciated over their useful lives, after taking into account the estimated residual value, on a straight-line basis:

Buildings	30 years
Plant and machinery	5-15 years
Motor vehicles	5 years
Office equipment	5 years

During the year, the management conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired due to technical obsolescence. Accordingly, impairment losses of RMB2,561,000 has been recognized in respect of factory buildings, plant and machinery, which are used for cement production in Lushan Xian Antai Cement Company Limited, a subsidiary of the Group. The recoverable amounts of the relevant assets have been identified individually and fully impaired.

Details of the property, plant and equipment pledged by the Group to secure the bank borrowings granted to the Group are set out in Note 38.

The carrying amounts of buildings, which the application to obtain the ownership certificates is still in process, are approximately RMB21,443,000 as at 31 December 2011 (31 December 2010: RMB21,859,000).

16. DEPOSITS PAID

As at 31 December 2011 and 2010, amounts represented deposits paid for acquiring property, plant and equipment and land use rights.

17. PREPAID LEASE PAYMENTS

	Prepaid lease payments
	RMB'000
At 1 January 2010	497,037
Additions	24,564
Capitalised to construction in progress	(889)
Amortisation charged to profit or loss	(9,948)
At 31 December 2010	510,764
Additions	116,870
Capitalised to construction in progress	(1,170)
Amortisation charged to profit or loss	(11,172)
At 31 December 2011	615,292

Analysis for reporting purposes as:

	2011	2010
	RMB'000	RMB'000
Current assets included in trade and other receivables (Note 23)	12,801	10,837
Non-current assets	602,491	499,927
	615,292	510,764

The carrying amounts of land use right, which the application to obtain the certificates is still in process, are approximately RMB56,961,000 as at 31 December 2011 (31 December 2010: RMB57,605,000).

Prepaid lease payments represent medium-term land use right in the PRC and are amortised over the lease term of the respective leases.

Details of the land use rights pledged by the Group to secure the bank borrowings granted to the Group are set out in Note 38.

18. MINING RIGHTS

	Mining rights
	RMB'000
COST	
At 1 January 2010	237,725
Additions	18,445
At 31 December 2010	256,170
Additions	4,747
At 31 December 2011	260,917
ACCUMULATED AMORTISATION	
At 1 January 2010	15,552
Amortisation	12,118
At 31 December 2010	27,670
Amortisation	10,714
At 31 December 2011	38,384
CARRYING AMOUNTS	
At 31 December 2010	228,500
At 31 December 2011	222,533

The useful lives of the mining rights in respect of limestone sites located in the PRC, mainly ranged from 10-33 years.

Details of the mining rights pledged by the Group to secure the bank loans granted to the Group are set out in Note 38.

19. GOODWILL

For the purposes of impairment testing, goodwill has been allocated to two cash generating units ("CGUs"), comprising two subsidiaries in the Central China segment. The carrying amounts of goodwill as at 31 December 2011 and 2010 allocated to these units are as follows:

	As at 1 January 2010, 31 December 2010 and 2011
	RMB'000
Central China segment:	
Weihui Shi Tianrui Cement Company Limited	10,502
Zhengzhou Tianrui Cement Company Limited	1,773
	12,275

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amounts of the relevant CGUs have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the respective subsidiary covering a one-year period with growth rates of 1% for the following 4 years and discount rate of 7.1% as at 31 December 2011 (31 December 2010: 6.6%), respectively. This growth rate is based on the industry growth forecasts and does not exceed the average medium-term growth rate for the relevant industry. The cash flows beyond the five-year period are extrapolated using zero growth rate. Another key assumption for the value in use calculated is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development.

The management determines that there are no impairment of any of its CGUs containing goodwill as at 31 December 2011.

20. INTEREST IN AN ASSOCIATE

	2011	2010
	RMB'000	RMB'000
Cost of investment in an associate	120,000	120,000
Share of post-acquisition losses	(120,000)	(120,000)
	—	—

Details of the associate as at 31 December 2011 is as follows:

Name of company	Place and date of incorporation	Registered capital	Attributable equity interest to the Group	Principal activities
		RMB'000		
Pingdingshan Ruiping Shilong Cement Company Limited 平頂山瑞平石龍水泥有限公司	The PRC 12 September 2005	300,000	40%	Manufacture and sale of clinker

The summarised financial information in respect of the Group's associate is set out below:

	2011	2010
	RMB'000	RMB'000
Total assets	747,245	738,576
Total liabilities	859,545	816,574
Net liabilities	(112,300)	(77,998)
Group's share of net assets of associate	—	—
Revenue	340,707	49,748
Loss for the year	(34,302)	(77,327)
Group's share of losses of the associate for the year	—	—

The Group has discontinued recognition of its share of losses of the associate. The amounts of unrecognized share of loss of the associate, extracted from the financial statements of the associate prepared in accordance with International Financial Reporting Standards, are as follows:

	2011	2010
	RMB'000	RMB'000
Unrecognized share of loss of the associate for the year	13,720	30,931
Accumulated unrecognized share of loss of the associate	44,920	31,200

21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2011	2010
	RMB'000	RMB'000
Listed investment, at fair value (Note)	4,000	4,000

Note: As at 31 December 2011 and 2010, the amount represents investment in a listed open-ended fund on Shenzhen Stock Exchange. During the year 2011, the listed investment is reclassed as current assets because the Group has a plan to dispose this investment within twelve months from the end of current year.

22. INVENTORIES

	2011	2010
	RMB'000	RMB'000
Raw materials and consumables	761,821	572,165
Work-in-progress	6,755	9,585
Finished goods	434,575	219,111
	1,203,151	800,861

23. TRADE AND OTHER RECEIVABLES

	2011	2010
	RMB'000	RMB'000
Trade receivables	236,859	223,396
Less: allowances for bad and doubtful debts	33,301	31,231
	203,558	192,165
Bills receivables	1,159,789	498,686
Advance to suppliers	866,217	255,974
Value Added Tax refund receivables	18,849	37,014
Prepayment for various tax	74,063	129,024
Prepaid lease payments (Note 17)	12,801	10,837
Other receivables	119,655	56,217
	2,454,932	1,179,917

Bills receivables amounted to RMB430,649,000 as at 31 December 2011(31 December 2010: RMB218,500,000) were discounted to banks to obtain borrowings. (See Note 31)

Generally, the Group did not make credit sales to customers, except for sales made to major construction contractors and strategic customers with an average credit period of 180 days.

The aged analysis of the Group's trade receivables and bills receivables (net of allowances) from the goods delivery date at the end of each reporting period is as follows:

	2011	2010
	RMB'000	RMB'000
Within 90 days	625,983	376,856
91-180 days	687,188	293,089
181-360 days	19,915	17,463
Over 1 year	30,261	3,443
Total	1,363,347	690,851

Before accepting any new credit customers, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits and credit period attributed to customers are reviewed on a customer by customer basis. Over 90% of trade receivable and bills receivable that are neither past due nor impaired are regarded as customers with good credit quality under the internal assessment process used by the Group.

Included in the Group's trade receivable are debtors with aggregate carrying amount of RMB50,176,000 which are past due as at 31 December 2011 (31 December 2010: RMB20,906,000) for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. No allowance has been provided for those balances as the Group considers that there is no significant change in the credit quality of those customers from the date credit was initially granted up to the end of the reporting period.

The aged analysis of the Group's trade receivables which are past due but not impaired as at the end of each reporting period is as follows:

	2011	2010
	RMB'000	RMB'000
181-360 days	19,915	17,463
Over 1 year	30,261	3,443
Total	50,176	20,906

Movement in the allowance for bad and doubtful debts

	2011	2010
	RMB'000	RMB'000
Balance at beginning of the year	31,231	26,783
Provided for the year	2,070	4,448
Balance at the end of the year	33,301	31,231

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of RMB33,301,000 (31 December 2010: RMB31,231,000) which was considered as uncollectable. The Group does not hold any collateral over these balances.

Details of trade and other receivables pledged by the Group to secure the bank borrowings granted to the Group are set out in Note 38.

24. AMOUNTS DUE FROM RELATED PARTIES

	2011	2010
	RMB'000	RMB'000
Current	572	12,618
Non-current	—	28,070
	572	40,688
Trade in nature	572	4,441
Non-trade in nature	—	36,247
Total	572	40,688

Trade in nature

		2011	2010
		RMB'000	RMB'000
Zhongqing (Ruzhou) Power Company Limited (中青(汝州)電力有限公司)	i	—	1,356
Henan Tianrui Yaoshan Travel Company Limited (河南天瑞堯山旅遊有限公司)	i	—	182
Tianrui Group Tourism Development Company Limited (天瑞集團旅遊發展有限公司)	i	—	1,434
Tianrui Group Yunyang Foundry Company Limited (天瑞集團雲陽鑄造有限公司)	i	—	81
Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司)	ii	572	1,388
		572	4,441

The Group makes credit sales to related parties with a maximum credit period of 180 days.

The aged analysis of the Group's amounts due from related parties (trade in nature) from the goods delivery date as at the end of each reporting period is as follows:

	2011	2010
	RMB'000	RMB'000
Within 90 days	523	1,388
91-180 days	49	—
Over 180 days	—	3,053
	572	4,441

The aged analysis of the Group's amounts due from related parties which are past due but not impaired as at the end of each reporting period is as follows:

	2011	2010
	RMB'000	RMB'000
Over 180 days	—	3,053

No allowance has been provided for those balances as the Group closely monitors the financial position of the relevant related parties and considers those amounts are recoverable up to the reporting date. The Group did not hold any collateral over these balances.

Non-trade in nature

		2011	2010
		RMB'000	RMB'000
Ruzhou Shi Thermal Power Plant (汝州市火電廠)*	i	—	28,070
Ruzhou Tianrui Coking Company Limited (汝州天瑞煤焦化有限公司)**	i	—	1,400
Tianrui Group Yunyang Foundry Company Limited (天瑞集團雲陽鑄造有限公司)**	i	—	1,694
Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司)**	ii	—	5,083
		—	36,247

* *The amounts represent advances for the acquisition of land use rights in the PRC which were currently occupied by Ruzhou Shi Thermal Power Plant (汝州市火電廠) and is therefore classified as non-current assets. The amount has been fully repaid during the year.*

** *The amounts are unsecured, interest-free and repayable on demand.*

Note:

i. Subsidiaries of Tianrui Group Company Limited (天瑞集團有限公司);

ii. An associate of the Group.

25. INVESTMENTS HELD FOR TRADING

	2011	2010
	RMB'000	RMB'000
Investment, at fair value (Note)	250,000	—

Note: As at 31 December 2011, the amount represents fair value of the investment in an open-ended financing products of China Construction Bank.

26. RESTRICTED BANK BALANCES

Restricted bank balances represent deposits pledged to banks for (i) securing bank borrowings granted to the Group amounting to RMB101,750,000 as at 31 December 2011(31 December 2010: RMB171,750,000)(details disclosed in Note 38), and (ii) issuing trade facilities such as bills payable and bankers' guarantee amounting to RMB1,213,583,000 as at 31 December 2011(31 December 2010: RMB1,252,138,000), and (iii) restricted bank balances will be used to repay part of the IFC loan and the Syndicated loan (details refer to Note 31) amounting to RMB659,315,000 as at 31 December 2011(31 December 2010: Nil).

The restricted bank balances carry market interest rate of 0.36% to 3.50% per annum as at 31 December 2011(31 December 2010: 0.36% to 2.75% per annum).

27. CASH AND BANK BALANCES

The amounts represent cash and bank balances held by the Group. As at 31 December 2011, bank balances carry interest at market rates of 0.36% and 0.5% per annum (31 December 2010: 0.36% per annum).

28. TRADE AND OTHER PAYABLES

	2011	2010
	RMB'000	RMB'000
Trade payables	2,319,152	1,247,388
Bills payables	1,014,943	1,653,368
Construction cost and retention payable	360,842	335,822
Advances from customers	228,716	97,162
Other tax payables	65,986	76,516
Other payables - current (Note 33)	8,600	10,999
Payables for mining rights	15,538	22,042
Other payables and accrued expenses	187,656	134,012
	4,201,433	3,577,309

The average credit period on purchases of goods is 90 days.

The aged analysis of the Group's trade and bills payable from the goods receipt date as at the end of each reporting period is as follows:

	2011	2010
	RMB'000	RMB'000
Within 1-90 days	3,094,337	1,826,991
91-180 days	198,251	983,696
181-365 days	15,964	69,052
Over 1 year	25,543	21,017
Total	3,334,095	2,900,756

29. AMOUNTS DUE TO RELATED PARTIES

	2011	2010
	RMB'000	RMB'000
Trade in nature	139	137
Non-trade in nature	500	10,188
	639	10,325

Trade in nature

		2011	2010
		RMB'000	RMB'000
Ruzhou Shi Thermal Power Plant (汝州市火電廠)	i	—	9
Tianrui Group Tourism Development Company Limited (天瑞集團旅遊發展有限公司)	i	—	32
Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司)	ii	139	96
		139	137

The average credit period offered by related parties is 90 days.

The aged analysis of the Group's amounts due to related parties (trade in nature) from service/goods receipt date at the end of each year is as follows:

	2011	2010
	RMB'000	RMB'000
Within 90 days	139	—
Over 90 days	—	137
	139	137

Non-trade in nature

		2011	2010
		RMB'000	RMB'000
Tianrui Group Company Limited (天瑞集團有限公司)		—	688
Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司)	ii	500	500
Tianrui Group Yunyang Foundry Company Limited (天瑞集團雲陽鑄造有限公司)	i	—	9,000
		500	10,188

Note:

i. Subsidiaries of Tianrui Group Company Limited (天瑞集團有限公司);

ii. An associate of the Group.

30. SHORT TERM DEBENTURE

	2011	2010
	RMB'000	RMB'000
Short term debenture	500,000	500,000

The amounts as at 31 December 2010 represented the issuance of the first tranche of short term debentures of RMB500,000,000 on 9 November 2010 and has been repaid in November 2011. The amounts as at 31 December 2011 represented the issuance of the second tranche of short term debentures of RMB500,000,000 on 8 March 2011 through the lead underwriter, China Guangfa Bank Company Limited, with maturity of one year, which has been repaid in March 2012. The two tranche of short term debentures carries fixed interest at 4.10% and 5.55% per annum respectively.

31. BORROWINGS

	2011	2010
	RMB'000	RMB'000
Bank borrowings		
- fixed-rate (i)	1,497,267	1,154,500
- variable-rate (ii)	3,542,175	3,081,780
IFC loan at variable-rate (iii)/(vii)	183,041	247,358
Syndicated loans at variable-rate (iv)/(vii)	703,730	1,093,515
	5,926,213	5,577,153
Bank borrowing relating to bills discounted with resources (v)	430,649	218,500
Other loans at fixed-rate (vi)	—	2,720
	6,356,862	5,798,373
Secured	6,131,862	5,665,653
Unsecured	225,000	132,720
	6,356,862	5,798,373

The borrowings are repayable as follows:

	2011	2010
	RMB'000	RMB'000
On demand or within one year	4,946,852	3,777,373
More than one year, but not exceeding two years	718,010	577,000
More than two years, but not exceeding five years	692,000	1,413,000
More than five years	—	31,000
	6,356,862	5,798,373
Less: Amount due within one year shown under current liabilities	(4,946,852)	(3,777,373)
Amount due after one year	1,410,010	2,021,000

Note:

i *As at 31 December 2011, the fixed-rate borrowings carry interests ranged from 5.31% to 11.81% per annum (31 December 2010: from 5.31% to 10.68% per annum).*

ii *As at 31 December 2011, the variable-rate borrowings carry interests ranged from 6.31% to 8.20% per annum (31 December 2010: from 5.31% to 7.68% per annum). The interest rate is determined based on the Benchmark Interest Rate announced by People's Bank of China.*

iii *As at 31 December 2011, the interest rate for the Group's IFC loan is determined based on London Interbank Offered Rate ("LIBOR") plus 2.288%(31 December 2010: LIBOR plus 2.288%).*

iv *As at 31 December 2011 and 2010, the interest rate for the Group's syndicated loan is 95% of the 3-5 years Benchmark Interest Rates announced by the People's Bank of China.*

v *As at 31 December 2011, the amounts represented (i) intercompany bills receivables amounted to RMB200,000,000 (31 December 2010: RMB218,500,000) arising from intercompany transactions discounted to various financial institutions with full recourse, and (ii) bills receivables amounted to RMB230,649,000 (31 December 2010: Nil), received from customers discounted to various banks with full recourse. The discounted bills carried fixed interests ranging from 3.58% to 7.68% per annum as at 31 December 2011 (31 December 2010: from 3.21% to 4.75% per annum).*

vi As at 31 December 2010, the amount represented a loan from an independent third party, Zhengzhou Baisha County Labor Protection Bureau 鄭州市白沙鎮勞保所 amounted to RMB2,720,000 and carried fixed interests at 9.6%. Such borrowing is unsecured and repayable on demand. The loan was fully settled during the year 2011.

vii In respect of the loans with the carrying amounts of RMB886,771,000 as at 31 December 2011(31 December 2010: RMB1,229,196,000) the Group breached certain of the terms of the loans and the lenders have the right to demand immediate payment. The borrowings have been classified as a current liability as at 31 December 2011 and 2010. The Group has fully repaid these loans in February 2012.

Details of assets pledged to secure bank borrowings are set out in Note 38.

32. MID-TERM DEBENTURE

	2011	2010
	RMB'000	RMB'000
Mid-term debenture	300,000	—

The amounts as at 31 December 2011 represented the issuance of mid-term debentrue of RMB300,000,000 on 6 December 2011. In November 2011, the Group had obtained approval from the National Association of Financial Market Institutional Investors (中國銀行間交易商協會) to issue mid-term debentures in an aggregate amount of RMB500,000,000, of which RMB300,000,000 was issued for a term of three years in December 2011, carrying an interest rate of 8.4% per annum.

33. OTHER PAYABLES

	2011	2010
	RMB'000	RMB'000
Acquisition of mining rights	38,837	45,236
Less: Amount due within one year shown under trade and other payables (Note 28)	(8,600)	(10,999)
	30,237	34,237

The amounts represented the payables for acquisition of mining rights.

Pursuant to the purchase agreement entered into between Dalian Tianrui Cement Company Limited (大連天瑞水泥有限公司) and Dalian Municipal Bureau of Land and Resources and Housing (大連市國土資源和房屋局) in 2007, Dalian Tianrui Cement Company Limited (大連天瑞水泥有限公 司) acquired mining rights at a consideration of approximately RMB52,068,000 which is repayable by 6 installments between 2007 to 2017 every 2 years. The amount bears interest at progressive rates ranged from 5.87% to 7.83% per annum.

Pursuant to the purchase agreement entered into between Weihui Shi Tianrui Cement Company Limited (衛輝市天瑞水泥有限公司) and Weihui Municipal Bureau of Geological and Mineral Resources (衛輝市地質礦產局) in 2007, Weihui Shi Tianrui Cement Company Limited (衛輝市天瑞水泥有限公司) acquired mining rights at a consideration of RMB35,000,000 which is repayable by 8 installments between 2007 to 2014 annually. The amount is interest free. The fair value of the outstanding amount at initial recognition is estimated at an effective interest rate of 6.89% per annum.

34. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognized by the Group, and the movements thereon, during the year:

	Allowance on inventories and trade and other receivables	Depreciation on property, plant, equipment and prepaid lease payments	Imputed interest on other payables	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000 (note)	RMB'000
At 1 January 2010	6,590	(28,464)	(1,160)	7,265	(15,769)
Credit (charge) to profit or loss for the year	934	1,014	219	(1,493)	674
At 31 December 2010	7,524	(27,450)	(941)	5,772	(15,095)
Credit to profit or loss for the year	2,792	1,355	225	1,786	6,158
At 31 December 2011	10,316	(26,095)	(716)	7,558	(8,937)

Note: Amounts of others mainly represented the deferred tax assets arising from start-up costs and provision for environmental restoration.

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2011	2010
	RMB'000	RMB'000
Deferred tax assets	15,285	8,528
Deferred tax liabilities	(24,222)	(23,623)
	(8,937)	(15,095)

At 31 December 2011, the Group has unused tax losses of approximately RMB13,969,000 (31 December 2010: RMB18,249,000) available for offset against future profits. No deferred tax asset has been recognized in respect of these tax losses due to unpredictability of future profit streams in respective subsidiaries. The unrecognized tax loss will be expired as follows:

	2011	2010
	RMB'000	RMB'000
2014	121	11,757
2015	2,668	6,492
2016	11,180	—
	13,969	18,249

Under the PRC EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profit of the PRC subsidiaries amounting to RMB2,742,238,000 as at 31 December 2011 (31 December 2010: RMB1,472,638,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

35. DEFERRED INCOME

	2011	2010
	RMB'000	RMB'000
Assets-related government grants	149,804	111,726

The assets-related government grants represent the subsidies received by the Group for the purpose of acquiring land use rights to build new production lines in the PRC and acquiring qualified energy conservation equipment. An amount of approximately RMB5,161,000 was released to "other income" during the year ended 31 December 2011 (2010: RMB2,917,000).

36. PROVISION FOR ENVIRONMENTAL RESTORATION

	Environmental restoration
	RMB'000
At 1 January 2010	4,365
Provision for the year	2,210
At 31 December 2010	6,575
Provision for the year	2,834
At 31 December 2011	9,409

According to the regulation issued in 2009 by the Ministry of Land and Resources (國土資源部), the user of a mine should undertake the obligation of environmental restoration. After taking into account the quantity of limestone mined and the timing of mine restoration in future, a provision has been recognized for the costs expected to be incurred for the restoration of the limestone mines. Addition in provision is recognized as cost of sales of the related limestone mined and sold.

37. ISSUED CAPITAL/PAID-IN CAPITAL

The Company

	Number of shares	Share capital	
		HK$'000	**RMB'000**
Ordinary share of HK$0.01 each:			
Authorised			
On incorporation	38,000,000	380	316
Additions (Note d)	9,962,000,000	99,620	80,754
At 31 December 2011	10,000,000,000	100,000	81,070
Issued			
On incorporation (Note a)	1	—	—
Issued on 21 February and 2 April 2011 (Note b)	474,999	5	4
Issued on 2 April 2011 (Note c)	525,000	5	4
Issued on 23 December 2011 (Note e)	1,999,000,000	19,990	16,240
Issued on 23 December 2011 (Note f)	400,900,000	4,009	3,257
As at 31 December 2011	2,400,900,000	24,009	19,505

The Company was incorporated on 7 February 2011 and became the ultimate holding company of Tianrui Cement on 8 April 2011. The issued capital at 31 December 2011 represents the issued share capital of the Company.

Notes:

(a) *On 7 February 2011, one subscriber share was issued to the Company's subscriber, Yu Kuo, at par value;*

(b) *On 21 February 2011, the Company issued 473 shares to Yu Kuo in exchange for the 100% equity interests in Zhong Yuan Cement and on 2 April 2011, issued 474,526 shares to Yu Kuo at a consideration of USD87,433,333;*

(c) *On 2 April 2011, the Company issued 525,000 shares to other shareholders of Tianrui Cement for acquiring their respective interests in Tianrui Cement;*

(d) *On 12 December 2011, the Company increased the authorized share capital of the Company from HK$380,000 divided into 38,000,000 shares of HK$0.01 each by the creation of an additional 9,962,000,000 shares of HK$0.01 each;*

(e) *On 23 December 2011, the Company allotted and issued a total of 1,999,000,000 shares (the "Capitalisation Shares"), credited as fully paid by par, to holders of shares whose names appeared on the principal register of members of the Company in proportion to their then existing shareholders in the Company, by way of capitalisation of HK$19,990,000 standing to credited of the share premium accounted of the Company and applying such sum of HK$19,990,000 in paying up in full at par 1,999,000,000 shares for such allotment and issue. The new shares rank pari passu with the existing shares in all respects;*

(f) *On 23 December 2011, the Company issued 409,000,000 shares of HK$0.01 each for cash pursuant to the Initial Public Offerings at the price of HK$2.41 each. The new shares rank pari passu with the existing shares in all respects;*

(g) *Over-allotment options have been granted by the Company during the Initial Public Offerings. Pursuant to the this arrangement, the Company will sell up to 60,135,000 shares to the international underwriters from 23 December 2011, the listing date, until 18 January 2012 at the same price under the international placing during the Initial Public Offerings. No option has been exercised up to 18 January 2012.*

The Group

For the purpose of the preparation of the consolidated statements of financial position, the balances of paid-in capital as at 31 December 2010 represented the paid-in capital of Tianrui Cement amount to RMB 1,397,135,000. Pursuant to the reorganization completed on 8 April 2011, the Company became the holding company comprising the Group. The issued capital as at 31 December 2011 represents the issued share capital of the Company.

38. PLEDGE OF ASSETS

As at the end of the reporting period, the carrying amount of the assets of the Group pledged to secure the bank borrowings granted to the Group is analysed as follows:

	2011	2010
	RMB'000	RMB'000
Property, plant and equipment	2,202,502	2,853,195
Prepaid lease payments	263,117	265,906
Mining rights	63,695	64,861
Trade and other receivables	495,542	70,928
Restricted bank balances	101,750	171,750
	3,126,606	3,426,640

During the year, apart from the assets pledged set out above, Tianrui Cement has pledged all of its equity interests in Tianrui Group Ruzhou Cement Company Limited (天瑞集團汝州 水泥有限公司), Lushan Xian Antai Cement Company Limited (魯山縣安泰水泥有限公司), Shangqiu Tianrui Cement Company Limited (商丘天瑞水泥有限公司), Zhengzhou Tianrui Cement Company Limited (鄭州天瑞水泥有限公司), Weihui Shi Tianrui Cement Company Limited (衛輝市天瑞水泥有限公司), Yuzhou Shi Zhongjin Cement Company Limited (禹州市中錦水泥有限公司) and Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司), and part of its equity interests in Tianrui Group Zhoukou Cement Company Limited (天瑞集團周口水泥有限公司), Dalian Tianrui Cement Company Limited (大連天瑞水泥有限公司), Yingkou Tianrui Cement Company Limited (營口天瑞水泥有限公司), Liaoyang Tianrui Cement Company Limited (遼陽天瑞水泥有限公司), Tianrui Group Nanzhao Cement Company Limited (天瑞集團南召水泥有限公司) for the syndicated loans.

39. CAPITAL COMMITMENTS

	2011	2010
	RMB'000	RMB'000
Capital expenditure of the Group in respect of acquisition of property, plant and equipment		
- contracted for but not provided in the consolidated financial statements	550,799	791,575
- authorized but not contracted for	928,609	1,547,821

40. OPERATING LEASE COMMITMENTS

The Group as lessee

The rental payment paid for the year ended 31 December 2011 amounted to approximately RMB1,800,000 (2010: RMB488,000) respectively are paid for certain of its office properties.

As at 31 December 2011, the Group had commitments for future minimum lease payments in respect of rented premises which fall due as follows:

	2011	2010
	RMB'000	RMB'000
Within one year	1,800	—

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average terms of one year and rental are fixed throughout the lease term.

The Group as lessor

The rental income earned for the year ended 31 December 2011 amounted to approximately RMB2,486,000 (2010: RMB2,404,000) respectively are generated from rental of certain plant and machinery.

As at 31 December 2011, the Group had contracted with tenants for the following future minimum lease payments:

	2011	2010
	RMB'000	RMB'000
Within one year	348	2,838
In the second to fifth year inclusive	—	623
	348	3,461

41. RETIREMENT BENEFIT SCHEMES

The PRC employees of the Group are members of state-managed retirement benefit schemes operated by the local governments. The Group is required to contribute a specified percentage of their payroll costs to the retirement benefit schemes to fund the benefits. The retirement benefit cost charged to profit or loss for the year ended 31 December 2011, amounts RMB17,504,000 (2010: RMB10,108,000).

42. RELATED PARTY DISCLOSURES

(a) Apart from the amounts due from/to related parties as disclosed in Notes 24 and 29, during the year, the Group had the following significant transactions with the related parties.

Nature of transaction	Name of related company	Notes	2011	2010
			RMB'000	RMB'000
Purchase of goods	Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司)	i	17,949	21,587
Office rental expenses	Tianrui Group Company Limited (天瑞集團有限公司)		1,800	600
Sales of goods	Tianrui Group Yunyang Foundry Company Limited (天瑞集團雲陽鑄造有限公司)	ii	4,004	449
	Ruzhou Tianrui Coking Company Limited (汝州天瑞煤焦化有限公司)	ii	2,514	—
	Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司)	i	18,926	4,034
			25,444	4,483
Financial guarantee provided by the Group to	Tianrui Group Company Limited (天瑞集團有限公司)		—	60,000
	Sanmenxia Tianyuan Aluminum Company Limited (三門峽天元鋁業股份有限公司)	ii	—	51,000
	Tianrui Group Foundry Company Limited (天瑞集團鑄造有限公司)	ii	—	70,000
			—	181,000

Notes:

i. An associate of the Group;

ii. Subsidiaries of Tianrui Group Company Limited (天瑞集團有限公司).

(b) **Remuneration to key management**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly and indirectly including directors and supervisors of the Group. The key management personnel compensations are as follows:

	2011	2010
	RMB'000	RMB'000
Short-term benefits	4,269	4,297
Retirement benefits	93	91
	4,362	4,388

43. **CAPITAL RISK MANAGEMENT**

The management manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the year.

The capital structure of the Group consists of debt, which includes the short term debenture, borrowings and mid-term debenture (details refer to Note 30, 31 and 32), and equity attributable to owners of the Company, comprising issued capital/paid-in capital and reserves and retained earnings.

The management reviews the capital structure on a yearly basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

44. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011	2010
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including restricted bank balances and cash and bank balances)	3,690,130	2,526,970
Available-for-sale investments	4,000	4,000
Investments held for trading	250,000	—
Financial liabilities		
Amortised cost	11,094,469	9,746,566

Financial risk management objectives and policies

The Group's major financial assets and liabilities include trade and other receivables, amounts due from related parties, investments held for trading, restricted bank balances, cash and bank balances, available-for-sale investments, trade and other payables, amounts due to related parties, short term debenture, mid-term debenture and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk and currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings and payables for mining rights (see Note 31 and 33 for details). Besides, the Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings and syndicated loans, restricted bank balances and bank balances (see Notes 26, 27 and 31 for details).

The Group closely monitors the interest rate trend and aims to minimise the finance costs. The Group's fair value interest rate risk mainly arose from bank borrowings carried at fixed interest rate.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Benchmark Interest Rate announced by People's Bank of China and LIBOR.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For restricted bank balances, bank balances, variable-rate borrowings and syndicated loans, the analysis is prepared assuming the amount of asset and liability outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis points increase or decrease in LIBOR and Benchmark Interest Rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's profit for the year would be decreased/increased by approximately RMB3,372,000 (2010: RMB3,302,000) and the amount of borrowing costs capitalized in respect of the Group's qualifying assets would be increased/decreased by approximately RMB1,059,000 for the year ended 31 December 2011 (2010: RMB2,767,000).

Currency risk

The Group undertakes certain restricted bank balances and trade and other receivables denominated in Hong Kong Dollar ("HK Dollar") and loans denominated in United States Dollar ("US Dollar"), hence exposures to exchange rate fluctuation arises. The Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure. However, management monitors the HK Dollar and US Dollar exposure closely and will consider hedging significant currency exposure should the need arise.

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at the end of the year are as follows:

	2011	**2010**
	RMB'000	**RMB'000**
Assets		
HK Dollar	712,688	—
Liabilities		
US Dollar	183,041	247,358

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in RMB against HK Dollar and US Dollar.

The following table details the Group's sensitivity to a 5% increase or decrease in RMB against HK Dollar and US Dollar as at 31 December 2011. The percentage is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes restricted bank balances and other receivables denominated in HK Dollar and outstanding bank borrowings denominated in US Dollar, and adjusts its translation at the end of the reporting period for 5% change in foreign currency rate. A positive number below indicates an increase in post-tax profit where RMB strengthen 5% against HK Dollar and US Dollar. For a 5% weakening of RMB against HK Dollar and US Dollar, there would be an equal and opposite impact on the profit and the balances below would be negative.

	2011	2010
	RMB'000	RMB'000
Profit (loss) for the year	(19,862)	9,276

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the group is arising from the carrying amounts of the respective recognized financial assets as stated in the consolidated statements of financial positions.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts from credit customers and related parties. In addition, the Group reviews the recoverable amount of each debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Besides, trade receivables consist of a large number of customers spread across diverse geographical areas in the PRC.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants and follow up actions were taken promptly as appropriate. As at 31 December 2011, two banking facilities of RMB2,570,000,000 in aggregate are available, which comprised of: (a) a banking facility of RMB1,180,000,000 from the Bank of China which is available until 31 December 2012; and (b) a banking facility of RMB1,390,000,000 from the Agricultural Bank of China which is available until 22 June 2013. None of the banking facilities of RMB2,570,000,000 has been utilized date of this report.

The Group has net current liabilities as at 31 December 2011, which exposed the Group to liquidity risk. In order to mitigate the liquidity risk, the management regularly monitors the operating cash flows of the Group to meet its liquidity requirement in the short and long term.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowing of RMB50,000,000 as at 31 December 2010 and 2011 with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. In addition, IFC loan and syndicated loans amounted to RMB886,772,000 as at 31 December 2011 (31 December 2010: RMB1,229,196,000) are included in the "on demand" category due to breach of loan covenants.

The tables include both interest and principal cash flows. To the extent that interest flows are variable-rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

	Weighted average interest rate	On demand or 0-30 days	31 to 180 days	181 to 365 days	1-2 years	2-3 years	Over 3 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2011									
Trade and other payables		1,120,710	2,314,943	462,478	—	—	—	3,898,131	3,898,131
Amounts due to related parties		—	639	—	—	—	—	639	639
Financial guarantee liabilities		50,000	—	—	—	—	—	50,000	—
Borrowings									
- fixed-rate	8.7	—	1,431,974	528,330	—	—	—	1,960,304	1,927,916
- variable-rate	6.4	976,772	896,148	1,187,633	764,004	551,391	246,973	4,622,921	4,428,946
Other payables - fixed rate	7.3	4,600	—	4,230	10,841	1,918	24,711	46,300	38,837
Short term debenture	5.6	—	506,938	—	—	—	—	506,938	500,000
Mid-term debenture	8.4	—	—	—	—	379,661	—	379,661	300,000
		2,152,082	5,150,642	2,182,671	774,845	932,970	271,684	11,464,894	11,094,469
As at 31 December 2010									
Trade and other payables		964,878	1,902,129	525,625	—	—	—	3,392,632	3,392,632
Amounts due to related parties		10,325	—	—	—	—	—	10,325	10,325
Financial guarantee liabilities		231,000	—	—	—	—	—	231,000	—
Borrowings									
- fixed-rate	6.4	50,000	650,952	644,186	57,454	—	—	1,402,592	1,375,720
- variable-rate	5.8	1,316,680	402,200	759,950	553,099	706,838	960,418	4,699,185	4,422,653
Other payables - fixed rate	7.3	10,999	—	—	3,284	13,222	24,548	52,053	45,236
Short term debenture	4.1	—	—	518,792	—	—	—	518,792	500,000
		2,583,882	2,955,281	2,448,553	613,837	720,060	984,966	10,306,579	9,746,566

As at 31 December 2010 and 2011, principal amount of RMB50,000,000 with a repayment on demand clause is included in the "on demand or 0-30 days" time band in the above maturity analysis. Taking into account the Group's financial position, the management does not believe that it is probable that the bank will exercise their discretionary rights to demand immediate repayment. For the purpose of managing liquidity risk, the management reviews the expected cash flow information of the term loan based on the scheduled repayment dates set out in the agreements in the table below:

	Weighted average interest rate	0-30 days	31 to 180 days	181 to 365 days	1-2 years	2-3 years	Over 3 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2010									
Borrowings	6.56	—	—	—	10,656	11,354	37,882	59,892	50,000
As at 31 December 2011									
Borrowings	6.56	—	—	10,000	10,656	11,354	24,197	56,207	50,000

Fair value

The fair value of financial assets is determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair value of other financial assets is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Financial asset at fair value through profit or loss				
Non-derivative financial assets held for trading	—	250,000	—	250,000
Available-for-sale financial asset				
Investment in listed open-ended fund	4,000	—	—	4,000
Total	4,000	250,000	—	290,000

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Available-for-sale financial asset				
Investment in listed open-ended fund	4,000	—	—	4,000
Total	4,000	—	—	4,000

45. CONTINGENT LIABILITIES

	2011	**2010**
	RMB'000	**RMB'000**
Guarantees given to banks in respect of banking facilities granted to:		
- Related parties (Note 42)	—	181,000
- Third party	50,000	50,000
	50,000	231,000

As at 31 December 2011 and 2010, the management considers the risk of the contingent liabilities are remote and no financial guarantee liabilities have been recognized.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The Company has the following subsidiaries:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest to the Group 2011	2010	Principal activities
			%	%	
Subsidiaries					
Zhong Yuan Cement Company Limited 中原水泥有限公司	British Virgin Islands 7 April 2010	US$1	100	100	Investment holding
China Tianrui (Hong Kong) Company Limited 中國天瑞(香港)有限公司	Hong Kong 16 April 2010	US$1	100	100	Investment holding
Tianrui Group Cement Company Limited 天瑞集團水泥有限公司	The PRC 28 September 2000	US$184,052,471	100	100	Manufacture and sale of cement and clinker
Lushan Xian Antai Cement Company Limited 魯山縣安泰水泥有限公司*	The PRC 16 September 1998	RMB21,357,000	100	100	Manufacture and sale of cement
Tianrui Group Ruzhou Cement Company Limited 天瑞集團汝州水泥有限公司*	The PRC 3 December 2002	RMB180,000,000	100	100	Manufacture and sale of cement and clinker
Weihui Shi Tianrui Cement Company Limited 衛輝市天瑞水泥有限公司*	The PRC 30 June 2003	RMB240,000,000	100	100	Manufacture and sale of cement and clinker
Tianrui Group Zhoukou Cement Company Limited 天瑞集團周口水泥有限公司*	The PRC 10 September 2003	RMB81,000,000	100	100	Manufacture and sale of cement
Shangqiu Tianrui Cement Company Limited 商丘天瑞水泥有限公司*	The PRC 9 June 2004	RMB63,000,000	100	100	Manufacture and sale of cement
Zhengzhou Tianrui Cement Company Limited 鄭州天瑞水泥有限公司*	The PRC 17 June 2004	RMB55,000,000	100	100	Manufacture and sale of cement
Yuzhou Shi Zhongjin Cement Company Limited 禹州市中錦水泥有限公司*	The PRC 4 August 2004	RMB250,000,000	100	100	Manufacture and sale of cement and clinker
Dalian Tianrui Cement Company Limited 大連天瑞水泥有限公司*	The PRC 8 December 2004	RMB350,000,000	100	100	Manufacture and sale of cement and clinker
Yingkou Tianrui Cement Company Limited 營口天瑞水泥有限公司*	The PRC 4 July 2006	RMB111,300,000	100	100	Manufacture and sale of cement

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest to the Group		Principal activities
			2011	2010	
			%	%	
Tianrui Group Nanzhao Cement Company Limited 天瑞集團南召水泥有限公司*	The PRC 23 January2007	RMB200,000,000	100	100	Manufacture and sale of cement and clinker
Yuzhou Shi Zhongjin Mining Company Limited 禹州市中錦礦業有限公司*	The PRC 23 April 2007	RMB1,000,000	100	100	Inactive
Liaoyang Tianrui Cement Company Limited 遼陽天瑞水泥有限公司*	The PRC 25 April 2007	RMB213,680,000	100	100	Manufacture and sale of cement and clinker
Tianrui Group Xuchang Cement Company Limited 天瑞集團許昌水泥有限公司*	The PRC 16 August2007	RMB80,000,000	100	100	Manufacture and sale of cement
Tianrui Group Guangshan Cement Company Limited 天瑞集團光山水泥有限公司*	The PRC 14 December 2007	RMB280,000,000	100	100	Manufacture and sale of cement and clinker
Tianrui Group Zhengzhou Cement Company Limited 天瑞集團鄭州水泥有限公司*	The PRC 23 April 2008	RMB520,000,000	100	100	Manufacture and sale of cement and clinker
Tianrui Group Xiaoxian Cement Company Limited 天瑞集團蕭縣水泥有限公司*	The PRC 6 October 2008	RMB241,958,000	100	100	Manufacture and sale of cement and clinker
Tianrui Group Ningling Cement Company Limited 天瑞集團寧陵水泥有限公司*	The PRC 9 July 2009	RMB20,000,000	100	100	Manufacture and sale of cement
Tianjin Tianrui Cement Company Limited 天津天瑞水泥有限公司 (Note i)*	The PRC 5 November 2009	RMB100,000,000	60	100	Manufacture and sale of cement

Note:

i. *Tianjin Tianrui Cement Company Limited ("Tianjin Tianrui") was established with registered capital of RMB100,000,000 in 2009.*

In 2009 and 2010, Tianrui Cement injected capital of RMB40,000,000 and RMB20,000,000 into Tianjin Tianrui separately, and no capital injection by other registered shareholders has been made. Hence, Tianjin Tianrui was wholly owned by Tianrui Cement in 2010.

In 2011, Tianjin Tianrui received the injected capital of RMB40,000,000 from other registered shareholders, and hence, its equity interest was diluted to 60%.

* *The entities are subsidiaries of Tianrui Cement.*

47. FINANCIAL INFORMATION OF THE COMPANY

Financial information of the Company at the end of the reporting period includes:

	At 31 December 2011
	RMB'000
NON-CURRENT ASSET	
Investment in a subsidiary (note)	565,524
CURRENT ASSET	
Other receivables	53,373
Restricted bank balances	659,315
TOTAL CURRENT ASSETS	712,688
CURRENT LIABILITIES	
Other payables	18,232
Amount due to a subsidiary	19,900
NET CURRENT ASSETS	674,556
TOTAL ASSETS LESS CURRENT LIABILITIES, NET ASSETS	1,240,080
CAPITAL AND RESERVES	
Issued capital (note 37)	19,505
Share premium	1,251,325
Retained earnings	(30,750)
TOTAL EQUITY	1,240,080

Notes:

The investment is unlisted equity investment.

48. SUBSEQUENT EVENTS

(a) On 16 January 2012, the Group issued the third tranche of short term debentures of RMB500,000,000 on 16 January 2012 through the lead underwriter, China Guangfa Bank Company Limited, with maturity of one year. The third tranche of short term debentures carries fixed interest at 8.48% per annum.

(b) On 18 January 2012, the Group repaid the Syndicated loan of RMB185,000,000 and IFC loan of USD7,500,000;

(c) On 21 Feburary 2012, the Group repaid the Syndicated loan of RMB518,730,386 and IFC loan of USD21,550,000. As at 21 Feburary 2012, the Group has repaid all the remaining IFC loan and Syndicated loan.

(d) On 8 Match 2012, the Group repaid the second tranche of short term debentures of RMB500,000,000.

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14 December 2011

The Directors
China Tianrui Group Cement Company Limited
Deutsche Bank AG, Hong Kong Branch
BOCI Asia Limited
BOCOM International (Asia) Limited
CCB International Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding China Tianrui Group Cement Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 14 December 2011 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 7 February 2011.Through a corporate reorganization, as more fully explained in the paragraph headed "Our Reorganization" in the "History, Reorganization and Corporate Structure" Section to the Prospectus (the "Corporate Reorganization"), the Company became the holding company of companies now comprising the Group on 8 April 2011.

As at the date of this report, the Company has the following subsidiaries and associate:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest to the Group					Principal activities
			31 December 2008	31 December 2009	31 December 2010	30 June 2011	Date of this report	
			%	%	%	%	%	
Subsidiaries								
Zhong Yuan Cement Company Limited 中原水泥有限公司 ("Zhong Yuan Cement")	British Virgin Islands ("BVI") 7 April 2010	US$1	N/A	N/A	100	100	100	Investment holding
China Tianrui (Hong Kong) Company Limited 中國天瑞(香港)有限公司 ("Tianrui (HK)")	Hong Kong 16 April 2010	US$1	N/A	N/A	100	100	100	Investment holding

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest to the Group					Principal activities
			31 December 2008	31 December 2009	31 December 2010	30 June 2011	Date of this report	
			%	%	%	%	%	
Subsidiaries								
Tianrui Group Cement Company Limited 天瑞集團水泥有限公司 ("Tianrui Cement") (Note i)	The People's Republic of China (the "PRC") 28 September 2000	US$184,052,471	100	100	100	100	100	Manufacture and sale of cement and clinker
Lushan Xian Antai Cement Company Limited 魯山縣安泰水泥有限公司*	The PRC 16 September 1998	RMB21,357,000	100	100	100	100	100	Manufacture and sale of cement
Tianrui Group Ruzhou Cement Company Limited 天瑞集團汝州水泥有限公司*	The PRC 3 December 2002	RMB180,000,000	100	100	100	100	100	Manufacture and sale of cement and clinker
Weihui Shi Tianrui Cement Company Limited 衛輝市天瑞水泥有限公司*	The PRC 30 June 2003	RMB240,000,000	100	100	100	100	100	Manufacture and sale of cement and clinker
Tianrui Group Zhoukou Cement Company Limited 天瑞集團周口水泥有限公司*	The PRC 10 September 2003	RMB81,000,000	96.30	96.30	100	100	100	Manufacture and sale of cement
Shangqiu Tianrui Cement Company Limited 商丘天瑞水泥有限公司*	The PRC 9 June 2004	RMB63,000,000	100	100	100	100	100	Manufacture and sale of cement
Zhengzhou Tianrui Cement Company Limited 鄭州天瑞水泥有限公司*	The PRC 17 June 2004	RMB55,000,000	100	100	100	100	100	Manufacture and sale of cement
Yuzhou Shi Zhongjin Cement Company Limited 禹州市中錦水泥有限公司*	The PRC 4 August 2004	RMB250,000,000	100	100	100	100	100	Manufacture and sale of cement and clinker
Dalian Tianrui Cement Company Limited 大連天瑞水泥有限公司*	The PRC 8 December 2004	RMB350,000,000	100	100	100	100	100	Manufacture and sale of cement and clinker
Yingkou Tianrui Cement Company Limited 營口天瑞水泥有限公司*	The PRC 4 July 2006	RMB111,300,000	100	100	100	100	100	Manufacture and sale of cement
Tianrui Group Nanzhao Cement Company Limited 天瑞集團南召水泥有限公司*	The PRC 23 January 2007	RMB200,000,000	100	100	100	100	100	Manufacture and sale of cement and clinker

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest to the Group 31 December 2008	31 December 2009	31 December 2010	30 June 2011	Date of this report	Principal activities
			%	%	%	%	%	
Subsidiaries								
Yuzhou Shi Zhongjin Mining Company Limited 禹州市中錦礦業有限公司*	The PRC 23 April 2007	RMB1,000,000	100	100	100	100	100	Inactive
Liaoyang Tianrui Cement Company Limited 遼陽天瑞水泥有限公司*	The PRC 25 April 2007	RMB213,680,000	100	100	100	100	100	Manufacture and sale of cement and clinker
Tianrui Group Xuchang Cement Company Limited 天瑞集團許昌水泥有限公司*	The PRC 16 August 2007	RMB80,000,000	100	100	100	100	100	Manufacture and sale of cement
Tianrui Group Guangshan Cement Company Limited 天瑞集團光山水泥有限公司*	The PRC 14 December 2007	RMB280,000,000	100	100	100	100	100	Manufacture and sale of cement and clinker
Tianrui Group Zhengzhou Cement Company Limited 天瑞集團鄭州水泥有限公司*	The PRC 23 April 2008	RMB520,000,000	100	100	100	100	100	Manufacture and sale of cement and clinker
Tianrui Group Xiaoxian Cement Company Limited 天瑞集團蕭縣水泥有限公司*	The PRC 6 October 2008	RMB241,958,000	100	100	100	100	100	Manufacture and sale of cement and clinker
Tianrui Group Ningling Cement Company Limited 天瑞集團寧陵水泥有限公司*	The PRC 9 July 2009	RMB20,000,000	N/A	100	100	100	100	Manufacture and sale of cement
Tianjin Tianrui Cement Company Limited ("Tianjin Tianrui") 天津天瑞水泥有限公司 (Note ii)*	The PRC 5 November 2009	RMB100,000,000	N/A	100	100	60	60	Manufacture and sale of cement
Associate								
Pingdingshan Ruiping Shilong Cement Company Limited 平頂山瑞平石龍水泥有限公司**	The PRC 12 September 2005	RMB300,000,000	40	40	40	40	40	Manufacture and sale of clinker

Note:

i: *Prior to the Corporate Reorganization, the operation of manufacture and sale of cement and clinker were carried out by Tianrui Cement, its subsidiaries and associate.*

ii: Tianjin Tianrui was established with registered capital of RMB100,000,000 in 2009.

In 2009 and 2010, Tianrui Cement injected capital of RMB40,000,000 and RMB20,000,000 into Tianjin Tianrui separately, and no capital injection by other registered shareholders has been made. Hence, Tianjin Tianrui was wholly owned by Tianrui Cement in 2009 and 2010.

In 2011, Tianjin Tianrui received the injected capital of RMB40,000,000 from other registered shareholders, and hence, its equity interest was diluted to 60%.

* *The entities are subsidiaries of Tianrui Cement.*

** *The entity is an associate of Tianrui Cement.*

Other than Zhong Yuan Cement, all subsidiaries are indirectly held by the Company.

The financial year end date of all the companies now comprising the Group is 31 December.

No audited financial statements have been prepared for the Company and Zhong Yuan Cement since their dates of incorporation as there are no statutory requirements in the Cayman Islands and the BVI.

For the purpose of this report, we have, however, reviewed all the relevant transactions of the Company and Zhong Yuan Cement since their respective dates of incorporation and carried out such procedures as we considered necessary for inclusion of their financial information in this report.

Financial statements for the period from 16 April 2010 (date of incorporation) to 31 December 2010 has been prepared for Tianrui (HK), and audited by Deloitte Touche Tohmatsu, Certified Public Accountants.

The statutory financial statements of the individual subsidiaries established in the PRC for the years ended 31 December 2008, 2009 and 2010 were prepared in accordance with the relevant accounting principles and financial regulations in the PRC. They were audited by the following certified public accountants registered in the PRC:

Name of subsidiary	**Financial year/period**	**Name of auditor**
Tianrui Cement	Three years ended 31 December 2008, 2009 and 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)
Lushan Xian Antai Cement Company Limited 魯山縣安泰水泥有限公司	Three years ended 31 December 2008, 2009 and 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)
Tianrui Group Ruzhou Cement Company Limited 天瑞集團汝州水泥有限公司	Three years ended 31 December 2008, 2009 and 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)
Weihui Shi Tianrui Cement Company Limited 衛輝市天瑞水泥有限公司	Three years ended 31 December 2008, 2009 and 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)
Tianrui Group Zhoukou Cement Company Limited 天瑞集團周口水泥有限公司	Year ended 31 December 2008	河南華穎會計師事務所有限公司 (Henan Hua Ying Certified Public Accountants Company Limited)
	Two years ended 31 December 2009 and 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)

Name of subsidiary	Financial year/period	Name of auditor
Shangqiu Tianrui Cement Company Limited 商丘天瑞水泥有限公司	Three years ended 31 December 2008, 2009 and 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)
Zhengzhou Tianrui Cement Company Limited 鄭州天瑞水泥有限公司	Three years ended 31 December 2008, 2009 and 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)
Yuzhou Shi Zhongjin Cement Company Limited 禹州市中錦水泥有限公司	Three years ended 31 December 2008, 2009 and 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)
Dalian Tianrui Cement Company Limited 大連天瑞水泥有限公司	Three years ended 31 December 2008, 2009 and 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)
Yingkou Tianrui Cement Company Limited 營口天瑞水泥有限公司	Three years ended 31 December 2008, 2009 and 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)
Tianrui Group Nanzhao Cement Company Limited 天瑞集團南召水泥有限公司	Three years ended 31 December 2008, 2009 and 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)
Yuzhou Shi Zhongjin Mining Company Limited 禹州市中錦礦業有限公司	Three years ended 31 December 2008, 2009 and 2010	(Note i)
Liaoyang Tianrui Cement Company Limited 遼陽天瑞水泥有限公司	Three years ended 31 December 2008, 2009 and 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)
Tianrui Group Xuchang Cement Company Limited 天瑞集團許昌水泥有限公司	Three years ended 31 December 2008, 2009 and 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)
Tianrui Group Guangshan Cement Company Limited 天瑞集團光山水泥有限公司	Three years ended 31 December 2008, 2009 and 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)
Tianrui Group Zhengzhou Cement Company Limited 天瑞集團鄭州水泥有限公司	Period from 23 April 2008 (date of establishment) to 31 December 2008	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)
	Two years ended 31 December 2009 and 2010	
Tianrui Group Xiaoxian Cement Company Limited 天瑞集團蕭縣水泥有限公司	Period from 6 October 2008 (date of establishment) to 31 December 2008	(Note ii)
	Two years ended 31 December 2009 and 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)

Name of subsidiary	Financial year/period	Name of auditor
Tianrui Group Ningling Cement Company Limited 天瑞集團寧陵水泥有限公司	Period from 9 July 2009 (date of establishment) to 31 December 2009	(Note ii)
	The year ended 31 December 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)
Tianjin Tianrui 天津天瑞水泥有限公司	Period from 5 November 2009 (date of establishment) to 31 December 2009	(Note ii)
	The year ended 31 December 2010	平頂山市明審會計師事務所有限公司 (Pingdingshanshi Ming Shen Certified Public Accountants Company Limited)

Note:

i: The subsidiary was inactive during the Relevant Periods, no audited financial statements have been prepared.

ii: The subsidiaries were newly established during that period, no audited financial statements have been prepared.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRSs") (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

We have examined the Underlying Financial Statements for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by HKICPA.

The Financial Information of the Group for the Relevant Periods as set out in this report has been prepared from the Underlying Financial Statements, on the basis of preparation set out in Note 1B of Section B. No adjustment is considered necessary to the Underlying Financial Statements for the preparation of this report.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 1B of Section B to this Financial Information, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2008, 2009 and 2010 and the state of affairs of the Group and the Company as at 30 June 2011 and of the consolidated results and consolidated cash flows of the Group for Relevant Periods.

The comparative consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the six months ended 30 June 2010 together with the notes thereon (the "30 June 2010 Financial Information") have been extracted from Tianrui Cement's unaudited consolidated financial information for the same period which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 30 June 2010 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the 30 June 2010 Financial Information consists of making enquiries, 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 Hong Kong 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 on the 30 June 2010 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2010 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

Consolidated Statements of Comprehensive Income

	Notes	For the year ended 31 December 2008 RMB'000	2009 RMB'000	2010 RMB'000	For the six months ended 30 June 2010 RMB'000 (unaudited)	2011 RMB'000
Revenue	5, 6	3,360,339	4,415,224	6,129,438	2,512,535	4,072,790
Cost of sales		(2,683,957)	(3,695,422)	(5,080,258)	(2,275,110)	(2,870,500)
Gross profit		676,382	719,802	1,049,180	237,425	1,202,290
Other income	7	97,002	134,812	188,454	69,058	139,324
Selling and distribution expenses		(170,190)	(200,130)	(225,473)	(105,731)	(132,437)
Administrative expenses		(113,706)	(125,278)	(174,604)	(74,281)	(120,539)
Other expenses		(22,190)	(15,682)	(7,587)	(4,057)	(10,137)
Share of loss of an associate	19	(9,253)	(101,832)	—	—	—
Finance costs	8	(135,392)	(166,652)	(303,266)	(99,389)	(210,902)
Profit before taxation		322,653	245,040	526,704	23,025	867,599
Income tax expense	9	(90,424)	(81,779)	(128,917)	(13,172)	(212,719)
Profit for the year/period and total comprehensive income for the year/period	10	232,229	163,261	397,787	9,853	654,880
Profit for the year/period and total comprehensive income for the year/period attributable to:						
Owners of the Company		231,153	162,738	396,833	8,899	654,880
Non-controlling interest		1,076	523	954	954	—
		232,229	163,261	397,787	9,853	654,880
Earnings per share						
Basic (RMB)	12	0.12	0.08	0.20	0.004	0.33

Consolidated Statements of Financial Position

	Notes	At 31 December 2008	At 31 December 2009	At 31 December 2010	At 30 June 2011
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	14	5,186,688	7,322,017	8,666,714	8,920,587
Deposits paid	15	317,870	509,742	473,472	352,791
Prepaid lease payments	16	411,795	488,367	499,927	570,432
Mining rights	17	166,356	222,173	228,500	224,229
Goodwill	18	12,275	12,275	12,275	12,275
Interest in an associate	19	101,832	—	—	—
Available-for-sale investments	20	5,200	5,200	4,000	—
Amounts due from related parties	23	5,070	28,070	28,070	28,070
Restricted bank balances	25	—	30,000	—	—
Deferred tax assets	32	7,420	8,283	8,528	11,106
		6,214,506	8,626,127	9,921,486	10,119,490
CURRENT ASSETS					
Inventories	21	546,111	656,036	800,861	894,232
Trade and other receivables	22	212,481	596,062	1,179,917	2,135,534
Available-for-sale investments	20	—	—	—	4,000
Amounts due from related parties	23	3,249	5,072	12,618	11,528
Amount due from a former director of Tianrui Cement	24	6,000	—	—	—
Restricted bank balances	25	45,165	325,914	1,423,888	993,202
Cash and bank balances	26	247,573	400,096	343,396	753,217
		1,060,579	1,983,180	3,760,680	4,791,713
CURRENT LIABILITIES					
Trade and other payables	27	1,203,109	1,940,644	3,577,309	3,985,777
Amounts due to related parties	28	30,861	2,510	10,325	11,856
Income tax payable		49,788	28,047	83,886	119,706
Short term debenture	29	—	—	500,000	1,000,000
Borrowings - due within one year	30	306,800	2,994,281	3,777,373	3,460,336
		1,590,558	4,965,482	7,948,893	8,577,675
NET CURRENT LIABILITIES		(529,979)	(2,982,302)	(4,188,213)	(3,785,962)
TOTAL ASSETS LESS CURRENT LIABILITIES		5,684,527	5,643,825	5,733,273	6,333,528

	Notes	At 31 December 2008	At 31 December 2009	At 31 December 2010	At 30 June 2011
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES					
Borrowings - due after one year	30	2,552,744	2,351,039	2,021,000	1,916,850
Other payables	31	48,009	44,360	34,237	34,237
Deferred tax liabilities	32	28,719	24,052	23,623	23,151
Deferred income	33	76,991	78,684	111,726	120,633
Provision for environmental restoration	34	—	4,365	6,575	7,661
		2,706,463	2,502,500	2,197,161	2,102,532
NET ASSETS		2,978,064	3,141,325	3,536,112	4,230,996
CAPITAL AND RESERVES					
Issued capital/paid-in capital	35	1,397,135	1,397,135	1,397,135	8
Reserves		905,168	933,196	980,924	2,378,055
Retained earnings		670,807	805,517	1,158,053	1,812,933
Equity attributable to owners of the Company		2,973,110	3,135,848	3,536,112	4,190,996
Non-controlling interest		4,954	5,477	—	40,000
TOTAL EQUITY		2,978,064	3,141,325	3,536,112	4,230,996

Statements of Financial Position

	At 30 June
	2011
	RMB'000
NON-CURRENT ASSET	
Investment in a subsidiary (note a)	565,524
CURRENT ASSET	
Cash and bank balances	—
TOTAL ASSETS	565,524
CAPITAL AND RESERVES	
Issued capital (note 35)	8
Share premium	565,516
TOTAL EQUITY	565,524

Notes:

(a) The investment is unlisted equity investment.

Consolidated Statements of Changes in Equity

	Issued capital/ paid-in capital	Share premium	Capital reserve	Statutory reserve fund	Other reserve	Revaluation reserve	Retained earnings	Attributable to owners of the Company	Non-controlling interest	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 35)		(note i)	(note ii)	(note iii)	(note iv)				
For the three years ended 31 December 2010 and six months ended 30 June 2011										
At 1 January 2008	1,147,255	—	411,180	57,099	—	31,768	465,965	2,113,267	3,878	2,117,145
Profit for the year and total comprehensive income for the year	—	—	—	—	—	—	231,153	231,153	1,076	232,229
Capital injection to Tianrui Cement	249,880	—	378,810	—	—	—	—	628,690	—	628,690
Transfer	—	—	—	26,311	—	—	(26,311)	—	—	—
At 31 December 2008	1,397,135	—	789,990	83,410	—	31,768	670,807	2,973,110	4,954	2,978,064
Profit for the year and total comprehensive income for the year	—	—	—	—	—	—	162,738	162,738	523	163,261
Transfer	—	—	—	28,028	—	—	(28,028)	—	—	—
At 31 December 2009	1,397,135	—	789,990	111,438	—	31,768	805,517	3,135,848	5,477	3,141,325
Profit for the year and total comprehensive income for the year	—	—	—	—	—	—	396,833	396,833	954	397,787
Acquisition of additional interest in a subsidiary	—	—	—	—	3,431	—	—	3,431	(6,431)	(3,000)
Transfer	—	—	—	44,297	—	—	(44,297)	—	—	—
At 31 December 2010	1,397,135	—	789,990	155,735	3,431	31,768	1,158,053	3,536,112	—	3,536,112
Profit for the period and total comprehensive income for the period	—	—	—	—	—	—	654,880	654,880	—	654,880
Issue of shares	8	—	—	—	—	—	—	8	—	8
Reserve arising from Corporate Reorganization (note v)	(1,397,135)	565,516	—	—	831,615	—	—	—	—	(4)
Capital injection by non-controlling shareholders to Tianjin Tianrui	—	—	—	—	—	—	—	—	40,000	40,000
At 30 June 2011	8	565,516	789,990	155,735	835,046	31,768	1,812,933	4,190,996	40,000	4,230,996
For the six months ended 30 June 2010 (Unaudited)										
At 1 January 2010	1,397,135	—	789,990	111,438	—	31,768	805,517	3,135,848	5,477	3,141,325
Profit for the period and total comprehensive income for the period	—	—	—	—	—	—	8,899	8,899	954	9,853
Acquisition of additional interest in a subsidiary	—	—	—	—	3,431	—	—	3,431	(6,431)	(3,000)
At 30 June 2010	1,397,135	—	789,990	111,438	3,431	31,768	814,416	3,148,178	—	3,148,178

Note:

i Capital reserve represents the excess of capital injection over the registered capital of Tianrui Cement.

ii *According to the relevant requirements in the memorandum of the Group's PRC subsidiaries, a portion of their profits after taxation is transferred to statutory reserve fund. The transfer to this fund must be made before the distribution of dividend to the equity owners. The statutory reserve fund can be used to make up previous years' losses, if any. The statutory reserve fund is non-distributable other than upon liquidation.*

iii *Pursuant to an equity transfer agreement with non-controlling interest of a subsidiary, Tianrui Cement acquired the remaining interest in a subsidiary at a consideration of RMB3,000,000 in 2010. Other reserve represents the difference between the consideration paid by Tianrui Cement and the carrying amount of non-controlling interests being acquired.*

iv *The revaluation reserve represents the revaluation surplus of previously held interests in associates of Tianrui Cement recognized directly in equity when Tianrui Cement acquired additional interests in those entities and obtained control.*

v *The Company was incorporated on 7 February 2011 and became the ultimate holding company of Tianrui Cement on 8 April 2011. On 2 April 2011, 474,526 Shares as nil paid was allotted and issued to Yu Kuo Company Limited. On 31 May 2011, Yu Kuo Company Limited applied a bridging loan in the net amount of US$87.43 million to pay up 474,526 Shares. The amount of US$87.43 million (equal to approximately RMB565,516,000) in excess of the par value of 474,526 Shares was recognized in share premium upon the completion of the Corporate Reorganization.*

Consolidated Statements of Cash Flows

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Operating activities					
Profit before taxation	322,653	245,040	526,704	23,025	867,599
Adjustments for:					
Release of deferred income	(1,492)	(1,640)	(2,917)	(888)	(2,093)
Write-down (reversal of allowance) of inventories	980	(980)	—	—	—
Interest on bank deposits	(2,607)	(3,428)	(9,091)	(2,424)	(12,638)
Depreciation of property, plant and equipment	183,347	283,687	400,523	181,771	242,448
Finance costs	135,392	166,652	303,266	99,389	210,902
Foreign exchange gain	(17,288)	(60)	(8,843)	(1,791)	(5,569)
Amortisation of prepaid lease payments	5,039	5,790	9,948	4,354	5,271
Allowances for bad and doubtful debts	18,574	4,047	4,448	2,600	6,793
Allowances for amount due from a former director of Tianrui Cement	—	6,000	—	—	—
Impairment loss of property, plant and equipment	—	—	—	—	2,561
Amortisation of mining rights	3,991	10,364	12,118	3,124	5,322
(Gain) loss on disposal of property, plant and equipment	(156)	1,355	(1,434)	(597)	(440)
Share of loss of an associate	9,253	101,832	—	—	—
Provision for environmental restoration	—	4,365	2,210	1,009	1,086
Operating cash flows before movements in working capital	657,686	823,024	1,236,932	309,572	1,321,242
Increase in inventories	(307,339)	(108,945)	(144,825)	(128,869)	(93,371)
Increase in trade and other receivables	(80,726)	(386,780)	(586,136)	(583,633)	(961,090)
Increase in amount due from a former director of Tianrui Cement	(4,953)	—	—	—	—
(Increase) decrease in amounts due from related parties	(241)	177	(1,369)	—	(1,299)
Increase in trade and other payables	518,617	774,068	854,173	1,352,372	1,834,887
Decrease in amounts due to related parties	(2,889)	—	—	—	—
Cash generated from operations	780,155	1,101,544	1,358,775	949,442	2,100,369
Income tax paid	(63,087)	(109,050)	(73,752)	(38,052)	(179,949)
Net cash generated from operating activities	717,068	992,494	1,285,023	911,390	1,920,420

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Investing activities					
Interest received	2,607	3,428	9,091	2,424	12,638
Purchase of property, plant and equipment	(1,506,505)	(1,449,826)	(422,795)	(28,125)	(46,553)
Addition of prepaid lease payments	(91,900)	(108,903)	(24,564)	(8,453)	(77,821)
Proceeds from disposal of property, plant and equipment	699	1,585	2,595	161	1,085
Acquisition of mining rights	(59,492)	(74,761)	(19,469)	(12,139)	(15,250)
Proceeds from disposal of available-for-sale investment	—	—	5,200	5,200	—
Investment in available-for-sale investment	—	—	(4,000)	—	—
Advances to related parties	(65,084)	(2,000)	(9,777)	(9,124)	(17,787)
Repayment from related parties	93,071	—	3,600	600	20,176
Deposits paid for property, plant and equipment and prepaid lease payments	(461,997)	(1,096,488)	(1,303,937)	(601,806)	(337,326)
Government subsidies for prepaid lease payments and property, plant and equipment	9,204	3,333	17,909	4,108	11,000
Decrease (increase) in restricted bank balances	(36,308)	(310,749)	(1,067,974)	(595,781)	430,686
Net cash used in investing activities	(2,115,705)	(3,034,381)	(2,814,121)	(1,242,935)	(19,152)
Financing activities					
Interest paid	(144,875)	(263,075)	(375,058)	(167,756)	(238,777)
Issuance of new shares	628,690	—	—	—	565,520
Capital injection from non-controlling shareholders to Tianjin Tianrui	—	—	—	—	40,000
Repayment of borrowings	(280,000)	(474,510)	(1,938,330)	(714,807)	(1,390,947)
New borrowings raised	1,090,739	2,960,346	2,400,226	1,138,384	990,329
Advances from related parties	30,924	16,600	11,140	—	1,531
Proceeds from bills discounted by the Group	—	—	218,500	9,874	49,952
Settlement of bills discounted by the Group	—	—	—	—	(15,000)
Proceeds from bills payables raised	—	—	753,985	—	93,961
Settlement of bills payables	—	—	(91,740)	(30,000)	(1,522,500)
Repayment to related parties	(200)	(44,951)	(3,325)	—	—

	For the year ended 31 December			For the six months ended 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
				(unaudited)	
Payment for transfer in of equity interests of Tianrui Cement from Tianrui Group Company Limited	—	—	—	—	(565,516)
Acquisition of additional interest in a subsidiary	—	—	(3,000)	(3,000)	—
Issuance of short term debentures	—	—	500,000	—	500,000
Net cash generated from (used in) financing activities	1,325,278	2,194,410	1,472,398	232,695	(1,491,447)
Net (decrease) increase in cash and cash equivalents	(73,359)	152,523	(56,700)	(98,850)	409,821
Cash and cash equivalents at beginning of year/period	321,656	247,573	400,096	400,096	343,396
Effect of foreign exchange rate changes	(724)	—	—	—	—
Cash and cash equivalents at end of the year/period represented by cash and bank balances	247,573	400,096	343,396	301,246	753,217

B. NOTES TO THE FINANCIAL INFORMATION

1A. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 7 February 2011.

The principal activity of the Company is investment holding and its subsidiaries and associate established in the PRC are mainly engaged in manufacture and sale of cement and clinker.

The Financial Information is presented in Renminbi ("RMB") which is the same as the functional currency of the Company.

The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, and its principal place of business is located at No. 63, Guangcheng Road East, Ruzhou City, Henan 467500, the PRC.

1B. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Prior to the Corporate Reorganization, Tianrui Group Company Limited (天瑞集團有限公司) (ultimately controlled by Mr. Li Liufa (李留法) and Mr. Li Xuanyu (李玄煜)), Titan Cement Limited ("Titan Cement"), International Finance Corporation ("IFC"), JPMorgan PCA Holdings (Mauritius) I Limited ("JPMG PCA") and Wan Qi Company Limited ("Wan Qi") each owned equity interest of Tianrui Cement of 47.5%, 20%, 3.6%, 10.03% and 18.87%, respectively.

In preparing the listing of the Company's shares on the Main Board of the Hong Kong Stock Exchange, the following steps have been carried out:

(1) On 7 April 2010, Yu Kuo Company Limited ("Yu Kuo") and Zhong Yuan Cement Company Limited ("Zhong Yuan Cement") were incorporated in the BVI. Yu Kuo subscribed for one share in Zhong Yuan Cement at par. The ultimate shareholders of Yu Kuo are Mr. Li Liufa (李留法) and Mr. Li Xuanyu (李玄煜). On 16 April 2010, China Tianrui (Hong Kong) Company Limited ("Tianrui (HK)") was incorporated in Hong Kong. Tianrui (HK) allotted and issued one share to initial subscriber who then transferred the same to Zhong Yuan Cement at par value on the same date. Zhong Yuan Cement became the (i) wholly owned subsidiary of Yu Kuo and (ii) immediate holding company of Tianrui (HK).

    On 7 February 2011, the Company was incorporated in the Cayman Islands with one registered share at par value of HK$0.01 and fully paid by Yu Kuo. Pursuant to the equity transfer agreement dated 21 February 2011, the Company issued 473 shares to Yu Kuo in exchange for the 100% equity interest of Zhong Yuan Cement. Yu Kuo became the immediate holding company of the Company and the Company became the immediate holding company of Zhong Yuan Cement.

(2) On 22 March 2011, Tianrui Group Company Limited entered into an equity transfer agreement with Tianrui (HK), pursuant to which, Tianrui Group Company Limited transferred 47.5% equity interest in Tianrui Cement to Tianrui (HK) at a consideration of approximately USD87,433,000.

(3) On 22 March and 2 April 2011, the Company, Yu Kuo, Titan Cement, IFC, JPMG PCA and Wan Qi entered into various equity transfer agreements and a subscription agreement, pursuant to which, the Company agreed to allot and issue (i) 474,526 Shares to Yu Kuo at a consideration of USD87,433,333; (ii) 200,000 Shares to Titan Cement, 36,000 Shares to IFC, 100,300 Shares to JPMG PCA and 188,700 Shares to Wan Qi, credited as fully paid to exchange their respective equity interests in Tianrui Cement.

(4) On 8 April 2011, Titan Cement transferred 200,000 shares to its sole shareholder, Titan Investments S.à r.l. ("Titan Investments (Luxembourg)"). On the same date, Titan Investments (Luxembourg) transferred the aforesaid 200,000 Shares to its sole shareholder, Titan Investments Limited ("Titan Investments (Cayman)"). Upon completion of these transfers, all of the shares previously held by Titan Cement were directly held by Titan Investment (Cayman) and there is no change of ultimate beneficial interest of these shares.

Upon completion of the above steps on 8 April 2011, the Company became the ultimate holding company of Tianrui Cement. Yu Kuo (ultimately controlled by Mr. Li Liufa (李留法) and Mr. Li Xuanyu (李玄煜)), Titan Investment (Cayman) (holding company of Titan Cement), IFC, JPMG PCA and Wan Qi each owned 47.5%, 20%, 3.6%, 10.03% and 18.87% equity interests in the Company respectively which mirrors their respective percentage of equity interest in Tianrui Cement before the Corporate Reorganization. Accordingly, the Group resulting from the Corporate Reorganization is regarded as a continuation of Tianrui Cement.

The Financial Information of the Group has been prepared as if the Company had always been the holding company of the Group. The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flow of the Group for the Relevant Periods have been prepared as if the current group structure had been in existence throughout the Relevant Periods, or since the respective dates of incorporation/establishment of the relevant entities now comprising the Group where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2008, 2009 and 2010 have been prepared to present the assets and liabilities of the entities now comprising the Group which were in existence at those dates.

1C. GOING CONCERN BASIS

At 30 June 2011, the Group's current liabilities exceeded its current assets by RMB3,785,962,000. The Group's current liabilities mainly included trade and other payables and borrowings, including an amount of RMB988,660,000 which was classified as current liabilities due to the breach of loan covenants (see Note 30 (vii)).

In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The Financial Information has been prepared on a going concern basis. In the opinion of the directors of the Company, the Group should be able to continue as a going concern in the coming twelve months taking into consideration of various measures to improve its financial position which include, but are not limited to, the following:

(i) Subsequent to 30 June 2011, the Group has obtained from four banks committed banking facilities of RMB1,200,000,000 in aggregate, which comprised of:

(a) a banking facility of RMB240,000,000 from the Shenzhen Development Bank Company Limited which is available until 27 June 2012. The amount of RMB220,000,000 has been drawn down as at 31 October 2011;

(b) a banking facility of RMB600,000,000 from the China Everbright Bank Company Limited which is available until 7 August 2012. The entire amount has been drawn down as at 31 October 2011;

(c) a banking facility of RMB300,000,000 from the China Minsheng Banking Corporation Limited which is available until 6 September 2012. The amount of RMB225,000,000 has been drawn down as at 31 October 2011; and

(d) a banking facility of RMB 60,000,000 from the Bank of Yingkou Company Limited which is available until 17 October 2012. The amount of RMB30,000,000 has been drawn down as at 31 October, 2011.

(ii) Four banking facilities of RMB2,609,500,000 in aggregate are available which are obtained before 30 June 2011, which comprised of:

(a) a banking facility of RMB1,180,000,000 from the Bank of China which is available until 31 July 2012;

(b) a banking facility of RMB1,390,000,000 from the Agricultural Bank of China which is available until 22 June 2012;

(c) a banking facility of RMB19,500,000 from China Guangfa Bank Company Limited which is available until 17 November 2011. This facility has been renewed before the date of issuance of this report, which is available until 10 November 2012; and

(d) a banking facility of RMB20,000,000 from China Merchants Bank Company Limited which is available until 26 April 2012.

None of the banking facilities of RMB2,609,500,000 has been drawn down as at 30 June 2011 and up to the date of issuance of this report.

(iii) In October 2010, the Company obtained approval from the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) to issue short term debentures in an aggregate amount of RMB1,000,000,000. As at 31 December 2010, the Group has issued the first tranche of short term debentures of RMB500,000,000 (see Note 29) which is repayable in November 2011. The Group further issued the second tranche debentures of RMB500,000,000 in March 2011 which is repayable in March 2012. The directors of the Company is of the view that the Group is able to identify investors and issue new debentures shortly after the settlement of the existing short term debentures on the respective maturity dates.

(iv) In November 2011, the Company obtained approval from the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) to issue mid-term debentures in an aggregate amount of RMB500,000,000, of which RMB300,000,000 was issued on 6 December 2011 for a term of three years, carrying an interest rate of 8.4% per annum.

Taking into account of the aforesaid presently available banking facilities, debentures and internally generated funds of the Group, the directors of the Company are satisfied that the Group is able to meet in full its financial obligations as they fall due in the foreseeable future and therefore the Financial Information is prepared on a going concern basis.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has consistently adopted International Accounting Standards ("IASs") and IFRSs issued by International Accounting Standards Board ("IASB") and Interpretations issued by International Financial Reporting Interpretation committee ("IFRIC") of IASB, which are effective for the accounting period beginning on 1 January 2011 throughout the Relevant Periods, except for IFRS 3 (Revised 2008), Business Combinations which has been applied for business combination for which the acquisition date is on or after 1 January 2010 and IAS 27(Revised 2008) Consolidated and Separate Financial Statements which has been applied for accounting period beginning on 1 January 2010.

At the date of this report, the following new and revised standards and amendments have been issued which are not yet effective:

IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[3]
IAS 19 (Revised 2011)	Employee Benefits[2]
IAS 27 (Revised 2011)	Separate Financial Statements[2]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[1]
IFRS 9	Financial Instruments[2]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] *Effective for annual periods beginning on or after 1 July 2011*

[2] *Effective for annual periods beginning on or after 1 January 2013*

[3] *Effective for annual periods beginning on or after 1 January 2012*

[4] *Effective for annual periods beginning on or after 1 July 2012*

IFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 *Financial Instruments* (as revised in October 2010) adds requirements for financial liabilities and for derecognition.

Under IFRS 9, all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The management anticipated that IFRS 9 will be adopted in the Group's consolidated financial statements for the year ending 31 December 2013 and that the application of the new standard is not expected to have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 30 June 2011.

The directors of the Company anticipate that the application of the other new or revised standards and amendments will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis, as explained in accounting policies set out below which conform with IFRSs. These polices have been consistently applied throughout the Relevant Periods.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange and the Hong Kong Companies Ordinance.

Basis of combination

The Financial Information incorporates the financial statements of the subsidiaries controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on combination.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Total comprehensive income of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiary

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the acquisition date less any accumulated impairment losses, if any and is presented separately in the consolidated statements of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

Investment in a subsidiary

Investment in a subsidiary is included in the Company's statement of financial position at cost less any identified impairment loss.

Investment in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in the Financial Information using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statements of financial position at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and other comprehensive income of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

When a group entity transacts with its associate, profits and losses resulting from the transaction with the associate are recognized in the Financial Information only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognized when goods are delivered and legal title is passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year/period in which the item is derecognized.

Mining rights

Mining rights acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of mining rights with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Land use right

Prepaid lease payments represent payments made to acquire land use rights and are amortised on a straight-line basis over the term of the land use rights.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of relevant lease.

The Group as lessee

Operating leases payment is recognized as an expense on a straight-line basis over the term of the relevant lease.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

For leasehold land classified as an operating lease, whilst the building element is classified as a finance lease, interest in leasehold land is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency (foreign currencies) are recorded in the respective functional currency at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at those dates. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefits costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contribution.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years/period and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs are calculated using the weighted average method. Net realizable value represents the estimated selling price for inventories less estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are either loans and receivables or available-for-sale financial assets. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that requires delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties and a director, restricted bank balances and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale investments measured at fair value at the end of each reporting period, changes in fair value are recognized in other comprehensive income and accumulated in equity. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the equity is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in the subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at the amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the group entities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognized on an effective interest basis.

Financial liabilities

The Group's financial liabilities including trade and other payables, amounts due to related parties, short term debenture and borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognized less, when appropriate, cumulative amortisation recognized in accordance with IAS 18 *Revenue*.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognize the financial assets and recognize a collateralised borrowing for proceeds received.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Provision for environmental restoration

The Group is required to incur costs for environment restoration after the underground sites have been mined. Provision for restoration costs were recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provision is measured at the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the management is required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and the future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group assesses annually the residual value and the remaining useful life of property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation charges in the current year/period in which the estimates change and in future periods.

Estimated impairment of trade receivables

Where there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, 2009 and 2010 and 30 June 2011, the carrying amount of trade receivables are RMB106,365,000 (net of allowance for doubtful debts of RMB22,736,000), RMB130,720,000 (net of allowance for doubtful debts of RMB26,783,000) and RMB192,165,000 (net of allowance for doubtful debts of RMB31,231,000) and RMB195,447,000 (net of allowance for doubtful debts of RMB38,024,000), respectively (Note 22).

5. REVENUE

Revenue represents the amount received and receivable for goods sold to external customers, net of sales tax.

An analysis of the Group's revenue for the year/period is as below:

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Sales of cement	2,835,341	3,593,371	4,992,139	1,942,998	3,243,625
Sales of clinker	524,998	821,853	1,137,299	569,537	829,165
	3,360,339	4,415,224	6,129,438	2,512,535	4,072,790

6. SEGMENT INFORMATION

Segment information has been identified on the basis of internal management reports, which are regularly reviewed by the chief executive officer in order to allocate resources to the operating segments and to assess their performance.

The Group's chief executive officer reviews the operating results and financial information of each manufacturing plant for the purposes of resource allocation and performance assessment. Hence, each manufacturing plant is an operating segment. The nature of products, production process of each manufactory plant is the same and they are operated under similar regulatory environment and applied similar distribution methods. However, customers in different regions are of different economic characteristics. Therefore, the Group has aggregated the operating segments and presented the following two reportable segments based on the regions in which the Group operates: Central China and Northeast China.

The following is an analysis of the Group's revenue and results by reportable segment:

	Segment revenue					Segment profit				
	For the year ended 31 December			Six months ended 30 June		For the year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Central China	2,621,803	3,274,251	4,403,309	1,829,726	3,190,958	272,186	185,469	435,933	9,827	682,603
Northeast China	738,536	1,140,973	1,726,129	682,809	881,832	70,620	172,387	114,211	18,497	195,145
Total	3,360,339	4,415,224	6,129,438	2,512,535	4,072,790	342,806	357,856	550,144	28,324	877,748
Share of loss of an associate						(9,253)	(101,832)	—	—	—
Unallocated corporate administrative expenses						(10,900)	(10,984)	(23,440)	(5,299)	(10,149)
Profit before taxation						322,653	245,040	526,704	23,025	867,599

The accounting policies of the reportable segments are the same as the Group's accounting polices described in Note 3. Segment profit represents the profit before taxation without allocation of share of loss of an associate and unallocated corporate administrative expense including directors' emoluments.

Segment revenues are derived from sales to external customers. There are no inter-segment sales.

The following is an analysis of the Group's assets and liabilities by reportable segment:

	At 31 December			At 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
SEGMENT ASSETS				
Central China	4,816,231	7,101,892	8,321,595	8,757,542
Northeast China	2,045,664	2,737,922	3,580,759	4,392,136
Total segment assets	6,861,895	9,839,814	11,902,354	13,149,678
Interest in an associate	101,832	—	—	—
Available-for-sale investments	5,200	5,200	4,000	4,000
Deferred tax assets	7,420	8,283	8,528	11,106
Cash and bank balances	247,573	400,096	343,396	753,217
Restricted bank balances	45,165	355,914	1,423,888	993,202
Amount due from a former director of Tianrui Cement	6,000	—	—	—
Total assets	7,275,085	10,609,307	13,682,166	14,911,203
SEGMENT LIABILITIES				
Central China	2,796,134	5,133,672	6,710,804	6,513,115
Northeast China	1,422,380	2,282,211	3,327,741	4,024,235
Total segment liabilities	4,218,514	7,415,883	10,038,545	10,537,350
Deferred tax liabilities	28,719	24,052	23,623	23,151
Income tax payable	49,788	28,047	83,886	119,706
Total liabilities	4,297,021	7,467,982	10,146,054	10,680,207

For the purposes of monitoring segment performances and allocating resources between segments:

— all assets are allocated to reportable segments other than interest in an associate, available-for-sale investments, deferred tax assets, cash and bank balances, restricted bank balances and amount due from a former director of Tianrui Cement; and

— all liabilities are allocated to reportable segments other than deferred tax liabilities and income tax payable.

Other segment information

For the year ended 31 December 2008

Amounts included in the measure of segment profit and segment assets:

	Central China	Northeast China	Total
	RMB'000	RMB'000	RMB'000
Additions to property, plant and equipment	1,370,192	777,298	2,147,490
Additions to prepaid lease payments	84,394	7,506	91,900
Additions to mining rights	54,589	4,903	59,492
Finance costs	89,759	45,633	135,392
Write-down of inventories	980	—	980
Depreciation and amortisation	144,054	48,323	192,377
Allowances for bad and doubtful debts	17,574	1,000	18,574
Gain on disposal of property, plant and equipment	140	16	156
Value Added Tax refund	61,265	—	61,265
Foreign exchange gain, net	15,726	1,562	17,288
Incentive subsidies	4,080	5,776	9,856
Interest on bank deposits	1,382	1,225	2,607

For the year ended 31 December 2009

Amounts included in the measure of segment profit and segment assets:

	Central China	Northeast China	Total
	RMB'000	RMB'000	RMB'000
Additions to property, plant and equipment	1,892,315	530,275	2,422,590
Additions to prepaid lease payments	85,567	336	85,903
Additions to mining rights	66,181	—	66,181
Finance costs	109,222	57,430	166,652
Provision for environmental restoration	3,774	591	4,365
Reversal of write-down of inventories	(980)	—	(980)
Depreciation and amortisation	216,662	83,179	299,841
Allowances for bad and doubtful debts	4,047	—	4,047
Loss on disposal of property, plant and equipment	1,143	212	1,355
Value Added Tax refund	77,577	6,003	83,580
Foreign exchange gain, net	—	60	60
Incentive subsidies	26,732	14,302	41,034
Interest on bank deposits	2,302	1,126	3,428

For the year ended 31 December 2010

Amounts included in the measure of segment profit and segment assets:

	Central China	Northeast China	Total
	RMB'000	**RMB'000**	**RMB'000**
Additions to property, plant and equipment	1,146,812	604,838	1,751,650
Additions to prepaid lease payments	24,564	—	24,564
Additions to mining rights	18,445	—	18,445
Finance costs	208,176	95,090	303,266
Provision for environmental restoration	1,666	544	2,210
Depreciation and amortisation	313,049	109,540	422,589
(Reversal) allowances for bad and doubtful debts	(379)	4,827	4,448
Gain on disposal of property, plant and equipment	1,148	286	1,434
Value Added Tax refund	96,279	18,184	114,463
Foreign exchange gain, net	7,417	1,426	8,843
Incentive subsidies	16,298	17,479	33,777
Interest on bank deposits	6,335	2,756	9,091

For the six months ended 30 June 2010 (unaudited)

Amounts included in the measure of segment profit and segment assets:

	Central China	Northeast China	Total
	RMB'000	**RMB'000**	**RMB'000**
Additions to property, plant & equipment	494,783	537,526	1,032,309
Additions to prepaid lease payments	6,880	—	6,880
Additions to mining rights	11,225	—	11,225
Finance costs	60,080	39,309	99,389
Provision for environmental restoration	693	316	1,009
Depreciation and amortisation	141,932	47,317	189,249
Allowances for bad and doubtful debts	449	2,151	2,600
Gain on disposal of property, plant and equipment	167	430	597
Value Added Tax refund	54,248	—	54,248
Foreign exchange gain, net	1,530	261	1,791
Incentive subsidies	1,116	4,477	5,593
Interest on bank deposits	1,458	966	2,424

For the six months ended 30 June 2011

Amounts included in the measure of segment profit and segment assets:

	Central China	Northeast China	Total
	RMB'000	RMB'000	RMB'000
Additions to property, plant and equipment	170,942	329,548	500,490
Additions to prepaid lease payments	7,704	70,117	77,821
Additions to mining rights	1,051	—	1,051
Finance costs	146,242	64,660	210,902
Provision for environmental restoration	747	339	1,086
Impairment of property, plant and equipment	2,561	—	2,561
Depreciation and amortisation	185,680	67,361	253,041
Allowances for bad and doubtful debts	1,172	5,621	6,793
Gain on disposal of property, plant and equipment	354	86	440
Value Added Tax refund	61,551	15,491	77,042
Foreign exchange gain, net	5,256	313	5,569
Incentive subsidies	2,145	8,601	10,746
Interest on bank deposits	8,578	4,060	12,638

Revenue from major products has been disclosed in Note 5. All of the Group's operations, as well as all external customers and its non-current assets, are located in the PRC.

No revenue from a single customer or a group of customers under common control contributing over 10% of the total revenue of the Group for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011.

7. OTHER INCOME

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Value Added Tax refund	61,265	83,580	114,463	54,248	77,042
Incentive subsidies (note)	9,856	41,034	33,777	5,593	10,746
Foreign exchange gain, net	17,288	60	8,843	1,791	5,569
Interest on bank deposits	2,607	3,428	9,091	2,424	12,638
Rental income	2,081	1,762	2,404	920	1,246
Release of deferred income (Note 33)	1,492	1,640	2,917	888	2,093
Gain on sales of scrap	1,287	1,349	9,789	257	25,583
Gain on disposal of property, plant and equipment	156	—	1,434	597	440
Others	970	1,959	5,736	2,340	3,967
	97,002	134,812	188,454	69,058	139,324

Note: Amounts mainly represent subsidies granted by certain local governments for encouraging domestic business development.

8. FINANCE COSTS

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest on:					
Bank borrowings wholly repayable within five years	179,534	234,404	319,047	130,349	155,581
Bank borrowings not wholly repayable within five years	—	13,874	16,836	8,541	8,113
Other payables	3,257	1,973	1,944	913	827
Bills discounted with recourse	—	—	52,629	12,788	35,287
Short term debenture	—	—	1,708	—	18,917
Imputed interest on other payables	828	851	876	438	451
	183,619	251,102	393,040	153,029	219,176
Less: amounts capitalized	(48,227)	(84,450)	(89,774)	(53,640)	(8,274)
	135,392	166,652	303,266	99,389	210,902

Borrowing costs capitalized during the Relevant Periods arose on both specific borrowings and the general borrowing pool. The borrowing costs on general borrowing pool capitalized are calculated by applying capitalization rate of 5.4%, 5.2%, 6.1%, 6.1% and 6.15% per annum, for the years ended 31 December 2008, 2009 and 2010 and for the period of the six months ended 30 June 2010 and 2011, respectively.

9. INCOME TAX EXPENSES

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
PRC Enterprise Income Tax ("EIT")					
- current year/period	97,975	86,857	127,757	11,693	214,249
- under-provision in prior years/periods	2,323	452	1,834	1,834	1,520
	100,298	87,309	129,591	13,527	215,769
Deferred tax (Note 32)	(9,874)	(5,530)	(674)	(355)	(3,050)
	90,424	81,779	128,917	13,172	212,719

No provision for Hong Kong taxation has been made during the Relevant Periods as the Group's income neither arisen nor is derived from Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "PRC EIT Law") and Implementation Regulation of the PRC EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to Ping Guo Shui Han 2007 No. 59 issued by the State Administration of Taxation at Pingdingshan, Henan province, the PRC, Tianrui Cement was entitled to an exemption from EIT in year 2007 and 2008, followed by a 50% relief for year 2009 to 2011.

The income tax expenses for the Relevant Periods can be reconciled to profit before taxation per consolidated statements of comprehensive income as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation	322,653	245,040	526,704	23,025	867,599
Tax at the applicable rate of 25%	80,663	61,260	131,676	5,756	216,900
Tax effect of share of loss of associate	2,313	25,458	—	—	—
Tax effect of expenses that are not deductible	7,745	1,788	4,150	1,552	2,717
Effect of tax exemption	(6,258)	—	—	—	—
Tax effect of concessionary rate	—	(4,473)	478	—	(3,671)
Effect of tax incentives (note)	—	(5,968)	(6,871)	—	(1,496)
Tax effect of tax losses not recognized	3,366	4,069	1,623	5,069	306
Utilization of tax losses previously not recognized	—	(1,277)	(3,219)	(282)	(2,909)
Under-provision in prior years/periods	2,323	452	1,834	1,834	1,520
Others	272	470	(754)	(757)	(648)
Tax charge for the year/period	90,424	81,779	128,917	13,172	212,719

Note: According to Caishui (2008) No.48 and Caishui (2008) No.115 issued by the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission, the Group obtained incentives of additional deduction of RMB23,872,000, RMB27,484,000 and RMB5,984,000 from local tax authorities for the year ended 31 December 2009 and 2010 and the six months ended 30 June 2011 respectively for purchase of environmental protection equipments.

10. PROFIT FOR THE YEAR/PERIOD

Profit for the year/period has been arrived at after charging (crediting):

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cost of inventories recognized as an expense	2,683,957	3,695,422	5,080,258	2,275,110	2,870,500
Staff costs excluding directors' emoluments	100,450	114,035	147,567	58,486	103,376
Depreciation of property, plant and equipment	183,347	283,687	400,523	181,771	242,448
Amortisation of prepaid lease payments	5,039	5,790	9,948	4,354	5,271
Amortisation of mining rights, included in cost of sales	3,991	10,364	12,118	3,124	5,322
Allowances for bad and doubtful debts, included in other expenses	18,574	4,047	4,448	2,600	6,793
Impairment for amount due from a former director of Tianrui Cement, included in other expenses	—	6,000	—	—	—
Write-down (reversal of write-down) of inventories	980	(980)	—	—	—
Impairment of property, plant and equipment	—	—	—	—	2,561
Auditor's remuneration	2,250	2,250	2,250	1,125	1,500
Provision for environmental restoration	—	4,365	2,210	1,009	1,086
(Gain) loss on disposal of property, plant and equipment	(156)	1,355	(1,434)	(597)	(440)

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

Details of the emoluments paid to the directors of the Company for the Relevant Periods are as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and allowances	53	61	59	33	66
Bonus (Note)	9	9	408	—	215
Retirement benefit scheme contribution	3	3	3	2	2
	65	73	470	35	283
Executive directors:					
Mr. Li Fashen	65	73	470	35	283
Mr. Li Liufa	—	—	—	—	—
Mr. Xiao Jiaxiang	—	—	—	—	—
Mr. Li Heping	—	—	—	—	—
Mr. Yu Yagang	—	—	—	—	—
Mr. Liu Wenying	—	—	—	—	—
Non-Executive directors:					
Mr. Li Liufa	—	—	—	—	—
Mr. Tang Ming Chien	—	—	—	—	—
Mr. Wang Yanmou	—	—	—	—	—
Mr. Poon Chiu Kwok	—	—	—	—	—
Mr. Song Quanqi	—	—	—	—	—
Mr. Ma Chun Fung Horace	—	—	—	—	—
Mr. Kang Huan	—	—	—	—	—
Mr. Julian Wolhardt	—	—	—	—	—
Mr. William Janetschek	—	—	—	—	—
Mr. Li Xiang	—	—	—	—	—
Ms. Zheng Shenglan	—	—	—	—	—
Mr. David H Lin	—	—	—	—	—
Mr. Varun Bery	—	—	—	—	—
	65	73	470	35	283

Note: The performance related bonus is determined by performance appraisal of each director for the related financial year/period.

No directors waived or agreed to waive any emoluments during the Relevant Periods.

Employees

Of the five individuals with the highest emoluments in the Group during the Relevant Periods, none was director of the Company for the years ended 31 December 2008 and 2009 and one was director of the Company for the year ended 31 December 2010 and the six months ended 30 June 2010 and 2011. The details of the emoluments paid to the five, five, four, four and four highest paid individuals for the Relevant Periods are as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and allowances	602	372	480	283	340
Bonus	2,102	1,746	1,635	—	985
Retirement benefit scheme contribution	15	26	33	22	30
	2,719	2,144	2,148	305	1,355

The emolument of each of the above employees is below HK$1,000,000 (equivalent to approximately RMB831,600).

No emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the Relevant Periods.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company for the Relevant Periods is based on the following data:

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Earnings					
Profit for the year/period attributable to owners of the Company	231,153	162,738	396,833	8,899	654,880
Number of shares					
Weighted average number of shares for the purpose of basic earnings per share (in thousands)	1,880,766	2,000,000	2,000,000	2,000,000	2,000,000

The calculation of the basic earnings per share for the Relevant Periods is based on the consolidated profit of the Group attributable to owners of the Company during the Relevant Periods and assuming 1,880,766,000 shares, 2,000,000,000 shares, 2,000,000,000 shares, 2,000,000,000 shares and 2,000,000,000 shares of the Company were in issue during the year ended 31 December 2008, 31 December 2009, 31 December 2010 and the six months ended 30 June 2010 and 30 June 2011 respectively after taking into account the Corporate Reorganization and Capitalization Issue as detailed in note 1B and Section C(f) of this report.

No diluted earnings per share is presented as there were no potential ordinary shares outstanding during the Relevant Periods.

13. DIVIDEND

No dividend has been paid or declared by any group entities during the Relevant Periods.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2008	1,103,484	1,737,335	43,470	54,837	704,735	3,643,861
Additions	38,110	75,561	13,469	7,130	2,013,220	2,147,490
Disposals	(24)	(551)	(1,707)	(18)	—	(2,300)
Transfer	1,021,993	1,020,037	—	—	(2,042,030)	—
At 31 December 2008	2,163,563	2,832,382	55,232	61,949	675,925	5,789,051
Additions	162,021	71,074	27,792	5,823	2,155,880	2,422,590
Disposals	(1,652)	—	(2,428)	—	—	(4,080)
Transfer	630,405	999,017	—	—	(1,629,422)	—
At 31 December 2009	2,954,337	3,902,473	80,596	67,772	1,202,383	8,207,561
Additions	156,958	236,630	18,772	5,267	1,334,023	1,751,650
Disposals	—	(4,249)	(5,842)	(11)	—	(10,102)
Transfer	760,898	1,202,397	—	—	(1,963,295)	—
At 31 December 2010	3,872,193	5,337,251	93,526	73,028	573,111	9,949,109
Additions	18,145	18,285	9,072	1,466	453,522	500,490
Disposals	(74)	(2,448)	(2,665)	(596)	—	(5,783)
Transfer	179,923	264,379	—	—	(444,302)	—
At 30 June 2011	4,070,187	5,617,467	99,933	73,898	582,331	10,443,816
DEPRECIATION AND IMPAIRMENT						
At 1 January 2008	102,261	273,903	14,549	28,856	—	419,569
Provided for the year	49,618	118,596	7,827	7,306	—	183,347
Eliminated on disposals	(1)	(35)	(509)	(8)	—	(553)
At 31 December 2008	151,878	392,464	21,867	36,154	—	602,363
Provided for the year	69,628	192,323	12,707	9,029	—	283,687
Eliminated on disposals	(109)	—	(397)	—	—	(506)
At 31 December 2009	221,397	584,787	34,177	45,183	—	885,544
Provided for the year	101,548	272,309	14,925	11,741	—	400,523
Eliminated on disposals	—	(392)	(3,272)	(8)	—	(3,672)
At 31 December 2010	322,945	856,704	45,830	56,916	—	1,282,395
Provided for the period	62,665	165,027	7,626	7,130	—	242,448
Impairment loss recognised in profit or loss	2,315	246	—	—	—	2,561
Eliminated on disposals	(49)	(1,490)	(2,178)	(458)	—	(4,175)
At 30 June 2011	387,876	1,020,487	51,278	63,588	—	1,523,229
CARRYING AMOUNTS						
At 31 December 2008	2,011,685	2,439,918	33,365	25,795	675,925	5,186,688
At 31 December 2009	2,732,940	3,317,686	46,419	22,589	1,202,383	7,322,017
At 31 December 2010	3,549,248	4,480,547	47,696	16,112	573,111	8,666,714
At 30 June 2011	3,682,311	4,596,980	48,655	10,310	582,331	8,920,587

Buildings are located in the PRC on medium term leasehold land. The above items of property, plant and equipment, other than construction in progress, are depreciated over their useful lives, after taking into account the estimated residual value, on a straight-line basis:

Buildings	30 years
Plant and machinery	5-15 years
Motor vehicles	5 years
Office equipment	5 years

During the six months ended 30 June 2011, the management conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired due to technical obsolescence. Accordingly, impairment losses of RMB2,561,000 has been recognized in respect of factory buildings, plant and machinery, which are used for cement production in Lushan Xian Antai Cement Company Limited. The recoverable amounts of the relevant assets have been identified individually and fully impaired.

Details of the property, plant and equipment pledged by the Group to secure the bank borrowings granted to the Group are set out in Note 36.

The carrying amounts of buildings, which the application to obtain the ownership certificates is still in process, are approximately RMB6,894,000, RMB8,681,000, RMB21,859,000 and RMB21,543,000 as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively.

15. DEPOSITS PAID

As at 31 December 2008, 2009 and 2010 and 30 June 2011, amounts represented deposits paid for acquiring property, plant and equipment and land use rights.

16. PREPAID LEASE PAYMENTS

	Prepaid lease payments
	RMB'000
At 1 January 2008	335,149
Additions	91,900
Capitalized to construction in progress	(2,393)
Amortisation charged to profit or loss	(5,039)
At 31 December 2008	419,617
Additions	85,903
Capitalized to construction in progress	(2,693)
Amortisation charged to profit or loss	(5,790)
At 31 December 2009	497,037
Additions	24,564
Capitalized to construction in progress	(889)
Amortisation charged to profit or loss	(9,948)
At 31 December 2010	510,764
Additions	77,821
Capitalized to construction in progress	(725)
Amortisation charged to profit or loss	(5,271)
At 30 June 2011	582,589

Analysis for reporting purposes as:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets included in trade and other receivables (Note 22)	7,822	8,670	10,837	12,157
Non-current assets	411,795	488,367	499,927	570,432
	419,617	497,037	510,764	582,589

The carrying amounts of land use right, which the application to obtain the certificates is still in process, are approximately RMB46,285,000, RMB51,845,000, RMB57,605,000 and RMB56,961,000 as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively.

Prepaid lease payments represent medium-term land use right in the PRC and are amortised over the lease term of the respective leases.

Details of the land use rights pledged by the Group to secure the bank borrowings granted to the Group are set out in Note 36.

17. MINING RIGHTS

	Mining rights
	RMB'000
COST	
At 1 January 2008	112,052
Additions	59,492
At 31 December 2008	171,544
Additions	66,181
At 31 December 2009	237,725
Additions	18,445
At 31 December 2010	256,170
Additions	1,051
At 30 June 2011	257,221
ACCUMULATED AMORTISATION	
At 1 January 2008	1,197
Amortisation	3,991
At 31 December 2008	5,188
Amortisation	10,364
At 31 December 2009	15,552
Amortisation	12,118
At 31 December 2010	27,670
Amortisation	5,322
At 30 June 2011	32,992
CARRYING AMOUNTS	
At 31 December 2008	166,356
At 31 December 2009	222,173
At 31 December 2010	228,500
At 30 June 2011	224,229

The useful lives of the mining rights in respect of limestone sites located in the PRC, mainly ranged from 10-33 years.

Details of the mining rights pledged by the Group to secure the bank loans granted to the Group are set out in Note 36.

18. GOODWILL

For the purposes of impairment testing, goodwill has been allocated to two cash generating units ("CGUs"), comprising two subsidiaries in the Central China segment. The carrying amounts of goodwill as at 31 December 2008, 2009 and 2010 and 30 June 2011 allocated to these units are as follows:

	As at 1 January 2008, 31 December 2008, 2009, 2010 and 30 June 2011
	RMB'000
Central China segment:	
Weihui Shi Tianrui Cement Company Limited	10,502
Zhengzhou Tianrui Cement Company Limited	1,773
	12,275

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amounts of the relevant CGUs have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the respective subsidiary covering a one-year period with growth rates of 1% for the following 4 years and discount rate of 7.1%, 5.6%, 6.6% and 7.1% as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively. This growth rate is based on the industry growth forecasts and does not exceed the average medium-term growth rate for the relevant industry. The cash flows beyond the five-year period are extrapolated using zero growth rate. Another key assumption for the value in use calculated is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development.

The management determines that there are no impairment of any of its CGUs containing goodwill as at 31 December 2008, 2009 and 2010 and 30 June 2011.

19. INTEREST IN AN ASSOCIATE

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of investment in an associate	120,000	120,000	120,000	120,000
Share of post-acquisition losses	(18,168)	(120,000)	(120,000)	(120,000)
	101,832	—	—	—

Details of the associate as at 31 December 2008, 2009 and 2010 and 30 June 2011 are as follows:

Name of company	Place and date of incorporation	Registered capital	Attributable equity interest to the Group	Principal activities
		RMB'000		
Pingdingshan Ruiping Shilong Cement Company Limited 平頂山瑞平石龍水泥有限公司	the PRC 12 September 2005	300,000	40%	Manufacture and sale of clinker

The summarised financial information in respect of the Group's associate is set out below:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	948,035	760,519	738,576	724,721
Total liabilities	693,455	761,190	816,574	817,843
Net assets (liabilities)	254,580	(671)	(77,998)	(93,122)
Group's share of net assets of associate	101,832	—	—	—
Revenue	344,075	307,804	49,748	206,786
Loss for the year/period	(23,131)	(255,251)	(77,327)	(17,124)
Group's share of losses of the associate for the year/period	(9,253)	(101,832)	—	—

The Group has discontinued recognition of its share of losses of the associate. The amounts of unrecognized share of loss of the associate, extracted from the financial statements of the associate prepared in accordance with IFRSs, are as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Unrecognized share of loss of the associate for the year/period	—	269	30,931	6,850
Accumulated unrecognized share of loss of the associate	—	269	31,200	38,050

20. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investment, at cost (i)	5,200	5,200	—	—
Listed investment, at fair value (ii) (iii)	—	—	4,000	4,000
	5,200	5,200	4,000	4,000

Note:

i: As at 31 December 2008 and 2009, the amount represents unquoted equity investments in several credit cooperative associations (信用合作社) in the PRC. Those investments are measured at cost less impairment loss at the end of each reporting period because the range of reasonable fair value estimates is so significant that the management is of the opinion that their fair values cannot be measured reliably. The investments were disposed of in 2010 at a consideration of RMB5,200,000.

ii: *As at 31 December 2010 and 30 June 2011, the amount represents investment in a listed open-ended fund on Shenzhen Stock Exchange.*

iii: *As at 30 June 2011, the listed investment is reclassed as current assets because the Group has the right to redeem this investment within twelve months from the end of the reporting period.*

21. INVENTORIES

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials and consumables	296,525	355,961	572,165	700,027
Work-in-progress	6,838	10,080	9,585	8,072
Finished goods	242,748	289,995	219,111	186,133
	546,111	656,036	800,861	894,232

22. TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	129,101	157,503	223,396	233,471
Less: allowances for bad and doubtful debts	22,736	26,783	31,231	38,024
	106,365	130,720	192,165	195,447
Bills receivables	2,870	142,290	498,686	1,114,226
Advance to suppliers	53,707	103,770	255,974	583,289
Value Added Tax refund receivables	45	32,692	37,014	58,644
Prepayment for various tax	9,848	105,115	129,024	84,504
Prepaid lease payments (Note 16)	7,822	8,670	10,837	12,157
Other receivables	31,824	72,805	56,217	87,267
	212,481	596,062	1,179,917	2,135,534

Bills receivables amounted to RMB29,952,000 as at 30 June 2011 were discounted to banks to obtain borrowings. (See Note 30)

Generally, the Group did not make credit sales to customers, except for sales made to major construction contractors and strategic customers with an average credit period of 180 days.

The aged analysis of the Group's trade receivables and bills receivables (net of allowances) from the goods delivery date at the end of each reporting period is as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	94,751	181,338	376,856	548,594
91-180 days	6,646	80,503	293,089	710,880
181-360 days	291	9,080	17,463	50,199
Over 1 year	7,547	2,089	3,443	—
Total	109,235	273,010	690,851	1,309,673

Before accepting any new credit customers, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits and credit period attributed to customers are reviewed on a customer by customer basis. Over 90% of trade receivable and bills receivable that are neither past due nor impaired are regarded as customers with good credit quality under the internal assessment process used by the Group.

Included in the Group's trade receivable are debtors with aggregate carrying amount of RMB7,838,000, RMB11,169,000, RMB20,906,000 and RMB50,199,000 which are past due as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. No allowance has been provided for those balances as the Group considers that there is no significant change in the credit quality of those customers from the date credit was initially granted up to the end of the reporting period.

The aged analysis of the Group's trade receivables which are past due but not impaired as at the end of each reporting period is as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
181-360 days	291	9,080	17,463	50,199
Over 1 year	7,547	2,089	3,443	—
Total	7,838	11,169	20,906	50,199

Movement in the allowance for bad and doubtful debts

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of the year/period	4,162	22,736	26,783	31,231
Provided for the year/period	18,574	4,047	4,448	6,793
Balance at the end of the year/period	22,736	26,783	31,231	38,024

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of RMB22,736,000, RMB26,783,000, RMB31,231,000 and RMB 38,024,000 which was considered as uncollectable. The Group does not hold any collateral over these balances.

Details of trade and other receivables pledged by the Group to secure the bank borrowings granted to the Group are set out in Note 36.

23. AMOUNTS DUE FROM RELATED PARTIES

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Current	3,249	5,072	12,618	11,528
Non-current	5,070	28,070	28,070	28,070
	8,319	33,142	40,688	39,598
Trade in nature	3,249	3,072	4,441	5,740
Non-trade in nature	5,070	30,070	36,247	33,858
Total	8,319	33,142	40,688	39,598

Trade in nature

		As at 31 December			As at 30 June
		2008	2009	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000
Zhongqing (Ruzhou) Power Company Limited (中青(汝州)電力有限公司)	i	1,356	1,356	1,356	1,356
Henan Tianrui Yaoshan Travel Company Limited (河南天瑞堯山旅遊有限公司)	i	182	182	182	182
Tianrui Group Tourism Development Company Limited (天瑞集團旅遊發展有限公司)	i	1,674	1,434	1,434	1,434
Tianrui Group Yunyang Foundry Company Limited (天瑞集團雲陽鑄造有限公司)	i	—	81	81	81
Henan Province Zhoukou Power Company Limited (河南省周口發電有限公司)	ii	35	—	—	—
Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司)	iii	2	19	1,388	2,687
		3,249	3,072	4,441	5,740

The Group makes credit sales to related parties with a maximum credit period of 180 days.

The aged analysis of the Group's amounts due from related parties (trade in nature) from the goods delivery date as at the end of each reporting period is as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	432	—	1,388	2,441
91-180 days	1,082	3	—	246
181-365 days	1,735	97	—	—
Over 1 year	—	2,972	3,053	3,053
	3,249	3,072	4,441	5,740

The aged analysis of the Group's amounts due from related parties which are past due but not impaired as at the end of each reporting period is as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
181-365 days	1,735	97	—	—
Over 1 year	—	2,972	3,053	3,053
Total	1,735	3,069	3,053	3,053

No allowance has been provided for those balances as the Group closely monitors the financial position of the relevant related parties and considers those amounts are recoverable up to the reporting date. The Group did not hold any collateral over these balances.

Non-trade in nature

		As at 31 December			As at 30 June
		2008	2009	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000
Ruzhou Shi Thermal Power Plant (汝州市火電廠) *	i	5,070	28,070	28,070	28,070
Ruzhou Tianrui Coking Company Limited (汝州天瑞煤焦化有限公司) **	i	—	2,000	1,400	2,298
Tianrui Group Yunyang Foundry Company Limited (天瑞集團雲陽鑄造有限公司) **	i	—	—	1,694	3,490
Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司) **	iii	—	—	5,083	—
		5,070	30,070	36,247	33,858

Amounts have been fully settled before the date of issuance of this report.

* *The amounts represent advances for the acquisition of land use rights in the PRC which were currently occupied by Ruzhou Shi Thermal Power Plant (汝州市火電廠) and is therefore classified as non-current assets. Subsequent to 30 June 2011, in view of the continuous delay, the Group negotiated with Ruzhou Shi Thermal Power Plant (汝州市火電廠) and obtained the refund of the entire amount.*

** *The amounts are unsecured, interest-free and repayable on demand.*

Note:

i. Subsidiaries of Tianrui Group Company Limited (天瑞集團有限公司);

ii. Non-controlling shareholder of a subsidiary;

iii. An associate of the Group.

24. AMOUNT DUE FROM A FORMER DIRECTOR OF TIANRUI CEMENT

The amount is unsecured, interest bearing at 5.31% per annum (representing 1-year benchmark interest rate issued by People's Bank of China) and repayable on 7 September 2009. The maximum balance due from the former director is RMB6,000,000 during the Relevant Periods.

During the year ended 31 December 2009, the management considers the amount is not recoverable and thus the outstanding balance was fully impaired.

25. RESTRICTED BANK BALANCES

Restricted bank balances represent deposits pledged to banks for (i) securing bank borrowings granted to the Group amounting to Nil, RMB30,000,000, RMB171,750,000 and RMB101,750,000 as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively (details disclosed in Note 36), and (ii) issuing trade facilities such as bills payable and bankers' guarantee amounting to RMB45,165,000, RMB325,914,000, RMB1,252,138,000 and RMB891,452,000 as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively.

The restricted bank balances carry market interest rate of 0.36% to 2.25%, 0.36% to 2.50%, 0.36% to 2.75% and 0.4% to 3.25% per annum as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively.

As at 31 December 2009, the restricted bank balances of RMB30,000,000 were pledged to secure non-current bank borrowings and were therefore classified as non-current. No restricted bank balances were pledged for non-current bank borrowings as at 31 December 2008 and 2010 and 30 June 2011.

26. CASH AND BANK BALANCES

The amounts represent cash and bank balances held by the Group. As at 31 December 2008, 2009 and 2010 and 30 June 2011, bank balances carry interest at market rates of 0.36%, 0.36%, 0.36% and 0.5% per annum respectively.

27. TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	434,893	812,105	1,247,388	1,636,602
Bills payable	—	327,742	1,653,368	1,295,438
Construction cost and retention payable	456,832	437,837	335,822	322,753
Advances from customers	56,916	118,600	97,162	405,832
Other tax payables	24,046	27,423	76,516	119,624
Other payables - current (note 31)	11,750	4,500	10,999	10,542
Payables for mining rights	17,123	19,442	22,042	9,127
Other payables and accrued expenses	201,549	192,995	134,012	185,859
	1,203,109	1,940,644	3,577,309	3,985,777

The average credit period on purchases of goods is 90 days.

The aged analysis of the Group's trade and bills payable from the goods receipt date as at the end of each reporting period is as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1-90 days	345,784	800,747	1,826,991	2,256,424
91-180 days	74,654	276,074	983,696	602,952
181-365 days	9,784	53,337	69,052	54,802
Over 1 year	4,671	9,689	21,017	17,862
Total	434,893	1,139,847	2,900,756	2,932,040

28. AMOUNTS DUE TO RELATED PARTIES

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade in nature	137	137	137	137
Non-trade in nature	30,724	2,373	10,188	11,719
	30,861	2,510	10,325	11,856

Trade in nature

		As at 31 December			As at 30 June
	Notes	2008	2009	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000
Ruzhou Shi Thermal Power Plant (汝州市火電廠)	i	9	9	9	9
Tianrui Group Tourism Development Company Limited (天瑞集團旅遊發展有限公司)	i	32	32	32	32
Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司)	ii	96	96	96	96
		137	137	137	137

The average credit period offered by related parties is 90 days.

The aged analysis of the Group's amounts due to related parties (trade in nature) from service/goods receipt date at the end of each reporting period is as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	9	—	—	—
91-180 days	96	—	—	—
Over 1 year	32	137	137	137
	137	137	137	137

Non-trade in nature

	Notes	As at 31 December			As at 30 June
		2008	2009	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000
Ruzhou Shi Waste Recycling Company Limited (汝州市通用廢舊金屬回收有限公司)	i	20,000	—	—	—
Tianrui Group Company Limited (天瑞集團有限公司)	iii	10,724	873	688	828
Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司)	ii	—	1,500	500	1,891
Tianrui Group Yunyang Foundry Company Limited (天瑞集團雲陽鑄造有限公司)	i	—	—	9,000	9,000
		30,724	2,373	10,188	11,719

Amounts are unsecured, interest-free, repayable on demand and have been fully settled before the date of issuance of this report.

Note:

i. Subsidiaries of Tianrui Group Company Limited (天瑞集團有限公司);

ii. An associate of the Group;

iii. A shareholder of the Company.

29. SHORT TERM DEBENTURES

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Short term debentures	—	—	500,000	1,000,000

The amounts as at 30 June 2011 represented the issuance of the two tranche of short term debentures of RMB500,000,000 on 9 November 2010 and RMB500,000,000 on 8 March 2011 through the lead underwriter, China Guangfa Bank Company Limited, with maturity of one year. The two tranche of short term debentures carries fixed interest at 4.1% and 5.55% per annum separately.

30. BORROWINGS

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings				
- fixed-rate (i)	110,000	376,500	1,154,500	1,042,972
- variable-rate (ii)	729,000	2,946,014	3,081,780	3,013,230
IFC loan at variable-rate (iii)	341,730	341,670	247,358	214,857
Syndicated loans at variable-rate (iv)	1,676,014	1,678,416	1,093,515	852,675
	2,856,744	5,342,600	5,577,153	5,123,734
Bank borrowing relating to bills discounted with recourse (v)	—	—	218,500	253,452
Other loans at fixed-rate (vi)	2,800	2,720	2,720	—
	2,859,544	5,345,320	5,798,373	5,377,186
Secured	2,776,744	4,800,600	5,665,653	5,247,186
Unsecured	82,800	544,720	132,720	130,000
	2,859,544	5,345,320	5,798,373	5,377,186

The borrowings are repayable as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
On demand or within one year*	306,800	2,994,281	3,777,373	3,460,336
More than one year, but not exceeding two years	554,095	639,636	577,000	484,250
More than two years, but not exceeding five years	1,998,649	1,626,403	1,413,000	1,401,600
More than five years	—	85,000	31,000	31,000
	2,859,544	5,345,320	5,798,373	5,377,186
Less: Amount due within one year shown under current liabilities	(306,800)	(2,994,281)	(3,777,373)	3,460,336
Amount due after one year	2,552,744	2,351,039	2,021,000	1,916,850

* *As at 31 December 2009, included in borrowings repayable on demand are syndicated loans of RMB1,449,657,000 and IFC loan of RMB 283,556,000 repayable on demand due to breach of loan covenants.*

As at 31 December 2010, included in borrowings repayable on demand are (i) bank borrowing of RMB 50,000,000 repayable by instalments up to 2015 but contain a repayment on demand clause; and (ii) syndicated loans of RMB1,009,322,000 and IFC loan of RMB 219,874,000 repayable on demand due to breach of loan covenants.

As at 30 June 2011, included in borrowings repayable on demand are (i) bank borrowing of RMB 50,000,000 repayable by instalments up to 2015 but contain a repayment on demand clause; and (ii) syndicated loans of RMB797,676,000 and IFC loan of RMB 190,984,000 repayable on demand due to breach of loan covenants.

Note:

i As at 31 December 2008, 2009 and 2010 and 30 June 2011, the fixed-rate borrowings carry interests ranged from 7.83% to 9.60%, 4.86% to 9.18%, 5.31% to10.68% and 5.31% to 10.41% per annum;

ii As at 31 December 2008, 2009 and 2010 and 30 June 2011, the variable-rate borrowings carry interests ranged from 5.18% to 6.97%, 4.86% to 8.50%, 5.31% to 7.68% and 5.31% to 7.68% per annum. The interest rate is determined based on the Benchmark Interest Rate announced by People's Bank of China.

iii As at 31 December 2008, 2009 and 2010 and 30 June 2011, the interest rate for the Group's IFC loan is determined based on London Interbank Offered Rate ("LIBOR"). plus 2%, 2.288%, 2.288% and 2.288%, respectively.

iv As at 31 December 2008, 2009 and 2010 and 30 June 2011, the interest rate for the Group's syndicated loan is 95% of the 3-5 years Benchmark Interest Rates announced by the People's Bank of China.

v As at 31 December 2010 and 30 June 2011, the amounts represented (i) intercompany bills receivables amounted to RMB218,500,000, RMB223,500,000 respectively, arising from intercompany transactions discounted to various financial institutions with full recourse, and (ii) bills receivables amounted to Nil, RMB29,952,000 respectively, received from customers discounted to various banks with full recourse. The discounted bills carried fixed interests ranging from 3.21% to 4.75% per annum and 3.58% to 7.68% per annum as at 31 December 2010 and 30 June 2011 respectively.

vi As at 31 December 2008, 2009 and 2010, the amount represented a loan from an independent third party, Zhengzhou Baisha County Labor Protection Bureau (鄭州市白沙鎮勞保所) amounted to RMB2,800,000, RMB2,720,000 and RMB2,720,000 respectively and carried fixed interests at 9.6%. Such borrowing is unsecured and repayable on demand. The loan was fully settled during the six months ended 30 June 2011.

vii In respect of the loans with the carrying amounts of RMB1,229,196,000 and RMB988,660,000 as at 31 December 2010 and 30 June 2011, respectively the Group breached certain of the terms of the loans and the lenders have the right to demand immediate payment. The borrowings have been classified as a current liability as at 31 December 2010 and 30 June 2011. On discovery of the breach, the management informed the lenders and commenced a renegotiation of the terms of the loans with the relevant lender, As at 30 June 2011, those negotiations had not been concluded.

Details of assets pledged to secure bank borrowings are set out in Note 36.

31. OTHER PAYABLES

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Acquisition of mining rights	59,759	48,860	45,236	44,779
Less: Amount due within one year shown under trade and other payables (note 27).	(11,750)	(4,500)	(10,999)	(10,542)
	48,009	44,360	34,237	34,237

The amounts represented the payables for acquisition of mining rights.

Pursuant to the purchase agreement entered into between Dalian Tianrui Cement Company Limited (大連天瑞水泥有限公司) and Dalian Municipal Bureau of Land and Resources and Housing (大連市國土資源和房屋局) in 2007, Dalian Tianrui Cement Company Limited (大連天瑞水泥有限公司) acquired mining rights at a consideration of approximately RMB52,068,000 which is repayable by 6 installments between 2007 to 2017 every 2 years. The amount bears interest at progressive rates ranged from 5.87% to 7.83% per annum. The effective interest rate is 6.89% per annum.

Pursuant to the purchase agreement entered into between Weihui Shi Tianrui Cement Company Limited (衛輝市天瑞水泥有限公司) and Weihui Municipal Bureau of Geological and Mineral Resources (衛輝市地質礦產局) in 2007, Weihui Shi Tianrui Cement Company Limited (衛輝市天瑞水泥有限公司) acquired mining rights at a consideration of RMB35,000,000 which is repayable by 8 installments between 2007 to 2014 annually. The amount is interest free. The fair value of the outstanding amount at initial recognition is estimated at an effective interest rate of 6.89% per annum.

32. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognized by the Group, and the movements thereon, during the Relevant Periods:

	Allowance on inventories and trade and other receivables	Depreciation on property, plant, equipment and prepaid lease payments	Imputed interest on other payables	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	765	(30,586)	(1,580)	228	(31,173)
Credit (charge) to income for the year	4,383	(346)	207	5,630	9,874
At 31 December 2008	5,148	(30,932)	(1,373)	5,858	(21,299)
Credit to income for the year	1,442	2,468	213	1,407	5,530
At 31 December 2009	6,590	(28,464)	(1,160)	7,265	(15,769)
Credit (charge) to income for the year	934	1,014	219	(1,493)	674
At 31 December 2010	7,524	(27,450)	(941)	5,772	(15,095)
Credit to income for the period	1,804	354	113	779	3,050
At 30 June 2011	9,328	(27,096)	(828)	6,551	(12,045)

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	7,420	8,283	8,528	11,106
Deferred tax liabilities	(28,719)	(24,052)	(23,623)	(23,151)
	(21,299)	(15,769)	(15,095)	(12,045)

At 31 December 2008, 2009 and 2010 and 30 June 2011, the Group has unused tax losses of approximately RMB13,464,000, RMB24,633,000, RMB18,249,000 and RMB6,613,000 available for offset against future profits. No deferred tax asset has been recognized in respect of these tax losses due to unpredictability of future profit streams in respective subsidiaries. The unrecognized tax loss will be expired as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
2013	13,464	8,357	—	—
2014	—	16,276	11,757	6,613
2015	—	—	6,492	—
	13,464	24,633	18,249	6,613

Under the PRC EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the Financial Information in respect of temporary differences attributable to accumulated profit of the PRC subsidiaries amounting to RMB204,842,000, RMB339,552,000, RMB692,088,000 and RMB1,346,968,000 as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

33. DEFERRED INCOME

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Assets-related government grants	76,991	78,684	111,726	120,633

The assets-related government grants represent the subsidies received by the Group for the purpose of acquiring land use rights to build new production lines in the PRC and acquiring qualified energy conservation equipment. An amount of approximately RMB1,492,000, RMB1,640,000, RMB2,917,000, RMB888,000 (unaudited) and RMB2,093,000 was released to "other income" during the year ended 31 December 2008, 2009 and 2010 and six months ended 30 June 2010 and 2011 respectively.

34. PROVISION FOR ENVIRONMENTAL RESTORATION

	Environmental restoration
	RMB'000
At 31 December 2008	—
Provision for the year	4,365
At 31 December 2009	4,365
Provision for the year	2,210
At 31 December 2010	6,575
Provision for the period	1,086
At 30 June 2011	7,661

According to the regulation issued in 2009 by the Ministry of Land and Resources (國土資源部), the user of a mine should undertake the obligation of environmental restoration. After taking into account the quantity of limestone mined and the timing of mine restoration in future, a provision has been recognized for the costs expected to be incurred for the restoration of the limestone mines. Addition in provision is recognized as cost of sales of the related limestone mined and sold.

35. ISSUED CAPITAL/PAID-IN CAPITAL

The Company

	Number of shares	Share capital	
		HK$'000	RMB'000
Ordinary shares of HK$0.01 each:			
Authorised			
On incorporation and at 30 June 2011	38,000,000	380	316
Issued			
On incorporation (note a)	1	—	—
Issued on 21 February and 2 April 2011 (note b)	474,999	5	4
Issued on 2 April 2011 (note c)	525,000	5	4
As at 30 June 2011	1,000,000	10	8

Notes:

(a) *On 7 February 2011, one subscriber share was issued to the Company's subscriber, Yu Kuo, at par value.*

(b) *On 21 February 2011, the Company issued 473 shares to Yu Kuo in exchange for the 100% equity interests in Zhong Yuan Cement and on 2 April 2011, issued 474,526 shares to Yu Kuo at a consideration of USD87,433,333.*

(c) *As on 2 April 2011, the Company issued 525,000 shares to other shareholders of Tianrui Cement for acquiring their respective interests in Tianrui Cement.*

For the purpose of the preparation of the consolidated statements of financial position, the balances of paid-in capital at 31 December 2008, 2009 and 2010 represented the paid-in capital of Tianrui Cement.

The Group

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Paid-in capital of Tianrui Cement	1,397,135	1,397,135	1,397,135
Issued share capital of Zhong Yuan Cement	—	—	—
Issued share capital of Tianrui (HK)	—	—	—
	1,397,135	1,397,135	1,397,135

Pursuant to the Corporate Reorganization completed on 8 April 2011, the Company became the holding company comprising the Group. The issued capital at 30 June 2011 represents the issued share capital of the Company.

36. PLEDGE OF ASSETS

As at the end of each of the reporting period, the carrying amount of the assets of the Group pledged to secure the bank borrowings granted to the Group is analysed as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	2,482,680	2,309,021	2,853,195	2,332,847
Prepaid lease payments	183,441	216,273	265,906	263,405
Mining rights	66,534	66,843	64,861	64,278
Trade and other receivables	27,169	63,613	70,928	103,609
Restricted bank balances	—	30,000	171,750	101,750
	2,759,824	2,685,750	3,426,640	2,865,889

During the Relevant Periods, apart from the assets pledged set out above, Tianrui Cement has pledged all of its equity interests in Tianrui Group Ruzhou Cement Company Limited (天瑞集團汝州水泥有限公司), Lushan Xian Antai Cement Company Limited (魯山縣安泰水泥有限公司), Shangqiu Tianrui Cement Company Limited (商丘天瑞水泥有限公司), Zhengzhou Tianrui Cement Company Limited (鄭州天瑞水泥有限公司), Weihui Shi Tianrui Cement Company Limited (衛輝市天瑞水泥有限公司), Yuzhou Shi Zhongjin Cement Company Limited (禹州市中錦水泥有限公司) and Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司), and part of its equity interests in Tianrui Group Zhoukou Cement Company Limited (天瑞集團周口水泥有限公司), Dalian Tianrui Cement Company Limited (大連天瑞水泥有限公司), Yingkou Tianrui Cement Company Limited (營口天瑞水泥有限公司), Liaoyang Tianrui Cement Company Limited (遼陽天瑞水泥有限公司), Tianrui Group Nanzhao Cement Company Limited (天瑞集團南召水泥有限公司) for the syndicated loans.

37. CAPITAL COMMITMENTS

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure of the Group in respect of acquisition of property, plant and equipment				
- contracted for but not provided in the Financial Information	810,533	861,935	791,575	766,720
- authorized but not contracted for	1,495,982	2,734,339	1,547,821	1,273,362

38. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of each of the reporting period, the Group had commitments for future minimum lease payments in respect of rented premises which fall due as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	65	488	—	600

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average terms of 1 year and rental are fixed throughout the lease term.

The Group as lessor

The rental income earned for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 amounted to approximately RMB2,081,000, RMB1,762,000, RMB2,404,000, RMB920,000 (unaudited) and RMB1,246,000 respectively are generated from rental of certain plant and machinery. All leases have committed tenants for next 2 years.

At the end of each reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	1,625	983	2,838	2,216
In the second to fifth year inclusive	—	—	623	—
	1,625	983	3,461	2,216

39. RETIREMENT BENEFIT SCHEMES

The PRC employees of the Group are members of state-managed retirement benefit schemes operated by the local governments. The Group is required to contribute a specified percentage of their payroll costs to the retirement benefit schemes to fund the benefits. The retirement benefit cost charged to profit or loss for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, amounts to RMB4,789,000, RMB7,384,000, RMB10,108,000, RMB4,506,000 (unaudited) and RMB7,812,000 respectively.

40. RELATED PARTY DISCLOSURES

(a) Apart from the amounts due from/to related parties as disclosed in Notes 23, 24 and 28, during the Relevant Periods, the Group had the following significant transactions with the related parties.

			For the year ended 31 December			For the six months ended 30 June	
Nature of transaction	Name of related company	Notes	2008	2009	2010	2010	2011
			RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Continuing transactions *							
Purchase of goods	Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司)	i	10,737	9,734	21,587	—	17,224
Office rental	Tianrui Group Company Limited (天瑞集團有限公司)	ii	566	600	600	300	1,000
Discontinued transactions #							
Sales of goods	Tianrui Group Tourism Development Company Limited (天瑞集團旅遊發展有限公司)	iii	1,210	—	—	—	—
	Henan Tianrui Yaoshan Travel Company Limited (河南天瑞堯山旅遊有限公司)	iii	230	—	—	—	—
	Tianrui Group Yunyang Foundry Company Limited (天瑞集團雲陽鑄造有限公司)	iii	—	82	449	—	2,816
	Ruzhou Tianrui Coking Company Limited (汝州天瑞煤焦化有限公司)	iii	—	—	—	—	1,485
	Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司)	i	—	—	4,034	—	15,614
			1,440	82	4,483	—	19,915

Nature of transaction	Name of related company	Notes	For the year ended 31 December 2008	2009	2010	For the six months ended 30 June 2010	2011
			RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Purchase of goods	Zhongqing (Ruzhou) Power Company Limited (中青(汝州)電力有限公司)	iii	578	—	—	—	—
Purchase of property, plant and equipment	Zhongqing (Ruzhou) Power Company Limited (中青(汝州)電力有限公司)	iii	30,525	—	—	—	—
Rental expenses	Ruzhou Shi Thermal Power Plant (汝州市火電廠)	iii	249	—	—	—	—
Financial guarantee provided by the Group to	Tianrui Group Company Limited (天瑞集團有限公司)	ii	—	30,000	60,000	—	60,000
	Sanmenxia Tianyuan Aluminum Company Limited (三門峽天元鋁業股份有限公司)	iii	—	51,000	51,000	51,000	—
	Tianrui Group Foundry Company Limited (天瑞集團鑄造有限公司)	iii	—	30,000	70,000	—	—
			—	111,000	181,000	51,000	60,000

Notes:

* *These transactions will continue after the listing of the shares of the Company on the Main Board of the Stock Exchange.*

These transactions will discontinue after the listing of the shares of the Company on the Main Board of the Stock Exchange.

i. *An associate of the Group;*

ii. *A shareholder of the Group;*

iii. *Subsidiaries of Tianrui Group Company Limited (天瑞集團有限公司);*

(b) Remuneration to key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly and indirectly including directors and supervisors of the Group. The key management personnel compensations are as follows:

	For the year ended 31 December 2008	2009	2010	For the six months ended 30 June 2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Short-term benefits	6,458	3,855	4,297	493	605
Retirement benefits	66	110	91	31	43
	6,524	3,965	4,388	524	648

(c) In the opinion of the directors of the Company, other than the financial guarantee provided by/to Tianrui Group Company Limited (天瑞集團有限公司) and its subsidiaries, other related party transactions were conducted on normal commercial terms.

(d) The amounts due from/to related parties (other than those which are of trading nature) were fully settled before the date of issuance of this report and the amounts due from/to related parties which are of trading nature will be settled in accordance with the relevant credit terms, which are no more favorable than those granted to independent third parties.

(e) The guarantees provided to Tianrui Group Company Limited (天瑞集團有限公司) and its subsidiaries will be released before the listing of the shares of the Company on the Main Board of the Stock Exchange.

41. CAPITAL RISK MANAGEMENT

The management manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Group consists of debt, which includes the short term debenture and borrowings (details refer to Note 29 and 30), and equity attributable to owners of the Company, comprising issued capital/paid-in capital and reserves.

The management reviews the capital structure on a yearly basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

42. FINANCIAL INSTRUMENTS

Categories of financial instruments

	The Group			
	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loans and receivables (including restricted bank balances and cash and bank balances)	443,046	1,106,897	2,526,970	3,136,909
Available-for-sale investments	5,200	5,200	4,000	4,000
Financial liabilities				
Amortised cost	4,060,561	7,186,811	9,746,566	9,883,600

The Company did not have any financial instruments outstanding as at 30 June 2011.

Financial risk management objectives and policies

The Group's major financial assets and liabilities include trade and other receivables, amounts due from related parties, amount due from a former director of Tianrui Cement, restricted bank balances, cash and bank balances, available-for-sale investments, trade and other payables, amounts due to related parties, short term debenture and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk and currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings and payables for mining rights (see Note 30 and 31 for details). Besides, the Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings and syndicated loans, restricted bank balances and bank balances (see Notes 25, 26 and 30 for details).

The Group closely monitors the interest rate trend and aims to minimise the finance costs. The Group's fair value interest rate risk mainly arose from bank borrowings carried at fixed interest rate.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Benchmark Interest Rate announced by People's Bank of China and LIBOR.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of each reporting period. For restricted bank balances, bank balances, variable-rate borrowings and syndicated loans, the analysis is prepared assuming the amount of asset and liability outstanding at the end of each reporting period was outstanding for the whole year. A 27 basis points increase or decrease in LIBOR and Benchmark Interest Rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 27 basis points higher/lower and all other variables were held constant, the Group's profit for the year/period would be decreased/increased by approximately RMB3,512,000, RMB5,507,000, RMB3,302,000 and RMB2,046,000 and the amount of borrowing costs capitalized in respect of the Group's qualifying assets would be increased/decreased by approximately RMB1,943,000, RMB4,625,000, RMB2,767,000 and RMB424,000 for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively.

Currency risk

The Group undertakes certain loans denominated in United States Dollar ("US Dollar"), hence exposures to exchange rate fluctuation arises. The Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure. However, management monitors the US Dollar exposure closely and will consider hedging significant currency exposure should the need arise.

The carrying amount of the Group's foreign currency denominated monetary liabilities at the end of each reporting period are as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities				
US Dollar	341,730	341,634	247,358	214,857

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in RMB against US Dollar.

The following table details the Group's sensitivity to a 5% increase or decrease in RMB against US Dollar as at 31 December 2008, 2009 and 2010 and 30 June 2011. The percentage is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding bank borrowings denominated in US Dollar, and adjusts its translation at the end of each reporting period for 5% change in foreign currency rate. A positive number below indicates an increase in post-tax profit where RMB strengthen 5% against US Dollar. For a 5% weakening of RMB against US Dollar, there would be an equal and opposite impact on the profit and the balances below would be negative.

	For the year ended 31 December			For the six months ended 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year/period	12,815	12,811	9,276	8,057

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from (i) the carrying amounts of the respective recognized financial assets as stated in the consolidated statements of financial positions and (ii) the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in Note 43.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts from credit customers and related parties. In addition, the Group reviews the recoverable amount of each debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Besides, trade receivables consist of a large number of customers spread across diverse geographical areas in the PRC.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants and follow up actions were taken promptly as appropriate. As at 30 June 2011, four banking facilities of RMB2,609,500,000 in aggregate are available, which comprised of: (a) a banking facility of RMB1,180,000,000 from the Bank of China which is available until 31 July 2012; and (b) a banking facility of RMB1,390,000,000 from the Agricultural Bank of China which is available until 22 June 2012; (c) a banking facility of RMB19,500,000 from China Guangfa Bank Company Limited which is available until 17 November 2011; and (d) a banking facility of RMB20,000,000 from China Merchants Bank Company Limited which is available until 26 April 2012. None of the banking facilities of RMB2,609,500,000 has been utilized as at 31 October 2011. Subsequent to 30 June 2011, the Group has obtained four banking facilities of RMB1,200,000,000 in aggregate from Shenzhen Development Bank Company Limited, China Everbright Bank Company Limited, China Minsheng Bank Corporation Limited and Bank of Yingkou Company Limited in the PRC. As at 31 October 2011, the amount of RMB1,075,000,000 in aggregate has been drawn down.

The Group has net current liabilities as at 31 December 2008, 2009 and 2010 and 30 June 2011, which exposed the Group to liquidity risk. In order to mitigate the liquidity risk, the management regularly monitors the operating cash flows of the Group to meet its liquidity requirement in the short and long term. As detailed in Note 30, the Group breached certain covenants of the syndicated loans and IFC loan as at 31 December 2009 and 2010 and 30 June 2011. Up to the date of issuance of this report, the Group is still in the progress of negotiation with relevant lenders.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowing of RMB50,000,000 as at 31 December 2010 and 30 June 2011 with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. In addition, IFC loan and syndicated loans amounted to RMB1,733,213,000, RMB1,229,196,000 and RMB988,660,000 as at 31 December 2009 and 2010 and 30 June 2011 are included in the "on demand" category due to breach of loan covenants.

The tables include both interest and principal cash flows. To the extent that interest flows are variable-rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

	Weighted average interest rate	On demand or 0-30 days	31 to 180 days	181 to 365 days	1-2 years	2-3 years	Over 3 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2008									
Trade and other payables		310,298	446,370	353,729	—	—	—	1,110,397	1,110,397
Amounts due to related parties		30,861	—	—	—	—	—	30,861	30,861
Borrowings									
- fixed-rate	7.9	—	—	117,256	—	—	—	117,256	112,800
- variable-rate	5.8	—	—	199,600	586,084	327,194	2,019,085	3,131,963	2,746,744
Other payables - fixed rate	7.3	11,750	—	—	3,501	13,243	41,329	69,823	59,759
		352,909	446,370	670,585	589,585	340,437	2,060,414	4,460,300	4,060,561
As at 31 December 2009									
Trade and other payables		348,943	342,411	1,098,767	—	—	—	1,790,121	1,790,121
Amounts due to related parties		2,510	—	—	—	—	—	2,510	2,510
Financial guarantee liabilities		111,000	—	—	—	—	—	111,000	—
Borrowings									
- fixed-rate	6.4	—	130,689	227,737	30,312	—	—	388,738	379,220
- variable-rate	5.7	1,762,252	289,985	609,502	645,809	639,197	1,344,074	5,290,819	4,966,100
Other payables - fixed rate	7.3	4,500	—	—	12,330	13,222	26,651	56,703	48,860
		2,229,205	763,085	1,936,006	688,451	652,419	1,370,725	7,639,891	7,186,811
As at 31 December 2010									
Trade and other payables		964,878	1,902,129	525,625	—	—	—	3,392,632	3,392,632
Amounts due to related parties		10,325	—	—	—	—	—	10,325	10,325
Financial guarantee liabilities		231,000	—	—	—	—	—	231,000	—
Borrowings									
- fixed-rate	6.4	50,000	650,952	644,186	57,454	—	—	1,402,592	1,375,720
- variable-rate	5.8	1,316,680	402,200	759,950	553,099	706,838	960,418	4,699,185	4,422,653
Other payables - fixed rate	7.3	10,999	—	—	3,284	13,222	24,548	52,053	45,236
Short-term debenture	4.1	—	—	518,792	—	—	—	518,792	500,000
		2,583,882	2,955,281	2,448,553	613,837	720,060	984,966	10,306,579	9,746,566
As at 30 June 2011									
Trade and other payables		1,304,530	1,483,826	661,423	—	—	—	3,449,779	3,449,779
Amounts due to related parties		11,856	—	—	—	—	—	11,856	11,856
Financial guarantee liabilities		110,000	—	—	—	—	—	110,000	—
Borrowings									
- fixed-rate	7.0	209,973	572,052	518,449	—	—	—	1,300,474	1,296,424
- variable-rate	6.2	1,067,533	612,664	502,105	514,514	720,916	952,366	4,370,098	4,080,762
Other payables - fixed rate	7.3	10,542	—	—	12,238	3,480	23,915	50,175	44,779
Short-term debenture	4.8	—	522,000	506,000	—	—	—	1,028,000	1,000,000
		2,714,434	3,190,542	2,187,977	526,752	724,396	976,281	10,320,382	9,883,600

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

As at 31 December 2010 and 30 June 2011, principal amount of RMB50,000,000 with a repayment on demand clause is included in the "on demand or 0-30 days" time band in the above maturity analysis. Taking into account the Group's financial position, the management does not believe that it is probable that the bank will exercise their discretionary rights to demand immediate repayment. For the purpose of managing liquidity risk, the management reviews the expected cash flow information of the term loan based on the scheduled repayment dates set out in the agreements in the table below:

	Weighted average interest rate	0-30 days	31 to 180 days	181 to 365 days	1-2 years	2-3 years	Over 3 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2010									
Borrowings	6.56	—	—	—	10,656	11,354	37,882	59,892	50,000
As at 30 June 2011									
Borrowings	7.32	—	—	10,732	—	11,517	36,653	58,902	50,000

43. CONTINGENT LIABILITIES

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees given to banks in respect of banking facilities granted to:				
- Related parties (Note 40)	—	111,000	181,000	60,000
- Third party	—	—	50,000	50,000
	—	111,000	231,000	110,000

As at the end of each reporting period, the management considers the risk of the contingent liabilities are remote and no financial guarantee liabilities have been recognized.

C. SUBSEQUENT EVENTS

(a) Subsequent to 30 June 2011, the Group has obtained from four banks committed banking facilities of RMB1,200,000,000 in aggregate. The amount of RMB1,075,000,000 in aggregate has been drawn down as the date of issuance of this report;

(b) Subsequent to 30 June 2011, the Group has obtained and drawn down a new syndicated loan of RMB59,000,000;

(c) In November 2011, the Group repaid short term debentures of RMB500,000,000 on the maturity date;

(d) In November 2011, the Group had obtained approval from the National Association of Financial Market Institutional Investors (中國銀行間交易商協會) to issue mid-term debentures in an aggregate amount of RMB500,000,000, of which RMB300,000,000 was issued on 6 December 2011 for a term of three years, carrying an interest rate of 8.4% per annum;

(e) The Group repaid approximately RMB1,112,898,400 and obtained renewal of bank borrowing of approximately RMB620,000,000 during the period from 1 July 2011 to 31 October 2011; and

(f) On 9 December 2011, a written resolution were passed to approve the capitalization issue of 1,999,000,000 shares of the Company by the capitalization of an amount of HK$19,990,000 from the amount standing to the credit of the share premium account of the Company (the "Capitalization Issue") as set out in the paragraph headed "Written resolutions of our Shareholders passed on 9 December 2011" under the section headed "Further information about our Group" in Appendix VI to this prospectus.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any companies comprising the Group in respect of any period subsequent to 30 June 2011.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong