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本公佈並不構成在美國或任何其他司法權區提呈出售建議或招攬購買任何證券的建議，倘未根據任何該等司法權區的證券法辦理登記或未獲批准而於上述地區進行上述建議、招攬或出售即屬違法。倘無登記或適用豁免登記規定，證券不得在美國提呈或出售。於美國公開發售任何證券將須以招股章程形式作出。該招股章程將載有關於提呈發售的公司以及其管理及財務報表的詳細資料。本公司無意於美國進行證券公開發售。



**WEST CHINA CEMENT LIMITED**  
**中國西部水泥有限公司**

(於澤西註冊成立的有限公司，註冊編號94796)

(股份代號：2233)

**建議發行優先票據**

本公司擬進行擔保優先票據的國際發售，並將於二零一一年一月十二日或前後開始向亞洲、歐洲及美國若干機構投資者進行一連串路演簡介會。有關是次發售，本公司將向若干機構投資者提供本集團近期的企業及財務資料，包括本集團之前可能未有公開的最新風險因素、管理層討論及分析、新項目簡介、關連方交易及債務資料。本公司截至二零一零年九月三十日止九個月的未經審核財務資料已載於本公佈，而本公佈亦隨附該等近期資料的節錄，並約於向機構投資者發放有關資料的同時在本公司網頁[www.westchinacement.com](http://www.westchinacement.com)可供查閱。

建議發行票據的完成須視乎(其中包括)市況及投資者興趣而定。建議票據將由附屬公司擔保人提供擔保。德意志銀行及工銀國際證券作為聯席牽頭經辦人，德意志銀行及工銀國際融資作為聯席賬簿管理人，而建華證券則作為共同經辦人，負責經辦建議發行票據。截至本公佈日期，建議發行票據的本金額、利率、付款日期以及若干其他條款及條件尚未落實。待票據條款落實後，預計(其中包括)德意志銀行、工銀國際融資、工銀國際證券、建華證券、附屬公司擔保人及本公司將訂立購買協議。本公司擬應用發行票據所得款項擴展產能、償還工銀過渡貸款及作一般企業用途，以提升其資金流通狀況。

本公司擬尋求票據於新加坡交易所上市。票據獲納入新加坡交易所及任何票據於新加坡交易所的報價並不視為本公司或票據的價值指標。本公司並無於香港尋求票據上市。

由於截至本公佈日期並無就建議發行票據訂立具約束力協議，故建議發行票據可能會或可能不會落實。本公司的投資者及股東於買賣本公司證券時務請謹慎行事。

倘簽署購買協議，本公司將就建議發行票據另行發表公佈。

## 建議發行票據

### 緒言

本公司擬進行擔保優先票據的國際發售，並將於二零一一年一月十二日或前後開始向亞洲、歐洲及美國若干機構投資者進行一連串路演簡介會。有關是次發售，本公司將向若干機構投資者提供本集團近期的企業及財務資料，包括本集團之前可能未有公開的最新風險因素、管理層討論及分析、新項目簡介、關連方交易及債務資料。

本公司截至二零二零年九月三十日止九個月的未經審核財務資料已載於本公佈，而本公佈隨附該等近期資料的節錄，並約於向機構投資者發放有關資料的同時在本公司網頁 [www.westchinacement.com](http://www.westchinacement.com) 可供查閱。

建議發行票據的完成須視乎(其中包括)市況及投資者興趣而定。建議票據將由附屬公司擔保人提供擔保。德意志銀行及工銀國際證券作為聯席牽頭經辦人，德意志銀行及工銀國際融資作為聯席賬簿管理人，而建華證券則作為共同經辦人，負責經辦建議發行票據。截至本公佈日期，建議發行票據的本金、利率、付款日期以及若干其他條款及條件尚未落實。待票據條款落實後，預計(其中包括)德意志銀行、工銀國際融資、工銀國際證券、建華證券、附屬公司擔保人及本公司將訂立購買協議。倘簽署購買協議，本公司將就建議發行票據另行發表公佈。

票據將僅會(i)在美國依據《證券法》第144A條豁免登記規定或在毋須遵守有關登記規定的交易中，向合資格機構買家提呈發售，以及(ii)在美國境外遵照《證券法》的S規例提呈發售。票據概不會向香港公眾人士發售，且票據概不會向本公司任何關連人士發售。

### **建議發行票據的理由**

本集團是中國陝西省的領先水泥生產商。我們的水泥以「堯柏」及「堯柏水泥」商標銷售，並主要用於建設高速公路、橋樑、鐵路及道路等基建項目以及住宅樓宇。我們的所有客戶均位於陝西省。本集團主要將其水泥產品直接銷售予政府基建項目及預拌混凝土站或分銷商，後者則轉售我們的水泥產品予零售購買者。

本集團擬鞏固其於陝西省的市場領導地位，興建額外生產設施以達致更佳經濟規模，並通過收購合適的目標公司或資產進一步提高其產能。建議發行票據旨在為本集團的業務發展及擴展計劃補充資金。本公司相信，建議發行票據將進一步提高其進入國際債務資本市場的能力，以支持本公司的發展。

本公司擬應用發行票據所得款項擴展產能、償還工銀過渡貸款及作一般企業用途，以提升其資金流通狀況。本公司或會因應市況變化而調整上述計劃，並因而重新調配所得款項用途。

## 上市

本公司擬尋求票據於新加坡交易所上市。票據獲納入新加坡交易所及票據於新加坡交易所的報價並不視為本公司或票據的價值指標。本公司並無於香港尋求票據上市。

## 一般事項

由於截至本公佈日期並無就建議發行票據訂立具約束力協議，建議發行票據可能會或可能不會落實。本公司的投資者及股東於買賣本公司證券時務請謹慎行事。

倘簽署購買協議，本公司將就建議發行票據另行發表公佈。

## 本公司截至二零一零年九月三十日止九個月的未經審核財務資料

以下本集團的簡明綜合中期財務資料審閱報告，乃本集團截至二零一零年九月三十日止九個月中  
期財務資料審閱報告、並發佈予本公司董事會的複製本，該報告提述的頁碼乃指該簡明綜合中期  
財務資料所載的頁碼。



羅兵咸永道會計師事務所

羅兵咸永道會計師事務所  
香港中環  
太子大廈22樓

### 簡明綜合中期財務資料審閱報告 致中國西部水泥有限公司董事會 (於澤西註冊成立的有限公司)

#### 緒言

本所已審閱第2至第21頁所載的簡明綜合中期財務資料，其包括中國西部水泥有限公司(「貴公司」)及其附屬公司(統稱「貴集團」)於二零一零年九月三十日的簡明綜合中期資產負債表及截至該日止九個月期間的相關簡明綜合中期全面收益表、簡明綜合中期權益變動表及簡明綜合中期現金流量表，以及主要會計政策概要及其他說明附註。貴公司董事須負責根據國際會計準則第34號「中期財務報告」編製及呈列簡明綜合中期財務資料。截至二零零九年九月三十日止九個月期間的簡明綜合中期全面收益表、簡明綜合中期權益變動表及簡明綜合中期現金流量表內的比較數字及相關說明附註未經審閱或審核。本行的責任是根據已協定的委聘條款，依據本行的審閱工作對本中期財務資料作出結論，並僅向閣下(作為團體)匯報本行的結論，除此之外並無其他目的。本行概不就本報告的內容對任何其他人士承擔責任。

#### 審閱範圍

本行根據國際審閱工作準則第2410號「實體的獨立核數師對中期財務資料進行審閱」進行審閱。對中期財務資料進行審閱包括向主要負責財務及會計事宜的人士作出查詢，並採取分析及其他審閱程序。審閱的範圍遠少於根據國際核數準則進行的審核，因此本所未能保證能於審閱中察覺審核時可能發現到的所有重大事宜。因此，本所不表達審核意見。

#### 結論

根據本所的審閱，本所未有發現任何事宜致使本所認為簡明綜合中期財務資料並非在所有重大方面根據國際會計準則第34號「中期財務報告」編製。

羅兵咸永道會計師事務所  
執業會計師

香港，二零一一年一月十二日

簡明綜合中期資產負債表

於二零一零年九月三十日

(除另有指明者外，所有金額均以人民幣千元列值)

|                        | 附註    | 於二零一零年<br>九月三十日<br>(未經審核) | 於二零零九年<br>十二月三十一日       |
|------------------------|-------|---------------------------|-------------------------|
| <b>資產</b>              |       |                           |                         |
| <b>非流動資產</b>           |       |                           |                         |
| 物業、廠房及設備 .....         | 4     | 3,684,075                 | 2,611,502               |
| 土地使用權 .....            | 5     | 177,405                   | 124,571                 |
| 採礦權 .....              | 6     | 55,495                    | 46,373                  |
| 其他無形資產 .....           | 7     | 63,502                    | 65,104                  |
| 遞延所得稅資產 .....          | 8     | 22,083                    | 13,540                  |
|                        |       | <u>4,002,560</u>          | <u>2,861,090</u>        |
| <b>流動資產</b>            |       |                           |                         |
| 存貨 .....               |       | 180,350                   | 128,979                 |
| 貿易及其他應收款項及預付款項 .....   | 9     | 452,033                   | 317,670                 |
| 受限制現金 .....            | 10(b) | 16,161                    | 19,582                  |
| 現金及現金等價物 .....         | 10    | 374,222                   | 346,258                 |
|                        |       | <u>1,022,766</u>          | <u>812,489</u>          |
| <b>資產總值 .....</b>      |       | <u><u>5,025,326</u></u>   | <u><u>3,673,579</u></u> |
| <b>權益</b>              |       |                           |                         |
| <b>本公司權益持有人應佔資本及儲備</b> |       |                           |                         |
| 股本 .....               | 11    | 118,850                   | 97,623                  |
| 股份溢價 .....             | 11    | 2,001,917                 | 672,775                 |
| 購股權儲備 .....            | 12    | 528                       | 5,439                   |
| 反收購儲備 .....            |       | (341,304)                 | (341,304)               |
| 法定儲備 .....             |       | 118,140                   | 118,140                 |
| 保留盈利 .....             |       | 1,269,124                 | 717,553                 |
|                        |       | <u>3,167,255</u>          | <u>1,270,226</u>        |
| <b>非控股權益 .....</b>     |       | <u>30,397</u>             | <u>25,000</u>           |
| <b>權益總額 .....</b>      |       | <u><u>3,197,652</u></u>   | <u><u>1,295,226</u></u> |

|                        | 附註 | 於二零一零年<br>九月三十日<br>(未經審核) | 於二零零九年<br>十二月三十一日         |
|------------------------|----|---------------------------|---------------------------|
| <b>負債</b>              |    |                           |                           |
| <b>非流動負債</b>           |    |                           |                           |
| 借款.....                | 13 | 215,532                   | 360,058                   |
| 其他負債及開支撥備.....         | 14 | 8,325                     | 6,265                     |
| 遞延所得稅負債.....           | 8  | 14,532                    | 8,079                     |
| 其他負債.....              |    | 83,717                    | 117,049                   |
|                        |    | <u>322,106</u>            | <u>491,451</u>            |
| <b>流動負債</b>            |    |                           |                           |
| 貿易及其他應付款項.....         | 15 | 724,237                   | 559,395                   |
| 當期所得稅負債.....           |    | 55,567                    | 38,639                    |
| 借款.....                | 13 | 725,764                   | 1,288,868                 |
|                        |    | <u>1,505,568</u>          | <u>1,886,902</u>          |
| <b>負債總額</b> .....      |    | <u><u>1,827,674</u></u>   | <u><u>2,378,353</u></u>   |
| <b>權益及負債總額</b> .....   |    | <u><u>5,025,326</u></u>   | <u><u>3,673,579</u></u>   |
| <b>流動負債淨額</b> .....    |    | <u><u>(482,802)</u></u>   | <u><u>(1,074,413)</u></u> |
| <b>資產總值減流動負債</b> ..... |    | <u><u>3,519,758</u></u>   | <u><u>1,786,677</u></u>   |

第7頁至第21頁的附註為本簡明綜合中期財務資料的組成部分。

簡明綜合中期全面收益表

截至二零一零年九月三十日止九個月

(除另有指明者外，所有金額均以人民幣千元列值)

|                                   | 附註    | 截至九月三十日止九個月     |                |
|-----------------------------------|-------|-----------------|----------------|
|                                   |       | 二零一零年<br>(未經審核) | 二零零九年          |
| 收益 .....                          | 3     | 2,017,666       | 1,063,637      |
| 銷售成本 .....                        |       | (1,211,051)     | (620,393)      |
| 毛利 .....                          |       | 806,615         | 443,244        |
| 銷售及市場推廣開支 .....                   |       | (18,854)        | (11,189)       |
| 行政開支 .....                        | 16    | (129,953)       | (43,298)       |
| 其他收入 .....                        |       | 80,033          | 38,775         |
| 其他收益／(虧損)－淨額 .....                |       | 711             | (662)          |
| 經營溢利 .....                        |       | 738,552         | 426,870        |
| 融資收入 .....                        | 17    | 259             | 619            |
| 融資成本 .....                        | 17    | (89,372)        | (193,743)      |
| 融資成本－淨額 .....                     |       | (89,113)        | (193,124)      |
| 除所得稅前溢利 .....                     |       | 649,439         | 233,746        |
| 所得稅開支 .....                       | 18    | (92,470)        | (33,949)       |
| 期內溢利 .....                        |       | 556,969         | 199,797        |
| 其他全面收入 .....                      |       | —               | —              |
| 期內全面收入總額 .....                    |       | <u>556,969</u>  | <u>199,797</u> |
| 下列人士應佔：                           |       |                 |                |
| — 本公司權益持有人 .....                  |       | 551,572         | 199,797        |
| — 非控股權益 .....                     |       | 5,397           | —              |
| 期內本公司權益持有人應佔溢利的每股盈利<br>(以每股人民幣表示) |       |                 |                |
| 每股基本盈利 .....                      | 19(a) | <u>0.15</u>     | <u>0.06</u>    |
| 每股攤薄盈利 .....                      | 19(b) | <u>0.15</u>     | <u>0.06</u>    |
| 股息 .....                          |       | —               | —              |

第7頁至第21頁的附註為本簡明綜合中期財務資料的組成部分。



簡明綜合中期權益變動表

截至二零一零年九月三十日止九個月

(除另有指明者外，所有金額均以人民幣千元列值)

|                             | 本公司權益持有人應佔 |           |           |           |         |           |           | 非控股<br>權益 | 權益總額      |
|-----------------------------|------------|-----------|-----------|-----------|---------|-----------|-----------|-----------|-----------|
|                             | 股本         | 股份溢價      | 反收購<br>儲備 | 購股權<br>儲備 | 法定儲備    | 保留盈利      | 總計        |           |           |
|                             | (未經審核)     |           |           |           |         |           |           |           |           |
| 於二零一零年                      |            |           |           |           |         |           |           |           |           |
| 一月一日 .....                  | 97,623     | 672,775   | (341,304) | 5,439     | 118,140 | 717,552   | 1,270,225 | 25,000    | 1,295,225 |
| 全面收入                        |            |           |           |           |         |           |           |           |           |
| 期內溢利 .....                  | —          | —         | —         | —         | —       | 551,572   | 551,572   | 5,397     | 556,969   |
| 與擁有人進行的交易                   |            |           |           |           |         |           |           |           |           |
| 確認有關僱員購股權<br>計劃的已歸屬權益 ..... | —          | —         | —         | 353       | —       | —         | 353       | —         | 353       |
| 就本公司股份新上市                   |            |           |           |           |         |           |           |           |           |
| 發行新股 (附註11(b)) .....        | 19,972     | 1,310,167 | —         | —         | —       | —         | 1,330,139 | —         | 1,330,139 |
| 就僱員購股權計劃                    |            |           |           |           |         |           |           |           |           |
| 發行新股份 .....                 | 1,255      | 18,975    | —         | (5,264)   | —       | —         | 14,966    | —         | 14,966    |
|                             |            |           |           |           |         |           |           |           |           |
| 於二零一零年                      |            |           |           |           |         |           |           |           |           |
| 九月三十日 .....                 | 118,850    | 2,001,917 | (341,304) | 528       | 118,140 | 1,269,124 | 3,167,255 | 30,397    | 3,197,652 |
|                             |            |           |           |           |         |           |           |           |           |
|                             | 本公司權益持有人應佔 |           |           |           |         |           |           | 非控股<br>權益 | 權益總額      |
|                             | 股本         | 股份溢價      | 反收購<br>儲備 | 購股權<br>儲備 | 法定儲備    | 保留盈利      | 總計        |           |           |
|                             | (未經審核)     |           |           |           |         |           |           |           |           |
| 於二零零九年                      |            |           |           |           |         |           |           |           |           |
| 一月一日 .....                  | 96,811     | 662,636   | (341,304) | 6,708     | 63,163  | 442,070   | 930,084   | —         | 930,084   |
| 全面收入                        |            |           |           |           |         |           |           |           |           |
| 期內溢利 .....                  | —          | —         | —         | —         | —       | 199,797   | 199,797   | —         | 199,797   |
| 與擁有人進行的交易                   |            |           |           |           |         |           |           |           |           |
| 確認有關僱員購股權<br>計劃的已歸屬權益 ..... | —          | —         | —         | 912       | —       | —         | 912       | —         | 912       |
| 就僱員購股權計劃                    |            |           |           |           |         |           |           |           |           |
| 發行新股份 .....                 | 812        | 10,139    | —         | (2,430)   | —       | —         | 8,521     | —         | 8,521     |
|                             |            |           |           |           |         |           |           |           |           |
| 於二零零九年                      |            |           |           |           |         |           |           |           |           |
| 九月三十日 .....                 | 97,623     | 672,775   | (341,304) | 5,190     | 63,163  | 641,867   | 1,139,314 | —         | 1,139,314 |

第7頁至第21頁的附註為本簡明綜合中期財務資料的組成部分。

簡明綜合中期現金流量表

截至二零一零年九月三十日止九個月

(除另有指明者外，所有金額均以人民幣千元列值)

|                   | 附註 | 截至九月三十日止九個月 |           |
|-------------------|----|-------------|-----------|
|                   |    | 二零一零年       | 二零零九年     |
|                   |    | (未經審核)      |           |
| 經營活動所得現金流量 .....  |    | 834,451     | 637,471   |
| 投資活動所得現金流量 .....  |    | (1,338,458) | (677,956) |
| 融資活動所得現金流量 .....  |    | 531,971     | 59,636    |
| 現金及現金等價物 .....    |    | 27,964      | 19,151    |
| 於期初現金及現金等價物 ..... | 10 | 346,258     | 37,038    |
| 於期末現金及現金等價物 ..... | 10 | 374,222     | 56,189    |

第7頁至第21頁的附註為本簡明綜合中期財務資料的組成部分。

## 簡明綜合中期財務資料附註

### 1. 一般資料

中國西部水泥有限公司(「本公司」)及其附屬公司(合稱「本集團」)主要從事水泥的生產及銷售。

本公司於二零零六年十月十六日根據一九九一年公司(澤西)法(經修訂)在澤西註冊成立。註冊辦事處地址為47 Esplanade, St Helier, Jersey JE1 0BD, 主要營業地點為中華人民共和國(「中國」)陝西省西安市高新技術產業開發區高新路4號高科廣場A座1903室。

本公司的普通股於二零一零年八月二十三日在香港聯合交易所有限公司(「聯交所」)主板上市。本公司於股本中按每股1.69港元發行946,588,000股每股面值0.002英鎊的普通股,並收取所得款項淨額約人民幣1,282,567,000元(附註11)。

除另有註明外,簡明綜合中期財務資料按人民幣千元呈列。本簡明綜合中期財務資料已於二零一一年一月十二日獲准刊發。

本簡明綜合中期財務資料未經審核。

### 2. 主要會計政策概要

編製簡明綜合中期財務資料所採用的主要會計政策列載如下:

#### 2.1 編製基準

本截至二零一零年九月三十日止九個月的簡明綜合中期財務資料乃根據國際會計準則(「國際會計準則」)第34號「中期財務報告」編製。簡明綜合中期財務資料應與截至二零零七年、二零零八年及二零零九年十二月三十一日止三個年度以及截至二零一零年四月三十日止四個月的會計師報告(「會計師報告」)一併閱讀,會計師報告乃根據國際財務報告準則(「國際財務報告準則」)編製,並已載於本公司於二零一零年八月十日就股份首次於聯交所上市而刊發的招股章程。

截至二零零九年九月止九個月期間的簡明綜合中期全面收益表、簡明綜合中期權益變動表及簡明綜合中期現金流量表內的比較數字及相關說明附註未經審閱或審核。

於二零一零年九月三十日,本集團的流動負債超出其流動資產約人民幣482,802,000元。本集團的流動負債主要包括銀行借款、貿易及其他應付款項及客戶墊款。本公司董事已編製由二零一零年十月一日至二零一二年三月三十一日期間的本集團現金流量預測,並已評估貸款契諾的遵守情況。董事認為,經考慮本集團的預期現金流量及可動用財務資源後,本集團擁有充足財務資源應付其於二零一零年九月三十日起計12個月的到期負債。根據上文所述,董事相信本集團將繼續持續經營,因此按持續經營基準編製簡明綜合中期財務資料。

#### 2.2 主要會計政策

除下文所述者外,所採納的會計政策與會計師報告內所載者一致。

中期期間的所得稅按將適用於預計全年盈利總額的稅率累計。

##### (a) 本集團採納的新訂及經修訂準則

以下新訂準則及準則修訂於二零一零年一月一日開始的財政年度首次強制採納。

- 國際會計準則第17號(修訂本)「租賃」刪除了有關土地租賃分類的特定指引,以消除與租賃分類的一般指引不一致的情況。因此,土地租賃應利用國際會計準則第17號的一般性原則(即視乎租賃有否將與資產所有權有關的絕大部分風險及回報轉移至承租人)分類為融資租賃或經營租賃。於作出修訂前,預計業權不會於租期結束前轉移至本集團的土地權益分類為「租賃土地及土地使用權」項下的經營租賃,並於租期內攤銷。預計這不會對本集團的財務報表有任何影響。
- 國際會計準則委員會於二零零九年四月頒佈國際財務報告準則(二零零九年)第二次改進。所有改進項目於二零一零年財政年度生效。

(b) 於二零一零年一月一日開始的財政年度強制首次應用但目前與本集團無關的新準則及經修訂準則以及詮釋(儘管彼等可能影響日後交易及事項的會計方法)。

- 國際財務報告詮釋委員會第17號「向擁有人分派非現金資產」(於二零零九年七月一日或之後生效)。該項詮釋於二零零八年十一月頒佈。此項詮釋就實體向股東分配非現金資產作為儲備分派或股息的安排的會計處理提供指引。國際財務報告詮釋委員會第5號亦已被修改，規定資產只能夠在其現有狀況下及可能分配時才可分類為持作分派。
- 國際財務報告詮釋委員會第18號「客戶轉讓資產」，對二零零九年七月一日或之後自轉讓所收取的資產生效。該項詮釋闡明國際財務報告準則對實體向客戶收取物業、廠房及設備項目，而該實體其後必須使用該項目為客戶接駁至網絡或向客戶持續提供貨品或服務供應(如供應電、氣體、水)的協議的規定。在若干情況下，倘實體向客戶收取現金則必須只可用作收購或建設物業、廠房及設備，從而為客戶接駁至網絡或向客戶持續提供貨品或服務供應(或兩者)。
- 國際財務報告詮釋委員會第9號「嵌入式衍生工具的重估及國際會計準則第39號：金融工具：確認及計量」，由二零零九年七月一日起生效。國際財務報告詮釋委員會詮釋第9號的修訂要求實體在將混合金融資產從以公平值計量且其變動計入損益類重新劃分為其他類別時，對是否應將嵌入式衍生工具從主合同中分拆出來作出評估。該評估應在實體成為合同的一方或合同條款發生變化從而使現金流量產生重大改變當日(以較後者為準)進行。倘實體無法進行該評估，則混合金融工具應繼續分類為以公平值計量全部計入損益的金融工具。
- 國際財務報告詮釋委員會第16號「海外業務投資淨額的對沖」，由二零零九年七月一日起生效。該項修訂列明，為海外業務投資淨額對沖時，合格的對沖工具可能為集團內任何實體持有，包括海外業務本身，只要其指示、程序文件及有效性滿足與投資淨額對沖相關的國際會計準則第39號的要求。尤其是，集團須清楚記錄其對沖策略，理由是集團內可能存在不同層次的不同名稱。國際會計準則第38號(修訂本)「無形資產」於二零一零一月一日生效。該項修訂闡明計量於業務合併時所收購無形資產公平值的指引，且倘各無形資產的可使用經濟年期相若，則准許該等資產組合為一項資產。
- 國際會計準則第1號(修訂本)「財務報表的呈列」。該項修訂闡明透過發行權益的潛在償債方式的分類與其流動或非流動的分類方式並不相關。於修訂流動負債的定義後，該修訂本允許將負債分類為非流動負債，前提是該實體有權無條件透過轉讓現金或其他資產將還款期延遲至會計期後至少十二個月，惟該實體的對手方可能要求其隨時以股份償還負債。
- 國際會計準則第36號(修訂本)「資產減值」，由二零一零年一月一日起生效。該項修訂闡明應獲分配商譽以進行減值測試的最大現金產生單位(或單位組別)須為國際財務報告準則「經營分部」第5段所界定的經營分部(即合併計算具有類似經濟特質的分部之前)。
- 國際財務報告準則第2號(修訂本)「集團內現金結算的以股份為基礎的支付交易」，由二零一零年一月一日起生效。除了採納國際財務報告詮釋委員會第8號「國際財務報告準則第2號的範圍」及國際財務報告詮釋委員會第11號「國際財務報告準則第2號—集團及庫存股份交易」外，修訂擴展至國際財務報告詮釋委員會第11號的指引，針對該詮釋以往並未涵蓋的集團安排分類。
- 國際財務報告準則第5號(修訂本)「持有待售非流動資產及已終止經營業務」。該修訂闡明國際財務報告準則第5號說明分類為持有待售非流動資產(或出售組合)和已終止經營業務規定的有關披露。此修改亦闡明了國際會計準則第1號的一般規定仍然適用，尤其是第15段(達致公平表達)和第125段(估計來源的不確定性)。

(c) 已頒佈新準則、修訂及詮釋但於二零一零年一月一日開始的財政年度尚未生效及未有提早採納。

- 國際財務報告準則第9號「財務工具」於二零零九年十一月頒佈。該準則為作為取代國際會計準則第39號「金融工具：確認及計量」的第一步。國際財務報告準則第9號引入將金融資產分類及計量的新規定，可能影響集團對其金融資產的會計方法。該準則於二零一三年一月一日後適用，惟可獲提前採納。
- 修訂國際會計準則第24號(經修訂)「關聯方披露」於二零零九年十一月頒佈。其取代於二零零三年頒佈的國際會計準則第24號「關聯方披露」。國際會計準則第24號(經修訂)自二零一一年一月一日起或之後期間強制採用，並容許提早全部或部分應用。
- 「供股的分類」(對國際會計準則第32號的修訂本)，於二零零九年十月頒佈。該項修訂由二零一零年二月一日或之後開始的年度期間應用。容許提早採納。該項修訂針對並非以發行人的功能貨幣計值的供股的會計方法。倘符合若干條件，則有關供股目前分類為權益，而不論行使價以何種貨幣為單位。該等發行過往被分類為衍生負債入賬。該修訂可根據國際會計準則第8號「會計政策、會計估計變動及錯誤」追溯應用。
- 國際財務報告詮釋委員會－詮釋第19號「以權益工具清償財務負債」於二零一零年七月一日生效。該項詮釋闡明當金融負債的條款獲重新磋商並導致實體向實體債權人發行股本工具以抵銷全部或部分金融負債(債權轉股權)時，實體的會計方法。本集團預期自二零一一年一月一日採納此詮釋。其規定於損益內確認按金融負債賬面值與已發行股本工具的公平值間之差額計量的盈虧。倘已發行股本工具難以準確計量，則應以反映清償財務負債公平值計量股本工具。本集團將自二零一一年一月一日起應用該詮釋。
- 國際財務報告詮釋委員會第14號「最低資金需求的預付款」修訂本，更正了國際財務報告詮釋委員會第14號「國際會計準則第19號－界定福利資產限額、最低資金需求及其相互關係」中的意外後果。在未經修訂的情況下，實體不容許就最低資金供款的部分自願性預付款確認為資產。在國際財務報告詮釋委員會第14號發佈時，此情況並非預料之中，該修訂修正了此問題。該修訂由二零一一年一月一日開始的年度期間起生效，允許提早採納。該修訂必須追溯應用至所提呈的最早比較期間。
- 國際會計準則委員會在二零一零年五月頒佈國際財務報告準則(二零一零年)第三次改進計劃。所有改進在二零一一年財政年度生效。
- 自二零一零年十月以來，國際會計準則委員會頒佈了國際財務報告準則第7號(修訂本)「金融工具：終止確認時的披露」、國際財務報告準則第9號「金融工具：分類及計量」就財務負債會計方法的補允以及國際會計準則第12號遞延稅項「所得稅」：收回相關資產。管理層正評估上述準則的影響，且尚未能列出有關影響(如有)。

### 3 收益及分部資料

本集團的附屬公司從事水泥生產及銷售。最高營運決策人會檢討個別廠房的業績，以作出關於資源分配的決策。此等項目具有類似經濟特徵，故此作為單一呈報分部於本簡明綜合中期財務資料中呈列。本集團的所有收益及營運業績源自中國陝西省。收益指截至二零一零年及二零零九年九月三十日止九個月的水泥銷售額。

自二零零九年一月一日起，本集團一直透過成立／收購下列附屬公司擴充其業務：

| 所成立／收購附屬公司         | 開業／收購日期      |
|--------------------|--------------|
| 安康堯柏水泥有限公司 .....   | 於二零零九年一月開業   |
| 漢中堯柏水泥有限公司 .....   | 於二零一零年一月開業   |
| 漢中勉縣堯柏水泥有限公司 ..... | 於二零一零年九月開業   |
| 商洛堯柏龍橋水泥有限公司 ..... | 於二零一零年一月開業   |
| 商洛堯柏秀山水泥有限公司 ..... | 於二零零九年八月一日收購 |

#### 4. 物業、廠房及設備

|                        | 物業及            | 汽車            | 電子及           | 機器               | 礦產資產           | 在建工程             | 總計               |
|------------------------|----------------|---------------|---------------|------------------|----------------|------------------|------------------|
|                        | 廠房             |               | 其他設備          |                  |                |                  |                  |
|                        | 人民幣            | 人民幣           | 人民幣           | 人民幣              | 人民幣            | 人民幣              | 人民幣              |
|                        | 千元             | 千元            | 千元            | 千元               | 千元             | 千元               | 千元               |
| <b>截至二零零九年九月三十日</b>    |                |               |               |                  |                |                  |                  |
| <b>止九個月(未經審核)</b>      |                |               |               |                  |                |                  |                  |
| 期初賬面淨值 .....           | 277,345        | 10,113        | 2,956         | 471,078          | 56,102         | 722,939          | 1,540,533        |
| 收購一間附屬公司 .....         | 69,827         | 1,905         | 3,809         | 52,308           | 11,500         | 1,126            | 140,475          |
| 添置 .....               | 18             | 7,700         | 4,267         | 4,510            | —              | 452,497          | 468,992          |
| 出售 .....               | —              | (2,417)       | (194)         | —                | —              | —                | (2,611)          |
| 折舊 .....               | (15,621)       | (605)         | (1,087)       | (32,934)         | (1,463)        | —                | (51,710)         |
| 期終賬面淨值 .....           | <u>331,569</u> | <u>16,696</u> | <u>9,751</u>  | <u>494,962</u>   | <u>66,139</u>  | <u>1,176,562</u> | <u>2,095,679</u> |
| <b>於二零零九年九月三十日</b>     |                |               |               |                  |                |                  |                  |
| <b>(未經審核)</b>          |                |               |               |                  |                |                  |                  |
| 成本 .....               | 415,572        | 20,111        | 13,264        | 652,627          | 73,645         | 1,176,562        | 2,351,781        |
| 累計折舊 .....             | (84,003)       | (3,415)       | (3,513)       | (157,665)        | (7,506)        | —                | (256,102)        |
| 賬面淨值 .....             | <u>331,569</u> | <u>16,696</u> | <u>9,751</u>  | <u>494,962</u>   | <u>66,139</u>  | <u>1,176,562</u> | <u>2,095,679</u> |
| <b>截至二零一零年</b>         |                |               |               |                  |                |                  |                  |
| <b>九月三十日止九個月(未經審核)</b> |                |               |               |                  |                |                  |                  |
| 期初賬面淨值 .....           | 798,737        | 19,635        | 16,792        | 1,096,925        | 154,536        | 524,877          | 2,611,502        |
| 轉撥自在建工程 .....          | 147,369        | —             | 14,457        | 159,277          | 63,431         | (384,534)        | —                |
| 添置 .....               | 624            | 5,117         | 33,226        | —                | 1,337          | 1,179,641        | 1,219,945        |
| 出售 .....               | —              | (1,864)       | —             | —                | —              | —                | (1,864)          |
| 折舊 .....               | (39,328)       | (1,783)       | (3,663)       | (88,623)         | (12,111)       | —                | (145,508)        |
| 期終賬面淨值 .....           | <u>907,402</u> | <u>21,105</u> | <u>60,812</u> | <u>1,167,579</u> | <u>207,193</u> | <u>1,319,984</u> | <u>3,684,075</u> |
| <b>於二零一零年九月三十日</b>     |                |               |               |                  |                |                  |                  |
| <b>(未經審核)</b>          |                |               |               |                  |                |                  |                  |
| 成本 .....               | 1,022,486      | 26,764        | 69,425        | 1,452,743        | 232,214        | 1,319,984        | 4,123,616        |
| 累計折舊 .....             | (115,084)      | (5,659)       | (8,613)       | (285,164)        | (25,021)       | —                | (439,541)        |
| 賬面淨值 .....             | <u>907,402</u> | <u>21,105</u> | <u>60,812</u> | <u>1,167,579</u> | <u>207,193</u> | <u>1,319,984</u> | <u>3,684,075</u> |

截至二零一零年九月三十日止九個月，本集團在建工程的賬面值包括資本化利息人民幣24,758,000元(未經審核)(截至二零零九年九月三十日止九個月：人民幣23,998,000元(未經審核)(附註17))。

截至二零一零年九月三十日止九個月，利息按加權平均實際年利率8%(未經審核)(截至二零零九年九月三十日止九個月：14%(未經審核))資本化。

於二零一零年九月三十日，總賬面值為人民幣1,467,292,000元(未經審核)(於二零零九年十二月三十一日：人民幣1,627,328,000元)的若干物業、廠房及設備項目已抵押予銀行用於取得借款(附註13(a))。

## 5. 土地使用權

|                         | 人民幣千元<br>(未經審核) |
|-------------------------|-----------------|
| <b>截至二零零九年九月三十日止九個月</b> |                 |
| 期初賬面淨值 .....            | 76,521          |
| 收購一間附屬公司 .....          | 6,134           |
| 攤銷費用 .....              | (291)           |
|                         | <u>82,364</u>   |
| <b>於二零零九年九月三十日</b>      |                 |
| 成本 .....                | 84,058          |
| 累計攤銷 .....              | (1,694)         |
|                         | <u>82,364</u>   |
| <b>截至二零一零年九月三十日止九個月</b> |                 |
| 期初賬面淨值 .....            | 124,571         |
| 添置 .....                | 54,775          |
| 攤銷費用 .....              | (1,941)         |
|                         | <u>177,405</u>  |
| <b>於二零一零年九月三十日</b>      |                 |
| 成本 .....                | 182,185         |
| 累計攤銷 .....              | (4,780)         |
|                         | <u>177,405</u>  |

於二零一零年九月三十日，總賬面值為人民幣41,643,000元(未經審核)(於二零零九年十二月三十一日：人民幣41,527,000元)的若干土地使用權已作抵押以取得本集團的銀行借款(附註13(a))。

土地使用權於介乎36年至50年的期間攤銷。

## 6. 採礦權

|                         | 人民幣千元<br>(未經審核) |
|-------------------------|-----------------|
| <b>截至二零零九年九月三十日止九個月</b> |                 |
| 期初賬面淨值 .....            | 27,907          |
| 收購一間附屬公司 .....          | 5,250           |
| 攤銷費用 .....              | (772)           |
|                         | <hr/>           |
| 期終賬面淨值 .....            | 32,385          |
|                         | <hr/> <hr/>     |
| <b>於二零零九年九月三十日</b>      |                 |
| 成本 .....                | 34,857          |
| 累計攤銷 .....              | (2,472)         |
|                         | <hr/>           |
| 賬面淨值 .....              | 32,385          |
|                         | <hr/> <hr/>     |
| <b>截至二零一零年九月三十日止九個月</b> |                 |
| 期初賬面淨值 .....            | 46,373          |
| 添置 .....                | 11,380          |
| 攤銷費用 .....              | (2,258)         |
|                         | <hr/>           |
| 期終賬面淨值 .....            | 55,495          |
|                         | <hr/> <hr/>     |
| <b>於二零一零年九月三十日</b>      |                 |
| 成本 .....                | 60,974          |
| 累計攤銷 .....              | (5,479)         |
|                         | <hr/>           |
| 賬面淨值 .....              | 55,495          |
|                         | <hr/> <hr/>     |

採礦權乃由陝西省各國土資源局分別授出。採礦權的使用年期介乎10至40年之間。



## 7. 其他無形資產

|                   | 商譽     | 客戶關係    | 電腦軟件  | 總計      |
|-------------------|--------|---------|-------|---------|
|                   | 人民幣千元  | 人民幣千元   | 人民幣千元 | 人民幣千元   |
| 截至二零零九年九月三十日止     |        |         |       |         |
| 九個月(未經審核)         |        |         |       |         |
| 期初賬面淨值 .....      | —      | —       | —     | —       |
| 收購附屬公司 .....      | 45,274 | 20,610  | —     | 65,884  |
| 期終賬面淨值 .....      | 45,274 | 20,610  | —     | 65,884  |
| 於二零零九年九月三十日(未經審核) |        |         |       |         |
| 成本及賬面淨值 .....     | 45,274 | 20,610  | —     | 65,884  |
| 截至二零零九年九月三十日止     |        |         |       |         |
| 九個月(未經審核)         |        |         |       |         |
| 期初賬面淨值 .....      | 45,274 | 19,751  | 79    | 65,104  |
| 攤銷費用 .....        | —      | (1,594) | (8)   | (1,602) |
| 期終賬面淨值 .....      | 45,274 | 18,157  | 71    | 63,502  |
| 於二零一零年九月三十日(未經審核) |        |         |       |         |
| 成本 .....          | 45,274 | 20,610  | 80    | 65,964  |
| 累計攤銷 .....        | —      | (2,453) | (9)   | (2,462) |
| 賬面淨值 .....        | 45,274 | 18,157  | 71    | 63,502  |

## 8. 遞延所得稅

|                   | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|-------------------|-----------------|-------------------|
|                   | 人民幣千元<br>(未經審核) | 人民幣千元             |
| 遞延稅項資產            |                 |                   |
| — 將於12個月後收回 ..... | 8,884           | 8,874             |
| — 將於12個月內收回 ..... | 13,199          | 4,666             |
|                   | 22,083          | 13,540            |
| 遞延稅項負債            |                 |                   |
| — 將於12個月後清償 ..... | (7,662)         | (7,366)           |
| — 將於12個月內清償 ..... | (6,870)         | (713)             |
|                   | (14,532)        | (8,079)           |

9. 貿易及其他應收款項及預付款項

|                         | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|-------------------------|-----------------|-------------------|
|                         | 人民幣千元<br>(未經審核) | 人民幣千元             |
| 應收票據(附註(a)) .....       | 12,070          | 5,370             |
| 貿易應收款項(附註(a)) .....     | 183,220         | 95,676            |
| 減：應收款項減值撥備 .....        | (4,851)         | (4,881)           |
|                         | 190,439         | 96,165            |
| 其他應收款項 .....            | 74,818          | 54,975            |
| 為潛在收購持有按金(附註(b)) .....  | 100,000         | 100,000           |
| 減：應收款項減值撥備 .....        | (410)           | (370)             |
|                         | 174,417         | 154,605           |
| 預付款項 .....              | 87,177          | 66,900            |
| 貿易及其他應收款項及預付款項－淨額 ..... | 452,033         | 317,670           |

貿易及其他應收款項及預付款項的賬面值與其公允值相若。

附註(a)

應收票據的賬齡主要為三個月以內。

所有貿易應收款項均來自第三方。貿易應收款項於各結算日的賬齡分析如下：

|                    | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|--------------------|-----------------|-------------------|
|                    | 人民幣千元<br>(未經審核) | 人民幣千元             |
| 90天內 .....         | 131,502         | 64,220            |
| 90天以上至180天內 .....  | 33,499          | 9,198             |
| 181天以上至360天內 ..... | 5,765           | 6,947             |
| 360天以上至720天內 ..... | 9,486           | 11,365            |
| 720天以上 .....       | 2,968           | 3,946             |
|                    | 183,220         | 95,676            |

附註(b)

於二零零九年十月三十一日，本公司附屬公司陝西堯柏特種水泥有限公司(「陝西堯柏」)就建議收購安康江華水泥有限公司(「安康江華」)的100%註冊股本(「建議收購」)而與安康江華訂立一項無約束力的諒解備忘錄(「諒解備忘錄」)。諒解備忘錄的有效期至二零零九年十二月三十一日止。作為建議收購的按金，陝西堯柏已向第三方支付人民幣100百萬元(不計利息)以確保獨家磋商。於二零一零年一月二十五日，陝西堯柏與安康江華訂立延期協議，據此，訂約雙方同意將獨家磋商延長至二零一零年十二月三十一日。於二零一零年十二月三十一日，陝西堯柏與安康江華訂立正式協議以成立合營企業(附註21)。

## 10. 現金及現金等價物及受限制現金

|                      | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|----------------------|-----------------|-------------------|
|                      | 人民幣千元<br>(未經審核) | 人民幣千元             |
| 銀行及手頭現金(附註(a)) ..... | 390,383         | 365,840           |
| 減：受限制現金(附註(b)) ..... | (16,161)        | (19,582)          |
| 現金及現金等價物 .....       | <u>374,222</u>  | <u>346,258</u>    |

(a) 截至二零一零年九月三十日止九個月，銀行存款按照與銀行協定的銀行存款利率計息。截至二零一零年九月三十日止九個月，存款的加權平均實際年利率為0.10% (未經審核) (截至二零零九年九月三十日止九個月：1.04% (未經審核))。

(b) 受限制現金指由於發出貿易融資及銀行擔保而撥出的現金以及根據銀行借款協議抵押予銀行的保證金。

(c) 人民幣並非可自由兌換的貨幣，從中國匯出資金須受中國政府的外匯管制。

## 11. 股東及溢價

|   | 已發行普通股<br>數目千股   | 普通股<br>人民幣千元   | 股份溢價<br>人民幣千元    | 總計<br>人民幣千元      |
|---|------------------|----------------|------------------|------------------|
| 於二零零九年一月一日的期初結餘 .....                             | 64,113           | 96,811         | 662,636          | 759,447          |
| 就僱員購股權計劃發行的新股份 .....                              | 749              | 812            | 10,139           | 10,951           |
| 於二零零九年九月三十日<br>(未經審核) .....                       | <u>64,862</u>    | <u>97,623</u>  | <u>672,775</u>   | <u>770,398</u>   |
| 於二零零九年九月三十日<br>經將一股分拆為50股後的<br>經調整結餘(附註(a)) ..... | <u>3,243,100</u> | <u>97,623</u>  | <u>672,775</u>   | <u>770,398</u>   |
| 於二零一零年一月一日的<br>期初結餘(經進行股份拆細後) .....               | 3,243,100        | 97,623         | 672,775          | 770,398          |
| 就本公司股份新上市<br>而已發行的新股份(附註(b)) .....                | 946,588          | 19,972         | 1,379,030        | 1,399,002        |
| 有關本公司股份新上市<br>的股份發行成本(附註(b)) .....                | —                | —              | (68,863)         | (68,863)         |
| 就僱員購股權計劃發行的新股份 .....                              | 60,812           | 1,255          | 18,975           | 20,230           |
| 於二零一零年九月三十日<br>(未經審核) .....                       | <u>4,250,500</u> | <u>118,850</u> | <u>2,001,917</u> | <u>2,120,767</u> |

(a) 本公司於二零一零年七月二十日通過股東決議案，批准將本公司股本中每股每股面值0.10英鎊的現有已發行及未發行股份拆細為50股每股面值0.002英鎊的新普通股，故本公司的法定股本20,000,000英鎊將分為10,000,000,000股每股面值0.002英鎊的普通股，惟其須待本公司股份在香港聯交所開始買賣後，方始成事，並於本公司股份在香港聯交所開始買賣當日起生效。股份拆細已於二零一零年八月二十三日當本公司普通股在聯交所開始買賣時生效，而財務資料所披露的普通股變動以及每股盈利的股數計算方面亦已將股份拆細考慮在內，並已按股份拆細後的新股數計算。

(b) 於二零一零年八月二十三日，本公司按每股1.69港元的價格於其股本發行823,120,000股每股面值0.002英鎊的新普通股，以供全球發售項下認購。本公司的新普通股已於二零一零年八月二十三日在香港聯交所上市。於二零一零年八月三十日，123,468,000股每股面值0.002英鎊的股份（佔全球發售項下提呈發售的股份15%）已按每股1.69港元的價格發行為超額配發股份。該等股份已於二零一零年九月二日在香港聯交所上市。就本公司股份在香港聯交所上市而言，已就發行新股份產生約人民幣68,863,000元的開支並已於股份溢價中扣賬。

## 12. 以股份為基礎的付款

本公司的經紀及董事獲授購股權及認股權證。購股權及認股權證可自授予日期起計兩年後開始行使。購股權及認股權證的合約購股權期限為五年。本集團並無法定或推定責任購回或以現金清償購股權及認股權證。

經考慮股份拆細後，未行使購股權及認股權證的數量變化及其相關加權平均行使價格如下：

|           | 截至九月三十日止九個月         |             |                     |             |
|-----------|---------------------|-------------|---------------------|-------------|
|           | 二零一零年(未經審核)         |             | 二零零九年(未經審核)         |             |
|           | 每股平均<br>行使價<br>(英鎊) | 購股權<br>(千份) | 每股平均<br>行使價<br>(英鎊) | 購股權<br>(千份) |
| 於期初 ..... | 0.02                | 73,306      | 0.02                | 98,244      |
| 已授出 ..... | —                   | —           | 0.03                | 12,500      |
| 已行使 ..... | 0.02                | (60,806)    | 0.02                | (37,438)    |
| 於期末 ..... | 0.03                | 12,500      | 0.02                | 73,306      |

## 13. 借款

|                       | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|-----------------------|-----------------|-------------------|
|                       | 人民幣千元<br>(未經審核) | 人民幣千元             |
| <b>非即期</b>            |                 |                   |
| 銀行借款－有抵押(附註(a)) ..... | 407,296         | 704,522           |
| 其他借款(附註(b)) .....     | 24,000          | 32,000            |
| 減：非即期借款的即期部分 .....    | (215,764)       | (376,464)         |
|                       | <u>215,532</u>  | <u>360,058</u>    |
| <b>即期</b>             |                 |                   |
| 銀行借款－有抵押(附註(a)) ..... | 510,000         | 790,604           |
| 其他借款(附註(b)) .....     | —               | 121,800           |
| 非即期借款的即期部分 .....      | 215,764         | 376,464           |
|                       | <u>725,764</u>  | <u>1,288,868</u>  |
| <b>借款總額</b> .....     | <u>941,296</u>  | <u>1,648,926</u>  |

(a) 銀行借款

本集團的銀行借款以下列貨幣計值：

|                             | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|-----------------------------|-----------------|-------------------|
|                             | 人民幣千元<br>(未經審核) | 人民幣千元             |
| 人民幣                         |                 |                   |
| — 附屬公司借入(i)(ii) .....       | 798,786         | 745,600           |
| — 非控股權益持有人轉入 .....          | —               | 49,200            |
| 美元                          |                 |                   |
| — 60百萬美元(iii) .....         | —               | 358,921           |
| — 來自佳里有限公司的50百萬美元(iv) ..... | —               | 341,405           |
| — 來自金融機構的50百萬美元(v) .....    | 118,510         | —                 |
|                             | <u>917,296</u>  | <u>1,495,126</u>  |

銀行借款的抵押方式如下：

|   | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|---|-----------------|-------------------|
|   | 人民幣千元<br>(未經審核) | 人民幣千元             |
| 以土地使用權及物業、廠房及設備共同抵押(i) .....              | 510,000         | 478,000           |
| 以附屬公司的土地使用權、物業、廠房及設備及<br>股權共同抵押(ii) ..... | 288,786         | 316,800           |
| 以附屬公司的股權抵押(iii) .....                     | —               | 358,921           |
| 以本公司股份抵押(iv) .....                        | —               | 341,405           |
| 以附屬公司的股權及本公司股份抵押(v) .....                 | 118,510         | —                 |
|   | <u>917,296</u>  | <u>1,495,126</u>  |

- (i) 銀行借款以本集團於二零一零年九月三十日賬面價值為人民幣566,197,000元(未經審核)(二零零九年十二月三十一日：人民幣681,764,000元)的若干土地使用權(附註5)及物業、廠房及設備(附註4)抵押。
- (ii) 本集團於二零一零年九月三十日的銀行借款人民幣288,786,000元(二零零九年十二月三十一日：人民幣316,800,000元)由本集團於二零一零年九月三十日賬面價值為人民幣942,738,000元(未經審核)(二零零九年十二月三十一日：人民幣987,091,000元)的若干土地使用權(附註5)及物業、廠房及設備(附註4)共同抵押，並由本集團的四家附屬公司(西安藍田堯柏水泥有限公司、安康市堯柏水泥有限公司、漢中堯柏水泥有限公司及漢中勉縣堯柏水泥有限公司)的100%股權抵押。該項貸款亦由該等附屬公司提供擔保。於截至二零一零年九月三十日止九個月內，本集團產生的資本開支超過貸款協議規定的上限。本集團已於二零一零年四月三十日就該項違反獲得代表大多數貸款銀行的代理銀行豁免遵守該限制。於二零一零年十二月二十九日，有關遵守資本開支上限的條款已自貸款協議中刪除。
- (iii) 本集團於二零零九年十二月三十一日自瑞士信貸新加坡分行取得的銀行借款60,000,000美元(「瑞信融資」)由其附屬公司陝西堯柏的100%股權抵押。該項融資已於二零一零年三月九日全數償還，而所有相關的財務工具已獲解除。

- (iv) 本集團於二零零九年十二月三十一日自工銀國際控股的附屬公司佳里有限公司取得的銀行借款50,000,000美元(「工銀國際融資」)由張繼民先生(「張先生」)擔保並由其持有的19,393,776股(相當於股份拆細後的969,688,800股股份)本公司股份(「股份」)作為抵押。該筆50,000,000美元款項已於二零一零年八月二十三日獲悉數償還，而以張先生持有的股份所作抵押及張先生提供的個人擔保亦已於同日獲解除。
- (v) 於二零一零年二月二十六日，本公司與中國工商銀行(亞洲)有限公司(「工銀亞洲」)及中國工商銀行(澳門)股份有限公司(「工銀澳門」)訂立50,000,000美元的有期貸款融資協議(「工銀融資」)，擬動用此貸款償還瑞信融資。於二零一零年三月九日，已提取50,000,000美元貸款，而瑞信融資亦已全數償還。

工銀融資以(a)本公司提供的中國西部水泥有限公司(「中國西部BVI」)股份押記；(b)中國西部BVI提供的集誠有限公司(「集誠」)股份押記；(c)集誠提供的陝西堯柏股權抵押；(d)轉讓中國西部BVI向本公司借入的股東貸款；(e)本公司賬戶的押記；及(f)工銀國際控股有限公司(「工銀國際控股」)以中國工商銀行(亞洲)有限公司(「工銀亞洲」)及中國工商銀行(澳門)股份有限公司(「工銀澳門」)為受益人提供的公司擔保作抵押。工銀國際控股亦向工銀亞洲及工銀澳門授予認沽期權，如此期權獲行使，工銀國際控股須向工銀亞洲及工銀澳門購買工銀融資連同隨附的一切權利。該認沽期權僅可於發生工銀融資協議所載違約事件後任何時候行使。

此外，本公司主席張繼民先生(「張先生」)持有的19,393,776股股份(相當於股份拆細後的969,688,800股股份)已設立第二項押記，張先生並以工銀國際控股(作為工銀融資的擔保人)為受益人提供個人擔保，地位僅次於根據工銀國際融資設立的押記。工銀融資項下的25,000,000美元已於二零一零年八月二十三日償還，而張先生所持股份的押記及張先生提供的個人擔保亦已於同日獲解除。於八月二十六日，本公司已償還工銀融資項下的6,250,000美元(附註22(b))。

本集團銀行借款的還款期如下：

|              | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|--------------|-----------------|-------------------|
|              | 人民幣千元<br>(未經審核) | 人民幣千元             |
| 6個月或以下 ..... | 465,982         | 626,563           |
| 6至12個月 ..... | 259,782         | 540,505           |
| 1至2年 .....   | 164,142         | 204,596           |
| 2至5年 .....   | 27,390          | 123,462           |
|              | <u>917,296</u>  | <u>1,495,126</u>  |

由於貼現影響並不重大，故此即期銀行借款的公允值與其賬面值相若。

非即期銀行借款的賬面值及公允值如下：

|                     | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|---------------------|-----------------|-------------------|
|                     | 人民幣千元<br>(未經審核) | 人民幣千元             |
| 賬面值                 |                 |                   |
| — 美元銀行借款(i) .....   | 34,746          | 77,258            |
| — 人民幣銀行借款(ii) ..... | 156,786         | 250,800           |
|                     | <u>191,532</u>  | <u>328,058</u>    |
| 公允值                 |                 |                   |
| — 美元銀行借款(i) .....   | 34,746          | 114,819           |
| — 人民幣銀行借款(ii) ..... | 156,786         | 250,800           |
|                     | <u>191,532</u>  | <u>365,619</u>    |

- (i) 美元銀行借款賬面值指截至二零零九年十二月三十一日的瑞信融資及截至二零一零年九月三十日的工銀融資的非即期部分。公允值乃於各結算日按條款及特點大致相同的本集團金融工具的現行市場利率貼現現金流估計得出。

截至二零一零年九月三十日結餘的公允值與其賬面值相若，乃因結餘以浮息計息。

- (ii) 於各結算日的非即期人民幣銀行借款公允值與其賬面值相若，乃因所有非即期人民幣銀行借款以浮息計息。

(b) 其他借款

|                | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|----------------|-----------------|-------------------|
|                | 人民幣千元<br>(未經審核) | 人民幣千元             |
| 第三方貸款          |                 |                   |
| — 非控股權轉入 ..... | 18,000          | 150,800           |
| — 其他 .....     | 6,000           | 3,000             |
|                | <u>24,000</u>   | <u>153,800</u>    |

其他借款均無抵押及以人民幣計值。

其他借款的還款期如下：

|              | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|--------------|-----------------|-------------------|
|              | 人民幣千元<br>(未經審核) | 人民幣千元             |
| 6個月或以下 ..... | —               | 92,800            |
| 6至12個月 ..... | —               | 29,000            |
| 1至2年 .....   | 18,000          | 29,000            |
| 2至5年 .....   | 6,000           | 3,000             |
|              | <u>24,000</u>   | <u>153,800</u>    |

#### 14. 其他負債及開支撥備

|                     | 環境修復            |
|---------------------|-----------------|
|                     | 人民幣千元<br>(未經審核) |
| 於二零零九年十二月三十一日 ..... | 6,265           |
| 額外撥備 .....          | 1,755           |
| 解除貼現 (附註17) .....   | 305             |
|                     | <u>8,325</u>    |
| 於二零一零年九月三十日         |                 |

根據中華人民共和國國土資源部於二零零九年頒佈的規定，礦山擁有人應承擔修復環境的責任。本集團已根據管理層對未來開支的最佳估計，就修復本集團的石灰石礦山將產生的成本的現值確認撥備。然而，地方國土資源局至今尚未頒佈修復標準的具體規定，倘公佈修復標準後，對修復成本的估計日後可能須作出修訂。本集團會根據當時的事實及環境，至少每年檢討就修復及環境清理成本作出的撥備金額，並作出相應更新。



15. 貿易及其他應付款項

|                  | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|------------------|-----------------|-------------------|
|                  | 人民幣千元<br>(未經審核) | 人民幣千元             |
| 貿易應付款項 .....     | 407,894         | 185,950           |
| 其他應付款項 .....     | 159,057         | 141,343           |
| 客戶墊款 .....       | 77,518          | 56,920            |
| 其他稅項 .....       | 34,546          | 32,288            |
| 應付員工薪金及福利 .....  | 20,945          | 17,204            |
| 其他負債 .....       | 16,235          | 10,472            |
| 應付花紅 .....       | 6,000           | 6,000             |
| 應付利息 .....       | 1,219           | 3,007             |
| 應付收購代價 .....     | 823             | 36,050            |
| 應付非控股權益的款項 ..... | —               | 70,161            |
|                  | <u>724,237</u>  | <u>559,395</u>    |

貿易及其他應付款項的賬面值與其公允值相若。

貿易應付款項的賬齡分析如下：

|                    | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|--------------------|-----------------|-------------------|
|                    | 人民幣千元<br>(未經審核) | 人民幣千元             |
| 90日以內 .....        | 284,779         | 147,187           |
| 90日以上180日以內 .....  | 74,256          | 21,926            |
| 180日以上360日以內 ..... | 47,689          | 12,851            |
| 360日以上720日以內 ..... | 1,170           | 3,967             |
| 720日以上 .....       | —               | 19                |
|                    | <u>407,894</u>  | <u>185,950</u>    |

16. 行政開支

截至二零一零年九月三十日止九個月，行政開支中包括就本公司股份在香港聯交所上市所產生的開支為人民幣61,842,000元(未經審核)(截至二零零九年九月三十日止九個月：零)。

## 17. 融資收入及成本

|                          | 截至九月三十日止九個月     |                 |
|--------------------------|-----------------|-----------------|
|                          | 二零一零年           | 二零零九年           |
|                          | 人民幣千元<br>(未經審核) | 人民幣千元<br>(未經審核) |
| 融資收入                     |                 |                 |
| — 短期銀行存款利息收入 .....       | 259             | 619             |
| 融資成本                     |                 |                 |
| — 銀行借款及其他借款的利息開支 .....   | (107,045)       | (80,938)        |
| — 融資活動的外匯收益／(虧損)淨額 ..... | 699             | (3,698)         |
| — 提早還款費用 .....           | (7,479)         | —               |
| — 解除貼現(附註14) .....       | (305)           | —               |
| — 金融工具公允值虧損 .....        | —               | (133,105)       |
| 減：資本化的金額(附註4) .....      | 24,758          | 23,998          |
|                          | (89,372)        | (193,743)       |
| 融資成本淨額 .....             | (89,113)        | (193,124)       |

## 18. 所得稅開支

本集團須作為納稅實體就本集團成員公司註冊及經營的司法權區產生的溢利繳納所得稅。

|                 | 截至九月三十日止九個月     |                 |
|-----------------|-----------------|-----------------|
|                 | 二零一零年           | 二零零九年           |
|                 | 人民幣千元<br>(未經審核) | 人民幣千元<br>(未經審核) |
| 即期稅項 .....      | 94,560          | 33,949          |
| 遞延稅項(附註8) ..... | (2,090)         | —               |
| 所得稅開支 .....     | 92,470          | 33,949          |

本集團有關中國內地業務的所得稅撥備，乃根據現行法例、詮釋及慣例，按截至二零一零年九月三十日止九個月及截至二零零九年九月三十日止九個月的估計應課稅溢利的適用稅率計算。

## 19. 每股盈利

如附註10所述，自二零一零年八月二十三日起，本公司每股面值0.1英鎊的普通股已拆細為50股面值0.002英鎊的普通股，以下每股盈利計算已計入股份拆細，按股份拆細後的新增股份數目計算。

### (a) 基本

每股基本盈利以本公司權益持有人應佔溢利除以截至二零一零年九月三十日止九個月及截至二零零九年九月三十日止九個月內已發行普通股的加權平均數計算。

|                        | 截至九月三十日止九個月     |                 |
|------------------------|-----------------|-----------------|
|                        | 二零一零年           | 二零零九年           |
|                        | 人民幣千元<br>(未經審核) | 人民幣千元<br>(未經審核) |
| 本公司權益持有人應佔溢利 .....     | 551,572         | 199,797         |
| 已發行普通股的加權平均數(千股) ..... | 3,623,230       | 3,226,527       |
| 每股基本盈利(每股人民幣) .....    | 0.15            | 0.06            |

### (b) 攤薄

每股攤薄盈利通過調整流通在外的普通股加權平均數以假設所有具潛在攤薄影響的普通股已經轉換而計算。就本公司發行的購股權及認股權證而言，會根據未行使購股權及認股權證所附帶的認購權的貨幣價值進行計算，以釐定可按公允值(釐定為本公司股份的年度平均市場股價)購買的股份數目。按上述方式計算的股份數目會與假設購股權及認股權證獲行使時將予發行的股份數目比較。

|                            | 截至九月三十日止九個月     |                 |
|----------------------------|-----------------|-----------------|
|                            | 二零一零年           | 二零零九年           |
|                            | 人民幣千元<br>(未經審核) | 人民幣千元<br>(未經審核) |
| 本公司權益持有人應佔溢利 .....         | 551,572         | 199,797         |
| 已發行普通股的加權平均數(千股) .....     | 3,623,230       | 3,226,527       |
| 就具潛在攤薄影響的普通股所作調整(千股) ..... | 22,465          | 21,917          |
| 每股攤薄盈利的普通股加權平均數(千股) .....  | 3,645,695       | 3,248,444       |
| 每股攤薄盈利(每股人民幣) .....        | 0.15            | 0.06            |

## 20. 承擔

### (a) 資本承擔

於結算日已訂約但尚未產生的資本開支如下：

|                | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|----------------|-----------------|-------------------|
|                | 人民幣千元<br>(未經審核) | 人民幣千元             |
| 物業、廠房及設備 ..... | 266,027         | 558,336           |

### (b) 經營租賃承擔－集團公司作為承租人

本集團根據不可撤銷經營租賃協議租用多處樓宇作辦公室及倉庫。租期為5至10年，大多數租賃協議可於截至二零一零年九月三十日止九個月結束時終止。

不可撤銷經營租約項下的未來最低租金總額如下：

|                  | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|------------------|-----------------|-------------------|
|                  | 人民幣千元<br>(未經審核) | 人民幣千元             |
| 不超過1年 .....      | —               | 74                |
| 超過1年但不超過5年 ..... | —               | 209               |
| 超過5年 .....       | —               | 446               |
|                  | —               | 729               |

## 21. 關聯方交易

### (a) 主要管理人員薪酬

主要管理人員包括本集團董事(執行董事及非執行董事)及高級管理層。就僱員服務已付或應付予主要管理人員的薪酬列示如下：

|                   | 截至九月三十日止九個月     |                 |
|-------------------|-----------------|-----------------|
|                   | 二零一零年           | 二零零九年           |
|                   | 人民幣千元<br>(未經審核) | 人民幣千元<br>(未經審核) |
| 薪金及其他短期僱用福利 ..... | 3,549           | 3,285           |
| 以股份為基礎的付款 .....   | 274             | 786             |
|                   | 3,823           | 4,071           |

(b) 應收主要管理人員款項

|           | 於二零一零年<br>九月三十日 | 於二零零九年<br>十二月三十一日 |
|-----------|-----------------|-------------------|
|           | 人民幣千元<br>(未經審核) | 人民幣千元             |
| 李永繼 ..... | —               | 2,662             |

應收李永繼先生款項乃與本公司的一名客戶於二零零九年提出通過轉讓其物業予本公司以清償其結欠本公司的債項有關。李永繼先生接納該物業並承擔該名客戶結欠本公司的債項。該款項為免息，無抵押並須已於二零一零年六月全數償還。

(c) 張繼民先生就銀行借款提供的擔保詳情載於附註13(a)(iv)及附註13(a)(v)。

22. 結算日後事項

- (a) 於二零一零年十二月十四日，本公司與工銀國際融資有限公司訂立過渡貸款協議，有關金額為85百萬美元（「工銀過渡貸款」）。工銀過渡貸款以(i)集誠提供的陝西堯柏股權抵押；(ii)由中國西部BVI執行的集誠股份的股份按揭；及(iii)由張繼民先生以貸款人為受益人提供的個人擔保作抵押。此外，張繼民先生持有的本公司1,000,000股已發行股份的股票已根據託管安排交給貸款人。
- (b) 於二零一零年十二月二十一日，工銀融資的餘下結餘約19百萬美元已全數償還。
- (c) 於二零一零年十二月三十一日，陝西堯柏與Shaanxi Ankang Jianghua Group Co., Ltd.（「Ankang Jianghua」）訂立協議成立合營企業—安康堯柏江華水泥有限公司（「堯柏江華」），彼等分別擁有合營企業的80%及20%股權。合營企業的投資額分別由陝西堯柏的現金注資人民幣320百萬元（包括於二零零九年就此交易而作出的按金人民幣100百萬元（附註9(b)）以及Ankang Jianghua的一組資產及負債之淨值約人民幣80百萬元注入堯柏江華所組成。堯柏江華已於二零一一年一月六日取得其營業牌照。其主要業務為生產及銷售水泥。
- (d) 於二零一一年一月十日，本集團與商洛堯柏龍橋水泥有限公司（「龍橋堯柏」）的非控股股東訂立協議，以現金代價人民幣25百萬元向非控股股東收購於龍橋堯柏的餘下20%股權。收購後，本集團持有龍橋堯柏的100%股權。
- (e) 根據於二零一一年一月六日舉行的董事會會議上通過的一項決議案，本集團計劃在新加坡證券交易所有限公司發行本金額最高達500百萬美元的有擔保優先票據。於二零一一年一月十二日，有擔保優先票據的實際條款尚有待落實。

## 財務狀況及經營業績的管理層討論及分析

### 概覽

根據中國水泥協會營運的網站數字水泥網的資料，按二零零九年的產量計，我們為中國陝西省領先的水泥生產商。我們以「堯柏」及「堯柏水泥」商標生產及向陝西省客戶銷售多種水泥產品。我們的全部收益均來自銷售我們的水泥產品。

截至二零一零年九月三十日，我們在陝西省擁有九條水泥生產線，總年產能為11.4百萬噸。截至二零零七年、二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們水泥的銷量分別約為2.4百萬噸、3.4百萬噸、5.1百萬噸及6.7百萬噸。於同期，我們所出售水泥的每噸平均售價分別約為人民幣219元、人民幣251元、人民幣299元及人民幣298元。

於二零一零年九月，我們在蒲城生產設施的第二條生產線竣工，總年產能達1.1百萬噸，並於藍田生產設施安裝新水泥磨，令我們的年產能增加設計產能0.7百萬噸。我們亦於西鄉縣興建一條新生產線，總年產能為1.1百萬噸，預計於二零一一年第一季度完成。該額外生產設施連同我們收購江華堯柏預計於二零一一年二月竣工後將我們的總年產能增至13.6百萬噸。我們擬通過收購進一步提升我們的產能。

截於二零零九年十二月三十一日止三個年度，我們的收益、經營溢利及純利顯著增長。我們的收益由截至二零零七年十二月三十一日止年度約人民幣525.9百萬元增至截至二零零八年十二月三十一日止年度約人民幣866.1百萬元及截至二零零九年十二月三十一日止年度約人民幣1,516.8百萬元(226.7百萬美元)，複合年增長率為69.8%。本公司股東應佔溢利由截至二零零七年十二月三十一日止年度約人民幣150.3百萬元增至截至二零零八年十二月三十一日止年度約人民幣246.2百萬元及截至二零零九年十二月三十一日止年度約人民幣330.5百萬元(49.4百萬美元)，複合年增長率為48.3%。我們的收益及本公司股東應佔溢利於截至二零一零年九月三十日止九個月分別約為人民幣2,017.7百萬元(301.6百萬美元)及人民幣551.6百萬元(82.4百萬美元)，較二零零九年同期的增長率分別為89.7%及176.1%。

### 影響我們經營業績的主要因素

#### 陝西省建築行業，尤其是政府基建項目的增長

我們的全部收益均來自在陝西省的銷售。陝西省的經濟趨勢，對我們業務的所有方面均有重大影響，包括對我們產品的需求及定價、原材料的可獲得性及成本、能源供應成本、勞動力成本及其他經營開支。我們水泥產品的需求對陝西省的建築活動水平尤為敏感。二零零九年，陝西省的固定資產投資較二零零八年同期增長約35.1%。固定資產投資的增長導致建築材料(包括水泥)的需求大幅上升。我們相信陝西省建築行業的增長將持續對我們的經營業績產生重大影響。

中國政府不時發佈新的產業政策，以通過經濟及行政手段調控基建項目及房地產開發的投資水平。這些政策或會對我們的業務產生重大影響。中國政府在十一五計劃中承諾於二零零六年至二零一零年期間建設大型基建及發展項目，使陝西省的固定資產投資增加，因而使我們水泥產品的需求增加。

於二零零八年，中國政府引進多項措施以應對全球經濟衰退，其中包括旨在通過發展基建項目刺激中國經濟的人民幣4萬億元刺激方案、減稅及給予置業者的其他優惠措施。政府目前加快批准基建項目以刺激經濟。政府基建項目投資的大幅增加使得高標號水泥的需求上升，使我們與其他大型水泥生產商受惠。

於二零零九年六月，中國國務院批准關中一天水經濟區發展規劃。根據該規劃，二零零九年至二零二零年將在陝西省南部的核心市場或鄰近地區建設大量大型基建項目(如公路、鐵路、發電廠及工業園)。由於我們在我們的核心市場具有領導地位，我們的業務將從在我們生產設施附近將予興建的基建項目中直接受益。

## 產能

我們的經營業績取決於我們履行客戶訂單的能力，而後者部分取決於我們的產能。我們的水泥年產能由截至二零零七年一月一日的1.4百萬噸增至截至二零一零年九月三十日的11.4百萬噸。於二零零七年、二零零八年、二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們的產能擴充分別產生約人民幣359.1百萬元、人民幣669.1百萬元、人民幣629.3百萬元(94.1百萬美元)及人民幣1,340.1百萬元(200.3百萬美元)的資本開支，即用作購買物業、廠房及設備、土地使用權、採礦權及其他無形資產、用作興建新生產線的現金。我們於二零零九年亦透過收購擴充產能。我們於二零零九年收購秀山堯柏產生約人民幣120.9百萬元(18.1百萬美元)。部分由於我們的產能擴充，我們的收益於二零零七年至二零零八年增長約64.7%及於二零零八年至二零零九年增長約75.1%。我們相信，我們產品的需求將持續上升，因此我們擬進一步提升我們的年產能。

## 定價

我們產品的價格主要受到我們經營所在地區的水泥供求狀況影響。於二零零七年、二零零八年、二零零九年及二零一零年首九個月，我們水泥的平均售價分別約為每噸人民幣219元、人民幣251元、人民幣299元及人民幣298元。於二零零八年及二零零九年，由於樓宇及建築活動增加使需求上升，我們上調了水泥產品的價格，因此，我們可通過提高平均售價將部分增加的銷售成本轉嫁予客戶。

我們水泥的平均售價受到季節性波動的影響。於冬季期間，許多建築項目因寒冷天氣或農曆新年假期（一般在每年的一月或二月期間）而不時暫停。我們於冬季一般以折扣價格發售水泥產品以吸引客戶及維持市場份額。我們水泥產品的價格通常於冬季及農曆新年假期完結後隨著需求上升而增加。

我們在西安的中央銷售部門定期檢討定價策略，並根據多項因素於適當時調整產品的價格，該等因素包括原材料成本、煤價及電價、市場需求、我們的產能、運輸成本、存貨水平、競爭對手的價格及信貸條款。

## 產品組合

我們的經營業績受到我們產品組合的影響。我們按不同售價出售具有不同物理特性的不同級別水泥。為全面利用我們的熟料產能，我們亦於截至二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月在水泥生產中存有剩餘熟料時出售小量熟料。

我們高標號水泥的平均售價較低標號水泥的平均售價為高。於二零零七年、二零零八年及二零零九年及二零一零年首九個月，高標號水泥以平均售價分別約每噸人民幣239元、人民幣280元、人民幣311元及人民幣311元出售，而於二零零七年、二零零八年及二零零九年及二零一零年首九個月，低標號水泥則以平均售價分別約每噸人民幣211元、人民幣227元、人民幣268元及人民幣265元出售。

由於高標號水泥的強度較高，其一直主要用於政府基建項目，而低標號水泥則一直主要用於各項農村住宅建設項目。由於陝西省的政府基建項目投資不斷增加，我們於截至二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月來自銷售高標號水泥的收入大幅增加。於二零零七年、二零零八年、二零零九年及二零一零年首九個月，我們出售高標號水泥分別約0.7百萬噸、1.6百萬噸、3.7百萬噸及4.7百萬噸，佔我們總銷量分別28.6%、45.9%、72.5%及69.3%，並為我們於有關期間的總收入貢獻分別31.2%、51.2%、75.4%及73.1%。

## 煤炭及電力成本

我們的經營業績受煤炭及電力成本的重大影響。煤炭成本是我們最大的銷售成本之一，截至二零零七年、二零零八年及二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月，該項成本分別佔我們總銷售成本約21.4%、36.0%、31.2%及33.1%。煤炭價格的波動對我們的經營業績有直接影響。由於煤炭需求大增而市場供應不足，煤炭價格於二零零八年大幅上漲。於二零零九年，由於全球金融危機導致需求下降，煤炭價格較二零零八年有所下降。於二零一零年首九個月，煤炭價格因中國經濟復甦而上升。此外，我們於截至二零一零年九月三十日止九個月的每噸煤炭平均採購價較二零零九年同期增加，亦由於我們於二零零九年下半年增添鎮安、丹鳳及洋縣生產線所致。該等生產線距離煤礦的位置較我們其他生產線為遠，故其煤炭平均成本因運輸成本較高而較高。於二零零七年、二零零八年及二零零九年以及於二零零九年及二零一零年首九個月，我們的每噸煤炭平均採購價分別約為人民幣290元、人民幣492元、人民幣434元、人民幣462元及人民幣561元。



我們的經營亦需要大量電力。截至二零零七年、二零零八年及二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月，電力成本分別佔我們總銷售成本約24.8%、22.0%、20.7%及19.0%。近年來電力價格亦有所上漲。截至二零零七年、二零零八年及二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月，我們的平均電力購買價分別為每千瓦時人民幣0.40元、人民幣0.40元、人民幣0.43元及人民幣0.45元。於二零零九年十一月，陝西省電力公司將每千瓦時電價提高人民幣0.0367元。截至二零一零年九月三十日，我們已在九條生產線中的三條安裝餘熱回收系統，並能節約能源成本。我們計劃日後在我們的所有生產線內安裝餘熱回收系統。

煤炭或電力價格大幅上漲可對我們的銷售成本產生重大影響，而倘我們未能以較高價格的形式向客戶轉嫁部分或全部該等成本增幅，則繼而可對我們的業務、財務狀況及經營業績產生重大不利影響。

### 新生產設施

截至二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月，我們的收益、銷售成本、毛利率及我們的存貨受到新增生產設施的影響。下表載列於各所示期間，我們現有及新增生產設施的收益、毛利及毛利率。現有生產設施指截至所示年度或期間首日已開始銷售的該等生產設施，而新生產設施則指於所示年度或期間內開始銷售的該等生產設施。

|              | 截至                   |         |                      |         |                      |         |
|--------------|----------------------|---------|----------------------|---------|----------------------|---------|
|              | 截至十二月三十一日止年度         |         |                      |         | 九月三十日止九個月            |         |
|              | 二零零七年 <sup>(1)</sup> | 二零零八年   | 二零零九年 <sup>(2)</sup> | 二零零九年   | 二零一零年 <sup>(3)</sup> | 二零一零年   |
|              | (人民幣千元)              | (人民幣千元) | (人民幣千元)              | (千美元)   | (人民幣千元)              | (千美元)   |
| 以下各項產生的收益：   |                      |         |                      |         |                      |         |
| 現有生產設施 ..... | 308,707              | 866,126 | 1,035,071            | 154,708 | 1,590,666            | 237,750 |
| 新生產設施 .....  | 217,222              | —       | 481,695              | 71,997  | 427,000              | 63,822  |
| 總計 .....     | 525,929              | 866,126 | 1,516,766            | 226,704 | 2,017,666            | 301,572 |
| 以下各項帶來的毛利：   |                      |         |                      |         |                      |         |
| 現有生產設施 ..... | 100,538              | 310,053 | 496,735              | 74,245  | 665,215              | 99,427  |
| 新生產設施 .....  | 75,227               | —       | 141,944              | 21,216  | 141,400              | 21,134  |
| 總計 .....     | 175,764              | 310,053 | 638,679              | 95,461  | 806,615              | 120,561 |
| 以下各項的毛利率：    |                      |         |                      |         |                      |         |
| 現有生產設施 ..... | 32.6%                | 35.8%   | 48.0%                | 48.0%   | 41.8%                | 41.8%   |
| 新生產設施 .....  | 34.6%                | —       | 29.5%                | 29.5%   | 33.1%                | 33.1%   |
| 整體毛利率 .....  | 33.4%                | 35.8%   | 42.1%                | 42.1%   | 40.0%                | 40.0%   |

附註：

- (1) 截至二零零七年十二月三十一日止年度的新生產設施指藍田生產設施。
- (2) 截至二零零九年十二月三十一日止年度的新生產設施指旬陽生產設施及鎮安生產設施。
- (3) 截至二零一零年九月三十日止九個月的新生產設施指洋縣生產設施、丹鳳生產設施、勉縣生產設施及蒲城生產設施2號線。

於二零零七年，藍田生產設施投產，為我們的收益及毛利分別貢獻約人民幣217.2百萬元及人民幣75.2百萬元。於二零零七年，此新生產設施的毛利率約為34.6%，較我們當時在蒲城的現有生產設施略高，使我們的整體毛利率輕微升高。我們的藍田生產設施為西安地區服務，而當地的水泥售價通常高於我們蒲城生產設施的目標市場。

於二零零九年，我們的新增旬陽及鎮安生產設施為我們的收益及毛利分別貢獻約人民幣481.7百萬元(72.0百萬美元)及約人民幣141.9百萬元(21.2百萬美元)。該兩家生產設施的毛利率較現有設施為低，主要是由於我們於二零零九年一月至十一月(於該期間7公里石灰石傳送帶正在建設中)為我們旬陽生產設施的生產購買石灰石的價格高於我們其他設施的市場價格所致。此外，我們位於鎮安生產設施的生產線因並無餘熱回收系統而耗能較高，從而令毛利率較低。我們擬通過升級生產線提高我們於鎮安設施的生產效率。

截至二零一零年九月三十日止九個月，我們的新增洋縣、丹鳳及勉縣生產設施及蒲城生產設施的新生產線及勉縣生產設施的水泥磨為我們的收益及毛利分別貢獻約人民幣427.0百萬元(63.8百萬美元)及約人民幣141.4百萬元(21.1百萬美元)。新生產設施於二零一零年首九個月的毛利率約為33.1%，較我們的現有生產設施為低。此乃主要由於丹鳳生產設施位處山區，區內水泥產品市場的需求及市價較易受到冬季季節的影響，故其出售的水泥產品平均售價一般較我們其他生產設施的市場為低，導致其毛利率較低所致。由於丹鳳生產設施被我們收購前並非由我們興建或管理，故其成本效益現低於我們的其他生產設施。

我們生產線於二零一零年九月三十日的利用率載於下表。

| 生產線                      | 於二零一零年<br>九月三十日<br>的利用率 |
|--------------------------|-------------------------|
| 蒲城                       |                         |
| 1號線 .....                | 100.0%                  |
| 2號線 <sup>(1)</sup> ..... | 43.6%                   |
| 藍田 .....                 | 100.0%                  |
| 旬陽 .....                 | 97.3%                   |
| 洋縣 .....                 | 100.0%                  |
| 勉縣 <sup>(2)</sup> .....  | 32.7%                   |
| 西鄉 <sup>(3)</sup> .....  | —                       |
| 丹鳳 .....                 | 83.6%                   |
| 鎮安 .....                 | 81.8%                   |

附註：

(1) 蒲城第二條生產線於二零一零年八月竣工。

(2) 勉縣的生產線於二零一零年七月竣工。

(3) 由於我們的西鄉生產設施截至二零一零年九月三十日正在興建中，預計於二零一一年第一季度竣工，故並無利用率。

我們的新生產設施主要以存貨形式增加我們的營運資金需求。於二零零七年、二零零九年及二零一零年首九個月添置的新生產設施致令我們的存貨分別增加約人民幣18.0百萬元、人民幣42.9百萬元(6.4百萬美元)及人民幣47.4百萬元(7.1百萬美元)，構成有關新生產設施營運資本的主要部分。

### 中國政府的鼓勵措施

我們的純利受我們所享有的退稅、免稅、財政補貼及優惠稅務待遇影響。我們使用若干比例的回收物料作為原材料(如爐渣及粉煤灰)生產的水泥產品可享有增值稅退稅待遇。根據「西部大開發」計劃，我們的中國附屬公司作為中國西部的企業可享有優惠企業所得稅稅率15%，而國家企業所得稅標準稅率則為25%。「西部大開發」計劃目前定於二零一零年年底屆滿，而截至本發售備忘錄日期，有關政府部門尚未宣佈於屆滿後是否會續期。作為外商獨資企業，藍田堯柏自首個獲利年度(按累計基準)起兩年期間獲豁免繳納中國企業所得稅，其後三年按適用企業所得稅稅率的50%繳納稅款。藍田堯柏目前正處於三年稅項減半期間，將於二零一一年底屆滿，且根據中國企業所得稅法(於二零零八年一月一日生效)不會續期。該項優惠稅項乃為陝西堯柏先前享有，已於二零一零年屆滿。失去任何上述政府優惠待遇或會對我們的盈利能力及財務狀況產生不利影響。

## 主要會計政策及估計

我們根據國際會計準則委員會頒佈的國際財務報告準則編製綜合財務資料，國際財務報告準則規定我們須作出可影響(其中包括)資產、負債、收益及開支的呈報數額的估計和假設。我們依據本身的過往經驗以及我們認為在該等情況下相關的各種其他因素作出估計。管理層定期按過往經驗及其他因素重新評估這些估計和假設，包括在該等情況下認為屬合理的未來事件的預期。實際結果可能與按照不同假設或條件作出的估計不同。我們若干會計政策在應用時所要求的判斷，其程度較其他政策為高。我們認為下述政策對理解我們的財務資料至關重要，原因是應用這些政策時，我們的管理層須作出最高程度的判斷。

### 收益確認

我們的收益包括在日常業務過程中出售貨品及提供服務的已收或應收代價的公允值。收益在扣除退貨、回扣及折扣，並經對銷本集團內公司間銷售後列賬。我們於收益金額能可靠計量，及日後很可能有經濟利益流入實體，且已符合我們各業務活動的特定條件時確認收益。與銷售有關的所有或有項目解決後，收益金額方視為能可靠計量。我們按過往業績作出估計，並考慮客戶種類、交易種類及各項安排的細節。

我們在中國陝西省製造水泥產品並銷售予政府基礎設施項目、預拌混凝土站、分銷商及其他方。銷售貨品於我們向客戶交付產品並轉移擁有權的重大風險及回報，且並無未履行責任可影響客戶對該等產品的接收及可合理保證有關應收款項的可收回性時予以確認。因此，我們於向買方交付該等產品時，確認向政府基礎設施項目、預拌混凝土站、分銷商及其他方銷售的收益。倘我們安排第三方將產品運輸至交付地點，我們仍保留產品擁有權的風險及回報直至產品交付予買方。

### 物業、廠房及設備

除在建工程外的物業、廠房及設備按歷史成本扣除累計折舊及減值撥備列賬。歷史成本包括其收購價格及收購有關項目直接產生的開支。

僅在有關項目的未來經濟利益將流向我們，而該項目的成本又能可靠計量時，其後成本方計入資產賬面值或單獨確認為資產(倘適用)。更換零件的賬面值不予確認。所有其他維修及保養費用於產生期間在綜合全面收益表支銷。

除礦產資產外，物業及廠房、汽車、電子及其他設備以及機器的折舊按以下的估計可使用年期，以直線法將成本攤銷至其5%餘值。

|                 |     |
|-----------------|-----|
| — 物業及廠房 .....   | 20年 |
| — 汽車 .....      | 8年  |
| — 電子及其他設備 ..... | 5年  |
| — 機器 .....      | 12年 |

於每個結算日均會覆核資產餘值及可使用年期，並在適當情況下作出調整。

在建工程指建造工程仍未完成的樓宇、機器及設備，按成本列賬。成本包括建造支出及其他直接成本，並扣除減值虧損。於完工時，在建工程按成本轉撥至適合的物業、廠房及設備分類。在建工程不計提折舊，直至有關工程已完工並可供使用。

倘資產的賬面值高於其估計可收回金額時，則立即將該資產賬面值減至其可收回金額。

出售的盈虧乃將所得款項與面值的差額比較後釐定，並於綜合全面收益表「其他收益／（虧損）淨額」項下確認。

礦產資產包括開發剝採成本及退役及修復撥備。

#### (a) 剝採成本

於開發石灰石礦山時產生的剝採成本獲資本化為物業、廠房及設備。生產階段產生的剝採成本為可變生產成本，於剝採成本產生期間計入所生產的存貨成本。資本化剝採成本以生產單位法使用估計資源作為損耗基準計算損耗。

#### (b) 退役、修復及類似責任

倘本公司因收購、建造或正常使用有關資產而產生法定、合約、推定及法律責任，包括與收回屬於物業、廠房及設備的礦產及礦產資產有關的責任，則本公司就該等責任確認撥備。資產退廢責任首次以其產生期間的現值確認撥備。於首次確認有關責任後，相應的資產退廢責任計入相關資產的賬面值，而成本則採用生產單位法或直線法（如適用）在資產的經濟年期內攤銷為開支。於首次確認資產退廢責任後，有關責任的賬面值隨著時間的推移逐漸增加，並根據清償債務時所需的相關現金流量的當前市場折現率、金額或時間的變動作出調整。

根據中華人民共和國國土資源部於二零零九年頒佈的新法規，礦山擁有人須承擔環境修復責任。我們根據管理層修復我們石灰石礦山將產生成本現值的最佳估計未來開支確認撥備。然而，地方

國土資源局尚未頒佈特定修復標準規定。倘日後公佈修復標準，修復成本估計將可能須作出修訂。就修復及環境清理成本所作撥備根據當時可得事實及情況至少每年審閱一次，並據此更新撥備。

## 借款

借款初步按公允值扣除交易成本確認。借款隨後以實際利率法按攤銷成本列賬。攤銷成本乃計及任何發行成本及任何結算折讓或溢價後計算。所得款項(扣除交易成本)與贖回價值之間的任何差異均以實際利率法於借款期間於綜合全面收益表內確認。

設立貸款融資支付的費用，於可能提取若干或所有融資時確認為貸款的交易成本。於該情況下，該費用會遞延至提取融資為止。倘若並無任何證據顯示將會提取部分或所有融資，則有關費用將資本化作流動資金服務的預付款項，並在融資相關期間攤銷。

除非我們具有無條件權利將負債的結算遞延至結算日後最少十二個月，否則借款歸類為流動負債。

因購入、建築或生產資產(即需一段長時間方可作擬定用途或銷售的資產)而直接應佔的借款成本乃撥作資本，作為該等資產成本的一部分。所有其他借款均列作開支。

## 認股權證

連同我們根據瑞信融資協議於二零零八年五月二十九日借入的60百萬美元的貸款融資，我們向Credit Suisse International授出認股權證。由於認股權證持有人獲授權將已發行認股權證認沽以換取一筆款項的選擇權，而整筆貸款有19%的內部回報率，故認股權證獲分類為負債。認股權證的公允值初步按公允值確認，並於30個月(認股權證的預計年期)內攤銷。

## 商譽

商譽指收購成本高於我們於收購日期佔所收購附屬公司可識別資產公允淨值的數額。收購附屬公司所產生的商譽計入無形資產。商譽須進行減值測試，並以成本值減累計虧損列賬。商譽的減值虧損不得撥回。已出售實體的商譽面值計入該次出售的盈虧。

商譽會分配至現金產生單位以進行減值測試。此項分配是對預期可從商譽產生的業務合併中得益的現金產生單位或現金產生單位的組別而作出。

## 採礦權

收購權利供我們於某一期間開採礦山的成本會被資本化，其後按成本減累計攤銷及減值虧損列賬。攤銷採礦權乃根據生產計劃及礦山按生產單位法估計的儲備於礦山的可使用年期內計算，以撇銷成本減累計減值虧損。

## 非金融資產減值

擁有無限可使用年期的資產毋須攤銷，其每年及在出現減值跡象時進行減值測試。須攤銷的資產在出現顯示可能無法收回賬面值的事件或轉變時檢討有否減值。在資產賬面值高於可收回金額時須將差額確認為減值虧損。可收回金額即資產公允值減銷售成本與使用價值中的較高者。為評估減值，資產按獨立可識別現金流量(現金產生單位)的最低水平分類。商譽以外的非金融資產若出現減值，則須於各結算日評估會否撥回減值。

## 存貨

我們的存貨主要包括：(i)原材料及消耗品；(ii)在製品；及(iii)製成品。我們將存貨按成本與可變現淨值兩者中的較低者列賬。成本採用加權平均法計算。製成品及在製品的成本包括原材料、直接人工、其他直接成本及與生產相關的雜項開支(按正常營運能力計算)。可變現淨值為日常業務過程中的估計售價減適用可變銷售開支及完成的成本。

我們根據對存貨的可變現程度進行評估將存貨撇減至可變現淨值。撇減評估需要管理層的判斷及估計。倘預期與原有估計存在差異，該差異將影響該等估計變動期間的存貨的賬面值及存貨撇減。

## 貿易及其他應收款項撥備

貿易及其他應收款項最初按公允值確認，其後運用實際利息法按攤銷成本並扣除減值撥備計量。倘有客觀證據顯示我們將無法根據應收款項的原來條款全數收回所有款項，則須計提貿易及其他應收款項的減值撥備。若債務人出現重大財務困難、債務人可能破產或須進行財務重組及欠付款項，有關情況將視作貿易應收款項減值的指標。撥備數額為資產賬面值與按原實際利率折現計算估計未來現金流量現值的差額。資產的賬面值通過使用撥備賬戶削減，而有關的虧損數額則在綜合全面收益表內確認。如一項應收款項無法收回，其會在應收款項內的撥備賬撇銷。之前已撇銷的款項如其後收回，將在綜合全面收益表中撥回。

我們對客戶進行持續信貸評估並根據付款記錄及客戶的目前信譽(通過對其目前信貸資料進行審閱釐定)調整信用額度。

## 遞延所得稅

遞延所得稅採用負債法就資產及負債的稅基與資產及負債的賬面值產生的暫時性差額進行確認。然而，若遞延所得稅來自在交易(不包括業務合併)中對資產或負債的初步確認，而在交易時不影響會計損益或應課稅盈虧，則不予列賬。遞延所得稅採用在結算日前已頒佈或實質頒佈，並預期在有關遞延所得稅項資產變現或遞延所得稅項負債結算時適用的稅率(及法例)釐定。

遞延所得稅資產僅於有可能於日後錄得應課稅溢利，而暫時性差額可以被使用時，方予確認。

遞延所得稅乃按於附屬公司投資所產生的暫時性差額作出撥備，惟撥回暫時性差額的時間可由我們控制，且在可預見將來可能不會撥回暫時性差額者除外。

當有法定可強制執行權力將當期稅項資產與當期稅項負債抵銷，且遞延所得稅資產及負債涉及同一稅務機關對應課稅實體或不同應課稅實體徵收的所得稅，且有意按淨額償付結餘，則可將遞延所得稅資產及負債互相抵銷。

## 全面收益表選定項目

### 收益

我們的全部收益均來自銷售我們的水泥產品。截至二零零七年、二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們的收益分別約為人民幣525.9百萬元、人民幣866.1百萬元、人民幣1,516.8百萬元(226.7百萬美元)及人民幣2,017.7百萬元(301.6百萬美元)。

我們的收益於任何特定期間根據我們水泥產品的銷量及平均售價而定。截至二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月，我們水泥產品的銷量錄得大幅增長。截至二零零七年、二零零八年及二零零九年十二月三十一日止年度及截至二零零九年及二零一零年九月三十日止九個月，我們出售分別約2.4百萬噸、3.4百萬噸、5.1百萬噸、3.6百萬噸及6.8百萬噸水泥產品。我們的銷量增長主要由我們擴充至新市場及陝西省建築行業的增長帶動。為把握水泥產品日益迅速增長的需求，我們通過建造新生產線及收購方式大幅擴充產能。於二零零七年五月及八月，藍田生產設施的兩條生產線投產。於二零零九年一月，旬陽生產設施開始水泥生產。我們於二零零九年八月收購秀山堯柏，其經營我們的鎮安生產設施。我們的洋縣生產設施於二零零九年十二月投產，並於二零一零年三月開始銷售水泥產品。勉縣生產設施於二零一零年七月建設完工，而蒲城生產設施的新增生產線於二零一零年八月建設完工。目前，這兩座生產設施正處於測試期。由於該等新增生產線，我們的年產能由截至二零零七年十二月三十一日的3.6百萬噸增至截至二零一零年九月三十日的11.4百萬噸，使我們能夠把握陝西省建築行業的增長，這反映在我們的收益於截至二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月大幅增加。

於截至二零零九年十二月三十一日止三個年度，我們的平均售價有所上升，主要由於我們產品的供求變動所致，亦受到煤炭及其他原材料成本增加的影響。於二零零七年、二零零八年、二零零九年，我們水泥產品的平均售價分別約為人民幣219元、人民幣251元及人民幣299元。我們水泥產品的平均售價於截至二零零九年十二月三十一日止三個年度上升，主要由於二零零八年及二零零九年陝西省建築和施工活動增加導致市場需求上升所致。於二零一零年首九個月，我們所出售水泥產品的平均售價較二零零九年同期的平均售價稍低。我們將持續評估我們產品的市場需求，並可能不時調整我們的產品價格及產能以滿足市場需求。



我們的收益亦受到我們產品組合的影響。下表載列於所示期間我們所出售各類別水泥產品的收益、銷量及平均售價以及我們所出售水泥及水泥產品的平均售價：

|                | 截至十二月三十一日止年度 |       |       |              |       |       |       |              |       |       |       |              |
|----------------|--------------|-------|-------|--------------|-------|-------|-------|--------------|-------|-------|-------|--------------|
|                | 二零零七年        |       |       |              | 二零零八年 |       |       |              | 二零零九年 |       |       |              |
|                | 平均售價         | 銷量    | %     | 收益           | 平均售價  | 銷量    | %     | 收益           | 平均售價  | 銷量    | %     | 收益           |
|                | (人民幣)        | (千噸)  |       | (人民幣<br>百萬元) | (人民幣) | (千噸)  |       | (人民幣<br>百萬元) | (人民幣) | (千噸)  |       | (人民幣<br>百萬元) |
| 高標號水泥 .....    | 239          | 687   | 28.6  | 164.3        | 280   | 1,581 | 45.9  | 443.1        | 311   | 3,679 | 72.5  | 1,143.4      |
| 低標號水泥 .....    | 211          | 1,709 | 71.3  | 361.2        | 227   | 1,863 | 54.0  | 422.3        | 268   | 1,392 | 27.4  | 372.4        |
| 孰料 .....       | 201          | 2     | 0.1   | 0.4          | 191   | 4     | 0.1   | 0.7          | 256   | 4     | 0.1   | 1.0          |
| 總計 .....       |              | 2,398 | 100.0 | 525.9        |       | 3,448 | 100.0 | 866.1        |       | 5,075 | 100.0 | 1,516.8      |
| 水泥平均售價 .....   | 219          |       |       |              | 251   |       |       |              | 299   |       |       |              |
| 水泥產品平均售價 ..... | 219          |       |       |              | 251   |       |       |              | 299   |       |       |              |

|                               | 截至九月三十日止九個月 |       |              |         |       |       |              |         |
|-------------------------------|-------------|-------|--------------|---------|-------|-------|--------------|---------|
|                               | 二零零九年       |       |              |         | 二零一零年 |       |              |         |
|                               | 平均售價        | 銷量    | %            | 收益      | 平均售價  | 銷量    | %            | 收益      |
| (人民幣)                         | (千噸)        |       | (人民幣<br>百萬元) | (人民幣)   | (千噸)  |       | (人民幣<br>百萬元) |         |
| 高標號水泥 .....                   | 312         | 2,490 | 70.0         | 776.8   | 311   | 4,716 | 69.3         | 1,475.7 |
| 低標號水泥 .....                   | 269         | 1,063 | 29.9         | 285.8   | 265   | 1,976 | 29.0         | 516.7   |
| 孰料 .....                      | 256         | 4     | 0.1          | 1       | 220   | 115   | 1.7          | 25.3    |
| 總計 .....                      | —           | 3,557 | 100.0        | 1,063.6 | —     | 6,807 | 100.0        | 2,017.7 |
| 水泥平均售價 <sup>(2)</sup> .....   | 299         |       |              |         | 298   |       |              |         |
| 水泥產品平均售價 <sup>(3)</sup> ..... | 299         |       |              |         | 296   |       |              |         |

附註：

- (1) 我們於二零一零年首九個月出售更多孰料，主要由於我們的新增丹鳳生產設施於市場需求低迷時出售孰料，而我們的新增洋縣及勉縣生產設施於水泥粉磨站開始投產前出售孰料所致。
- (2) 水泥平均售價乃將(i)我們銷售高標號及低標號水泥產生的收益，除以(ii)高標號及低標號水泥的總銷量計算。平均售價不包括增值稅。
- (3) 水泥產品平均售價乃將(i)我們銷售高標號水泥、低標號水泥及孰料產生的總收益，除以(ii)該三項產品的總銷量計算。平均售價不包括增值稅。

我們銷售高標號水泥產生的收益由二零零七年約人民幣164.3百萬元增至二零零八年約人民幣443.1百萬元，並於二零零九年進一步增至人民幣1,143.4百萬元(170.9百萬美元)。我們高標號水泥的收益增加，主要由於截至二零零九年十二月三十一日止三個年度陝西省經濟發展及中國政府刺激方案令政府基建項目對更強抗壓水泥的需求增加所致。此外，藍田生產設施於二零零七年中投產，亦為我們高標號水泥的收益增加作出貢獻，因其客戶對高標號水泥的需求高於低標號水泥，當中大部分需求乃來自預拌混凝土站。

我們銷售高標號水泥產生的收益於二零一零年首九個月較二零零九年同期的收益有所增加。收益增加主要由於我們的銷量由截至二零零九年九月三十日止九個月的2.5百萬噸增加至截至二零一零年九月三十日止九個月的4.7百萬噸，此乃由於我們在洋縣、勉縣、丹鳳及蒲城等縣的新生產設施所佔的銷量增加所致。

我們銷售低標號水泥產生的收益由二零零七年約人民幣361.2百萬元增至二零零八年約人民幣422.3百萬元，而於二零零九年減至約人民幣372.4百萬元。於二零零八年的收益增加，主要由於低標號水泥銷售額增加及平均售價增加所致。低標號水泥的銷量增加主要由於水泥產能增加。中國政府於二零零八年中在全國推行新行業標準，該標準禁止生產PO32.5R水泥(一種低質高耗能的低標號水泥)，由於部分客戶已訂購其他水泥代替PO32.5R水泥，其對我們低標號水泥的銷量的影響輕微。二零零八年低標號水泥的平均售價上漲主要由於煤炭成本上升。二零零九年低標號水泥收益減少，主要由於高標號水泥需求增加及全面實施全國新行業標準禁止生產PO32.5R水泥令低標號水泥減產所致。於二零零八年至二零零九年間，我們低標號水泥收益受其減產影響，卻部分因低標號水泥的平均售價增加而抵銷。我們來自低標號水泥的收益於二零一零年首九個月較二零零九年同期有所增加，主要由於我們的產能增加導致低標號水泥銷量由二零零九年首九個月的1.1百萬噸增加至二零一零年首九個月的2.0百萬噸。

### 銷售成本

我們的銷售成本主要包括原材料、煤炭、電力、折舊、勞工及其他成本。下表載列於所示期間我們銷售成本的主要組成部分，(i)各項目均以佔銷售成本百分比及佔收益百分比表示，及(ii)所出售每噸水泥產品的成本。

## 截至十二月三十一日止年度

|            | 二零零七年   |       |      |         | 二零零八年   |       |      |         | 二零零九年   |       |      |         |  |  |  |
|------------|---------|-------|------|---------|---------|-------|------|---------|---------|-------|------|---------|--|--|--|
|            | 估銷      |       | 所出售  |         | 估銷      |       | 所出售  |         | 估銷      |       | 所出售  |         |  |  |  |
|            | 售成本     | 佔收益   | 每噸水泥 | 產品的     | 售成本     | 佔收益   | 每噸水泥 | 產品的     | 售成本     | 佔收益   | 每噸水泥 | 產品的     |  |  |  |
|            | 成本      | 百分比   | 成本   | 成本      | 成本      | 百分比   | 成本   | 成本      | 成本      | 百分比   | 成本   | 成本      |  |  |  |
| (人民幣千元)    |         |       |      | (人民幣千元) |         |       |      | (人民幣千元) |         |       |      | (人民幣千元) |  |  |  |
| 原材料 .....  | 119,141 | 34.0  | 22.7 | 49.7    | 144,376 | 26.0  | 16.7 | 41.9    | 284,543 | 32.4  | 18.8 | 56.1    |  |  |  |
| 煤炭 .....   | 75,070  | 21.4  | 14.3 | 31.3    | 200,209 | 36.0  | 23.1 | 58.1    | 273,745 | 31.2  | 18.0 | 53.9    |  |  |  |
| 電力 .....   | 86,859  | 24.8  | 16.5 | 36.2    | 122,160 | 22.0  | 14.1 | 35.4    | 182,062 | 20.7  | 12.0 | 35.9    |  |  |  |
| 折舊 .....   | 42,216  | 12.1  | 8.0  | 17.6    | 57,496  | 10.3  | 6.6  | 16.7    | 92,035  | 10.5  | 6.1  | 18.1    |  |  |  |
| 勞工成本 ..... | 17,010  | 4.9   | 3.2  | 7.1     | 17,486  | 3.1   | 2.0  | 5.1     | 28,534  | 3.2   | 1.9  | 5.6     |  |  |  |
| 其他 .....   | 9,869   | 2.8   | 1.9  | 4.1     | 14,343  | 2.6   | 1.7  | 4.2     | 17,168  | 2.0   | 1.1  | 3.4     |  |  |  |
| 總計 .....   | 350,165 | 100.0 | 66.6 | 146.0   | 556,073 | 100.0 | 64.2 | 161.3   | 878,087 | 100.0 | 57.9 | 173.0   |  |  |  |

## 截至九月三十日止九個月

|            | 二零零九年   |       |      |         | 二零一零年     |       |      |         |  |  |  |
|------------|---------|-------|------|---------|-----------|-------|------|---------|--|--|--|
|            | 估銷售     |       | 所出售  |         | 估銷售       |       | 所出售  |         |  |  |  |
|            | 成本      | 佔收益   | 每噸水泥 | 產品的     | 成本        | 佔收益   | 每噸水泥 | 產品的     |  |  |  |
|            | 成本      | 百分比   | 成本   | 成本      | 成本        | 百分比   | 成本   | 成本      |  |  |  |
| (人民幣千元)    |         |       |      | (人民幣千元) |           |       |      | (人民幣千元) |  |  |  |
|            |         |       |      | (未經審核)  |           |       |      |         |  |  |  |
| 原材料 .....  | 211,790 | 34.2  | 19.9 | 59.5    | 387,978   | 32.0  | 19.2 | 57.0    |  |  |  |
| 煤炭 .....   | 187,566 | 30.2  | 17.7 | 52.7    | 400,732   | 33.1  | 19.9 | 58.9    |  |  |  |
| 電力 .....   | 125,567 | 20.2  | 11.8 | 35.3    | 230,131   | 19.0  | 11.4 | 33.8    |  |  |  |
| 折舊 .....   | 67,086  | 10.8  | 6.3  | 18.9    | 133,246   | 11.0  | 6.6  | 19.6    |  |  |  |
| 勞工成本 ..... | 19,672  | 3.2   | 1.8  | 5.5     | 33,739    | 2.8   | 1.7  | 5.0     |  |  |  |
| 其他 .....   | 8,712   | 1.4   | 0.8  | 2.4     | 25,226    | 2.1   | 1.3  | 3.7     |  |  |  |
| 總計 .....   | 620,393 | 100.0 | 58.3 | 174.3   | 1,211,051 | 100.0 | 60.1 | 177.9   |  |  |  |

### 原材料成本

我們的原材料成本主要包括石灰石、石膏、黏土、粉煤灰、硫酸渣及爐渣。截至二零零七年、二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們的原材料成本分別約為人民幣119.1百萬元、人民幣144.4百萬元、人民幣284.5百萬元(42.5百萬美元)及人民幣388.0百萬元(58.0百萬美元)。我們與第三方承包商合作從我們的石灰石礦山開採石灰石。我們就承包商開採的每噸石灰石支付固定開採費用，固定費用於每年年初石灰石礦山的開採成本及耗用原材料變動予以調整。截至二零零七年、二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們生產所用的石灰石分別約為0.6百萬噸、2.5百萬噸、2.7百萬噸及5.2百萬噸，乃開採自我們的礦山。截至二零零七年、二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們向第三方石灰石供應商分別採購約1.3百萬噸、0.6百萬噸、1.7百萬噸及2.5百萬噸石灰石。我們為蒲城生產設施從市場上採

購部分石灰石，主要由於我們在蒲城生產設施的生產線之一與我們的石灰石採石場相隔一段距離，故為該生產線採購石灰石較從我們的石灰石採石場開採及運輸石灰石更為便宜。此外，向藍田生產設施供應石灰石的石灰石採石場於二零零八年全面投產之前，我們在市場上為藍田生產設施採購石灰石，因此我們於二零零七年向第三方石灰石供應商購買較高比例的石灰石。我們的旬陽生產設施於二零零九年一月投產，但由於其石灰石礦山與生產線之間的傳送帶於二零零九年十一月方落成，因此，我們亦於二零零九年一月至十一月期間為我們旬陽生產設施的生產購買石灰石。我們於二零一零年並無為旬陽生產設施向第三方購買石灰石，且預期於未來亦不會購買。二零一零年首九個月向第三方購買的石灰石主要用於丹鳳、鎮安及洋縣生產設施的營運。

截至二零零七年、二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們就從我們石灰石礦山開採石灰石產生的每噸平均成本分別約為每噸人民幣12.2元、人民幣11.0元、人民幣11.4元及人民幣10.8元。截至二零零七年、二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們就從市場購買石灰石產生的每噸平均成本分別約為每噸人民幣15.1元、人民幣15.6元、人民幣25.4元及人民幣18.0元。於二零零九年，我們購買石灰石的每噸平均成本上漲主要是由於我們的旬陽生產設施在其連接石灰石採石場至旬陽生產設施的石灰石輸送帶完成前，因附近地區的石灰石短缺而須在市場上以遠高於我們其他廠房採購市價的價格購買石灰石所致。二零一零年首九個月的石灰石每噸成本高企主要由於洋縣生產設施的石灰石每噸平均成本較高所致，原因為我們於洋縣生產設施的石灰石礦於二零一零年三月方全面投產。

截至二零零七年、二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們所售出每噸水泥產品的原材料成本分別約人民幣49.7元、人民幣41.9元、人民幣56.1元及人民幣57.0元。所售出每噸水泥產品的原材料成本由二零零七年至二零零八年有所減少主要由於向藍田生產設施供應石灰石的採石場於二零零八年開始全面營運之前，藍田生產設施向市場採購石灰石，導致我們於二零零七年向第三方石灰石供應商採購石灰石比例較高所致。於二零零八年開始使用回收的原材料(如脫硫石膏及建築垃圾)亦令我們所售出每噸水泥產品的原材料成本下降。我們所售出每噸水泥產品的原材料成本由二零零八年至二零零九年的增加主要由於旬陽生產設施於二零零九年一月營運，其在連接我們石灰石採石場及旬陽生產設施的石灰石輸送帶於二零零九年十一月完成之前在市場上採購石灰石，因而須以較高價格向第三方購買石灰石的比例增加所致。二零零九年粉煤灰價格上升亦令我們的原材料成本由二零零八年至二零零九年增加。此外，旬陽生產設施開始生產水泥產品及收購鎮安生產設施令我們的每噸原材料成本由二零零八年至二零零九年增加，此乃由於該兩個生產設施所使用的若干原材料(如天然石膏及爐渣)不一定會由回收的原材料代替(如脫硫石膏及建築垃圾)，或因附近區域缺乏該等回收原材料供應，可能僅在非常有限程度上代替。

我們致力以採用回收原材料降低我們的銷售成本，此舉同時減少原材料價格上漲對我們經營業績的影響。例如，我們在生產水泥的過程中採用脫硫石膏替代天然石膏，用建築垃圾替代粉煤灰。於截至二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月，該等措施令我們節省約人民幣4.1百萬元。

### 煤炭及電力成本

煤炭成本是我們最大的銷售成本之一。於截至二零零九年十二月三十一日止三個年度及於截至二零一零年九月三十日止九個月，煤炭價格一直波動。截至二零零七年、二零零八年及二零零九年十二月三十一日止三個年度以及截至二零零九年及二零一零年九月三十日止九個月，我們煤炭成本分別約人民幣75.1百萬元、人民幣200.2百萬元、人民幣273.7百萬元、人民幣187.6百萬元及人民幣400.7百萬元，相當於我們於各同期內銷售成本總額約21.4%、36.0%、31.2%、30.2%及33.1%。為以具有競爭價格取得充足煤炭供應，我們與多家煤炭供應商保持長期關係。

截至二零零七年、二零零八年及二零零九年十二月三十一日止年度以及截至二零零九年及二零一零年九月三十日止九個月，我們所出售每噸水泥產品的煤炭成本分別約為人民幣31.3元、人民幣58.1元、人民幣53.9元、人民幣52.7元及人民幣58.9元。每噸水泥產品的煤炭成本變動主要反映二零零七年、二零零八年及二零零九年及二零一零年首九個月期間的煤炭平均採購價的變動。所出售每噸水泥產品的煤炭成本由二零零九年首九個月的人民幣52.7元增加11.8%至二零一零年首九個月的人民幣58.9元。此項增幅主要由於我們於二零零九年下半年增添鎮安、丹鳳及洋縣生產線（該等生產線較我們其他生產線距離煤礦較遠）以致煤炭運輸成本增加所致。此外，我們相信全球經濟復甦亦導致煤炭價格上升。

電力成本亦是我們最大的銷售成本之一。於截至二零零九年十二月三十一日止三個月及於截至二零一零年九月三十日止九個月，電力價格上漲。截至二零零七年、二零零八年及二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月，我們電力成本分別約人民幣86.9百萬元、人民幣122.2百萬元、人民幣182.1百萬元及人民幣230.1百萬元，相當於我們於該等期間銷售成本總額約24.8%、22.0%、20.7%及19.0%。

於二零零八年十月，我們開始採用餘熱回收系統發電。截至二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們通過餘熱回收系統分別發電約8.3吉瓦時、53.4吉瓦時及64.9吉瓦時。因此，截至二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們分別節約成本約人民幣2.4百萬元、人民幣18.4百萬元及人民幣22.4百萬元，此乃按餘熱回收系統發電乘以同期每千瓦時平均電價與餘熱回收系統發電平均成本之差額計算。由於採用餘熱回收系統節省成本，截至二零零七年、二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們所售出每噸水泥產品的電力成本分別約為人民幣36.2元、人民幣35.4元、人民幣35.9元及人民幣33.8元。

我們預計，能源及原材料的成本將繼續佔我們銷售成本的大部分。

## 毛利及毛利率

截至二零零七年、二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們的毛利總額分別約為人民幣175.8百萬元、人民幣310.1百萬元、人民幣638.7百萬元(95.5百萬美元)及人民幣806.6百萬元(120.6百萬美元)，而我們的毛利率分別約為33.4%、35.8%、42.1%及40.0%。我們的毛利率於截至二零零九年十二月三十一日止三個年度內增長主要由於因應銷售成本增加而上調水泥產品價格的成功定價策略，以致我們每噸產品平均售價的增幅較我們每噸產品銷售成本的增幅為高所致。我們的毛利率亦因我們在生產過程中採取更多的成本節約措施而增加，例如採用回收材料替代昂貴的原材料及使用餘熱回收系統發電。我們的毛利率由二零零九年首九個月的41.7%下降至二零一零年首九個月的40.0%，主要由於全球經濟復甦及於二零零九年下半年增添鎮安、丹鳳及洋縣生產設施以致我們所出售每噸水泥產品的煤炭成本增加所致。該等設施的平均每噸煤炭成本較我們其他生產設施高，乃由於其位置遠離煤礦令煤炭運輸成本較高所致。我們所出售每噸水泥產品的折舊由二零零九年首九個月的人民幣18.9元增加至二零一零年首九個月的人民幣19.6元，也導致毛利率下降。所出售每噸水泥產品的折舊增加主要由於二零零九年底增加的洋縣生產設施及丹鳳生產設施的每噸生產成本投資較高所致。

## 銷售及市場推廣開支

我們的銷售及市場推廣開支主要包括員工成本、市場推廣開支及運輸開支。有時，我們的銷售人員與經驗豐富的獨立項目經理(通常為在水泥行業擁有市場知識及關係深厚的人員)合作。該等項目經理通常向我們的銷售人員推介潛在項目。倘該等項目商業上適合，我們的銷售人員會向我們建議潛在項目。我們將決定是否進行該等項目，並提前與銷售人員議定給予項目經理的固定佣金百分比，而該百分比乃根據項目的預期收入並計及多項因素，如項目對我們的重要程度及項目經理的市場知識。倘我們成功從事項目，我們將會於收取項目的付款後分期償付項目經理。項目經理亦協助我們開拓及維繫客戶關係，並幫助我們向客戶收取未償還款項。我們並無與項目經理訂立任何協議。市場推廣開支主要指我們對該等獨立項目經理所提供服務的補償。

我們的客戶一般承擔向彼等交付水泥的運輸費用。我們安排若干政府基建項目的水泥運送，費用由對方承擔。倘若實際運輸成本超過我們與客戶協定的金額，我們會支付超出金額。作為銷售及市場推廣開支的一部分，我們的運輸開支主要包括該等超額款項。

截至二零零七年、二零零八年及二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月，我們的銷售及市場推廣開支分別約為人民幣9.8百萬元、人民幣12.0百萬元、人民幣15.1百萬元(2.3百萬美元)及人民幣18.9百萬元(2.8百萬美元)。隨著我們擴充業務，我們預期將

加強銷售力度，我們的銷售及市場推廣開支可能會相應增加。於二零零七年、二零零八年、二零零九年及截至二零一零年九月三十日止九個月，我們的銷售及市場推廣開支佔收益的百分比分別約為1.9%、1.4%、1.0%及0.9%，並因規模經濟效益而一直持續減少。

### 行政開支

我們的行政開支主要包括員工成本、一般行政開支、折舊及攤銷以及政府徵費以及我們於二零一零年的首次公開發售相關開支。截至二零零七年、二零零八年及二零零九年十二月三十一日止三個月及截至二零一零年九月三十日止九個月，我們的行政開支分別約為人民幣29.0百萬元、人民幣55.2百萬元、人民幣77.8百萬元(11.6百萬美元)及人民幣130.0百萬元(19.4百萬美元)。截至二零零七年、二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們的行政開支分別佔收益約5.5%、6.4%、5.1%及6.4%。

### 其他收入及其他收益／(虧損)

下表載列所示期間我們其他收入及其他收益／(虧損)的明細。

|                               | 截至十二月三十一日止年度     |                  |                  |                | 截至九月三十日止九個月      |                  |                |
|-------------------------------|------------------|------------------|------------------|----------------|------------------|------------------|----------------|
|                               | 二零零七年<br>(人民幣千元) | 二零零八年<br>(人民幣千元) | 二零零九年<br>(人民幣千元) | 二零零九年<br>(千美元) | 二零零九年<br>(人民幣千元) | 二零一零年<br>(人民幣千元) | 二零一零年<br>(千美元) |
| <b>其他收入</b>                   |                  |                  |                  |                |                  |                  |                |
| 增值稅退稅 .....                   | 30,528           | 39,167           | 65,035           | 9,720          | 35,160           | 75,771           | 11,325         |
| 政府津貼 .....                    | 5,180            | 1,450            | 6,491            | 970            | 3,615            | 4,262            | 637            |
| 小計 .....                      | 35,708           | 40,617           | 71,526           | 10,691         | 38,775           | 80,033           | 11,962         |
| <b>其他收益／(虧損)－淨額</b>           |                  |                  |                  |                |                  |                  |                |
| 撥回應付款項 .....                  | 2,981            | 1,153            | 1,344            | 201            | —                | —                | —              |
| 捐款 .....                      | (689)            | (1,499)          | (825)            | (123)          | (238)            | —                | —              |
| 出售物業、廠房及<br>設備收益／(虧損)淨額 ..... | (425)            | (74)             | (2,733)          | (408)          | 76               | —                | —              |
| 其他 .....                      | 406              | 236              | 1,157            | (173)          | (500)            | 711              | 106            |
| 小計 .....                      | 2,273            | (184)            | (1,057)          | (158)          | (662)            | 711              | 106            |
| <b>總計 .....</b>               | <b>37,981</b>    | <b>40,433</b>    | <b>70,469</b>    | <b>10,533</b>  | <b>38,113</b>    | <b>80,747</b>    | <b>12,068</b>  |

其他收入主要包括增值稅退稅及其他政府獎勵。我們使用若干比例的回收材料作為原材料(如爐渣及粉煤灰)生產的水泥產品可享有增值稅退稅待遇。由於我們在生產中持續使用合格的回收材料，該等增值稅退稅屬經常性質。於二零零七年、二零零八年及二零零九年及截至二零一零年九月三十日止九個月，該等增值稅退稅分別約為人民幣30.5百萬元、人民幣39.2百萬元、人民幣65.0百萬元(9.7百萬美元)及人民幣75.8百萬元(11.3百萬美元)。我們按月提交稅項評估及退稅申請，而稅務部門通常於我們申請後的月份以現金形式向我們發放增值稅退稅。截至二零零七年、二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們分別就銷售約1.4百萬噸、1.7百萬噸、2.8百萬噸及3.2百萬噸的水泥收到增值稅退稅。我們用於申請增值稅退稅的水泥於截至二零零七年、二零零八年及二零零九年十二月止各年度及截至二零一零年九

月三十日止九個月分別為我們帶來收益約人民幣290.3百萬元、人民幣399.4百萬元、人民幣754.1百萬元(112.7百萬美元)及人民幣892.5百萬元(133.4百萬美元)，分別佔我們於各同期的總收益約55.2%、46.1%、49.7%及44.2%。其他非政府鼓勵措施屬非經常性質，主要包括行業發展補助及「清潔」項目投資鼓勵，於截至二零零七年、二零零八年及二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月合共分別約為人民幣5.2百萬元、人民幣1.5百萬元、人民幣6.5百萬元(1.0百萬美元)及人民幣4.3百萬元(0.6百萬美元)。「清潔」項目投資鼓勵主要包括節能減排技術，如我們的餘熱回收系統。其他收益／(虧損)主要包括撥回應付款項、捐款及出售物業、廠房及設備虧損淨額，於二零零七年、二零零八年及二零零九年及截至二零一零年九月三十日止九個月合共分別為收益約人民幣2.3百萬元、虧損約人民幣0.2百萬元、虧損約人民幣1.1百萬元(0.2百萬美元)及虧損約人民幣0.7百萬元(0.1百萬美元)。

### 融資收入

融資收入主要包括短期銀行存款的利息收入及融資活動所得外匯收益淨額。截至二零零七年、二零零八年及二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月，我們的融資收入分別為人民幣1.6百萬元、人民幣2.6百萬元、人民幣1.2百萬元(0.2百萬美元)及人民幣0.3百萬元(0.1百萬美元)。

### 融資成本

融資成本主要包括未資本化的銀行貸款及借款以及贖回Credit Suisse International所持認股權證產生的虧損。於截至二零零七年、二零零八年及二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月，我們的融資成本分別約為人民幣26.2百萬元、人民幣28.1百萬元、人民幣242.3百萬元(36.2百萬美元)及人民幣89.4百萬元(13.4百萬美元)。我們的融資成本於二零零九年大幅增加主要由於我們於二零零九年十月二十一日贖回認股權證後錄得成本人民幣168.5百萬元(25.2百萬美元)所致。我們根據瑞信融資協議於二零零八年五月二十九日就我們向Credit Suisse International借入的60.0百萬美元貸款而向Credit Suisse International發行該等認股權證。該筆人民幣168.5百萬元的成本相當於在贖回日期贖回認股權證支付的金額與認股權證的認沽期權特色的公允值之間的差額(先前已確認為負債)。我們於截至二零一零年九月三十日止九個月的融資成本為人民幣89.4百萬元(13.4百萬美元)，主要由於我們首次公開發售前的銀行及其他借款增加所致。



## 所得稅開支

下表載列我們於所示年度的所得稅費用：

|                                   | 截至十二月三十一日止年度     |                  |                  |                | 截至九月三十日止九個月      |                  |                |
|-----------------------------------|------------------|------------------|------------------|----------------|------------------|------------------|----------------|
|                                   | 二零零七年<br>(人民幣千元) | 二零零八年<br>(人民幣千元) | 二零零九年<br>(人民幣千元) | 二零零九年<br>(千美元) | 二零零九年<br>(人民幣千元) | 二零一零年<br>(人民幣千元) | 二零一零年<br>(千美元) |
| 除所得稅前溢利 .....                     | 150,273          | 257,729          | 375,147          | 56,072         | 233,746          | 649,439          | 97,069         |
| 按法定企業所得稅計算稅項 <sup>(1)</sup> ..... | 49,590           | 64,432           | 93,787           | 14,018         | 58,437           | 162,360          | 24,267         |
| 以下各項的稅務影響：                        |                  |                  |                  |                |                  |                  |                |
| 就稅務目的不可扣減開支 .....                 | —                | 454              | 614              | 92             | —                | —                | —              |
| 稅項豁免及根據稅項優惠                       |                  |                  |                  |                |                  |                  |                |
| 減少稅率的稅務影響 .....                   | (53,750)         | (59,654)         | (101,429)        | (15,160)       | (32,025)         | (94,905)         | (14,185)       |
| 稅項抵免 .....                        | —                | (3,772)          | (4,355)          | (651)          | —                | —                | —              |
| 未確認稅項虧損 <sup>(2)</sup> .....      | 4,160            | 2,536            | 56,070           | 8,381          | 7,537            | 25,285           | 3,779          |
| 稅項抵免屆滿時撥回                         |                  |                  |                  |                |                  |                  |                |
| 遞延稅項資產 .....                      | —                | 7,570            | —                | —              | —                | —                | —              |
| 所得稅開支 .....                       | —                | 11,566           | 44,687           | 6,679          | 33,949           | 92,470           | 13,821         |

附註：

- (1) 截至二零零七年、二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月的中國法定企業所得稅稅率分別為33%、25%、25%及25%。
- (2) 因為對若干實體而言，預期未來不會產生可動用臨時差額的應課稅溢利，故若干稅項虧損並無確認為遞延所得稅資產。二零零九年大幅增加，乃因有關贖回認股權證的虧損並無確認為遞延稅項資產所致。

我們的所得稅開支主要包括中國即期及遞延所得稅開支的撥備。於截至二零零七年、二零零八年及二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月，我們的所得稅開支分別為零、約人民幣11.6百萬元、人民幣44.7百萬元(6.7百萬美元)及人民幣92.4百萬元(13.8百萬美元)。於截至二零零七年、二零零八年及二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月，我們的實際稅率分別為零、約4.5%、11.9%及14.2%。

## 純利及純利率

截至二零零七年、二零零八年及二零零九年十二月三十一日止年度及截至二零一零年九月三十日止九個月，我們的純利分別約為人民幣150.3百萬元、人民幣246.2百萬元、人民幣330.5百萬元(49.4百萬美元)及人民幣557.0百萬元(83.3百萬美元)，而我們的純利率分別約為28.6%、28.4%、21.8%及27.6%。於二零零八年至二零零九年間，我們的純利率減少6.6%，主要由於我們於二零零九年十月贖回認股權證產生虧損約人民幣168.5百萬元(25.2百萬美元)令融資成本增加。倘不計及該項虧損，我們的純利率大體符合我們的毛利潤率增幅。於二零一零年首九個月，除因煤炭價格上升及折舊增加而增加我們的銷售成本並對我們於同期的純利率構成影響外，融資成本增加及實際稅率上升亦對我們的純利率構成影響。

## 經營業績

下表列載我們於所示期間的經營業績：

|                    | 截至十二月三十一日止年度 |           |           |           | 截至九月三十日止九個月 |             |          |
|--------------------|--------------|-----------|-----------|-----------|-------------|-------------|----------|
|                    | 二零零七年        | 二零零八年     | 二零零九年     | 二零零九年     | 二零零九年       | 二零一零年       | 二零一零年    |
|                    | (人民幣千元)      | (人民幣千元)   | (人民幣千元)   | (千美元)     | (人民幣千元)     | (人民幣千元)     | (千美元)    |
| 收益 .....           | 525,929      | 866,126   | 1,516,766 | 226,704   | 1,063,637   | 2,017,666   | 301,572  |
| 銷售成本 .....         | (350,165)    | (556,073) | (878,087) | (131,244) | (620,393)   | (1,211,051) | 181,011  |
| 毛利 .....           | 175,764      | 310,053   | 638,679   | 95,461    | 443,244     | 806,615     | 120,561  |
| 銷售及市場推廣開支 .....    | (9,796)      | (12,018)  | (15,064)  | (2,252)   | (11,189)    | (18,854)    | (2,818)  |
| 行政開支 .....         | (29,038)     | (55,224)  | (77,846)  | (11,635)  | (43,298)    | (129,953)   | (19,424) |
| 其他收入及其他收益－淨額 ..... | 37,981       | 40,433    | 70,469    | 10,533    | 38,113      | 80,744      | 12,068   |
| 融資成本－淨額 .....      | (24,638)     | (25,515)  | (241,091) | (36,035)  | (193,124)   | (89,113)    | (13,320) |
| 除所得稅前溢利 .....      | 150,273      | 257,729   | 375,147   | 56,072    | 233,746     | 649,439     | 97,076   |
| 所得稅開支 .....        | —            | (11,566)  | (44,687)  | (6,679)   | (33,949)    | (92,470)    | (13,862) |
| 年／期內溢利 .....       | 150,273      | 246,163   | 330,460   | 49,392    | 199,797     | 556,969     | 83,254   |

### 截至二零一零年九月三十日止九個月與截至二零零九年九月三十日止九個月的比較

#### 收益

我們的收益由截至二零零九年九月三十日止九個月約人民幣1,063.6百萬元增至截至二零一零年九月三十日止九個月約人民幣2,017.7百萬元(301.6百萬美元)，增幅約為89.7%。收益增加主要由於我們於二零一零年首九個月的銷量增加所致，而銷量增加乃由於我們擴充至陝西南部的市場並在旬陽、鎮安、丹鳳及洋縣增添新生產設施導致產能增加所致。我們的水泥總銷量由截至二零零九年九月三十日止九個月的3.6百萬噸增加至截至二零一零年九月三十日止九個月的6.8百萬噸，增幅為91.4%。截至二零零九年九月三十日止九個月與截至二零一零年九月三十日止九個月相比較，我們水泥產品的平均售價相對靠穩。

#### 銷售成本

我們的銷售成本由截至二零零九年九月三十日止九個月約人民幣620.4百萬元增至截至二零一零年九月三十日止九個月約人民幣1,211.1百萬元，增幅約為95.2%，與銷量增加相吻合。我們的銷售成本佔收益的百分比由截至二零零九年九月三十日止九個月約58.3%微升至截至二零一零年九月三十日止九個月約60.0%，主要乃因我們每噸水泥的平均煤炭成本增加所致，而每噸水泥的平均煤炭成本增加則主要由於我們於二零零九年下半年增添鎮安、丹鳳及洋縣生產線(該等生產線

距離煤礦的位置較我們其他生產線為遠，故煤炭運輸成本較高)所致。另外，由於全球經濟逐步復甦，力撐煤價回升。煤炭價格上升亦令我們的煤炭成本佔銷售成本的百分比由截至二零零九年九月三十日止九個月的30.2%增加至截至二零一零年九月三十日止九個月的33.1%。我們的折舊成本佔銷售成本的百分比由截至二零零九年九月三十日止九個月的10.8%增加至截至二零一零年九月三十日止九個月的11.0%，主要由於二零零九年底增添每噸生產投資成本較高的洋縣及丹鳳生產線所致。

### **毛利及毛利率**

基於上文所述，我們的毛利由截至二零零九年九月三十日止九個月約人民幣443.2百萬元增加至截至二零一零年九月三十日止九個月約人民幣806.6百萬元(120.6百萬美元)，增幅約為82.0%。我們的毛利率由截至二零零九年九月三十日止九個月約41.7%減少至截至二零一零年九月三十日止九個月約40.0%。

### **銷售及市場推廣開支**

我們的銷售及市場推廣開支由截至二零零九年九月三十日止九個月約人民幣11.2百萬元增至截至二零一零年九月三十日止九個月約人民幣18.9百萬元(2.8百萬美元)，增幅約為68.5%，主要由於我們加大新增丹鳳、洋縣、勉縣及蒲城生產線的目標市場的銷售力度(包括聘請更多銷售人員)，銷售增加令支付銷售人員佣金開支增加以及為覆蓋陝西省南部的市場區域擴充而導致運輸成本提高所致。因此，我們的銷售及市場推廣員工成本由二零零九年首九個月約人民幣3.3百萬元增至二零一零年首九個月約人民幣8.9百萬元(1.3百萬美元)，增幅約為169.7%。我們的銷售及市場推廣開支佔收入的百分比由二零零九年首九個月的1.1%降低至二零一零年首九個月的0.9%，主要由於規模經濟效益所致。

### **行政開支**

我們的行政開支由截至二零零九年九月三十日止九個月約人民幣43.3百萬元增至截至二零一零年九月三十日止九個月約人民幣130.0百萬元(19.4百萬美元)，增幅約為200.1%，主要與我們的首次公開發售開支人民幣61.8百萬元(9.2百萬美元)及新增丹鳳、洋縣、勉縣及蒲城生產線有關。因此，我們的行政員工成本增加，乃因我們新增生產設施新聘員工所致。我們的行政開支佔收入的百分比由二零零九年首九個月的4.1%增至二零一零年首九個月的6.4%，主要由於與我們的首次公開發售相關費用所致。

### **其他收入及其他收益／(虧損)**

其他收入及其他收益／(虧損)主要指我們收到中國政府的增值稅退稅。其他收入及其他收益由截至二零零九年九月三十日止九個月約人民幣38.1百萬元增至截至二零一零年首九個月約人民幣75.8百萬元(12.1百萬美元)，增幅約為111.8%。我們於截至二零一零年九月三十日止九個月錄得的增值稅退稅增加且與增加銷售吻合。

### **融資收入**

融資收入由截至二零零九年九月三十日止九個月約人民幣0.6百萬元減至截至二零一零年九月三十日止九個月約人民幣0.3百萬元(0.1百萬美元)，主要由於我們的計息短期銀行存款收入減少所致。

## 融資成本

融資成本由截至二零零九年九月三十日止九個月約人民幣193.7百萬元減至截至二零一零年九月三十日止九個月約人民幣89.4百萬元，主要由於二零一零年我們的銀行及其他借款增加以及我們已於二零零九年贖回的認股權證不再產生任何公平值虧損所致。此外，我們於截至二零一零年九月三十日止九個月就償還瑞信融資協議項下60.0百萬美元的貸款而錄得人民幣7.5百萬元(1.1百萬美元)的提早還款費用。

## 除所得稅前溢利

基於上文所述，我們的除所得稅前溢利由截至二零零九年九月三十日止九個月約人民幣233.7百萬元增至截至二零一零年九月三十日止九個月約人民幣649.4百萬元(97.1百萬美元)，增幅約為177.8%。

## 所得稅開支

我們的所得稅開支由截至二零零九年九月三十日止九個月約人民幣34.0百萬元增至截至二零一零年九月三十日止九個月約人民幣92.5百萬元(13.8百萬美元)，乃由於銷量增加及我們具有較高所得稅率的新增附屬公司(包括經營鎮安生產設施的秀山堯柏、經營丹鳳生產設施的龍橋堯柏及經營勉縣生產設施的勉縣堯柏(其所得稅率為25%)和經營洋縣生產設施的漢中堯柏(其所得稅率為15%))貢獻溢利導致我們的實際稅率增加所致。

## 期內溢利

我們的純利由截至二零零九年九月三十日止九個月約人民幣199.8百萬元增至截至二零一零年九月三十日止九個月約人民幣557.0百萬元(83.3百萬美元)，增幅約178.8%。

## 流動資金及資本資源

### 現金流量

下表載列我們於所示期間現金流量淨額的概要。

|                             | 截至十二月三十一日止年度     |                  |                  |                | 截至九月三十日止九個月      |                  |                |
|-----------------------------|------------------|------------------|------------------|----------------|------------------|------------------|----------------|
|                             | 二零零七年<br>(人民幣千元) | 二零零八年<br>(人民幣千元) | 二零零九年<br>(人民幣千元) | 二零零九年<br>(千美元) | 二零零九年<br>(人民幣千元) | 二零一零年<br>(人民幣千元) | 二零一零年<br>(千美元) |
| 經營活動所得現金淨額 .....            | 170,969          | 323,092          | 619,676          | 92,620         | 637,471          | 834,451          | 124,722        |
| 投資活動所用現金淨額 .....            | (355,395)        | (667,923)        | (847,503)        | (126,673)      | (677,956)        | (1,338,458)      | (200,054)      |
| 融資活動所得／(所用)<br>現金淨額 .....   | 22,034           | 351,872          | 537,047          | 80,270         | 59,636           | 531,971          | 79,511         |
| 現金及現金等價物(減少)／增加<br>淨額 ..... | (162,392)        | 7,041            | 309,220          | 46,218         | 19,151           | 27,964           | 4,180          |
| 於年／期初的現金及現金等價物 .....        | 192,389          | 29,997           | 37,038           | 5,536          | 37,038           | 346,258          | 51,754         |
| 於年／期終的現金及現金等價物 .....        | 29,997           | 37,038           | 346,258          | 51,754         | 56,189           | 374,222          | 55,933         |

### 經營活動所得現金淨額

下表載列於所示期間我們經營活動所產生現金流量概要。

|                          | 截至十二月三十一日止年度     |                  |                  |                | 截至九月三十日止九個月      |                  |                |
|--------------------------|------------------|------------------|------------------|----------------|------------------|------------------|----------------|
|                          | 二零零七年<br>(人民幣千元) | 二零零八年<br>(人民幣千元) | 二零零九年<br>(人民幣千元) | 二零零九年<br>(千美元) | 二零零九年<br>(人民幣千元) | 二零一零年<br>(人民幣千元) | 二零一零年<br>(千美元) |
| 營運資金變動前的經營<br>現金流入 ..... | 221,350          | 350,095          | 724,607          | 106,851        | 501,573          | 885,141          | 132,308        |
| 營運資金變動－所得／(所用) .....     | (25,205)         | (386)            | (27,869)         | (4,110)        | 215,771          | 110,830          | 16,567         |
| 經營所得現金 .....             | 196,145          | 349,709          | 696,738          | 102,741        | 717,344          | 995,971          | 148,863        |
| 已付利息 .....               | (25,176)         | (26,617)         | (57,975)         | (8,549)        | (72,380)         | (83,888)         | (12,539)       |
| 已付所得稅 .....              | —                | —                | (19,087)         | (2,816)        | (7,493)          | (77,632)         | (11,603)       |
| 經營活動所得現金淨額 .....         | 170,969          | 323,092          | 619,676          | 91,377         | 637,471          | 834,451          | 124,731        |

截至二零一零年九月三十日止九個月，我們的經營活動產生的現金淨額約為人民幣834.5百萬元。該現金流入淨額主要歸因於(i)除所得稅前溢利約人民幣649.4百萬元(97.1百萬美元)，(ii)貿易及其他應付款項增加約人民幣94.3百萬元(14.1百萬美元)，及(iii)折舊及攤銷調整為數約人民幣145.8百萬元(21.8百萬美元)，部分被(i)貿易及應收票據增加約人民幣281.2百萬元(42.0百萬美元)；及(ii)存貨金額增加約人民幣51.4百萬元(7.7百萬美元)抵銷。

二零零九年，我們的經營活動產生的現金淨額約為人民幣619.7百萬元(92.6百萬美元)。該現金流入淨額主要歸因於(i)除所得稅前溢利約人民幣375.1百萬元(56.1百萬美元)、(ii)折舊及攤銷調整為數約人民幣103.1百萬元(15.4百萬美元)及融資成本淨額為數約人民幣241.1百萬元(36.0百萬美元)；及(iii)貿易及其他應付款項增加為數約人民幣59.6百萬元(8.9百萬美元)，部分被(i)其他應收款項及預付款項增加約人民幣52.6百萬元(7.9百萬美元)，(ii)存貨增加約人民幣29.9百萬元(4.5百萬美元)抵銷。

於二零零八年，我們的經營活動產生的現金淨額約為人民幣323.1百萬元。該現金流入淨額主要歸因於(i)除所得稅前溢利約人民幣257.7百萬元，(ii)折舊及攤銷調整為數人民幣64.4百萬元及融資成本淨額為數約人民幣25.5百萬元，及(iii)貿易及其他應付款項增加約人民幣61.1百萬元，部分被(i)存貨增加約人民幣35.9百萬元，(ii)貿易及其他應收票據增加約人民幣14.7百萬元，及(iii)其他應收款項及預付款項增加約人民幣11.0百萬元所抵銷。

於二零零七年，我們的經營活動產生的現金淨額約為人民幣171.0百萬元。該現金流入淨額主要歸因於(i)除所得稅前溢利約人民幣150.3百萬元，(ii)貿易及其他應付款項增加約人民幣56.0百萬元，及(iii)折舊及攤銷調整為數約人民幣44.9百萬元及融資成本淨額為數約人民幣24.6百萬元，部分被(i)其他應收款項及預付款項增加約人民幣30.3百萬元，(ii)貿易及其他應收票據增加約人民幣29.2百萬元，及(iii)存貨增加約人民幣21.7百萬元抵銷。

#### **投資活動所用現金淨額**

截至二零一零年九月三十日止九個月，我們於投資活動所用的現金淨額約為人民幣1,338.5百萬元，主要反映(i)收購物業、廠房及設備的已付款項及按金約人民幣1,268.7百萬元(189.6百萬美元)；及(ii)就收購土地使用權支付的款項約人民幣54.8百萬元(8.2百萬美元)。收購物業、廠房及設備主要是由於建設我們的新生產設施。

截至二零零九年十二月三十一日止年度，我們於投資活動所用的現金淨額約為人民幣847.5百萬元(126.7百萬美元)，主要反映(i)收購物業、廠房及設備的已付款項及按金約人民幣600.0百萬元(89.7百萬美元)，(ii)收購一間附屬公司約人民幣120.9百萬元(18.1百萬美元)及(iii)為潛在收購所付的按金人民幣100.0百萬元(14.9百萬美元)。收購物業、廠房及設備的主要是由於建設我們的新生產設施。

於二零零八年，我們於投資活動所用的現金淨額約為人民幣667.9百萬元，主要反映就收購約人民幣603.2百萬元的物業、廠房及設備的付款及所付按金。收購物業、廠房及設備主要與我們的生產線建設及購買相關設備有關。所收購的固定資產包括新水泥生產線。

於二零零七年，我們於投資活動所用的現金淨額約為人民幣355.4百萬元，主要反映就收購約人民幣345.5百萬元的物業、廠房及設備的付款及所付按金。收購物業、廠房及設備主要與有關我們新生產線的在建工程及購買相關設備有關。

#### 融資活動所得／所用現金淨額

截至二零一零年九月三十日止九個月，我們的融資活動產生的現金淨額約為人民幣532.0百萬元，主要歸因於(i)我們首次公開發售發行新股份所得款項人民幣1,267.9百萬元(189.5百萬美元)，及(ii)新造銀行借款所得款項約人民幣715.8百萬元(107.0百萬美元)，部分被償還銀行借款約人民幣1,304.4百萬元(195.0百萬美元)抵銷。我們融資活動產生的現金主要作營運資金用途。

截至二零零九年十二月三十一日止年度，融資活動產生的現金淨額約為人民幣537.0百萬元(80.3百萬美元)，主要由於新造銀行及其他借款約人民幣1,074.6百萬元(160.6百萬美元)所致，部分因償還銀行及其他借款約人民幣356.0百萬元(53.2百萬美元)及贖回認股權證約人民幣206.5百萬元(30.9百萬美元)而被抵銷。我們的融資活動產生的現金主要作營運資金用途。

於二零零八年，我們的融資活動產生的現金淨額約為人民幣351.9百萬元，主要由於新造銀行及其他借款約人民幣635.1百萬元所致，部分因償還銀行及其他借款約人民幣271.6百萬元而被抵銷。我們融資活動產生的現金主要用於建造我們的句陽生產線。

於二零零七年，我們的融資活動產生的現金淨額約為人民幣22.0百萬元，指新造銀行及其他借款約人民幣236.0百萬元，部分因償還銀行及其他借款約人民幣198.7百萬元而被抵銷。我們融資活動產生的現金主要用作營運資金。

#### 資本承擔及或然負債

##### 資本承擔

我們已訂立生產設施建設合同及設備購置協議。下表載列我們於所示綜合財務狀況報表日的資本承擔總額。

|               | 截至十二月三十一日        |                  |                  |                | 截至九月三十日          |                |
|---------------|------------------|------------------|------------------|----------------|------------------|----------------|
|               | 二零零七年<br>(人民幣千元) | 二零零八年<br>(人民幣千元) | 二零零九年<br>(人民幣千元) | 二零零九年<br>(千美元) | 二零一零年<br>(人民幣千元) | 二零一零年<br>(千美元) |
| 物業、廠房及設備..... | 556,656          | 449,035          | 558,336          | 83,452         | 266,027          | 39,765         |

我們於二零零七年十二月三十一日的資本承擔主要與興建我們的旬陽生產設施有關(我們於二零零七年底開始籌備興建該設施)，亦與藍田生產設施興建餘熱回收系統有關。我們於二零零八年十二月三十一日的資本承擔較二零零七年十二月三十一日減少，因為我們的資本承擔主要與興建我們的旬陽生產設施有關。我們於二零零九年十二月三十一日的資本承擔較二零零八年十二月三十一日增加，主要與興建我們的洋縣、勉縣、蒲城及西鄉生產設施有關。我們於二零一零年九月三十日的資本承擔主要與興建我們於勉縣的生產設施有關。

### 經營租約承擔

我們租賃多項物業，租約平均年期為五至十年。下表載列我們於所示綜合財務狀況報表日的租賃款項承擔。

|                      | 截至十二月三十一日 |         |         |       | 截至九月三十日 |       |
|----------------------|-----------|---------|---------|-------|---------|-------|
|                      | 二零零七年     | 二零零八年   | 二零零九年   | 二零零九年 | 二零一零年   | 二零一零年 |
|                      | (人民幣千元)   | (人民幣千元) | (人民幣千元) | (千美元) | (人民幣千元) | (千美元) |
| 一年內 .....            | 345       | 484     | 74      | 11    | —       | —     |
| 第二至第五年(包括首尾兩年) ..... | 533       | 217     | 209     | 31    | —       | —     |
| 五年以上 .....           | 504       | 496     | 446     | 67    | —       | —     |
| 總計 .....             | 1,382     | 1,197   | 729     | 109   | —       | —     |

(未經審核)

我們於租賃物業的租約承擔由二零零七年十二月三十一日的人民幣1.4百萬元減少至二零零八年十二月三十一日的人民幣1.2百萬元，並於二零零九年十二月三十一日進一步減少至人民幣0.8百萬元，而於二零一零年九月三十日，我們並無任何租約承擔。我們的租約承擔持續減少，主要是由於在整個截至二零零九年十二月三十一日止三個年度及截至二零一零年九月三十日止九個月內，我們已購買或終止使用有關物業。

### 或然負債

我們並無或然負債而將對我們的流動資金、經營業績或財務狀況產生不利影響。

### 債務

我們主要通過經營所得現金流量與短期及長期銀行貸款為我們的經營提供資金。下表載列我們於所示日期的短期及長期借款。我們所有的借款均須於五年內償還。



|                  | 截至十二月三十一日 |         |           |         | 截至九月三十日 |         |
|------------------|-----------|---------|-----------|---------|---------|---------|
|                  | 二零零七年     | 二零零八年   | 二零零九年     | 二零零九年   | 二零一零年   | 二零一零年   |
|                  | (人民幣千元)   | (人民幣千元) | (人民幣千元)   | (千美元)   | (人民幣千元) | (千美元)   |
|                  |           |         |           |         |         | (未經審核)  |
| 應償借款：            |           |         |           |         |         |         |
| 銀行借款：            |           |         |           |         |         |         |
| 六個月內或以下 .....    | 140,000   | 168,000 | 626,563   | 93,650  | 465,982 | 69,648  |
| 六個月後但十二個月內 ..... | 115,400   | 85,400  | 540,505   | 80,787  | 259,782 | 38,828  |
| 一年後但兩年內 .....    | 28,000    | 407,069 | 204,596   | 30,580  | 164,142 | 24,534  |
| 兩年後但五年內 .....    | 35,800    | —       | 123,462   | 18,453  | 27,390  | 4,094   |
| 小計 .....         | 319,200   | 660,469 | 1,495,126 | 223,470 | 917,296 | 137,104 |
| 其他借款：            |           |         |           |         |         |         |
| 六個月內或以下 .....    | 16,953    | 15,784  | 92,800    | 13,870  | —       | —       |
| 六個月後但十二個月內 ..... | —         | —       | 29,000    | 4,335   | —       | —       |
| 一年後但兩年內 .....    | —         | —       | 29,000    | 4,335   | 18,000  | 2,690   |
| 兩年後但五年內 .....    | —         | —       | 3,000     | 448     | 6,000   | 897     |
| 小計 .....         | 16,953    | 15,784  | 153,800   | 22,988  | 24,000  | 3,587   |
| 總計 .....         | 336,153   | 676,253 | 1,648,926 | 246,458 | 941,296 | 140,691 |

截至二零零九年十二月三十一日及二零一零年九月三十日，我們的借款總額分別約為人民幣1,648.9百萬元(246.5百萬美元)及人民幣941.3百萬元(140.7百萬美元)，其中分別約人民幣1,495.1百萬元(223.5百萬美元)及人民幣917.3百萬元(137.1百萬美元)為銀行借款，以我們的物業、於附屬公司的股權及本公司的股份作抵押。截至二零零九年十二月三十一日的其他借款約人民幣153.8百萬元(23.0百萬美元)乃無抵押，其中約人民幣150.8百萬元(22.5百萬美元)為陝西丹水就成立龍橋堯柏而向龍橋堯柏轉讓。截至二零一零年九月三十日的其他借款人民幣24.0百萬元(3.6百萬美元)指我們就投資於龍橋堯柏而獲得的無抵押借款。該借款的平均年利率為3.6%。其他借款餘額指欠負獨立第三方陝西省產業投資有限公司的若干免息貸款。有關銀行借款及其他借款的詳情，請參閱下文「其他重大債務概述」一節。

我們的銀行借款按以下貨幣計值：

|           | 截至十二月三十一日 |         |           |         | 截至九月三十日 |         |
|-----------|-----------|---------|-----------|---------|---------|---------|
|           | 二零零七年     | 二零零八年   | 二零零九年     | 二零零九年   | 二零一零年   | 二零一零年   |
|           | (人民幣千元)   | (人民幣千元) | (人民幣千元)   | (千美元)   | (人民幣千元) | (千美元)   |
|           |           |         |           |         |         | (未經審核)  |
| 人民幣 ..... | 319,200   | 289,200 | 794,800   | 118,795 | 798,786 | 119,391 |
| 美元 .....  | —         | 371,269 | 700,326   | 104,675 | 118,510 | 17,713  |
| 總計 .....  | 319,200   | 660,469 | 1,495,126 | 223,470 | 917,296 | 137,104 |

下表載列於所示期間我們銀行借款的加權平均實際利率：

|               | 截至十二月三十一日 |        |        | 截至九月三十日         |
|---------------|-----------|--------|--------|-----------------|
|               | 二零零七年     | 二零零八年  | 二零零九年  | 二零一零年<br>(未經審核) |
| 人民幣銀行借款 ..... | 7.78%     | 8.44%  | 7.27%  | 6.62%           |
| 美元銀行借款 .....  | —         | 20.23% | 12.94% | 9.94%           |

自二零一零年九月三十日起，我們的債務及或然負債概無重大不利變動。若干未償還銀行貸款包括交叉違約條文，例如人民幣330.0百萬元的瑞信銀團貸款。該等交叉違約條文一般規定，倘若出現任何拖欠其他重大金融債務情況或倘任何違約事件將導致有關債務於到期日前宣告到期，則載有交叉違約條文的融資將被視為發生違約事件。更多資料請參閱下文「其他重大債務概述」。

### 二零一零年九月三十日後銀行及其他借款

於二零一零年十二月十四日，本公司與工銀國際融資有限公司(作為貸款人)及張繼民先生(作為擔保人)訂立為數85百萬美元的過渡貸款融資。於十二月二十一日，本公司提取工銀過渡貸款項下85百萬美元。所得款項部分用於償還工銀融資協議項下50百萬美元貸款未償還款項，餘額用作為收購江華堯柏提供資金。更多資料請參閱下文「其他重大債務概述」。

### 資本開支

#### 過往資本開支

我們的資本開支包括用於物業及廠房、汽車、電子及其他設備、機器、採礦設備、土地使用權及採礦權的開支。下表載列於所示年度或期間的資本開支。

|                        | 截至十二月三十一日        |                  |                  |                | 截至九月三十日          |                |
|------------------------|------------------|------------------|------------------|----------------|------------------|----------------|
|                        | 二零零七年<br>(人民幣千元) | 二零零八年<br>(人民幣千元) | 二零零九年<br>(人民幣千元) | 二零零九年<br>(千美元) | 二零一零年<br>(人民幣千元) | 二零一零年<br>(千美元) |
|                        |                  |                  |                  |                |                  |                |
| 購買物業、廠房及設備 .....       | 345,515          | 603,246          | 599,998          | 89,679         | 1,273,971        | 190,429        |
| 購買土地使用權 .....          | 1,124            | 61,731           | 27,398           | 4,095          | 54,774           | 8,187          |
| 購買採礦權 .....            | 12,500           | 4,107            | 1,807            | 270            | 11,380           | 1,700          |
| 收購附屬公司(扣除所收購現金後) ..... | —                | —                | 120,922          | 18,074         | —                | —              |
| 總計 .....               | 359,139          | 669,084          | 750,125          | 112,118        | 1,340,125        | 200,068        |

截至二零零七年、二零零八年及二零零九年十二月三十一日止各年以及截至二零一零年九月三十日止九個月，我們的資本開支主要與我們的業務擴充有關。我們於二零零七年的資本開支主要與興建藍田生產設施(於二零零七年八月完工)有關。我們於二零零八年的資本開支主要與興建旬陽生產設施(於二零零八年十二月完工)有關。我們於二零零九年的資本開支主要與興建洋縣生產設施(已於二零零九年十二月完工)及興建勉縣生產設施(已於二零一零年七月完工)有關。我們於二零零九年的資本開支亦包括收購秀山堯柏的收購開支人民幣120.9百萬元(18.1百萬美元)。我們於截至二零一零年九月三十日止九個月的資本開支主要與興建洋縣、勉縣、西鄉及蒲城的生產設施有關。

我們過往資本開支的融資渠道來自內部產生的現金、短期及長期銀行借款以及股份發售。

### 計劃資本開支

我們的資本開支預期主要包括與建額外的生產線、升級現有生產設施及收購生產線有關的開支。我們正在陝西省西鄉縣興建一條新水泥生產線。

根據我們目前的計劃，我們預計合共約人民幣1,850百萬元至人民幣2,385百萬元將須用於為建設新生產線(現為在建中)提供資金，提升我們現有的生產設施及為我們的未來收購事項提供資金。

### 資產負債表外承擔及安排

我們並未訂立任何財務擔保或其他承擔以保證任何第三方付款責任。我們並無訂立任何與我們自身股份掛鈎及分類為股東權益或未反映於綜合財務資料的衍生合約。我們並無於任何未綜合實體內擁有任何權益，足以向我們提供融資、流動資金、市場風險或信貸支持或與我們訂立租賃、對沖或研發服務。

### 市場風險

#### 外匯風險

我們絕大部分銷售及購買以人民幣進行。我們承受的外匯風險主要來自以美元計值的債務及其他外幣(主要為美元、港元及英鎊)銀行存款。截至二零一零年九月三十日，我們以美元計值的銀行借款總計人民幣118.5百萬元(17.7百萬美元)。截至同日，我們的現金及銀行結餘(包括因借款產生的受限制現金結餘)合共為人民幣390.0百萬元(58.3百萬美元)，其中人民幣43.9百萬元(6.6百萬美元)以港元計值，人民幣4.9百萬元(0.7百萬美元)以美元計值及人民幣3.8百萬元(0.6百萬美元)以英鎊計值。

由於以外幣計值的資產及負債價值變動，我們於相關會計期間內於收益表確認外匯損益。人民幣對美元升值通常導致我們以美元計值的債務增加，並導致我們的港元、美元及英鎊銀行存款產生

損失。人民幣對美元貶值則有相反效果。此外，人民幣貶值可能對我們中國附屬公司支付的股息價值產生不利影響，進而影響我們償付以外匯計值的債務的能力。

匯率的波動已經及將會繼續影響我們的業務、財務狀況及經營業績。截至本文件日期，我們並無訂立任何交易以對沖任何外匯波動。

### 商品價格風險

我們生產水泥產品時耗用煤炭和石膏、粉煤灰、硫酸渣及礦渣等原材料。我們面對上述原材料價格波動的風險，而有關價格則受到全球以及地區供求情況的影響。煤炭及其他原材料價格波動可對我們的業務、財務狀況及經營業績構成不利影響。我們過往並無訂立任何商品衍生工具以對沖商品價格的潛在變動。

### 利率風險

我們的業務易受利率波動影響。我們面臨利率變動的風險主要歸因於我們的借款（特別是長期借款）。浮動利率借款使我們承受現金流量利率風險。固定利率借款使我們承受公允值利率風險。截至二零零九年十二月三十一日及二零一零年九月三十日，我們的浮息借款分別為人民幣1,136.2百萬元（169.8百萬美元）及人民幣917.3百萬元（137.1百萬美元），而固定利率借款分別為人民幣509.7百萬元（76.2百萬美元）及人民幣18.0百萬元（2.7百萬美元）。截至本文件日期，我們並無使用任何利率掉期對沖我們的利率風險。

利率上調可能導致借貸成本增加，因而對我們的收益及溢利產生不利影響。截至二零零七年、二零零八年、二零零九年及二零一零年十二月三十一日，中國人民銀行一年期基準貸款利率分別為7.47%、5.31%、5.31%及5.81%。於二零一零年十二月二十五日，人民銀行公佈一年期基準貸款利率由5.56%提高至5.81%，自二零一零年十二月二十六日起生效。我們無法向閣下保證人民銀行日後不會進一步上調貸款利率，或我們的業務、財務狀況及經營業績將不會因有關調整受到不利影響。參閱「風險因素－與我們業務有關的風險－我們有巨額銀行借款並且部分銀行貸款為浮息貸款，而利率增加可能對我們的財務表現構成不利影響。」

我們亦承受倫敦銀行同業拆息波動的風險。我們的工銀過渡貸款利率與倫敦銀行同業拆息掛鉤。有關該信貸融資的詳情參閱「其他重大債務概述」一節。利率提高可能增加我們的融資成本，從而對我們的業務、財務狀況及經營業績造成不利影響。

### 流動資金風險

管理層旨在維持充足的現金及現金等價物，或通過維持充足的可用財務資源（包括短期及長期銀行貸款及發行新普通股）以維持備用資金。由於我們的業務屬多變性質，我們的融資部門致力通過維持充足的現金及現金等價物及通過常備財務資源來維持資金靈活性。

為使我們可應付到期負債及於可見未來在正常過程中經營業務，我們已就擴大我們的現有借款及取得新貸款融資達成多項協議。

下表載列按照截至二零零七年、二零零八年及二零零九年十二月三十一日以及二零一零年九月三十日餘下到期期間對我們金融負債的分析：

|                          | 不到1年             | 1至2年           | 2至5年           | 5年以上       | 總計               |
|--------------------------|------------------|----------------|----------------|------------|------------------|
|                          | (人民幣千元)          | (人民幣千元)        | (人民幣千元)        | (人民幣千元)    | (人民幣千元)          |
| <b>於二零零七年十二月三十一日</b>     |                  |                |                |            |                  |
| 借款.....                  | 272,353          | 28,000         | 35,800         | —          | 336,153          |
| 貿易及其他應付款項.....           | 173,355          | —              | —              | —          | 173,355          |
| 其他負債.....                | —                | 1,900          | 11,100         | 487        | 13,487           |
|                          | <u>445,708</u>   | <u>29,900</u>  | <u>46,900</u>  | <u>487</u> | <u>522,995</u>   |
| <b>於二零零八年十二月三十一日</b>     |                  |                |                |            |                  |
| 借款.....                  | 269,184          | 445,876        | —              | —          | 715,060          |
| 分類為負債的認股權證.....          | —                | 46,593         | —              | —          | 46,593           |
| 貿易及其他應付款項.....           | 241,379          | —              | —              | —          | 241,379          |
| 其他負債.....                | —                | 3,700          | 7,400          | 487        | 11,587           |
|                          | <u>510,563</u>   | <u>496,169</u> | <u>7,400</u>   | <u>487</u> | <u>1,014,619</u> |
| <b>於二零零九年十二月三十一日</b>     |                  |                |                |            |                  |
| 借款.....                  | 1,288,868        | 254,888        | 135,000        | —          | 1,678,756        |
| 貿易及其他應付款項.....           | 532,421          | —              | —              | —          | 532,421          |
| 其他負債.....                | —                | 73,860         | 3,700          | 487        | 78,047           |
|                          | <u>1,821,289</u> | <u>328,748</u> | <u>138,700</u> | <u>487</u> | <u>2,289,224</u> |
| <b>於二零一零年九月三十日(未經審核)</b> |                  |                |                |            |                  |
| 借款.....                  | 725,764          | 182,142        | 33,390         | —          | 941,296          |
| 貿易及其他應付款項.....           | 724,237          | —              | —              | —          | 724,237          |
| 其他負債.....                | —                | 39,917         | 7,400          | —          | 47,317           |
|                          | <u>1,450,001</u> | <u>222,059</u> | <u>40,790</u>  | <u>—</u>   | <u>1,712,850</u> |

#### 通貨膨脹及通貨緊縮風險

中國近年來並未發生重大的通貨膨脹，因此通貨膨脹於過去三年中對我們的業務無重大影響。據中國統計局的資料，截至二零零七年及二零零八年十二月三十一日止年度中國的整體通脹率(以一般消費價格指數表示)分別約為4.8%及5.9%。通貨緊縮將會對我們的業務造成不利影響，原因為通貨緊縮將抑制潛在物業買家購買的積極性。根據CEIC Data，截至二零零九年十二月三十一日止年度，中國的通貨緊縮率約為0.7%。截至本文件日期，我們並未受到通脹或通縮的重大影響。

## 信貸風險

我們的信貸風險主要來自貿易應收款項。我們的政策是僅與據信信譽良好的對手方交易。我們認為貿易應收款項的信貸風險較低。我們的客戶過往違約率較低。我們的信貸風險分散於大量客戶，因此我們相信並無重大集中信貸風險。我們對應收賬款的財務狀況持續進行評估。我們並無就貿易及其他應收款項持有任何抵押品。

## 非公認會計原則財務計量

我們使用EBITDA等若干非公認會計原則數據提供經營表現的額外資料。我們透過將折舊及攤銷開支計入經營溢利計算EBITDA。

EBITDA並非國際財務報告準則中的標準計量方式，故根據國際財務報告準則，不應視作經營活動現金流量的替代、流動資金的計量或替代淨收入作為我們經營表現或任何其他流動資金、盈利能力或所得現金流量計量方式的指標。利息開支不包括資本化金額。

作為我們經營表現的計量方法，我們相信量度EBITDA的最直接可比較國際財務報告準則量度方式為年度溢利。我們經營的行業屬資本密集型行業。我們除使用年度溢利外亦使用EBITDA，乃由於年度溢利包括多種與資本開支有關的會計項目(如折舊及攤銷)。該等會計項目可能由於不同公司所採納的會計方法不同而有所不同。此量度方法所述的資金可能由於契約限制、資本開支要求及其他承擔而未能用於償還債務。

下表為所示期間我們於國際財務報告準則下的經營溢利及我們定義的EBITDA的對賬。

|              | 截至十二月三十一日止年度   |                |                |                | 截至九月三十日止九個月    |                |                |
|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|              | 二零零七年          | 二零零八年          | 二零零九年          | 二零零九年          | 二零零九年          | 二零一零年          | 二零一零年          |
|              | (人民幣千元)        | (人民幣千元)        | (人民幣千元)        | (千美元)          | (人民幣千元)        | (人民幣千元)        | (千美元)          |
| 經營溢利 .....   | 174,911        | 283,244        | 616,238        | 92,106         | 426,870        | 738,552        | 110,388        |
| 折舊及攤銷 .....  | 44,857         | 64,383         | 103,103        | 15,410         | 73,525         | 145,780        | 21,789         |
| EBITDA ..... | <u>219,768</u> | <u>347,627</u> | <u>719,341</u> | <u>107,517</u> | <u>500,395</u> | <u>884,332</u> | <u>132,177</u> |

閣下不應單獨考量我們對EBITDA的定義，或將其解釋為所示期間溢利的替代，或作為經營表現的指標或國際財務報告準則項下任何其他標準計量。我們的EBITDA計量或與其他公司呈報的類似名稱的量度不具有可比性。

## 資本

下表載列我們於二零一零年九月三十日的實際資本及債務。下表應與本文件內我們的綜合財務資料及相關附註一併閱讀。

|                              | 於二零一零年九月三十日      |                |
|------------------------------|------------------|----------------|
|                              | 實際               |                |
|                              | 人民幣              | 美元             |
|                              | (千元)             |                |
| 流動借款：                        |                  |                |
| 銀行借款 .....                   | 725,764          | 108,477        |
| 非流動借款：                       |                  |                |
| 其他借款 .....                   | 24,000           | 3,587          |
| 銀行借款 .....                   | 191,532          | 28,627         |
| 我們權益持有人應佔權益總額 .....          | 3,167,255        | 470,404        |
| 資本總額 <sup>(1)(2)</sup> ..... | <u>3,382,787</u> | <u>611,096</u> |

(1) 資本總額不包括我們於二零一零年十二月三十一日收購江華堯柏。

(2) 資本總額等於非流動借款加我們權益持有人應佔權益。除本發售備忘錄以其他方式披露者外，我們的資本自二零一零年九月三十日以來並無重大不利變動。

## 釋義

在本公佈內，除文義另有所指外，下列詞彙的涵義如下：

|          |   |  |
|----------|---|--|
| 「董事會」    | 指 | 董事會  |
| 「本公司」    | 指 | 中國西部水泥有限公司，於澤西註冊成立的有限公司，其股份於聯交所主板上市  |
| 「關連人士」   | 指 | 具有上市規則賦予該詞的涵義  |
| 「德意志銀行」  | 指 | Deutsche Bank AG新加坡分行，有關發售及銷售票據的聯席牽頭經辦人及聯席賬簿管理人之一                              |
| 「董事」     | 指 | 本公司董事  |
| 「本集團」    | 指 | 本公司及其附屬公司  |
| 「香港」     | 指 | 中國香港特別行政區  |
| 「工銀過渡貸款」 | 指 | 本公司(作為借款人)、工銀國際融資有限公司(作為貸款人)及張繼民先生(作為擔保人)於二零一零年十二月十四日訂立的貸款協議項下85,000,000美元貸款融資 |
| 「工銀國際證券」 | 指 | 工銀國際證券有限公司，有關發售及銷售票據的聯席牽頭經辦人之一   |
| 「工銀國際融資」 | 指 | 工銀國際融資有限公司，有關發售及銷售票據的聯席賬簿管理人之一   |
| 「上市規則」   | 指 | 聯交所證券上市規則((經不時修訂)；   |
| 「票據」     | 指 | 本公司將予發行的擔保優先票據   |
| 「中國」     | 指 | 中華人民共和國，而就本公佈而言，不包括香港、中華人民共和國澳門特別行政區及台灣  |
| 「建議發行票據」 | 指 | 本公司建議進行的票據發行   |



|           |   |  |
|-----------|---|--|
| 「購買協議」    | 指 | 由(其中包括)本公司、附屬公司擔保人、德意志銀行、工銀國際融資、工銀國際證券及建華證券就建議發行票據擬訂立的協議 |
| 「證券法」     | 指 | 經修訂的1933年美國證券法   |
| 「新加坡交易所」  | 指 | 新加坡證券交易所有限公司   |
| 「建華證券」    | 指 | 建華證券(亞洲)有限公司，有關發售及銷售票據的共同經辦人                             |
| 「聯交所」     | 指 | 香港聯合交易所有限公司  |
| 「附屬公司擔保人」 | 指 | 就票據付款提供擔保的本公司附屬公司，惟該等附屬公司擔保人將不包括根據中國法律成立的任何本公司附屬公司       |
| 「美元」      | 指 | 美元   |

承董事會命  
中國西部水泥有限公司  
張繼民  
主席

香港，二零一一年一月十二日

於本公佈刊發日期，本公司執行董事為張繼民先生、王建禮先生、羅寶玲女士及田振軍先生；非執行董事為馬朝陽先生；及獨立非執行董事為李港衛先生、黃灌球先生及譚競正先生。

**Extract of Operating and Financial Data  
of West China Cement Limited  
(As of September 30, 2010)**

## RISK FACTORS

### RISKS RELATING TO OUR BUSINESS

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

Historically, our cement products have been sold exclusively in Shaanxi province, and we expect this trend to continue in the near future. As a result, the demand for our products is predominantly dependent on the level of activity and growth in the construction industry in Shaanxi province, which in turn depends on factors such as general economic conditions, government policy, GDP growth, fixed asset investment (“FAI”), consumer confidence, inflation and demographic trends in Shaanxi province. Our lack of geographical diversity exposes us to risks associated with fluctuations in the political and economic conditions of Shaanxi province.

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

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

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

The cement industry is highly capital intensive. We require a substantial amount of capital to build our production facilities, purchase production equipment and develop and implement new technologies in our new and existing facilities. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our capital expenditures, as represented by purchase of property, plant and equipment, cash used for the acquisition of a subsidiary, land use rights, mining rights and other intangible assets, were approximately RMB359.1 million, RMB669.1 million, RMB750.2 million (US\$112.1 million) and RMB1,340.1 million (US\$200.3 million), respectively, accounting for approximately 68.3%, 77.3%, 49.5% and 66.3% of our revenue for the same periods.

If our internally generated capital resources and available credit facilities are insufficient to finance our capital expenditure and growth plans, we may have to seek additional financing from third parties, including banks, venture capital funds, joint-venture partners and other strategic investors. We may also consider raising funds through issuance of new shares, which would lead

to dilution of our existing shareholders' interests in our Company. If we are unable to obtain financing in a timely manner, at a reasonable cost and on acceptable terms, we may be forced to delay our expansion plans, downsize or abandon such plans, which may materially and adversely affect our business, financial condition and results of operations, as well as our future prospects.

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

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

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

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

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

In August 2009, we acquired Shangluo Yaobai Xiushan Cement Company, Ltd. (商洛堯柏秀山水泥有限公司) ("Xiushan Yaobai"). In December 2009, we established Shangluo Yaobai Longqiao Cement Company, Ltd. (商洛堯柏龍橋水泥有限公司) ("Longqiao Yaobai"), which owns the cement production line of Shaanxi Danshui Construction Materials Company, Ltd. (陝西丹水建材有限責任公司) ("Shaanxi Danshui"), together with the previous shareholders of Shaanxi Danshui. We owned a 80% interest in Longqiao Yaobai as of December 31, 2009. On January 10, 2011, we acquired the remaining equity interest of Longqiao Yaobai from the previous shareholders of Shaanxi Danshui, as a result of which we now own a 100% interest in Longqiao

Yaobai. Furthermore, on December 31, 2010, we acquired an 80% equity interest in Jianghua Yaobai under a joint venture arrangement, pursuant to which we acquired, among others, a clinker production line, certain factory building and cement production facilities in Ankang Shaanxi province. For more information, see “Business — Recent Acquisitions.”

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

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

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

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

We have historically relied on cash generated from our operations, bank loans and share issuance to fund our capital requirements, finance the construction of our production facilities and purchase production equipment. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our net cash used in our investing activities was RMB355.4 million, RMB667.9 million, RMB847.5 million (US\$126.7 million) and RMB1,338.5 million (US\$200.1 million), respectively, while our net cash generated from operating activities was RMB171.0 million, RMB323.1 million, RMB619.7 million (US\$92.6 million) and RMB834.5 million (US\$124.7 million), respectively. The net cash used in our investing activities was substantially more than that generated from our operating activities. As of December 31, 2007, 2008 and 2009 and September 30, 2010, our total borrowings were approximately RMB336.2 million, RMB676.3 million, RMB1,648.9 million (US\$246.5 million) and RMB941.3 million (US\$140.7 million), respectively, and our net current liabilities were approximately RMB257.4 million, RMB258.4 million, RMB1,074.4 million (US\$160.6 million) and RMB482.8 million (US\$72.2 million), respectively. Our gearing ratios, calculated as a percentage of total

indebtedness (net of cash, cash equivalents and restricted cash) divided by total capital, were 29%, 41%, 50% and 15% as of the same respective dates. Our high level of indebtedness could materially and adversely affect our liquidity. For example, it could:

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

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

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

Certain of our loan agreements contain financial covenants that impose restrictions on our capital expenditures and require us to maintain certain financial ratios. Under the Credit Suisse Syndicated Loan, unless a waiver has been obtained pursuant to the terms, our wholly owned subsidiary Shaanxi Yaobai is required to, among other things, (i) maintain a ratio of total indebtedness to total assets of no more than 50% for each six-month period between December 31, 2009 and December 31, 2010 and no more than 40% from January 1, 2011 until the loan is repaid, and (ii) incur no more than RMB200 million in capital expenditures in the six months ended June 30, 2010, no more than RMB450 million in capital expenditures in the year ending December 31, 2010 and no more than RMB200 million during each of the two years ending December 31, 2011 and 2012. On December 29, 2010, we also entered into an amendment agreement to remove the capital expenditures covenant effective from January 1, 2010.

As Shaanxi Yaobai increased its capital expenditures in 2010 in connection with the construction of production facilities, the total amount of the capital expenditures it incurred in the four months ended April 30, 2010 was RMB374.8 million, which exceeded the RMB200 million limit prescribed in this loan agreement for the six months ended June 30, 2010. In addition, based on Shaanxi Yaobai's unaudited consolidated management accounts as of June 30, 2010, the ratio of total indebtedness to total assets exceeded the 50% limit applicable for the six months ended June 30, 2010. The facility agent representing the lenders had granted Shaanxi Yaobai a waiver with respect to these two covenants for the four months and six months ended April 30, 2010 and June 30, 2010, respectively. Under the waiver, Shaanxi Yaobai is not required to comply with these two financial covenants until after June 30, 2011. As a result of such waiver, it is not, as of the date of this document, in breach of the two financial covenants under the loan agreement. However, subject to any amendments to the loan agreement, Shaanxi Yaobai will remain subject to the indebtedness asset covenant after June 30, 2011, and Shaanxi Yaobai and/or certain of its subsidiaries, as the case may be, will remain subject to the other covenants under this loan until the loan becomes due in December 2012. We cannot assure you that we will be able to comply

with all the requirements under our loan agreements, or that we will be able to obtain waivers if we fail to comply with them. Failure to service our debts or comply with the terms, conditions and covenants of our loan facility agreements could result in penalties, including increases in our interest rates, accelerated repayment of loans and interest, termination of facilities and legal action against us by our creditors, any of which could have a material and adverse effect on our business, financial condition and results of operations. Furthermore, our liquidity depends on the amount of cash we generate from operations and our access to further financial resources to fulfill our short-term payment obligations, which may be affected by our future operating performance, prevailing economic conditions and other factors, many of which are beyond our control.

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

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

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

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

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

We use a substantial amount of coal and electricity in our production, and any shortage or interruption in the supply of coal or electricity could disrupt our operations and increase our costs of sales. The pricing for coal in our supply agreements is directly linked to market prices, so we bear the risk of coal price fluctuations. We experienced significant increases in coal prices in 2008 due to a surge in demand for coal and a supply shortage of coal in the market. In 2009, coal prices declined compared to 2008 due to reduced demand primarily as a result of the global financial crisis. In the first nine months of 2010, the cost of coal increased substantially due to our expansion to southern Shaanxi province, where coal price is generally higher due to higher transportation costs and due to the recovery of the global economy. For the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our cost of coal as a percentage of our total cost of sales was approximately 21.4%, 36.0%, 31.2% and 33.1%, respectively. Our average purchase prices of coal were approximately RMB290, RMB492, RMB434 and RMB561 per ton for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. We cannot predict future price trends for coal or the degree of any price volatility.

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

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

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

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

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



additional mining rights, our operations and growth prospects may be materially and adversely affected. Our financial performance and results of operations could also be adversely affected if we fail to pass on any increase in the cost of limestone excavation and purchases to our customers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***The taxation regime in Jersey may be subject to change.***

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

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

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

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

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

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

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

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

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

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

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

***Our quarterly results of operations are subject to seasonal fluctuations.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **RISKS RELATING TO THE CEMENT INDUSTRY IN THE PRC**

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

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

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

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

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

been significantly increased. The Criteria for Entry to Cement Industry limits the relevant cement production expansion in provinces with their respective production capacity of new dry process cement clinker being more than 900 kilogram per capita and sets strict requirements for new cement production projects in terms of production volume, production methods, energy conservation and environmental protection.

In addition to its entry barriers, the cement industry has been subject to a credit control policy in recent years as it is an energy intensive industry. In June 2007, the PBOC promulgated the Guidelines on the Enhancement and Improvement of Financial Services in Energy Saving and Environmental Protection Fields (中國人民銀行關於改進和加強節能環保領域金融服務工作的指導意見), or the “2007 Guidelines,” which tightened credit in energy intensive and heavily polluting industries and effectively constrained bank lending to PRC cement companies. Although we have adopted energy saving and environmentally friendly production technologies, and our production facilities are in compliance with industry policies, we may still have limited access to RMB-denominated loans from time to time due to different interpretations and implementation of the 2007 Guidelines by various PRC banks.

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

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

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



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

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

## **RISKS RELATING TO THE PRC**

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

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

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

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

Our business and operations are conducted in the PRC and governed by PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes and prior court decisions can only be used as reference. Since the late 1970s, the PRC government has significantly enhanced PRC laws and regulations in relation to economic matters such as foreign investments, corporate organization and governance, commerce, taxation and trade. However, the

PRC does not yet have a fully integrated legal system. Due to the limited volume of published cases and the non-binding nature of prior court decisions, the interpretation and enforcement of many recently enacted laws, rules and regulations may be uncertain or inconsistent. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and management attention, which in turn could have a material and adverse effect on our business, financial condition and results of operation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## CAPITALIZATION

The following table sets forth our capitalization and indebtedness as of September 30, 2010 on an actual basis. The following table should be read in conjunction with our consolidated financial information and related notes included in this document.

|   | As of September 30, 2010 |         |
|---|--------------------------|---------|
|   | Actual                   |         |
|   | RMB                      | US\$    |
|   | (in thousands)           |         |
| Current Borrowings:                                       |                          |         |
| bank borrowings . . . . .                                 | 725,764                  | 108,477 |
| Non-current borrowings:                                   |                          |         |
| Other borrowings . . . . .                                | 24,000                   | 3,587   |
| bank borrowings . . . . .                                 | 191,532                  | 28,627  |
| Total equity attributable to our equity holders . . . . . | 3,167,255                | 470,404 |
| Total capitalization <sup>(1)(2)</sup> . . . . .          | 3,382,787                | 611,096 |

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

(2) Total capitalization equals non-current borrowings plus equity attributable to our equity holders. Except as otherwise disclosed in this document, there has been no material adverse change in our capitalization since September 30, 2010.

## SELECTED CONSOLIDATED FINANCIAL DATA

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

### Selected Consolidated Statements of Comprehensive Income

|  | For the year ended December 31, |                |                |               | For the nine months ended<br>September 30, |                |                |
|--|---------------------------------|----------------|----------------|---------------|--|----------------|----------------|
|  | 2007                            | 2008           | 2009           | 2009          | 2009                                       | 2010           | 2010           |
|  | RMB'000                         | RMB'000        | RMB'000        | US\$'000      | RMB'000                                    | RMB'000        | US\$'000       |
|  | (unaudited)                     |                |                |               |  |                |                |
| Revenue . . . . .  | 525,929                         | 866,126        | 1,516,766      | 226,704       | 1,063,637                                  | 2,017,666      | 301,572        |
| Cost of sales . . . . .  | (350,165)                       | (556,073)      | (878,087)      | (131,244)     | (620,393)                                  | (1,211,051)    | 181,011        |
| <b>Gross profit</b> . . . . .  | <b>175,764</b>                  | <b>310,053</b> | <b>638,679</b> | <b>95,461</b> | <b>443,244</b>                             | <b>806,615</b> | <b>120,561</b> |
| Selling and marketing expenses . . . . .   | (9,796)                         | (12,018)       | (15,064)       | (2,252)       | (11,189)                                   | (18,854)       | (2,818)        |
| Administrative expenses . . . . .  | (29,038)                        | (55,224)       | (77,846)       | (11,635)      | (43,298)                                   | (129,953)      | (19,424)       |
| Other income <sup>(1)</sup> . . . . .  | 35,708                          | 40,617         | 71,526         | 10,691        | 38,775                                     | 80,033         | 11,962         |
| Other gains/(losses) — net . . . . .   | 2,273                           | (184)          | (1,057)        | (158)         | (662)                                      | 711            | 106            |
| <b>Operating profit</b> . . . . .  | <b>174,911</b>                  | <b>283,244</b> | <b>616,238</b> | <b>92,106</b> | <b>426,870</b>                             | <b>738,552</b> | <b>110,388</b> |
| Finance income . . . . .   | 1,572                           | 2,600          | 1,190          | 178           | 619  | 259            | 39             |
| Finance costs  |                                 |                |                |               |  |                |                |
| — loss on redemption of warrants . . . . .   | —                               | —              | (168,451)      | (25,178)      | —  | —              | —              |
| — other finance costs . . . . .  | (26,210)                        | (28,115)       | (73,830)       | (11,035)      | (193,743)                                  | (89,372)       | (13,358)       |
| Finance costs — net . . . . .  | (24,638)                        | (25,515)       | (241,091)      | (36,035)      | (193,124)                                  | (89,113)       | (13,319)       |
| <b>Profit before income tax</b> . . . . .  | <b>150,273</b>                  | <b>257,729</b> | <b>375,147</b> | <b>56,072</b> | <b>233,746</b>                             | <b>649,439</b> | <b>97,069</b>  |
| Income tax expense . . . . .   | —                               | (11,566)       | (44,687)       | (6,679)       | (33,949)                                   | (92,470)       | (13,821)       |
| <b>Profit for the year/period</b> . . . . .  | <b>150,273</b>                  | <b>246,163</b> | <b>330,460</b> | <b>49,392</b> | <b>199,797</b>                             | <b>556,969</b> | <b>83,248</b>  |
| <b>Attributable to:</b>  |                                 |                |                |               |  |                |                |
| Shareholders of our Company . . . . .  | 150,273                         | 246,163        | 330,460        | 49,392        | 199,797                                    | 551,572        | 82,441         |
| Non-controlling interests . . . . .  | —                               | —              | —              | —             | —  | 5,397          | 807            |
|  | <u>150,273</u>                  | <u>246,163</u> | <u>330,460</u> | <u>49,392</u> | <u>199,797</u>                             | <u>556,969</u> | <u>83,248</u>  |
| <b>Basic earnings per share</b> (Expressed in RMB/share) <sup>(2)(3)</sup> . . . . .   | <u>0.05</u>                     | <u>0.08</u>    | <u>0.10</u>    | <u>0.02</u>   | <u>0.06</u>                                | <u>0.15</u>    | <u>0.02</u>    |
| <b>Diluted earnings per share</b> (Expressed in RMB/share) <sup>(2)(4)</sup> . . . . . | <u>0.05</u>                     | <u>0.08</u>    | <u>0.10</u>    | <u>0.02</u>   | <u>0.06</u>                                | <u>0.15</u>    | <u>0.02</u>    |
| <b>Other Financial Data</b>  |                                 |                |                |               |  |                |                |
| EBITDA <sup>(5)</sup> . . . . .  | 219,768                         | 347,627        | 719,341        | 107,516       | 500,395                                    | 884,332        | 132,117        |
| EBITDA margin <sup>(6)</sup> . . . . .   | 42%                             | 40%            | 47%            | 47%           | 47%  | 44%            | 44%            |
| EBITDA/Gross interest expense <sup>(7)</sup> . . . . .                                 | 8.22                            | 5.13           | 6.28           | —             | —  | —              | —              |
| Total debt/EBITDA . . . . .  | 1.53                            | 1.95           | 2.29           | —             | —  | —              | —              |
| <b>Last 12 months Financial Ratios (for the 12 months ended September 30, 2010)</b>    |                                 |                |                |               |  |                |                |
| EBITDA/Gross interest expense <sup>(8)(9)</sup> . . . . .                              |                                 |                |                |               |  | 7.84           | —              |
| Total debt/EBITDA <sup>(8)</sup> . . . . .   |                                 |                |                |               |  | 0.85           | —              |

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Notes:

- (1) *Our other income primarily includes VAT refunds we received from the PRC government for sales of certain types of cement that use industrial by-products, industrial waste and construction waste.*
- (2) *Each ordinary share of GBP0.1 of the Company has been subdivided into 50 ordinary shares of GBP0.002 each effective on August 23, 2010. The information on the basic and diluted earnings per share for profit attributable to the shareholders of our Company for the years ended December 31, 2007, 2008 and 2009 as set forth in the Accountant's Report was calculated based on the share numbers prior to the share subdivision. For the purpose of comparison of the earnings per share information after the share subdivision, the earnings per share information is now presented as if the share subdivision had taken place and became effective from January 1, 2007 and recalculated based on the new number of shares after the share subdivision.*
- (3) *Basic earnings per share is calculated by dividing the profit attributable to shareholders of our Company by the weighted average number of ordinary shares in issue during the three years ended December 31, 2009 and the nine months ended September 30, 2010 and taking into account the effect of share subdivision.*
- (4) *Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential ordinary shares and taking into account the effect of share subdivision. Our Company had share options as well as warrants. For the share options and warrants, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and warrants.*
- (5) *We calculate EBITDA by adding depreciation and amortization expenses to operating profit. EBITDA is not a standard measure under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit attributable to shareholders or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, net finance costs and depreciation and amortization.*
- (6) *EBITDA margin is calculated by dividing EBITDA by revenue.*
- (7) *Gross interest expense includes interest expense capitalized in property, plant and equipment. Gross interest expense is not a standard measure under IFRS. Gross interest expense presented herein may not be comparable to similarly titled measures presented by other companies.*
- (8) *The last 12 months EBITDA of the 12 months ended September 30, 2010 is calculated by subtracting the EBITDA for the nine months ended September 30, 2009 adding the EBITDA for the nine months ended September 30, 2010 of the full year EBITDA for 2009 and adding the EBITDA for the nine months ended September 30, 2010.*
- (9) *The last 12 months gross interest expense for the 12 months ended September 30, 2010 is calculated by subtracting the gross interest expense for the nine months ended September 30, 2009 from the full year gross interest expense for 2009 and adding the gross interest expense for the nine months ended September 30, 2010.*

## Summary Consolidated Balance Sheet Information

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

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

### OVERVIEW

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

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

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

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

### SIGNIFICANT FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

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

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



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

In 2008, the PRC government introduced measures to address the effects of the global economic downturn, including a RMB4 trillion stimulus plan to stimulate the PRC economy through development of infrastructure, tax breaks and other incentives for home buyers. Infrastructure projects are being approved by the government on an expedited basis in order to spur the economy. The significant increase in government investment infrastructure projects has increased demand for high grade cement, which benefits us and other large cement manufacturers.

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

### **Production Capacity**

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

### **Pricing**

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

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

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

### **Product Mix**

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

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

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

### **Costs of Coal and Electricity**

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

lines and, as a result, their average cost of coal is higher due to higher transportation costs. Our average purchase prices of coal per ton were approximately RMB290, RMB492, RMB434, RMB462 and RMB561 in 2007, 2008 and 2009 and the first nine months of 2009 and 2010, respectively.

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

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

### New Production Facilities

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

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

---

*Notes:*

- (1) New production facility for year ended December 31, 2007 represents the Lantian production facility.*
- (2) New production facilities for year ended December 31, 2009 represent the Xunyang production facility and the Zhen'an production facility.*
- (3) New production facilities for the nine months ended September 30, 2010 represent the Yangxian production facility, the Danfeng production facility, the Mianxian production facility and Line 2 at the Pucheng production facility.*

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

In 2009, our newly added Xunyang and Zhen'an production facilities contributed approximately RMB481.7 million (US\$72.0 million) to our revenue and approximately RMB141.9 million (US\$21.2 million) to our gross profit. The gross profit margins of these two production facilities were lower than those of our then-existing facilities primarily because we purchased limestone for production at our Xunyang production facility between January and November 2009, during which time the 7-km limestone conveyor belt was still under construction, at prices that were higher than the market prices of our other facilities. In addition, the production line at our Zhen'an production facility has a higher rate of energy consumption because it does not have a residual heat recovery system, which resulted in the lower gross profit margin. We intend to improve the production efficiency at our Zhen'an production facility by upgrading its production line.

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

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

| Production Line               | Utilization Rate as of<br>September 30, 2010 |
|-------------------------------|--|
| Pucheng                       |  |
| Line 1 .....                  | 100.0%                                       |
| Line 2 <sup>(1)</sup> .....   | 43.6%  |
| Lantian .....                 | 100.0%                                       |
| Xunyang .....                 | 97.3%  |
| Yangxian .....                | 100.0%                                       |
| Mianxian <sup>(2)</sup> ..... | 32.7%  |
| Xixiang <sup>(3)</sup> .....  | —  |
| Danfeng .....                 | 83.6%  |
| Zhen'an .....                 | 81.8%  |

*Notes:*

- (1) Construction of the second production line at Pucheng was completed in August 2010.
- (2) Construction of the production line at Mianxian was completed in July 2010.
- (3) No utilization rate was available for our Xixiang production facility as it was under construction as of September 30, 2010 and is expected to be completed in the first quarter of 2011.

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

### **PRC Government Incentives**

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

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

### **Revenue Recognition**

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

We produce and sell cement products to government infrastructure projects, ready-mixed concrete stations, distributors and others in Shaanxi Province of the PRC. Sales of goods are recognized when we have delivered the products and transferred the significant risks and rewards of ownership of the products to the customers, when there is no unfulfilled obligation that could affect the customers' acceptance of the products and collectability of the related receivables is reasonably assured. Accordingly, our revenue for sales to government infrastructure projects, ready-mixed concrete stations, distributors and others are recognized when we deliver those products to the purchasers. In case where we arrange third party to transport the products to the delivery site, we still retain the risks and rewards of ownership of the products until they are delivered to the purchasers.

### **Property, Plant and Equipment**

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

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

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

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

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

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

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

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

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

(a) ***Stripping costs***

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

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

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

According to the new regulation issued in 2009 by the Ministry of Land and Resources of the People's Republic of China, the owner of a mine should undertake the obligation of environmental restoration. A provision is recognized at the present value of costs to be incurred

for the restoration of our limestone mines based on the best estimate of future expenditure by our management. However, the local Land and Resource Bureau has not issued specific rules for the restoration standard. If the restoration standard is released in the future, the estimate of restoration costs may be subject to revision. The amounts provided in relation to restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time, and the provisions are updated accordingly.

### **Borrowings**

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

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

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

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

### **Warrants**

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

### **Goodwill**

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

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

### **Mining Rights**

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



## **Impairment of Non-financial Assets**

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

## **Inventories**

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

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

## **Provision for Trade and Other Receivables**

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

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

## **Deferred Income Tax**

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects

neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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

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

## **SELECTED ITEMS OF STATEMENTS OF COMPREHENSIVE INCOME**

### **Revenue**

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

Our revenue in any given period is determined by our sales volume and average selling prices of our cement products. During the three years ended December 31, 2009 and the nine months ended September 30, 2010, the sales volumes of our cement products experienced significant increases. We sold approximately 2.4 million tons, 3.4 million tons, 5.1 million tons, 3.6 million tons and 6.8 million tons of cement products for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and 2010, respectively. The increases in our sales volume were mainly driven by our expansion into new markets and the growth in the construction industry in Shaanxi province. In order to capitalize on the rapidly increasing demand for our cement products, we have significantly expanded our production capacity through the construction of new production lines and acquisitions. In May and August 2007, two production lines at our Lantian production facility commenced operations. In January 2009, our Xunyang production facility commenced cement production. We acquired Xiushan Yaobai in August 2009, which operates our Zhen'an production facility. Our Yangxian production facility commenced operation in December 2009 and started to sell cement products in March, 2010. We completed construction of our Mianxian production facility in July, 2010 and of an additional production line at our Pucheng production facility in August 2010. These two production facilities are currenting in their testing period. With these additional production lines, our annual production capacity increased from 3.6 million tons as of December 31, 2007 to 11.4 million tons as of September 30, 2010, allowing us to capture the growth in the construction industry in Shaanxi province, as reflected in the substantial increase in our revenues during the three years ended December 31, 2009 and the nine months ended September 30, 2010.

In the three years ended December 31, 2009, our average selling price increased primarily due to changes in the supply of, and demand for, our products and was also affected by the increase of the cost of coal and other raw materials. The average selling price of our cement products was approximately RMB219, RMB251 and RMB299 for 2007, 2008, 2009, respectively. The average selling price of our cement products increased over the three years ended December 31, 2009 primarily as a result of the increased market demand in 2008 and 2009 caused by the increased building and construction activity in Shaanxi province. The average selling price of our

cement products sold in the first nine months in 2010 was slightly lower than that for the corresponding period in 2009. We will continue to evaluate the market demand for our products and may from time to time adjust our product prices and production capacity to meet market demand.

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

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

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

Notes:

- (1) We sold more clinker in the first nine months of 2010 primarily because our newly added Danfeng production facility sold clinker when the market demand was low and because our newly added Yangxian and Mianxian production facilities sold clinker before the cement mill commenced operations.
- (2) Average selling price for cement is calculated by dividing (i) our revenue derived from sales of high grade and low grade cement by (ii) the total sales volume of high grade and low grade cement. The average selling price is exclusive of VAT.
- (3) Average selling price for cement products is calculated by dividing (i) our total revenue derived from sales of high grade cement, low grade cement and clinker by (ii) the total sales volume of these three products. The average selling price is exclusive of VAT.

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

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

Our revenue derived from sales of low grade cement increased from approximately RMB361.2 million in 2007 to approximately RMB422.3 million in 2008 but decreased to approximately RMB372.4 million in 2009. The increase of such revenue in 2008 was primarily due to the increase in the sales volume and the general increase of average selling price of low grade cement. The increase of sales volume of low grade cement was primarily due to the increased cement production capacity. The implementation of a new nation-wide industry standard by the PRC government in mid-2008, which prohibited the production of PO32.5R cement, a sub-category of low grade cement with lower quality and higher energy consumption, has mildly impacted our sales volume of low grade cement as some customers ordered other cement products in lieu of PO32.5R cement. The average selling price of low grade cement increased in 2008 primarily due to the increased cost of coal. The decrease of our revenue from low grade cement in 2009 was primarily due to the increase in the demand of high grade cement and the decrease of production volume of our low grade cement as a result of the full implementation of the nation-wide industry standard prohibiting the production of PO32.5R cement. The impact of the decreased production volume on our revenue of low grade cement from 2008 to 2009 has been partially offset by the increased average selling price of low grade cement. Our revenue derived from low grade cement in the first nine months of 2010 increased compared to the same period in 2009 primarily due to our increased sales volume of low grade cement from 1.1 million tons for the first nine months in 2009 to 2.0 million tons for the nine months in 2010, as a result of our increased production capacity.

### **Cost of Sales**

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

For the year ended December 31,

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

For the nine months ended September 30,

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

**Cost of raw materials**

Our cost of raw materials primarily includes costs of limestone, gypsum, clay, flyash, pyrite cinder and slag. Our cost of raw materials was approximately RMB119.1 million, RMB144.4 million, RMB284.5 million (US\$42.5 million) and RMB388.0 million (US\$58.0 million) for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. We cooperate with a third party contractor to excavate limestone from our limestone mines. We pay a fixed excavation fee for each ton of limestone excavated by the contractor and the fixed fee is adjusted at the beginning of each year depending on changes in excavation costs and consumable materials used in the limestone mine. Of the limestone we used in our production in the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, approximately 0.6 million, 2.5 million, 2.7 million and 5.2 million tons, respectively, was excavated from our mines. We purchased approximately 1.3 million tons, 0.6 million tons, 1.7 million and 2.5 million tons of limestone from third party limestone suppliers in the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. We sourced some limestone in the market for the Pucheng production facility primarily because

one of our production lines at our Pucheng production facility is located some distance away from our limestone quarry and as a result it is less expensive to purchase limestone for that production line than to excavate and transport limestone from our limestone quarry. In addition, as we sourced limestone on the market for the Lantian production facility before our limestone quarry that supplies limestone to the Lantian production facility commenced full operation in 2008, we purchased a higher proportion of limestone from third party limestone suppliers in 2007. Our Xunyang production facility commenced operations in January 2009, but because the conveyor belt between its limestone mine and production line was not completed until November 2009, we also purchased limestone for production at our Xunyang production facility between January and November in 2009. We have not purchased limestone from third parties for our Xunyang production facility in 2010 and do not expect to do so in the future. The limestone purchased from third parties in the first nine months of 2010 was primarily used in the operation of our Danfeng, Zhen'an and Yangxian production facilities.

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

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

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

### *Costs of coal and electricity*

Costs of coal is one of the largest components of our cost of sales. The price for coal fluctuated during the three years ended December 31, 2009 and the nine months ended September 30, 2010. Our cost of coal was approximately RMB75.1 million, RMB200.2 million, RMB273.7 million, RMB187.6 million and RMB400.7 million for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and 2010, respectively, representing approximately 21.4%, 36.0%, 31.2%, 30.2% and 33.1% of our total cost of sales. In order to secure adequate coal supplies at competitive prices, we have established long-term relationships with various coal suppliers.

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

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

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

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

## **Gross Profit and Gross Profit Margin**

For the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our total gross profit was approximately RMB175.8 million, RMB310.1 million, RMB638.7 million (US\$95.5 million) and RMB806.6 million (US\$120.6 million), respectively, and our gross profit margin was approximately 33.4%, 35.8%, 42.1% and 40.0%, respectively. Our gross profit margin increased during the three years ended December 31, 2009 primarily because the average selling price for each ton of our products increased more than the cost of sales for each ton of our products as a result of our successful pricing strategy to increase the prices of our cement products in response to the increased cost of sales. Our gross profit margin also increased as we applied more cost saving measures in our production, such as replacing more expensive raw materials with recycled materials and using residual heat recovery systems to generate electricity. Our gross profit margin decreased from 41.7% for the first nine months of 2009 to 40.0% for the first nine months of 2010 primarily because our cost of coal per ton of cement products sold increased as a result of global economic recovery and the addition of the Zhen'an, Danfeng and Yangxian production facilities in the second half of 2009. The average cost of coal per ton for those facilities is higher than our other production facilities because they are located further away from coal mines and the coal transportation costs are higher as a result. Our depreciation per ton of cement products sold increased from RMB18.9 for the first nine months of 2009 to RMB19.6 for the first nine months of 2010, which also contributed to the decrease of our gross profit margin. The increase of depreciation per ton of cement products sold is primarily due to the addition of the Yangxian production facility and the Danfeng production facility at the end of 2009, which have higher investment costs per ton of production.

## **Selling and Marketing Expenses**

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

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

Our selling and marketing expenses were approximately RMB9.8 million, RMB12.0 million, RMB15.1 million (US\$2.3 million) and RMB18.9 million (US\$2.8 million) for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. As we expand our operations, we expect to strengthen our sales efforts and our



selling and marketing expenses may increase accordingly. As a percentage of revenue, our selling and marketing expenses were approximately 1.9% in 2007, approximately 1.4% in 2008, approximately 1.0% in 2009 and approximately 0.9% during the nine months ended September 30, 2010, which has been continuously decreasing as a result of the economies of scale.

### Administrative Expenses

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

### Other Income and Other Gains/(Losses)

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

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

Other income primarily includes VAT refunds and other government incentives. We enjoy VAT refunds for cement products that use a certain percentage of recycled materials as raw materials, such as slag and flyash. These VAT refunds are recurring in nature as we continue to use qualified recycled materials in our production. In 2007, 2008 and 2009 and the nine months ended September 30, 2010, these VAT refunds amounted to approximately RMB30.5 million, RMB39.2 million, RMB65.0 million (US\$9.7 million) and RMB75.8 million (US\$11.3 million), respectively. We submit our tax assessment and refund application on a monthly basis and the tax authority usually pays us the VAT refunds by cash in the month following our application. During the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, we received VAT refunds on sales of approximately 1.4 million, 1.7 million, 2.8 million and 3.2 million tons of cement, respectively. The cement for which we applied for VAT refund generated approximately RMB290.3 million, RMB399.4 million, RMB754.1 million (US\$112.7

million) and RMB892.5 million (US\$133.4 million), respectively, in revenue for us for the years ended December 2007, 2008 and 2009 and the nine months ended September 30, 2010, accounting for approximately 55.2%, 46.1%, 49.7% and 44.2% of our total revenue for the same respective periods. Other government incentives are non-recurring in nature and primarily include industrial development subsidies and “clean” project investment incentive, which together amounted to approximately RMB5.2 million, RMB1.5 million, RMB6.5 million (US\$1.0 million) and RMB4.3 million (US\$0.6 million), respectively, for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010. The “clean” project investment incentive primarily covers energy efficient and emission reduction technologies such as our residual heat recovery systems. Other gains/(losses) primarily include payables written back, donations and net gain/(loss) from disposal of property, plant and equipment, which together amounted to gains of approximately RMB2.3 million in 2007 and losses of approximately RMB0.2 million, RMB1.1 million (US\$0.2 million) and RMB0.7 million (US\$0.1 million) for 2008, 2009 and the nine months ended September 30, 2010, respectively.

### Finance Income

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

### Finance Cost

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

### Income Tax Expenses

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

|  | For the year ended December 31, |           |           |            | For the nine months ended September 30, |           |            |
|--|---------------------------------|-----------|-----------|------------|---|-----------|------------|
|  | 2007                            | 2008      | 2009      | 2009       | 2009                                    | 2010      | 2010       |
|  | (RMB'000)                       | (RMB'000) | (RMB'000) | (US\$'000) | (RMB'000)                               | (RMB'000) | (US\$'000) |
|  |                                 |           |           |            | (unaudited)                             |           |            |
| Profit before income tax . . . . .   | 150,273                         | 257,729   | 375,147   | 56,072     | 233,746                                 | 649,439   | 97,069     |
| Tax calculated at statutory enterprise income tax <sup>(1)</sup> . . . . . | 49,590                          | 64,432    | 93,787    | 14,018     | 58,437                                  | 162,360   | 24,267     |

|  | For the year ended December 31, |           |           |            | For the nine months ended<br>September 30, |           |             |
|--|---------------------------------|-----------|-----------|------------|--|-----------|-------------|
|  | 2007                            | 2008      | 2009      | 2009       | 2009                                       | 2010      | 2010        |
|  | (RMB'000)                       | (RMB'000) | (RMB'000) | (US\$'000) | (RMB'000)                                  | (RMB'000) | (US\$'000)  |
|  |                                 |           |           |            |  |           | (unaudited) |
| Tax effects of:  |                                 |           |           |            |  |           |             |
| Expenses not deductible for tax purposes . . . . .                           | —                               | 454       | 614       | 92         | —  | —         | —           |
| Tax effect of tax exemption and reduced tax rate under tax holiday . . . . . | (53,750)                        | (59,654)  | (101,429) | (15,160)   | (32,025)                                   | (94,905)  | (14,185)    |
| Tax credit . . . . .   | —                               | (3,772)   | (4,355)   | (651)      | —  | —         | —           |
| Unrecognized tax losses <sup>(2)</sup> . . . . .                             | 4,160                           | 2,536     | 56,070    | 8,381      | 7,537                                      | 25,285    | 3,779       |
| Reversal of deferred tax assets arising from tax credit expired . .          | —                               | 7,570     | —         | —          | —  | —         | —           |
| Income tax expense . . . . .   | —                               | 11,566    | 44,687    | 6,679      | 33,949                                     | 92,470    | 13,821      |

*Notes:*

- (1) *The statutory enterprise income tax rate in the PRC was 33%, 25%, 25% and 25%, respectively, for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010.*
- (2) *Certain tax loss was not recognized as deferred income tax asset because in certain entities, no future taxable profit is expected to be available against which the temporary differences can be utilized. The significant increase in 2009 was because the loss relating to the redemption of warrant was not recognized as deferred tax assets.*

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

**Net Profit and Net Profit Margin**

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

## RESULTS OF OPERATIONS

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

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

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

#### *Revenue*

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

#### *Cost of sales*

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

depreciation cost as a percentage of our cost of sales increased from 10.8% for the nine months ended September 30, 2009 to 11.0% for the nine months ended September 30, 2010 primarily due to the addition of our Yangxian and Danfeng production lines in late 2009 which have higher investment costs per ton of production.

### ***Gross Profit and Gross Profit Margin***

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

### ***Selling and Marketing Expenses***

Our selling and marketing expenses increased by approximately 68.5% from approximately RMB11.2 million for the nine months ended September 30, 2009 to approximately RMB18.9 million (US\$2.8 million) for the nine months ended September 30, 2010, primarily due to our increased marketing and sales efforts in the target markets of our newly-added Danfeng, Yangxian Mianxian and Pucheng production lines, including recruiting more sales personnel and increased expenses for commissions paid to sales personnel as a result of increased sales, as well as due to increased transportation costs to cover our expanded market in southern Shaanxi province. As a result, our selling and marketing staff costs increased by approximately 169.7% from approximately RMB3.3 million for the first nine months of 2009 to approximately RMB8.9 million (US\$1.3 million) for the first nine months of 2010. Our selling and marketing expenses as a percentage of our revenue decreased from 1.1% for the first nine months of 2009 to 0.9% for the first nine months of 2010, primarily as a result of economies of scale.

### ***Administrative Expenses***

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

### ***Other Income and Other Gains***

Other income and other gains primarily represent the VAT refund we receive from the PRC government. Other income and other gains increased by approximately 111.8% from approximately RMB38.1 million for the nine months ended September 30, 2009 to approximately RMB75.8 million (US\$12.1 million) for the first nine months of 2010. Our VAT refund recorded for the nine months ended September 30, 2010 increased in line with increased sales.

### ***Finance Income***

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

### ***Finance Cost***

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

### ***Profit Before Income Tax***

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

### ***Income Tax Expense***

Our income tax expenses increased from approximately RMB34.0 million for the nine months ended September 30, 2009 to approximately RMB92.5 million (US\$13.8 million) for the nine months ended September 30, 2010 as a result of the increase in sales and our increased effective tax rate due to the profit contributed by our newly added subsidiaries that have higher income tax rates, including Xiushan Yaobai, which operates our Zhen'an production facility, and Longqiao Yaobai, which operates our Danfeng production facility, and Mianxian Yaobai, which operates our Mianxian production facility, whose income tax rates are 25%, and Hanzhong Yaobai, which operates our Yangxian production facility, whose income tax rate is 15%.

### ***Profit for the Period***

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

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

### ***Revenue***

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

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

### ***Cost of Sales***

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

### ***Gross Profit and Gross Profit Margin***

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

### ***Selling and Marketing Expenses***

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

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

### ***Administrative Expenses***

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

### ***Other Income and Other Gains***

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

### ***Finance Income***

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

### ***Finance Cost***

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

### ***Profit Before Income Tax***

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

### ***Income Tax Expense***

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

### ***Profit for the Year***

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

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

### ***Revenue***

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



### ***Cost of Sales***

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

### ***Gross Profit and Gross Profit Margin***

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

### ***Selling and Marketing Expenses***

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

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

### ***Administrative Expenses***

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

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

### ***Other Income and Other Gains***

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

### ***Finance Income***

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

### ***Finance Costs***

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

### ***Profit Before Income Tax***

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

### ***Income Tax Expenses***

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

### ***Profit for the Year***

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

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flow

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

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

### Net cash generated from operating activities

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

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

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

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

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

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

#### ***Net cash used in investing activities***

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

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

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

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

***Net cash generated from/used in financing activities***

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

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

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

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

**Capital Commitments and Contingent Liabilities**

***Capital commitments***

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

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

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

### ***Operating lease commitments***

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

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

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

### **Contingent liabilities**

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

### **Indebtedness**

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

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

As of December 31, 2009 and September 30, 2010, we had total borrowings of approximately RMB1,648.9 million (US\$246.5 million) and RMB941.3 million (US\$140.7 million), respectively, of which approximately RMB1,495.1 million (US\$223.5 million) and RMB917.3 million (US\$137.1 million), respectively, were bank borrowings, which were secured by our properties, equity interests in our subsidiaries and shares of our Company. The other borrowings as of December 31, 2009 of approximately RMB153.8 million (US\$23.0 million) were unsecured, of which approximately RMB150.8 million (US\$22.5 million) was transferred from Shaanxi Danshui to Longqiao Yaobai in connection with the establishment of Longqiao Yaobai. Our other borrowing as of September 30, 2010 RMB24.0 million (US\$3.6 million) represented unsecured borrowing we inherited in connection with our investment in Longqiao Yaobai. The average annual interest rate of such borrowing was 3.6%. The remainder of other borrowing represented certain interest free loans due to Shaanxi Industry Investment Limited (陝西省產業投資有限公司), an independent third party. For details of our bank borrowings and other borrowings, please refer to the section headed “Description of Other Material Indebtedness.”

Our bank borrowings are denominated in the following currencies:

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

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

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

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

**Bank and other borrowings subsequent to September 30, 2010**

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

**CAPITAL EXPENDITURES**

**Historical Capital Expenditures**

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

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



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

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

### **Planned Capital Expenditures**

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

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

### **OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS**

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

### **MARKET RISKS**

#### **Foreign Exchange Risk**

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

We recognize foreign exchange gain or loss on our income statement due to changes in value of assets and liabilities denominated in foreign currencies during the relevant accounting period. Appreciation of the Renminbi against the U.S. dollar generally results in a gain arising from our U.S. dollar-denominated debt and a loss arising from our bank deposits in Hong Kong dollars,

U.S. dollars and the British pound. A depreciation of the Renminbi against the U.S. dollar would have the opposite effect. In addition, a depreciation of Renminbi would negatively affect the value of dividends paid by our PRC subsidiaries, which may in turn affect our ability to service foreign currency-denominated debts.

Fluctuations in the foreign exchange rate have had and will continue to have an impact on our business, financial condition and results of operations. As of the date of this Document, we have not entered into any transaction to hedge against any fluctuation in foreign currency.

### **Commodity Price Risk**

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

### **Interest Rate Risk**

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

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

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

### **Liquidity Risk**

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

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

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

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

### **Inflation and Deflation Risk**

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

## Credit Risk

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

## NON-GAAP FINANCIAL MEASURES

We use certain non-GAAP data, such as EBITDA, to provide additional information about our operating performance. 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. Interest expense excludes amounts capitalized.

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

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

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

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.

## INDUSTRY OVERVIEW

### INTRODUCTION

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

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

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

### *Types of Cement*

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

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

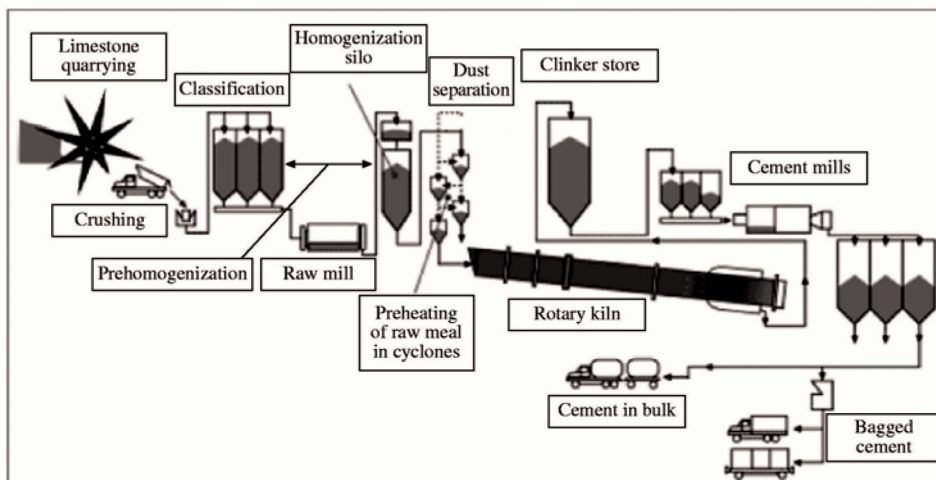
Slag Portland Cement is produced by mixing clinker with blast furnace slag and other additives. Slag Portland Cement has lower initial strength and less stable coagulate time than Ordinary Portland Cement. It has better heat resistance and adheres well to steel bars. This type of cement is used widely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

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

### CEMENT PRODUCTION AND TECHNOLOGY

#### *The Production Process*

The diagram below illustrates the cement production process.



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

### ***Crushing of Raw Materials***

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

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

### ***Calcining and Blending of Raw Materials***

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

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

### ***Sintering of Clinker***

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

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

### ***Grinding and Blending of Clinker to Produce Cement***

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

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

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

### ***Comparison between the Wet and Dry Process used in Cement Production***

There are two different processes, namely wet and dry, used in cement production. In the wet process, the raw materials, properly proportioned, are ground and thoroughly mixed with water to

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

***Comparison between the Rotary and Vertical Kilns used in Cement Production***

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

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

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

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

|                                 | <u>Technology</u> | <u>Product quality</u> | <u>Production efficiency</u> | <u>Pollution</u> |
|---------------------------------|-------------------|------------------------|------------------------------|------------------|
| <b>Rotary kilns</b>             |                   |                        |                              |                  |
| Wet process . . . . .           | Old               | High                   | High                         | Low              |
| Semi-dry process . . . . .      | New               | High                   | High                         | Low              |
| Dry process — NSP . . . . .     | Latest            | Highest                | Highest                      | Lowest           |
| <b>Vertical kilns</b> . . . . . | Old               | Low                    | Low                          | High             |

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

**CEMENT MARKET IN THE PRC**

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

Accompanying the strong economic growth is the need for building and construction of infrastructure and other fixed assets. China’s total FAI grew from approximately RMB10,999.8 billion in 2006 to approximately RMB22,484.6 billion in 2009, representing a CAGR of 26.8%.

The massive expansion of the construction industry in turn drove the growth of cement production and consumption. China's total cement production volume amounted to approximately 1,629.0 million tons in 2009 compared with approximately 1,240.0 million tons in 2006, representing a CAGR of 9.5% from 2006. China's total cement consumption volume amounted to approximately 1,620.5 million tons in 2009, representing a CAGR of 9.9% from 2006.

### *Effect of world financial turmoil*

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

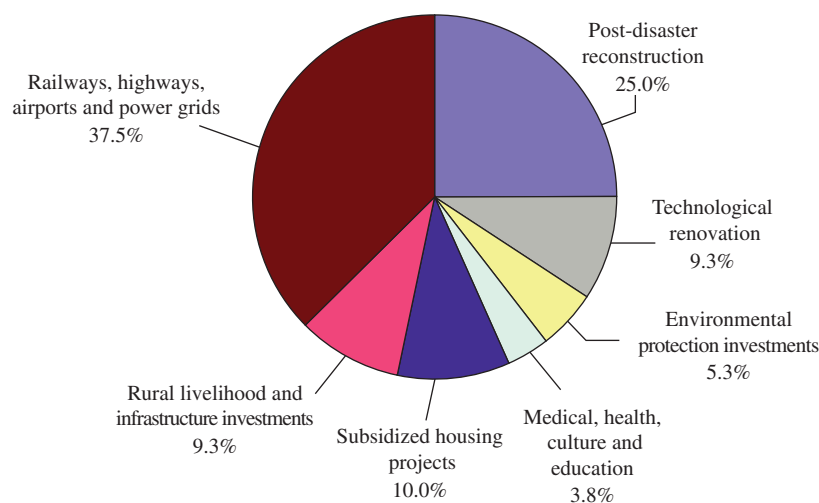
The table below sets forth the amounts and growth rates of GDP, FAI and cement production in the PRC for the periods indicated.

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

Source: National Bureau of Statistics, Digital Cement Net



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



Source: NDRC

### *Regionalized Market*

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

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

### *Key industry trends in the PRC*

#### *Promotion of NSP technology*

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

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

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

Source: China Cement Association (*Digital Cement Net*)

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

The PRC government has also been promoting the NSP technology and issued a series of regulations intended to phase out obsolete production technologies. According to the Notice Regarding Replacement of Obsolete Cement Production Capability (關於做好淘汰落後水泥生產能力有關工作的通知) issued on February 18, 2007 and the Policies on the Development of the Cement Industry (水泥工業產業發展政策) issued on October 17, 2006, the NDRC mandated that all production facilities using less advanced technologies, including dry hollow kilns and wet kilns, should be replaced. It also forbade any new production line to use vertical kilns and less advanced technologies. The NDRC also required in these policies that all local governments phase out cement enterprises with annual production capacities of less than 200,000 tons or which fail to comply with relevant environmental protection requirements or cement product quality standards. The PRC government aims to achieve 70% NSP output by 2010. There are also various new regulations promoting the usage of higher quality cement, which is mainly used for larger scale infrastructure and high-rise building projects and can only be produced in rotary kilns. Furthermore, the government is currently offering VAT tax refunds to cement producers that are able to demonstrate a 30% recycling rate for raw materials, a level that is difficult for cement producers who use vertical kiln to achieve.

#### *Industry consolidation*

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

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

#### *Curbing oversupply*

Despite the economic recovery plans to boost investment growth, certain industries, including the cement industry, were over-expanding, which led to the government's launch of policies to limit new capacity growth. Under the State Council's Notice Approving the NDRC's Guidelines on Redundant Construction, Curbing Overcapacity in Certain Industries and the Healthy Development of Industries (國務院批轉發展改革委等部門關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見的通知) issued by the State Council on September 26, 2009, and the Criteria for Entry to the Cement Industry (水泥行業准入條件) issued by the Ministry of Industry and Information Technology on November 16, 2009, which will come into effect on January 1, 2011, the PRC government has set out rules and opinions to increase the entry barriers of new cement production companies, including higher requirements for capital, industry experience and compliance with local development plans. According to the Criteria for Entry to the Cement Industry, among others, new cement production lines or expansion of current cement production lines must comply with the cement industrial policy of the province where the production lines are located. Applicants for new cement production lines must have limestone resources sufficient to support at

least 30 years of excavation for cement production. These efforts are specifically targeted at regions such as eastern and southwestern China. Northwestern China, however, does not suffer from over-capacity problem due to strong investment from the PRC government to boost local demand. (Source: China Cement Net — Over-capacity, *The Growth of Cement Industry* (中國水泥網 — 產能過剩水泥業成長過程中的陣痛))

#### *Increased focus on environmental protection*

In response to increasing concerns regarding environmental problems in the PRC, the PRC government has implemented various environmental regulations to reduce dust emissions and noise pollution from cement production. These efforts have resulted in the increased use of rotary kilns and NSP technology and decreases in energy consumption, production costs and environmental pollution. Recent improvements in related technologies have increased energy savings and environmentally friendly production processes, reducing energy consumption in the cement and clinker production processes across the industry.

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

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

### **SHAANXI PROVINCE CEMENT MARKET OVERVIEW**

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

Shaanxi province's GDP growth continued to outpace the national average in the past decade. Despite the global financial crisis in 2008, Shaanxi province maintained double-digit GDP growth of approximately 15.6% in 2008, which was higher than the national GDP growth rate of approximately 9.6%. Accompanying the GDP growth, FAI in Shaanxi province also increased to approximately RMB655.3 billion or by approximately 35.1% in 2009. In contrast, the national

total FAI growth for all of China for the same period was approximately 30.1%. The rapid growth of the total FAI in Shaanxi province is underpinned by the PRC government's investment growth policy to maintain GDP as well as by the increased wealth of the general public of Shaanxi province.

***The 2009-2020 Guanzhong-Tianshui Economic Zone Development Plan***

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

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

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

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

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

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

**2003-2009 CAGR of Cement Production Volume**

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

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

**Regional Cement Market Overview within Shaanxi province**

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



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

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

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

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

| Region              | Demand<br>( '000 tons) |
|---------------------|------------------------|
| Ankang . . . . .    | 3,300                  |
| Baoji . . . . .     | 4,400                  |
| Hanzhong . . . . .  | 3,000                  |
| Shangluo . . . . .  | 2,400                  |
| Tongchuan . . . . . | 800                    |
| Weinan . . . . .    | 3,500                  |
| Xi'an . . . . .     | 17,500                 |
| Xianyang . . . . .  | 4,600                  |
| Yan'an . . . . .    | 3,700                  |
| Yulin . . . . .     | <u>4,300</u>           |
| Total . . . . .     | <u><u>47,500</u></u>   |

Source: China Cement Association (Digital Cement Net)

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

### Competitive landscape

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

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

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

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

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

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

Source: Digital Cement Net

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

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

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

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

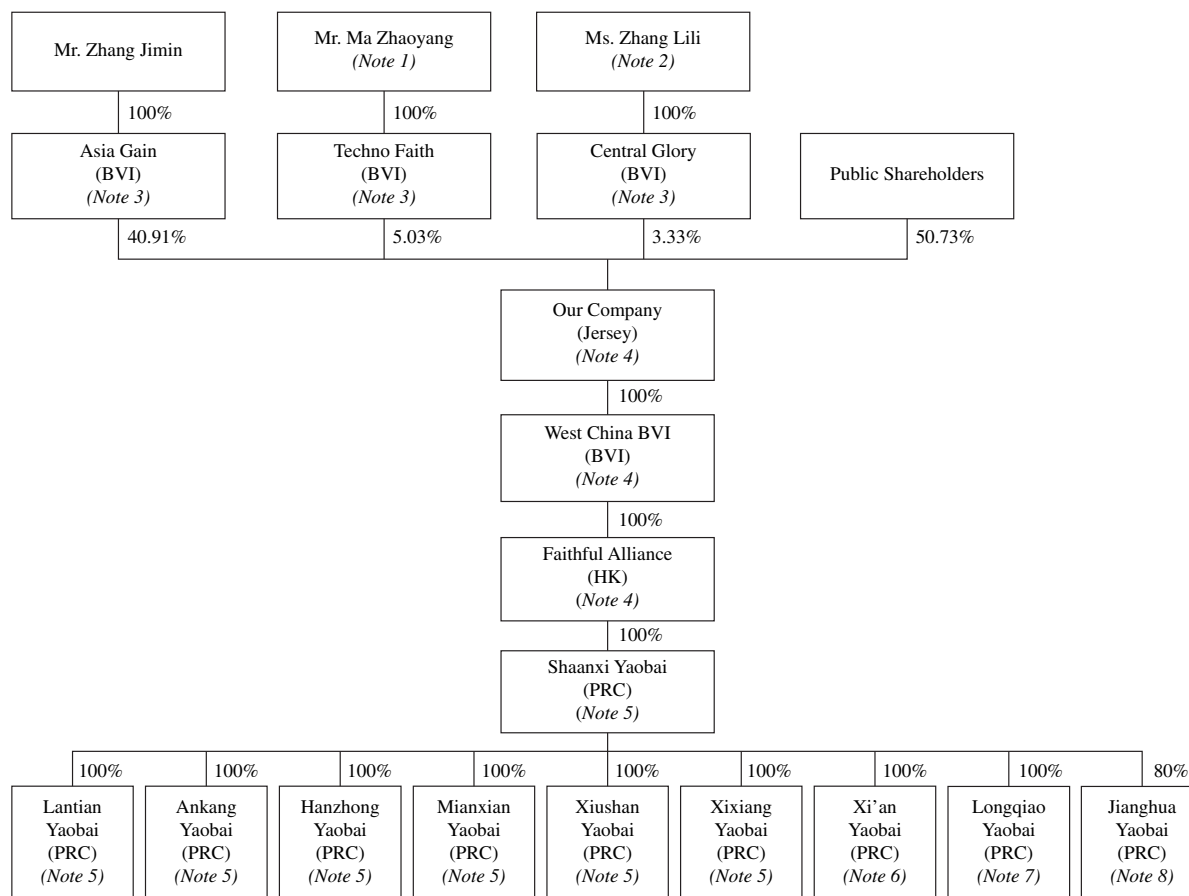
Source: Notice Regarding Replacement of Obsolete Cement Production Capability by Office of Shaanxi Provincial Government (陝西省人民政府辦公廳關於做好全省淘汰落後水泥生產能力工作的通知)



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

## CORPORATE STRUCTURE

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



**Notes:**

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

## BUSINESS

### OVERVIEW

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

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

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

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

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

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

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

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

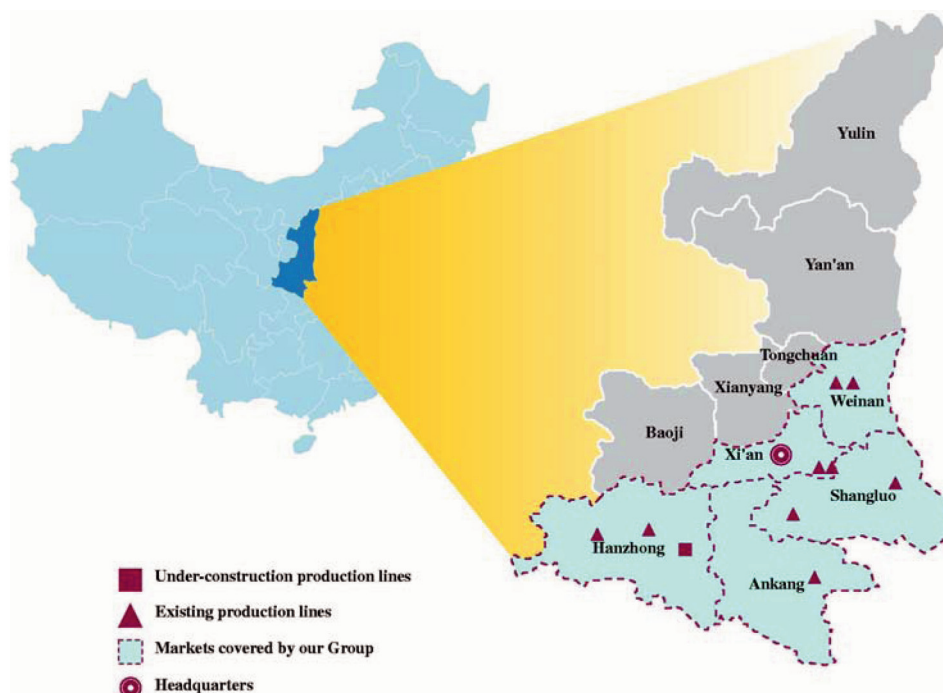
We primarily sell our cement either directly to government infrastructure projects and ready-mixed concrete stations or to distributors, which then resell our cement to retail purchasers.

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

We achieved significant growth in revenue, operating profit and net profit during the three years ended December 30, 2009 and the nine months ended September 30, 2010. Our revenue increased from approximately RMB525.9 million for the year ended December 31, 2007 to approximately RMB866.1 million for the year ended December 31, 2008 and to approximately RMB1,516.8 million (US\$226.7 million) for the year ended December 31, 2009, representing a CAGR of 69.8% from 2007 to 2009. Our operating profit increased from approximately RMB174.9 million for the year ended December 31, 2007 to approximately RMB283.2 million for the year

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

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



## OUR STRENGTHS

We believe that our competitive strengths include the following:

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

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

On September 26, 2009, the State Council promulgated the State Council’s Notice Approving the NDRC’s Guidelines on Redundant Construction, Curbing Overcapacity in Certain Industries and the Healthy Development of Industries (國務院批轉發展改革委員會等部門關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見的通知), which seeks to control overall production

capacity in the cement industry and encourages large producers with advanced technology to acquire smaller ones with less advanced technology. Our large production scale and leading market position in Shaanxi province allow us to benefit from the current PRC government policies to support large cement manufacturers and encourage consolidation within the cement industry. We believe that strong government support helps us access resources and to capitalize on market opportunities.

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

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

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

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

***We have convenient access to coal supplies and limestone reserves***

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

Limestone is the principal raw material used in the production of clinker, which in turn is the base of all cement products. We have obtained mining rights to limestone quarries that are located near our production facilities in Pucheng, Lantian, Xunyang, Zhen'an, Yangxian and Danfeng

counties with convenient access to public roadways. These quarries provide our production facilities with a secure and stable supply of high quality limestone at low transportation costs and the reserves are sufficient to meet the current production requirements of our existing production lines for at least 30 years based on government surveyors' reports on the amounts of our limestone reserves, the annual excavation limits specified in our mining licenses and our current production requirements.

***Our technology allows us to lower our total cost of sales***

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

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

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

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

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

### ***We have a stable and experienced management team***

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

### **OUR BUSINESS STRATEGIES**

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

#### ***Strengthen our leading market position through capacity expansion in selected markets***

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

#### ***Further strengthen our sales and marketing capabilities***

We will continue to strengthen our sales and marketing capabilities. We intend to deploy additional sales personnel based on the demand for our products and customer mix in different geographical markets. We will strengthen our customer relationship management and use product experts to better serve our customers, particularly in relation to major construction projects. We



plan to expand our sales network by establishing branch offices to serve more than 20 cities and towns in southern Shaanxi province, including Zhongyang, Mianxian, Xixiang, Shangluo and Ankang counties and regions. We believe that these branch offices will enhance our ability to develop, penetrate and control our target markets in southern Shaanxi province.

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

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

#### ***Continue to lower our costs through technological improvement***

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

#### ***Continue to build a strong management team with qualified personnel***

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

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

### **OUR PRODUCTS**

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

Our principal products are set forth in the following table:

| <b>Product/Grade</b>   | <b>National Standards</b>  | <b>Characteristics</b>   | <b>Application</b>   | <b>Target Customers</b>                                  |
|--|--|--|--|--|
| Ordinary Portland Cement <ul style="list-style-type: none"> <li>• PO42.5;</li> <li>• PO42.5R;</li> <li>• PO52.5;</li> <li>• PO52.5R.</li> </ul>  | Loss≤5.0% (all);<br>SO <sub>3</sub> ≤3.5% (all);<br>MgO≤5.0% (all);<br>3-day compressive strength ≥ 17MPa (42.5), ≥22MPa (42.5R), ≥23MPa (52.5), ≥27MPa (52.5R); 28-day compressive strength ≥ 42.5MPa (42.5 and 42.5R), ≥52.5MPa (52.5 and 52.5R); 3-day fractural load ≥ 3.5MPa (42.5), ≥4MPa (42.5R and 52.5), ≥5MPa (52.5R); 28-day fractural load 6.5 MPa (42.5 and 42.5R), 7.0 (52.5 and 52.5R); | High strength at the initial phase; high hydration heat; high freeze-resistance; low heat-resistance; low corrosion-resistance; low dry shrinkage.   | Construction of structures which require short construction time, such as roads and bridges. It is also used for the construction of high rise buildings | Ready-mixed concrete stations and construction companies |
| Composite Portland Cement <ul style="list-style-type: none"> <li>• PC32.5;</li> <li>• PC32.5R;</li> <li>• PC42.5;</li> <li>• PC42.5R.</li> </ul> | SO <sub>3</sub> ≤3.5% (all);<br>MgO≤6.0% (all);<br>3-day compressive strength ≥ 10MPa (32.5), ≥15MPa (32.5R and 42.5), ≥19MPa (42.5R); 28-day compressive strength ≥ 32.5MPa (32.5 and 42.5R), ≥42.5MPa (42.5 and 42.5R); 3-day fractural load ≥ 2.5MPa (32.5), ≥3.5MPa (32.5R and 42.5) and ≥4.0MPa (42.5R); 28-day fractural load ≥ 5.5MPa (32.5 and 32.5R), ≥6.5MPa (42.5 and 42.5R);               | Low strength at the initial phase; low hydration heat; high heat-resistance; low acid-corrosion resistance; using coal ash powder and coal gangue as composite raw materials; stable strength at the initial stage and late stage. | Construction of structures which do not require high strength, such as low rise buildings  | Distributors   |

| <b>Product/Grade</b>                        | <b>National Standards</b>   | <b>Characteristics</b>  | <b>Application</b>   | <b>Target Customers</b> |
|---|---|---|--|-------------------------|
| Moderate Heat Portland Cement<br>• PMH42.5  | SO <sub>3</sub> ≤ 3.5%; MgO ≤ 5%; 3-day compressive strength ≥ 12MPa; 7-day compressive strength ≥ 22MPa; 28-day compressive strength ≥ 42.5MPa; 3-day fractural load ≥ 3MPa; 7-day fractural load ≥ 4.5MPa; 28-day fractural load ≥ 6.5MPa; 3-day Heat of Hydration ≤ 251 kJ/kg; 7-day Heat of Hydration ≤ 293 kJ/kg | Low hydration heat; relatively high sulphuric acid resistance; good abrasion resistance and freeze-resistance | For large volume concrete structures under complicated environment such as dams, bridges, harbor waterworks construction and underground foundation, etc.        | Construction companies  |
| Low Heat Portland Cement<br>• PLH42.5       | SO <sub>3</sub> ≤ 3.5%; MgO ≤ 5%; 7-day compressive strength ≥ 13MPa; 28-day compressive strength ≥ 42.5MPa; 7-day fractural load ≥ 42.5MPa; 28-day fractural load ≥ 6.5MPa; 3-day Heat of Hydration ≤ 230 kJ/kg; 7-day Heat of Hydration ≤ 260 kJ/kg   | Low hydration heat; good abrasion resistance; dry shrinkage resistance and chemical corrosion resistance      | For large volume concrete waterworks, water conservancy works, high strength and high performance concrete, and relatively low hydration heat requirement works. | Construction companies  |
| Low Heat Slag Portland Cement<br>• PSLH32.5 | SO <sub>3</sub> ≤ 3.5%; MgO ≤ 5%; 7-day compressive strength ≥ 21MPa; 28-day compressive strength ≥ 32.5MPa; 7-day fractural load ≥ 3.0MPa; 28-day fractural load ≥ 5.5MPa; 3-day Heat of Hydration ≤ 197 kJ/kg; 7-day Heat of Hydration ≤ 230 kJ/kg  | Low hydration heat; good collision resistance; abrasion resistance and freeze-resistance                      | For relatively low hydration heat requirement dams and large volume concrete.  | Construction companies  |

| Product/Grade                       | National Standards   | Characteristics  | Application  | Target Customers       |
|-------------------------------------|--|--|--|------------------------|
| Highway Portland Cement<br>• PR42.5 | SO <sub>3</sub> ≤ 3.5%; MgO ≤ 5%; 3-day compressive strength ≥ 21MPa; 28-day compressive strength ≥ 42.5MPa; 3-day fractural load ≥ 4.0MPa; 28-day fractural load ≥ 7.0MPa | High strength (especially flexural strength); High abrasion resistance; Low dry shrinkage; Good impact resistance; Good frost resistance and Good acid-corrosion resistance. | Suitable for surface layer of concrete construction, such as cement concrete pavement, airport runways, railway station platform and public squares. | Construction companies |

## PRODUCTION FACILITIES

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

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

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

Notes:

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

- (2) We expect to install a residual heat recovery system at our Pucheng (both line 1 and line 2), Mianxian, Yangxian, Zhen'an and Danfeng production lines in 2011.
- (3) The investment cost per ton of cement of our Lantian production lines does not take into consideration the 0.7 million tons of production capacity increase as a result of the installation of a cement grinding mill at our Lantian production line as this grinding mill was not part of the original capital investment.
- (4) The investment cost per ton of cement does not take into consideration the 0.2 million tons of a production capacity of increase as a result of the installation of an additive grinding mill at our Xunyang production line as this grinding mill was not part of the original capital investment. The investment cost per ton of cement of our Xunyang production line is comparatively higher because it included the cost of construction of a 7-km conveyor belt, part of which is over a mountainous region, for transportation of limestone from the quarry to our production facility.
- (5) We acquired our Zhen'an and Danfeng production lines in August 2009 and December 2009, respectively.

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

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

Notes:

- (1) The annual cement production capacity figures are calculated on the basis of a 310-day year at a clinker/cement ratio of 0.7. Each type of cement has its specific chemical features and therefore a different clinker/cement ratio ranging from 0.25 to 0.95. The commonly used industrial benchmark average ratio is 0.7, and we have been using 0.7 clinker/cement ratio to derive at our cement production capacity.
- (2) The utilization rate is derived on the basis of actual production volume divided by pro-rata production capacity of each production facility for the actual number of months in a year during which the production facility was in operation.
- (3) The production capacity of Pucheng production line includes 300,000 tons of production capacity of an additive grinding mill. An additive grinding mill is a standalone process through which materials such as industrial by-products and waste are grounded and mixed to form cement.
- (4) Our Lantian — Line 1 and Line 2 production lines commenced operations in May 2007 and August 2007, respectively. Their actual production volume for the year ended December 31, 2007 represents the amount of cement they produced between May 1, 2007 to December 31, 2007 and August 1, 2007 to December 31, 2007, respectively.
- (5) The production capacity of Xunyang production line includes 200,000 tons of production capacity of an additive grinding mill effective as of December 31, 2009.
- (6) Our Xunyang production line began trial production in January 2009 and commenced full operation in March 2009. Its actual production volume for the year ended December 31, 2009 represents the amount of cement it produced between March 1, 2009 and December 31, 2009.
- (7) The production capacity of Zhen'an production line includes 248,000 tons of production capacity of an additive grinding mill.
- (8) We acquired our Zhen'an production line in August 2009. The actual production volume of our Zhen'an production line represents the amount of cement it produced between August 1, 2009 and December 31, 2009.
- (9) Our Yangxian production line commenced operations on December 31, 2009.
- (10) We acquired our Danfeng production line on December 31, 2009.
- (11) We completed the construction of a production line in Mianxian county in July 2010 with an annual production capacity of 1.1 million tons and installed a new cement grinding mill in our Lantian production facility in August 2010 which is expected to increase our total annual production capacity by 0.7 million tons.

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

Notes:

- (1) The annual cement production capacity figures are calculated on the basis of a 310-day year at a clinker/cement ratio of 0.7. Each type of cement has its specific chemical features and therefore a different clinker/cement ratio ranging from 0.25 to 0.95. The commonly used industrial benchmark average ratio is 0.7, and we have been using 0.7 clinker/cement ratio to derive at our cement production capacity.
- (2) The utilization rate is derived on the basis of actual production volume divided by pro-rata production capacity of each production facility for the actual number of months during which the production facility was in operation.
- (3) The production capacity of Lantian production lines include 700,000 tons of production capacity of an additive grinding mill. An additive grinding mill is a standalone process through which materials such as industrial by-products and waste are grounded and mixed to form cement.
- (4) We completed the construction of a production line at our Pucheng production facility in August 2010. Its actual production volume for the nine months ended September 30, 2010 represents the amount of cement it produced between September 1, 2010 and September 30, 2010.
- (5) We completed construction of our Mianxian production line in July 2010. Its actual production volume for the nine months ended September 30, 2010 represents the amount of cement it produced between July 1, 2010 and September 30, 2010.

Our automated NSP production lines are equipped with Distributed Control System, an advanced process control system that significantly improves our production efficiency by reducing labor costs associated with our production. In addition, facilities equipped with NSP technology discharge lower levels of harmful emissions than facilities that employ non-NSP technology. As a result, our NSP technology is supported by PRC government policies intended to reduce industrial waste and pollution. In both the Notice Regarding Replacement of Obsolete Cement Production Capability (關於做好淘汰落後水泥生產能力有關工作的通知) issued on February 18, 2007 and Policies on the Development of the Cement Industry (水泥工業產業發展政策) issued on October 17, 2006, the NDRC mandated that all production facilities using less-advanced technologies, including dry hollow kilns and wet kilns, should be replaced. The NDRC also required in these policies that all local governments should phase out the cement enterprises with annual production capacities of less than 200,000 tons or which fail to comply with relevant environmental protection requirements or cement product quality standards. We believe that all the production lines we acquired in 2009 are in compliance with both the environmental production requirements and product quality national standards.

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

## **RECENT ACQUISITIONS**

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

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

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

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

## PLANNED CAPACITY EXPANSION

In order to meet the fast-growing market demand for cement products in Shaanxi province, we plan to further expand our production capacity through acquisitions of additional production facilities and construction of new production facilities. We intend to actively pursue acquisition opportunities that will enable us to penetrate other markets adjacent to our current core markets, such as selected markets in other parts of southern Shaanxi province, Gansu province or Sichuan province. As of the date of this document, we do not have a definitive timetable or execution plan as to when we will expand to these or any other regions. Such plan is subject to, among other things, market conditions and our business development plans and may not materialize.

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

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



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

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

*Note:*

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

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

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

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

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

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

## **PRODUCTION PROCESS**

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

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

## **RAW MATERIALS**

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

### **Limestone**

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

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

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

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

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

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

Notes:

- (1) According to Procedures for Registration of Mining of Mineral Resources (礦產資源開採登記管理辦法) issued by the State Council on February 12, 1998, the mining license period will be based on the scale of the quarry: large-scale or above quarry can have a maximum of 30-year mining license period, medium-scale quarry can have a maximum of 20-year mining license period and small-scale quarry can have a maximum of 10-year mining license period. The

bases for classifying into “large-scale”, “medium-scale” and “small-scale” quarries are specified in the Notice Regarding the Standard for Sizes of Natural Resources and Reserves (礦產資源儲量規模劃分標準的通知) issued by the Ministry of Land and Resources in the PRC on April 24, 2000. According to such notice, “large-scale” quarry has a reserve of over 80 million tons, “medium-scale” quarry has a reserve between 15 to 80 million tons, and “small-scale” quarry has a reserve of less than 15 million tons.

- (2) The limestone reserve figures are extracted from data compiled and project approval documents issued by relevant government authority and document issued by government appointed expert committee and asset appraisal firm engaged by us.
- (3) As of January 1, 2007, we had mining rights at Yaoshan and Jinsushan limestone quarries for supplying limestone to our production facility at Pucheng county. The mining right of Yaoshan was renewed in June 2008 while the mining right of Jinsushan was renewed annually.
- (4) Our directors understand that the period of validity for quarries with mining volume of less than 100,000 tons per year is subject to the approval of the Ministry of Land and Resources in the PRC and such authority limits the period of validity for such quarry to one year subject to renewal. We do not foresee any legal impediment to renewing this mining right.

## **Other raw materials**

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

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

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

## **ENERGY SUPPLY**

### **Coal**

Coal is used as fuel in our cement production. We obtain our supply of coal mainly from the Coal Transportation and Sales Company under the Tongchuan Mining Bureau (銅川礦務局煤炭運輸銷售公司), Shuiliandong Coal Co., Ltd. of Bin County (彬縣水簾洞煤炭有限責任公司), Shaanxi Huoshizui Coal Mine Co., Ltd. (陝西火石咀煤礦有限責任公司) and the Hongshiyuan Coal mine of

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

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

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

### **Electricity**

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

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

residual heat recovery system. In December 2010 we began installing residual heat recovery systems with a total installed capacity of 22,500 KW at our production facilities at Pucheng, Yangxian, Mianxian and Xixiang counties. We plan to install a residual heat recovery system at our Danfeng county production facility in the second quarter of 2011.

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

## **Suppliers**

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

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

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

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

## **SALES AND MARKETING**

### **Sales**

In 2007, 2008 and 2009 and the nine months ended September 30, 2010, we sold all our products to customers in Shaanxi province. We sell a majority of our cement directly to government infrastructure projects, ready-mixed concrete stations and distributors, which then resell our cement to retail purchasers. We conduct our sales primarily through our regional and local sales offices in Shaanxi province. We have five regional sales offices in Xi'an, Weinan, Ankang, Hanzhong and Shangluo regions, and five local sales offices in Pucheng, Lantian, Xunyang, Zhen'an and Danfeng counties. Our regional sales offices are responsible for, among other things, organizing sales activities, establishing market development plans and controlling

marketing expenses. On the other hand, our local sales offices are more tailored toward customer service, with a focus on sales activities and product promotion. We centralize the management of our sales activities by setting sales target and guidelines for sales activities of each regional sales office and monitoring their implementation.

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

## **Marketing**

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

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

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

## **Customers**

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

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

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

*Notes:*

- (1) *Include infrastructure projects sponsored by various levels of the PRC government or state-owned enterprises, including telecommunication network, railway and expressways.*
- (2) *These customers were primarily individuals or entities located near our production facilities and purchased our products for use in small construction projects. Such sales also included direct cash sales to individual retail customers which amounted to approximately RMB0.9 million, RMB1.8 million, RMB5.5 million, RMB1.4 million and RMB11.7 million during the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and 2010, respectively.*

Our direct sales personnel are divided into teams to cover different customer groups. As of the date of this document, we had 146 direct sales personnel, who are responsible for selling our products in their assigned areas and providing after-sales support to our direct sales customers. They also collect customer feedback and market data by visiting customers on a regular basis. Our direct sales personnel are required to meet monthly and annual sales targets. In the event that our direct sales personnel do not meet their sales targets, their target-based compensation will be prorated.

*Distributors*

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



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

| <u>Year</u> | <u>Number of Distributors</u> | <u>Range of Years of Relationship between the Distributors and us</u> |
|-------------|-------------------------------|---|
| 2007 .....  | 322                           | 1-3   |
| 2008 .....  | 412                           | 1-4   |
| 2009 .....  | 431                           | 1-5   |

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

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

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

During the three years ended December 31, 2009 and the nine months ended September 30, 2010, we also sold our products to individual retail customers through direct cash sales. These sales are recorded as “cash sales” in our sales and accounting system. The identities of these individuals were not recorded and there is no listing of these individual retail customers. We only maintained a record of stocks sold and cash received for such sales to the individual retail customers as such direct cash sales were considered insignificant when compared with our total sales. During the three years ended December 31, 2009 and the nine months ended September 30, 2010, the volume of our sales to individual retail customers amounted to approximately 3,900 tons, 6,600 tons, 16,800 tons and 116 tons, respectively, which constituted less than 0.5% of our cement products produced during the three years ended December 31, 2009 and the nine months ended September 30, 2010. Our sales to individual retail customers during the three years ended December 31, 2009 and the nine months ended September 30, 2010 amounted to approximately

RMB0.9 million, RMB1.8 million, RMB5.5 million and RMB0.04 million, respectively. As our sales to individual retail customers were direct cash sales, we did not suffer any loss from payment default during the three years ended December 31, 2009 and the nine months ended September 30, 2010. We have a record system of individual retail customers in all of our sales offices. Under the record system, in addition to details of cash sales to retail customers such as the date of transaction, sales volume and value which we recorded in the past, our sales personnel also record the intended use and details of the retail customers. All such details will be confirmed by the retail customers and our accounting personnel and the person-in-charge of each sales office will conduct a monthly check on the record.

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

For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, sales to our five largest customers accounted for approximately 25.0%, 19.2%, 13.4% and 7.8%, respectively, of our revenue, and sales to our largest customer accounted for approximately 6.6%, 4.8%, 7.1% and 2.0%, respectively, during the same periods. Our five largest customers during the same periods included (i) construction companies for government infrastructure projects including the Zhengzhou (Henan Province) — Xi'an Railway and Baotou (Inner Mongolia) — Xi'an Railway; (ii) ready-mixed concrete stations in Shaanxi province and (iii) individual distributors, most of whom have maintained business relationships with us during the three years ended December 31, 2009 and nine months ended September 30, 2010 and conduct cement sales activities mostly in Weinan. During each of the three years ended December 31, 2007, 2008 and 2009 and the nine month ended September 30, 2010, our aggregate sales to such individual distributors amounted to RMB76.4 million, RMB152.8 million, RMB133.5 million and RMB115.8 million, respectively.

As of the date of this document, none of our directors, their respective associates or any of our shareholders (which to the knowledge of our directors own more than 5% of our issued share capital) had any interests in any of our five largest customers.

### **Pricing policy**

We set the prices for our products based on raw material costs, coal and electricity prices, market demand, our production capacity, transportation costs, inventory levels, competitors' prices and credit terms. A minimum price level is set for each type of cement. Any sales below the minimum price is subject to approval by the sales manager and senior management. Our central sales department in Xi'an evaluates the factors affecting our selling price on a regular basis and adjusts our minimum prices when appropriate. We usually sell our products by prepayment or credit sales. In general, the prices for credit sales are higher than that under prepayment. We usually sell cement to our distributors at the same price as our direct retail customers. In certain cases, we sell our cement to some customers on a comparatively lower price based on the purchase volume. We set different prices for different markets based on estimated transportation costs as well as local market conditions. We do not have any control over the re-sell price charged by the distributors to end users.

## **Payment terms**

We require the distributors and the retail customers to make full payment of the contract price before they collect our products from our production facilities. We typically grant a credit period of 60 to 90 days to governmental infrastructure projects. Our customers usually pay either by cash or by bank transfers.

## **TRANSPORTATION**

For coal, depending on contract terms, we are either required to collect the coal we purchase from our suppliers or our suppliers deliver it to us, in both cases at our own cost. In cases where our suppliers are responsible for delivery, they also bear the risk of loss in delivery, and we bear the risk of loss when we collect the raw materials from our suppliers. The distributors and some of our direct sale customers collect their cement purchases at their own cost at our production facilities. We arrange for transportation to deliver our cement to some government infrastructure projects at their own costs. If the actual cost of transportation exceeds the amount agreed between us and our customers, we pay the excess amount.

## **COMPETITION**

We compete exclusively in the Shaanxi province market. The cement industry in China is generally a fragmented and regional industry. According to Digital Cement Net, there were 165 cement producers which had proper and valid approvals and licenses, annual sales of over RMB5 million and annual production capacity of over 150,000 tons of cement in Shaanxi province as of December 31, 2009.

As the weight and bulky nature of cement makes it expensive to transport, the cement industry is localized in nature. As a result, we view only those companies with a presence in or near Shaanxi province as our primary competitors. Our major competitors include Tangshan Jidong Cement Co., Ltd. (唐山冀東水泥股份有限公司), Shengwei Cement Co., Ltd. (聲威水泥建材集團有限公司), Baoji Zhongxi Cement Co., Ltd. (寶雞眾喜水泥有限公司), SINOMA Cement Co. Ltd. (中材水泥有限責任公司), Shaanxi Fuping Cement Co., Ltd, a subsidiary of Italcementi Group (意大利水泥集團陝西富平水泥有限公司) and Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司).

We compete primarily on the basis of pricing, variety of product offerings, access to resources, sales and marketing network and brand image. We believe we compete favorably on the basis of each of these factors. However, some of our competitors may have better brand recognition in their local markets, better pricing or greater financial, technical or marketing resources than we do. While most of our competitors' core markets are in central Shaanxi province, which is adjacent to one of our core markets, they could compete with us for the same target customers. If we fail to compete effectively against our competitors, our business, financial condition and results of operations may be materially and adversely affected.

## **RESEARCH AND DEVELOPMENT**

Our research and development efforts focus on lowering costs by using waste materials as additives in our cement products. For the year ended December 31, 2009, we used approximately 1.6 million tons of industrial by-products, industrial waste and urban construction waste as raw materials in our cement production. These by-products and waste materials are readily available at low costs. Our ability to recycle such materials and use them in our cement production lowers our overall cost of materials, which we believe represents a significant advantage that distinguishes us

from our competitors. Our total expenditures on research and development (including the costs of cooperative research projects undertaken with external organizations) amounted to nil, approximately RMB0.7 million, RMB1.9 million and nil during the three years ended December 31, 2009 and the nine months ended September 30, 2010.

As of the date of this document, we have entered into cooperative agreements with Xi'an University of Architecture & Technology (西安建築科技大學), Tianjin Cement Industrial Design Institution (天津水泥工業設計院) and Nanjing Cement Industrial Design Institution (南京水泥工業設計院), each a leading research institution in construction materials or cement-related technology. Under the relevant cooperative agreements, we are entitled to use the equipment or software developed with relevant institutions for free while the institutions retain or jointly hold with us the ownership of the technology. These cooperative agreements are included among our research and development expenditures, and during the three years ended December 31, 2009 and the nine months ended September 30, 2010, we did not have any profit sharing from our cooperation with educational and scientific institutions.



The following table shows the major terms of our cooperation with scientific and educational institutions:

| <b>Name of Institution</b>                    | <b>Terms of Cooperation</b>         | <b>Scope of Research and Development</b>                                   | <b>Ownership of Technology</b>                                 | <b>Profit and Expense Sharing</b>   | <b>Confidentiality Agreement</b>   |
|---|-------------------------------------|--|--|---|--|
| Xi'an University of Architecture & Technology | January 12, 2006 — January 11, 2016 | Establishment of Shaanxi Yaobai Special Cement Co., Ltd. Technology Center | The institute and we jointly enjoy the ownership of technology | Both the institute and we are entitled to share 50% of the profit obtained from transfer of any results of research and development conducted by Shaanxi Yaobai Special Cement Co., Ltd. Technology Center established under the cooperative agreement (no actual profit sharing during three years ended December 31, 2009 and the nine months ended September 30, 2010) | The institute and we should not disclose any data, technology or design provided by the other party to any third party and can only use them within the scope of cooperation agreement |

| <b>Name of Institution</b>                   | <b>Terms of Cooperation</b> | <b>Scope of Research and Development</b>  | <b>Ownership of Technology</b>   | <b>Profit and Expense Sharing</b> | <b>Confidentiality Agreement</b>   |
|--|-----------------------------|---|--|-----------------------------------|--|
| Tianjin Cement Industrial Design Institution | October 28, 2006 — present  | Provide project design and technological service in relation to the establishment of 2*2500t/d production lines | The institute enjoys the ownership of the software developed under the cooperation agreement | N/A                               | We should not copy and reuse the design documents, or transfer the design documents to third party, or use the documents in other projects without the institute's consent |
| Nanjing Cement Industrial Design Institution | October 6, 2003 — present   | Provide project design and technological service in relation to the establishment of 1*5000t/d production line  | The institute enjoys the ownership of the software developed under the cooperation agreement | N/A                               | N/A  |

Our cooperation with these institutions has helped, and we believe will continue to help, us to improve our product on technology and lower our operational costs.

## INTELLECTUAL PROPERTY

We rely on a combination of trademarks, domain name registrations and contractual restrictions to establish and protect our intellectual property rights. We sell our products under the trademarks “堯柏” (Yao Bai) (Registration No. 901015) and “堯柏水泥” (Yaobaishuini) (Registration No. 5158040), which are registered with the PRC Trademarks Office under the State Administration for Industry and Commerce. We have also registered our corporate logos “” and “”, as well as certain other trademarks in Hong Kong. In addition, we have registered our internet domains “yaobo.com.cn” (Registration No. ce08b-ym/ty0027998gh), “westchinacement.com” (Registration No. 20061219129921093), “中國西部水泥” (Registration No. 20061219129921083) and “中國西部水泥有限公司” (Registration No. 20070706130198354) in China.

Any unauthorized use of our brand names, trademarks and other intellectual property rights could adversely affect our business, reputation and market position. Each of our research and development personnel has entered into a standard employment contract with us that is subject to renewal every three years, which includes confidentiality undertakings and an acknowledgement and agreement that all inventions, designs, trade secrets, works of authorship, developments and other processes developed or generated by them on our behalf during their employment by us are our property, and assigns to us any ownership rights that they may claim in those works.

## **QUALITY CONTROL**

The production facilities of our following PRC subsidiaries, namely, Shaanxi Yaobai, Ankang Yaobai, Lantian Yaobai, Longqiao Yaobai and Xiushan Yaobai are accredited with ISO-9000 quality control system certification, which are valid until August 3, 2012, August 10, 2012, September 26, 2013, January 20, 2012 and May 17, 2012, respectively. We established testing laboratories equipped with various advanced testing equipment at our production facilities to work together with our production technology department to conduct quality testing and maintain quality control. Our quality control system includes raw materials and coal, production process and finished products quality control inspections. Raw materials and coal are tested by taking samples from each shipment. Any raw materials and coal that do not meet our requirements will be returned to the suppliers for replacement. We also set up multiple inspection points at different production stages to test our products by random sampling during the production process. All of our substandard products would be reprocessed and regenerated for use. Our finished products are inspected and tested by applying a variety of national standards prior to delivery. Such national standards include GB/T 17671-1999 on compressive strength and GB/T1 76-1 996 on cement chemical analysis method.

As of the date of this document, we are not involved in any material litigation nor entered into any settlement with any third parties concerning the quality of our products.

## **PRODUCTION MANAGEMENT AND INVENTORY CONTROL**

We plan our production and manage the inventory level of our finished products on a monthly basis based on projected sales volumes and make periodic adjustments to the production schedule and volumes based on actual orders received. We closely supervise our daily production and aim to maintain suitable inventory levels of raw materials and finished goods at each production facility.

We maintain different inventory levels for raw materials and coal depending on lead time required to obtain additional supplies. We typically maintain an inventory of nine days for limestone and 16.5 days for coal. We typically keep an inventory level of approximately nine days for cement products.

## **REPAIR AND MAINTENANCE**

Regular repair and maintenance programs for our production facilities are scheduled by our production departments and carried out by our machinery and electrical repair teams to maximize production efficiency and avoid unexpected interruption of our operations. We conduct scheduled maintenance twice a year, which takes approximately one week to complete. Our machinery and electrical repair teams carry out day-to-day maintenance and repair of the facilities and machinery on an as-needed basis. Normally, maintenance is only carried out on one production line at each plant at a time to ensure the continuity of our production.

## **OCCUPATIONAL HEALTH AND SAFETY**

We obtained the OHSAS18000 certification for our health and safety management systems in Lantian Yaobai and Shaanxi Yaobai, which are valid until November 9, 2011 and September 6, 2013, respectively. To ensure compliance with relevant PRC regulatory requirements, we have implemented a number of safety measures and established a safety supervision department that is responsible for formulation and implementation of such safety measures. This department currently consists of 18 personnel, all of whom have relevant production safety management experience and qualifications issued by relevant governmental authorities. Our safety supervision department conducts inspections of our production facilities on a monthly basis to ensure that all of our operations are in compliance with existing laws and regulations. Our safety supervision department

also conducts regular training sessions for employees two to three times each month on accident prevention and management. The safety measures we adopted include measures for personnel safety protection, vehicle operation safety and reward and penalty system for safe production. Such safety measures lay out the potential safety hazards, responsible personnel for safety matters, emergency reaction plans and periodic inspection procedures. Our operations are in compliance with the currently applicable labor and safety regulations in all material aspect.

To prevent future occurrence of industrial accidents, we have adopted a series of remedial measures, including revision of relevant operation safety measures, inspection and modification of equipment, and holding training sessions for employees. We are committed to further reducing our fatality or personal injury rates and maintaining high safety standards at our production facilities in the future by enhancing the implementation of various safety measures, inspecting production facilities for potential problems and increasing the safety awareness of the employees by providing training on a regular basis. We also provide various healthcare benefits to our employees in accordance with applicable laws and regulations and our subsidiaries in Pucheng and Lantian counties have passed the occupational health and safety certification with our Xunyang subsidiary in the process of obtaining such certification. To prevent potential future risks, we have also adopted various emergency action plans for limestone mining accidents, special equipment failure accidents, coal storage facility fire accidents and other accidents. Such plans set forth the responsible personnel and procedures to control and minimize the damages under emergency situation.

## **INSURANCE**

We maintain loss of cash and property insurance covering our equipment, vehicles and facilities for loss due to fire, flood and a wide range of natural disasters. We also maintain public liability insurance, product liability insurance and loss of profit insurance for Shaanxi Yaobai. We do not maintain key employee or business interruption insurance. We believe our insurance coverage is customary and standard with respect to the type and scope of coverage for companies of comparable size in the cement industry in China.

## **EMPLOYEES**

As of November 30, 2010, we employed a total of 3,442 full time employees. A breakdown of our employees by function is shown below:

| <b>Employee Function</b>             | <b>Number of Employees</b> |
|--------------------------------------|----------------------------|
| General and administration . . . . . | 523                        |
| Finance . . . . .                    | 194                        |
| Production/technical . . . . .       | 2,182                      |
| Quality control . . . . .            | 324                        |
| Sales and marketing . . . . .        | 145                        |
| Procurement . . . . .                | 56                         |
| Others . . . . .                     | 18                         |
| Total . . . . .                      | 3,442                      |

Compensation for our employees includes basic wages, variable wages, bonuses and other staff benefits. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, our employee benefit expenses were approximately RMB30.2 million, RMB44.9 million, RMB57.7 million and RMB65.1 million, respectively.

Under PRC law, we are required to make contributions to pension funds, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing provident funds and other staff welfare for our employees.

## **SOCIAL WELFARE SCHEMES**

We are required by the PRC state laws and regulations to participate in various social welfare schemes including pension, medical, unemployment, birth and work-related injury insurances and housing provident fund contributions. The local authorities at the counties where our subsidiaries in the PRC are located, however, have different interpretation and implementation of such state laws and policies and we have been complying with the regulations and policies to the extent required by local authorities. For the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, we contributed approximately RMB0.6 million, RMB1.6 million, RMB2.5 million (US\$0.4 million) and RMB2.9 million (US\$0.4 million) to the social insurance schemes, respectively. We would need to pay additional amount of RMB0.5 million, nil, RMB1.1 million (US\$0.2 million) and nil for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 if we made the contribution to social insurance fund and housing provident fund for our group members according to applicable national laws and regulations during the same periods.

Pursuant to policies including the Opinions of the Central Committee of the Communist Party of China and the State Council Regarding Deepening Medical and Hygienic Reform (中共中央、國務院關於深化醫藥衛生體制改革的意見), the Report of the Agricultural and Rural Affairs Committee of the National People's Congress on Follow-up and Inspection of Construction of Social Security System in Rural Areas (全國人民代表大會農業與農村委員會關於農村社會保障體系建設情況跟蹤檢查報告) and the Guiding Opinions of the State Council Regarding Development of New Rural Social Old-Age Insurance on an Experimental Basis (國務院關於開展新型農村社會養老保險試點的指導意見), the PRC Government does not request contribution of pension and medical insurance for workers with rural residence on a mandatory basis.

Due to the differences in the local regulations and interpretation and implementation of relevant social insurance policies and laws and regulations by the local social insurance authorities, we have been making payments to selected social welfare schemes in accordance with policies of local social insurance authorities at counties where our PRC subsidiaries are located. As acknowledged by the social insurance authorities in the counties where our subsidiaries in the PRC are located: (1) pursuant to the national and local policies and laws and regulations regarding rural social security system, our subsidiaries in the PRC do not have mandatory obligations to pay social insurance payments for workers with rural residence; (2) other than pension insurance, the relevant counties have different implementation policies regarding medical, unemployment, birth and work-related injury insurances and housing provident funds and our subsidiaries in the PRC have complied with the relevant local policies. The local social insurance authorities where our subsidiaries are located have confirmed that none of our subsidiaries has been penalized for non-compliance with social insurance regulations and that they may continue to make social insurance contributions under the present regulations and guidelines without incurring any penalty.



## **PROPERTY**

As of November 30, 2010, we owned 22 parcels of land, with an aggregate site area of approximately 1,650,482 square meters. We own 194 buildings and units, with an aggregate gross floor area of approximately 94,673 square meters. All of the properties we own are located in Shaanxi province.

As of November 30, 2010, we had under construction buildings and structures with an aggregate planned gross floor area of 171,814 square meters in relation to our production lines under construction in Mianxian, Pucheng and Xixiang counties.

## **ENVIRONMENTAL COMPLIANCE AND POLLUTION CONTROLS**

The cement industry is categorized as a polluting industry under PRC laws. Our production processes generate noise, waste water, gaseous wastes and other industrial wastes. Our production facilities are subject to various environmental laws and regulations promulgated by national and local governments with respect to noise and air pollution and the disposal of waste and hazardous materials. According to the Environmental Protection Law of China (中華人民共和國環境保護法) and other relevant laws and regulations, companies that discharge contaminants must report and register with the State or the relevant local environmental protection authorities. The State Environmental Protection Administration sets national discharge standards for various pollutants and local environmental protection bureaus may set stricter local standards. Enterprises are required to comply with the stricter of the two applicable standards. The central and local governments provide schedules of base-level discharge fees for various polluting substances and if such levels are exceeded, the polluting entity will be required to pay excess discharge fees. Local governments are also authorized to issue orders to stop or reduce discharges in excess of the base levels. Each of our production plants, prior to its construction, is required to be evaluated for its environmental impact and when constructed, is required to be tested and approved by local environmental agencies, and is subject to continuous government monitoring thereafter. See the section headed “Regulatory Overview — Environmental Protection” in this document.

We have established and implemented various internal control rules and guidelines regarding environmental compliance and pollution controls, such as the guidelines on control and management of waste water, solid waste and waste gas, the guidelines on management of the operation of pollution control system and the guidelines on management of data related to environmental protection. We have also established a Safety and Environmental Protection Committee comprising 38 members including:

The members of the Safety and Environmental Protection Committee comprise senior management at both our senior management and production facility level who are responsible for the day-to-day operation and production management at such facilities, some of whom have relevant qualifications in production safety and environmental management.

The committee is responsible for overseeing our environmental protection related matters. The main responsibility of our environmental protection committee includes (i) providing regular training to our staff, (ii) conducting regular on-site inspection, (iii) collecting documents or information related to environmental protection and (iv) implementing the opinions and requirements of local environmental protection authorities.

We have established a pollution control system and installed various equipment to process and dispose of our industrial wastes and hazardous materials to minimize the impact on the environment. Two of our subsidiaries have met the ISO 14001 environmental management standards.

*Air:* We generate dust in our cement production process. We have installed electrostatic precipitators and bag filters for the collection and removal of dust. Electrostatic precipitator applies high voltage static electricity to separate gas and dust. During the cement production process, dusty air will pass through the electrostatic precipitator where dust is removed. Bag filter is more widely used among cement producers. During the cement production process, dusty air passes through the bag filter and becomes purified fume, which is then discharged.

*Water:* We have a water treatment and recycle system which allows us to recycle and reuse water.

*Noise:* We have also installed mufflers, acoustic claddings and soundproof doors to control the noise generated during our operations.

*Mining area:* We plan to actively rehabilitate the mining area where the environment is affected by the mining activities after the limestone quarries are fully excavated on when our mining rights expire. Measures include careful selection of actual mining sites and location of storage of limestone to minimize impact to the mining area, proper storage and re-use of soil removed and sufficient plantation and vegetation after the mining is completed.

We have fully complied with the relevant environmental rules and regulations and have obtained all environmental permits and approvals necessary to conduct our existing business. Our cost of compliance with applicable environmental protection laws and regulations was approximately RMB21.3 million, RMB41.8 million, RMB74.7 million (US\$11.2 million) and RMB62.2 million (US\$9.3 million) for each of the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively. The increase in our cost of compliance with applicable environmental protection laws and regulations during the three years ended December 31, 2007, 2008 and 2009 was mainly driven by addition of new production facilities in Xunyang and Lantian counties and therefore we acquired new equipment for pollution control. The cost of compliance for the year ending December 31, 2010 is estimated to increase as compared to December 31, 2009, primarily due to the addition of new facilities for residual heat recovery system at our new production lines at Mianxian, Pucheng and Xixiang counties. We have not encountered material environmental claims or been subject to any material sanctions or fines for environmental violations in the past. As the PRC environmental protection regulations continue to evolve, we may be required to make significant expenditures to upgrade our production facilities to comply with environmental regulations that may be adopted or imposed in the future.

## **GOVERNMENT INCENTIVES**

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation Regarding Policies Relating to the Value Added Tax on Products Made Through Comprehensive Utilization of Resources and Other Products (財政部、國家稅務總局關於資源綜合利用及其他產品增值稅政策的通知), we enjoy VAT refunds for cement products that use a certain percentage of recycled materials as raw materials, such as slag and flyash. During the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, such VAT refunds amounted to RMB30.5 million, RMB39.2 million, RMB65.0 million and RMB75.8 million, respectively.

We currently enjoy certain PRC tax incentives as a result of the status of certain of our PRC subsidiaries as wholly foreign owned enterprises and the locations of all of our PRC subsidiaries in western China. As a wholly foreign owned enterprise, Lantian Yaobai is entitled to a two-year exemption from the PRC enterprise income tax from its first profitable year on a cumulative basis, and a 50% reduction of its applicable enterprise income tax rate for the succeeding three years. Shaanxi Yaobai enjoyed such treatment until the end of 2010. Lantian Yaobai may still enjoy the 50% tax reduction treatment until the end of 2011. As enterprises located in western China, certain of our PRC subsidiaries are entitled to a preferential enterprise income tax rate of 15% under the Western Development Plan, compared with the regular national enterprise income tax rate of 25%. The tax benefits under the Western Development Plan was due to expire at the end of 2010. The PRC government has not announced whether or not it intends to renew those benefits upon their expiration. If the tax benefits under the Western Development Plan are not renewed, we will be subject to the 25% regular national enterprise income tax from 2011.

Pursuant to the Notice regarding the Collection of Funds for Bulk Cement and Its Method of Use promulgated by the Ministry of Finance and the State Administration of Taxation (財政部，國家稅務總局關於散裝水泥專項資金徵收和使用管理辦法的通知), we enjoy rebates for selling cement in bulk. For the sale of each bag of packaged cement, an enterprise is required to contribute RMB1.0 to the “Bulk Cement Fund,” and in turn, the money collected in that fund will be used as rebates for the sales of bulk cement. We received RMB230,000, RMB450,000, RMB700,000 and RMB800,000, respectively, in bulk cement rebates for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010.

## **LEGAL PROCEEDINGS AND COMPLIANCE**

We were not involved in any legal, administrative or arbitration proceedings which had a material adverse effect on our business, result of operations on financial position during the three years ended December 31, 2009. As of the date of this document, we were not aware of any legal, arbitration or administrative proceedings against us or any of our directors or senior management members which may have a material adverse effect on our business, results of operations or financial position.

All our business and operations are in Shaanxi province, the PRC. We have complied with all material applicable laws and regulations in jurisdictions where we operated since for the past three years ended December 31, 2009 and the nine months ended September 30, 2010 and we have obtained all material permits, certificates, licenses and approvals for our operations. In order to maintain our on-going compliance with the relevant regulatory requirements in such jurisdictions, we have adopted the following measures:

- establishment of a Safety and Environment Protection Committee to oversee all of our safety and environment related matters and our compliance with applicable laws and regulations; and
- appointment of external legal advisors in the PRC to advise us on compliance with applicable laws and regulations.

## REGULATORY OVERVIEW

This section summarizes the principal PRC laws and regulations which are relevant to our business and operations. These include the laws and regulations relating to our cement production and sales in the PRC and the relevant mineral resources, environmental protection, taxation, labor and foreign exchange laws and regulations. As this is a summary, it does not contain the detailed analysis of the PRC laws which are relevant to our business and operations.

### THE PRC

#### The PRC Legal System

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws, laws of Special Administrative Regions and laws resulting from international treaties entered into by the PRC government. Court verdicts do not constitute binding precedents. However, they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies and civil and criminal matters. The Standing Committee of the NPC is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council is the highest organ of the State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul administrative rules, regulations, directives and orders.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local laws and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council, provincial and municipal governments may also enact or issue rules, regulations or directives in new areas of the law for experimental purposes. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on June 10, 1981, the Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative bodies which promulgate such laws.

## **The PRC Judicial System**

Under the PRC Constitution and the Law of Organization of the People's Courts, the judicial system is made up of the Supreme People's Court, the local courts, military courts and other special courts.

The local courts are comprised of the basic courts, the intermediate courts and the higher courts. The basic courts are organized into civil, criminal, economic and administrative divisions. The intermediate courts are organized into divisions similar to those of the basic courts, and are further organized into other special divisions, such as the intellectual property division. The higher level court supervise the basic and intermediate courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Courts is the highest judicial body in the PRC. It supervises the administration of justice by all other courts.

The courts employ a two-tier appellate system. A party may appeal against a judgment or order of a local court to the court at the next higher level. Second judgments or orders given at the same level and at the next higher level are final. First judgments or orders of the Supreme People's Court are also final. If, however, the Supreme People's Court or a court at a higher level finds an error in a judgment which has been given in any court at a lower level, or the presiding judge of a court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the PRC, which was adopted on April 9, 1991, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the object of the action. However, such selection can not violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request for enforcement of the judgment, order or award. The time limit imposed on the right to apply for such enforcement is two years. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognized and enforced by the court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according to the principle of reciprocity, unless the court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interests.

## THE CEMENT INDUSTRY

### Industry Policy

Pursuant to the Interim Provisions on Promoting Industrial Structure Adjustment (促進產業結構調整暫行規定) promulgated by the State Council and the “Guiding Catalogue of Industrial Structure Adjustment (2005)” (產業結構調整指導目錄 (2005年本)) promulgated by NDRC on December 2, 2005, the following activities belong to the “encouraged” category of business: (i) the production of cement and clinker using NSP technology with a daily production capacity of 4,000 tons or more, or 2,000 tons or more for the western region of the PRC, and the development of the NSP technology, the equipment and ancillary materials, (ii) the construction of cement grinding mills with annual production capacity of 1 million tons or more and (iii) the production of clinker with a daily production capacity of 2,000 tons or above using the new dry process employing residual heat recovery technology. Vertical kilns, dry hollow kilns, Lepol kilns, wet process kilns, and newly-built new dry process clinker production lines with a daily production capacity of 1,500 tons or below belong to the “restricted” category of business. Mechanical vertical kiln cement production lines of 2.2 meters in diameter or less, dry hollow kiln cement production lines of 2.5 meters in diameter or less (except for those that produce special cement), cement grinding equipment of 1.83 meters in diameter or less, earthen (egg-shaped) kilns, ordinary vertical kilns and other outdated kilns belong to the “eliminated” category of business.

New investments in the eliminated category are prohibited. All regions, departments and enterprises concerned are required to adopt strong measures to eliminate the prescribed production technology, equipment and products within a prescribed timeframe. For enterprises which fail to do so, the local governments at all levels and competent authorities shall order suspension or closure in accordance with relevant PRC laws and regulations. If the products of such enterprises are regulated under the production permit system, the competent authorities shall revoke the production permits in accordance with the law. The industry and commerce administration shall supervise and urge the enterprises to undergo procedures for modification or cancellation of their registration in accordance with the law. The environmental protection and management authorities shall revoke the discharge licenses of such enterprises. If the relevant requirement is not fulfilled, the person with direct responsibilities and the related leadership shall be prosecuted and held liable.

Pursuant to the Policies on the Development of Cement Industry (水泥工業產業發展政策), promulgated by the NDRC and effective on October 17, 2006, the State encourages local governments and enterprises to eliminate technology that has low production capacity and to promote the development of cement production using the NSP technology. The government supports projects for the construction of cement production plants with a daily clinker production capacity of 4,000 tons or more using the NSP technology in areas with appropriate resources, the construction of large-scale clinker production bases and the construction of large-scale cement grinding mills at locations near the relevant markets. Local governments at all levels should close down and rationalize the production capacity of the enterprise with annual production capacity of less than 200,000 tons or not in compliance with environmental protection requirements or its cement quality not up to the standard in accordance with the law.

Pursuant to the Special Plan for the Development of Cement Industry (水泥工業發展專項規劃), promulgated by the NDRC and effective on October 17, 2006, the State encourages the construction of large-scale production line using NSP technology with daily clinker production capacity of 4,000 tons or above, and those in western region should have a daily production capacity of 2,000 tons or above. Except for special regions restricted by market volume and transportation conditions, the construction of cement project with daily production capacity of less than 2,000 tons is not allowed. The construction of any obsolete cement production capacity and

the small-scale cement plant that causes significant pollution to the environment and serious damages to resources should be eliminated in accordance with the law. The State encourages the consolidation of the industry through mergers and reorganizations and actively encourages superior enterprises to enhance competitive capacities; encourages large-scale enterprises to merge with small-scale ones in the consumer market and reconstruct the qualified ones to substituted industry such as cement grinding mills, silo terminals or ready mix concrete; gives efforts to increase the proportion of bulk cement. As the new dry process cement production in western region does not develop well, emphasized support should be given to it on the basis of reducing stress on transportation and satisfying the regional needs to develop and build production lines with daily production capacity of more than 2,000 tons using the NSP technology, speed up the elimination of obsolete production capacity and promote the structural upgrade of the industry in western region. According to this plan, goals of the development of cement industry are: the proportion of new dry process cement will be above 70% and the technical equipment, energy consumption, environmental protection and resource utilization of new dry process cement will reach the level of moderately developed countries by 2010. Cement industry will achieve basic modernization and have stronger international competitive capacity by 2020; new dry process cement and clinker production volume will be controlled at about 700 million tons; the number of enterprises will decrease from current 5,000 to 2,000, the number of enterprise with a production capacity of 30 million tons will amount to 10 and the number of those with production capacity of 5 million will amount to 40.

According to the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) jointly promulgated by the NDRC and the Ministry of Commerce on October 31, 2007, cement production project is listed in the “permissible” category for foreign investment.

According to the Guidance Catalogue of Advantageous Industries for Foreign Investment in the Central and West Regions (Amendment 2008) (中西部地區外商投資優勢產業目錄(2008年修訂)) effective from January 1, 2009, in respect of Shaanxi province, the production of cement and clinker with a daily production capacity of 4,000 tons or more using NSP technology belongs to the “encouraged” category for foreign investment.

According to the Opinions regarding Restrain on Overcapacity and Duplicated Construction Leading to Healthy Development of Certain Industries (關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見) jointly promulgated by the NDRC, the Ministry of Industry and Information Technology, the Ministry of Supervision, the Ministry of Finance, the Ministry of Land and Resources, the Ministry of Environmental Protection, the PBOC, the General Administration of Quality Supervision, Inspection and Quarantine, the China Banking Regulatory Commission and the China Securities Regulatory Commission and agreed by the State Council on September 26, 2009, the industrial policies on the cement industry in China are: strictly control the newly added cement capacities and execute the principle of eliminating obsolete capacities equivalently and suspend the construction of projects that have not yet commenced the construction before September 30, 2009 and conduct one-off conscientious liquidation, as well as projects which are not in compliance with above principles are forbidden to commence the construction. Each province, district and city must promptly put in place a schedule to eliminate obsolete capacities thoroughly in three years. Enterprises are encouraged to generate power by using residual heat recovery systems, increasing the efficiency of the grinding systems and re-utilizing industrial wastes. Newly constructed projects’ heat consumption of cement and clinker burning should be lower than 105 kg of standard coal/ton of clinker and the comprehensive electricity consumption for cement should be lower than 90KWh/ton of cement; the limestone reserve life must be more than 30 years; the density of waste gas and dust content must be lower than 50 mg/standard cubic meter. The provinces should encourage the merger or reorganization of those enterprises with obsolete capacities and promote the elimination of obsolete capacities through the construction of new production lines.

According to the Notice of the State Council on Further Strengthening the Elimination of Obsolete Production Capacities (國務院關於進一步加強淘汰落後產能工作的通知) issued by the State Council on February 6, 2010, cement, iron and steel and electricity are key industries for the elimination of obsolete capacities in the short term. Obsolete cement production capacities including mechanized shaft kiln cement production lines with a kiln diameter below 3.0 m, dry-process hollow kiln production line (excluding those for producing high alumina cement) with a kiln diameter below 2.5 m and wet-process kiln cement production lines (excluding those mainly used for disposing sludge, carbide slag, etc.) with a kiln diameter below 2.5 m, cement mills with a diameter below 3.0 m (excluding those for producing special cement), cement earth kilns (egg-shape), ordinary shaft kilns, etc. shall be eliminated before 2012. All cement production lines currently operated by us are new dry process kilns. We do not operate mechanical shaft kilns, dry-process hollow kilns or wet-process kilns. Our cement production capacities do not fall into the obsolete production capacities that should be eliminated before 2012 as required by the above policy.

According to the Criteria for Entry into the Cement Industry (水泥興業准入條件) issued by the Ministry of Industry and Information Technology on November 16, 2010, which will come into effect on January 1, 2011, the PRC government has set out rules and opinions to increase the entry barriers facing new cement production companies, including higher requirements on capital, industry experience and compliance with local development plans. The Criteria for Entry to Cement Industry limits the relevant cement production expansion in provinces with their respective production capacity of new dry process cement clinker being more than 900 kilogram per capita and sets strict requirements for new cement production projects in terms of production volume, production methods, energy conservation and environmental protection. According to the Criteria for Entry into the Cement Industry, among others, new cement production lines or expansion of current cement production lines must comply with the cement industrial policy of the province where the production lines are located. The acquisition of small producers with less advanced technology by larger producers with advanced technology is encouraged. Applicants for new cement production lines must have limestone resources sufficient to support at least 30 years of excavation for cement production. In addition, the Criteria for Entry into the Cement Industry provides that only existing cement producers can apply for new cement production lines.

Our cement production lines are required to comply with the above industrial policies. If we intend to invest in new cement production lines in the future, we must obtain an approval from the relevant authorities and abide by the prevailing national industrial policies. If we acquire cement production lines owned by third parties, only the cement production lines which have already been approved by the competent authorities and conform to the prevailing national industrial policies can be considered for acquisition.

We have obtained all necessary approvals by the authorities in the PRC with respect to our production lines in operation and in construction and the construction and operation of such production lines comply with the current policies applicable to the cement industry in the PRC.

### **Production Licenses**

Pursuant to the Regulations of the People's Republic of China on the Administration of Production License for Industrial Products (中華人民共和國工業產品生產許可證管理條例), promulgated by the State Council on July 9, 2005 and effective on September 1, 2005, and the Measures for the Implementation of the Regulations of the People's Republic of China on the Administration of Production License for Industrial Products (中華人民共和國工業產品生產許可證管理條例實施辦法), revised by the General Administration of Quality Supervision, Inspection and Quarantine on April 21, 2010 and became effective on June 1, 2010, the State adopted a production license system for the administration of major industrial products which affect public safety, human health, life and property. The catalog of industrial products in respect of which the



State adopts the production license system shall be formulated by the authorities in charge of industrial product production licenses under the State Council and the relevant authorities of the State Council, and shall be subject to approval by the State Council. Any enterprise without a production license shall not produce any product governed under the production license system, and any unit or individual shall not sell or use such products in operating activities that are within these categories, and any unit or individual shall not sell or use any products in operating activities which are without production licenses. Pursuant to the prevailing Catalogue of Production Licenses for Industrial Products (工業產品生產許可證目錄), production of cement requires a production license.

The General Administration of Quality Supervision, Inspection and Quarantine is responsible for the centralized administration of the production licenses of industrial products across China. Authorities at the county level and above in charge of production licenses for industrial products are responsible for the administration of production licenses for industrial products within their own jurisdictions, and they are empowered to impose penalties pursuant to the relevant provisions for acts that violate the stipulations of production licenses.

The relevant subsidiaries of our Company which are operating existing cement production lines have obtained and will maintain a production license for industrial products for cement production.

### **Bulk Cement**

Pursuant to the Administrative Measures of Bulk Cement (散裝水泥管理辦法) jointly promulgated by MOFCOM, the Ministry of Finance, the Ministry of Construction, the Ministry of Railways, the Ministry of Transportation, the General Administration of Quality Supervision, Inspection and Quarantine, and the State Administration for Environmental Protection on March 29, 2004, the State encourages and promotes the development of bulk cement and restricts the development of bagged cement. Authorities designated by the local people's government at the county level and above are responsible for the supervision and administration of bulk cement production within their own jurisdictions. Cement production enterprises shall produce bulk cement only after obtaining relevant production licenses. Entities and individuals engaged in the production, operation and utilization of bulk cement shall adopt measures to ensure that the facilities and sites for production, loading and unloading, delivery, storage and utilization are in compliance with safety and environmental protection requirements.

Pursuant to the Administrative Measures of Bulk Cement Special Funds Collection and Use (散裝水泥專項資金徵收和使用管理辦法) issued by the Ministry of Finance and the State Economic and Trade Commission on April 18, 2004, cement production enterprises selling bagged cement, including paper bag, plastic compound bag, compound bag will need to pay special funds on the basis of maximum RMB 1 per ton and enterprises using bagged cement will need to pay special funds on the basis of maximum RMB 3 per ton. The Ministry of Finance and the State Economic and Trade Commission are responsible for the centralized formulation of the policies in respect of the bulk cement special funds collection, use and management and local financial departments and bulk cement administrative departments are responsible for its organization and implementation.

### **Residual Heat Recovery System**

Pursuant to the Guiding Catalogue of Industrial Structure Adjustment (2005) (產業結構調整指導目錄 (2005年本)), the production of clinker with a daily production capacity of 2,000 tons or above using the new dry process employing residual heat recovery system belongs to the "encouraged" category of industries.

## MINERAL RESOURCES

### Acquisition of Mining Rights

Pursuant to the Mineral Resources Law of the PRC (中華人民共和國礦產資源法) promulgated on March 19, 1986 and amended on August 29, 1996 by the Standing Committee of the National People's Congress and the Implementation Rules of the Mineral Resources Law of the PRC (中華人民共和國礦產資源法實施細則) promulgated on March 26, 1994 by the State Council, a licensing system is adopted by the State for the exploration and exploitation mineral resources; for any exploration of mineral resources, an application shall be made for registration in accordance with the law, and mining permits and mining rights shall be obtained. A system whereby the exploration rights and mining rights shall be obtained with compensation has been adopted; however, the State may, in light of specific conditions, prescribe reduction of or exemption from the compensation for acquiring the exploration right and mining right. Any exploitation of mineral resources must pay resource taxes and resource compensation in accordance with relevant regulations of the State. The State has adopted a unified block registration system of mineral resources exploitation.

According to the Administrative Measures on Registration of Mineral Resources Exploitation (礦產資源開採登記管理辦法) promulgated and implemented by the State Council on February 12, 1998, the validity period of a mining permit shall be determined according to the scale of the mine. The maximum validity period of a mining permit for a big-scale mine, medium-scale mine and small-scale mine shall be 30 years, 20 years and 10 years, respectively. A holder of mining permit shall go through the renewal registration procedures with registration authorities for its permit within 30 days before its permit expires. If a holder of a mining permit fails to renew its permit within such period, such mining permit shall be automatically annulled.

According to the Measures for the Administration of Bidding, Auctioning and Listing of Mineral Exploitation Rights and Mining Rights (Trial Implementation) (探礦權採礦權招標拍賣掛牌管理辦法(試行)) promulgated by the Ministry of Land and Resources on June 11, 2003 and took effect on August 1, 2003, new mineral exploitation rights and mining rights that fall within the categories specified by the law may be granted by the competent authority through bidding, auctioning and listing procedures; the competent administration authorities of land and resources at above county level are in charge of the organization and implementation of bidding, auctioning and listing activities pursuant to the statutory scope of power of exploration permit and mining permit.

According to the Circular of Further Administration of Grant of Mining Rights (關於進一步規範礦業權出讓管理的通知) promulgated by the Ministry of Land and Resources on January 24, 2006 and became effective on the same day, exploration rights will no longer be granted for limestone used as construction materials and natural quartz sand used in construction and tile and mining rights for them will be directly granted through bidding, auctioning and listing procedures; the exploration rights for limestone (for other uses) are granted through bidding, auctioning and listing procedures. At the same time, the grant of exploration rights through bidding, auctioning and listing procedure that meets specific circumstances may be granted in the form of agreement upon approval, provided that the purchase price of mineral exploration and mining rights shall not be lower than the market price under similar conditions.

We have obtained mining permits for all our limestone quarries and the purchase price of the mining rights of each of our limestone mines has been settled in full. Please refer to the paragraphs headed "Limestone" in the section headed "Business" in this document for details of our limestone mining rights.

## **Mining Safety**

Pursuant to the Mining Safety Law of the People's Republic of China (中華人民共和國礦山安全法), promulgated by the Standing Committee of the National People's Congress and became effective on May 1, 1993, and the Regulation for the Implementation of the Mining Safety Law of the PRC (中華人民共和國礦山安全法實施條例), promulgated and became effective on October 30, 1996, mining enterprises shall install facilities to ensure safe production, establish and enhance safety management systems, and take effective measures to improve the work conditions of staff and workers and to strengthen the safety administration of mines. The mining enterprises administrations of the people's governments at the county level and above shall be responsible for the administration of safety measures in mines. The design of mine construction engineering work shall comply with the safety rules for mines and technological standards for the mining industry, and shall be subject to approval by the mining enterprises administration prescribed by the State. Before commencement of operation or use, mine construction engineering work shall go through safety facilities pre-approval inspection in accordance with the provisions of the relevant laws and regulations, and shall not be put into operation or use until the inspection has passed. Any breach of the above provisions may result in fines, revocation of exploitation license or operation license or other penalties.

Pursuant to the Regulations on Safety Production Licenses (安全生產許可證條例), promulgated by the State Council and effective on January 13, 2004, the State adopts a safety license system in respect of mining enterprises, and a mining enterprise which fails to obtain a safety license shall not engage in their production activities. In order to obtain a safety production license, mining enterprises shall satisfy certain safety production requirements. The safety production license issuance and administration authorities issue safety production licenses to enterprises that meet the production safety requirements pursuant to the relevant provisions. Safety production licenses are required to be renewed every three years through application to the safety production license issuance and administration authorities no later than three months before the expiration date.

All of our subsidiaries in the PRC which are operating the existing cement production lines have obtained the relevant safety production licenses.

## **Usage Fee and Purchase Price of Mineral Exploration and Mining Rights**

In accordance with the Measures for the Administration of the Usage Fee and Purchase Price of Mineral Exploration and Mining Rights (探礦權採礦權使用費和價款管理辦法) promulgated by the Ministry of Finance and the Ministry of Land and Resources on June 7, 1999, any party which conducts exploration and mining activities of mineral resources in the PRC is required to pay a usage fee and the purchase price of mineral exploration and mining rights. The usage fee for an exploration right is calculated on the basis of the exploration year and the size of the area and is payable annually. The annual rate is RMB100 per square kilometer for the first to third exploration year, with an increment of RMB100 per square kilometer per year from the fourth exploration year onwards up to a maximum of RMB500 per square kilometer. The usage fee for the mining rights, which is RMB1,000 per square kilometer per year, is payable annually based on the size of the mining area. The purchase price for mineral exploration and mining rights is determined by reference to the valuation price confirmed by the Ministry of Land and Resources, and is paid as a lump-sum, or in installments within two years in the case of an exploration right and within six years in the case of a mining right. The usage fee and purchase price of mineral exploration and mining rights are paid by the owners of mineral exploration and mining rights during the registration of the mineral exploration and mining rights or their annual inspection pursuant to criteria determined by registration and administration authorities to "special account of usage fee and purchase price of mineral exploration and mining rights" opened by financial

authorities at the same level. We are required to pay the usage fee and purchase price of mineral exploration and mining rights for limestone quarries for cement production we own in accordance with these provisions. We are paying usage fee for mining rights of RMB1,000 per square kilometer per year for all our limestone mines.

### **Provisions on the Administration of Collection of the Mineral Resources Compensation Fee**

Pursuant to the Provisions on the Administration of Collection of the Mineral Resources Compensation Fee (礦產資源補償費徵收管理規定) promulgated on February 27, 1994 and revised on July 3, 1997 by the State Council, the mineral resources compensation fee is calculated on the basis of a ratio of the sales income from mineral products. The mineral resources compensation fee is treated as an administration cost of the enterprise and is calculated using the following formula:

$$\text{Resources compensation fee} = \text{Sales income of mineral products} \times \text{Compensation fee rate} \times \text{Coefficient of mining recovery rate}$$

Any adjustment to the rate of a mineral resources compensation fee is determined by the Ministry of Finance, the Ministry of Land and Resources and the NDRC, and is subject to the approval of the State Council. Mineral resources compensation fees are collected by the departments of land and resources together with the departments of finance. Mineral resources compensation fee for the first half of each year is payable on or before July 31 of the same year, and the fee for the second half of the year is payable on or before January 31 of the following year. Pursuant to the Reply Letter in Respect of Problems in Collecting Mineral Resources Compensation Fee (關於徵收礦產資源補償費有關問題的覆函) promulgated by the Ministry of Land and Resources, a mineral resources compensation fee with a fee rate of 2% should be paid as required by the State for any mining activities of mineral resources within the territory of the PRC and other territorial waters under its administration, regardless of any purposes.

In specific circumstances, certain parties may be partly or fully exempted from paying mineral resources compensation fees upon joint approval by the department of land and resources and the department of finance at provincial level. Approval from the provincial people's government is required if the mineral resources compensation fee is reduced by more than 50% of the amount payable. Any approval for the reduction of the mineral resources compensation fee must be reported to both the Ministry of Land and Resources and the Ministry of Finance. We are required to pay the mineral resources compensation fee for limestone used in our cement production. As of September 30, 2010, we are not entitled to the reduction or exemption treatments of the mineral resources compensation fee.

### **Other Taxes Relating to the Mining Industry**

Pursuant to the Interim Regulations on Resource Tax of the People's Republic of China (中華人民共和國資源稅暫行條例), promulgated by the State Council on December 25, 1993 and took effect on January 1, 1994, enterprises and individuals engaging in the mining of mineral resources in the People's Republic of China shall pay resource taxes. The resource taxes applicable to non-metal ores shall be RMB0.5-20 per ton or square meter.

Pursuant to the Notice on Adjustments to the Applicable Resource Tax Rates of Limestone, Marble and Granite (關於調整石灰石、大理石和花崗石資源適用稅率的通知), promulgated by the Ministry of Finance and the State Administration of Taxation on June 4, 2003 and effective on July 1, 2003, the applicable rate of limestone resource tax has been adjusted from RMB2 per ton to RMB0.5-3.0 per ton. We are required to pay the resource tax for limestone used in our cement production. The uniform resource tax rate of RMB2 per ton is applicable to each of our limestone mines.

## **Provision on the Geological Environmental Protection of Mines**

Pursuant to the Provision on the Geological Environmental Protection of Mines (礦山地質環境保護規定) promulgated by the Ministry of Land and Resources of the PRC on March 2, 2009 and took effect on May 1, 2009, the applicant for mining rights, upon applying for a mining permit, is required to work out a plan for geological environmental protection and recovery, and to submit the plan to the administrative departments of state land and resources for approval. For mining resulting in geological environmental damage to mines, a holder of a mining permit shall be responsible for recovery work and the related costs shall be credited to production costs. If a holder fails to fulfill its obligations for mine's geological environmental recovery, the relevant administrative departments of state land and resources shall order the holder to fulfill its recovery obligations within a specified period. A holder of a mining permit shall fulfill its recovery obligations before the closure of mines. A holder shall pass inspection by and submit documents for acceptance to the administrative departments of state land and resources upon applying for closure formalities. We are required to conform to the above Provision on the Geological Environmental Protection of Mines for our limestone mining projects.

## **ENVIRONMENTAL PROTECTION**

### **General Regulations**

Pursuant to the Environmental Protection Law of the PRC (中華人民共和國環境保護法), promulgated by the Standing Committee of the National People's Congress and effective on December 26, 1989, the State Administration for Environmental Protection is empowered to formulate national environmental quality standards. The environmental protection administration of the people's governments at the county level and above are responsible for monitoring, on a unified basis, the environmental protection work within their jurisdictions. For items which are not governed by any national pollutant discharge standards, the people's governments of provinces, autonomous regions, and municipalities directly under the Central Government may formulate local standards; for items which are governed by national pollutant discharge standards, the people's governments of provinces, autonomous regions, and municipalities directly under the Central Government may formulate stricter local standards. Local pollutant discharge standards shall be filed with State Administration for Environmental Protection for the records.

According to the Law on the Prevention and Control of Water Pollution of the PRC (中華人民共和國水污染防治法) amended on February 28, 2008 and with effect from June 1, 2008, construction projects or other water facilities which are newly constructed, reconstructed and expanded, and which discharge pollutants into the water directly or indirectly, should conduct an environmental impact assessment in accordance with relevant laws. Enterprises which discharge industrial sewage directly or indirectly into water system should obtain pollutant discharge permits. Enterprises which discharge pollutants directly or indirectly into the water system should report to and register with the environmental protection administrative department in charge which is above county level in relation to the facilities which they own for discharging and treating water pollutants, as well as the types, quantities and concentrations of water pollutants discharged under normal operating conditions. These enterprises are also required to provide relevant technical information about how to prevent and control water pollution. Enterprises which discharge pollutants directly into the water should pay pollutant discharge fees according to the types and quantities of their water pollutants and the levy standard.

The Law on Prevention and Control of Air Pollution of the PRC (中華人民共和國大氣污染防治法) which was amended on April 29, 2000 and took effect from September 1, 2000 requires newly constructed, expanded or reconstructed projects which discharge pollutants into the atmosphere to comply with certain regulations relating to environmental protection. Units that discharge pollutants into the atmosphere should report to the local environmental protection

administrative department in charge in relation to the facilities which they own for the discharge and treatment of pollutants, as well as the types, quantities and concentrations of the pollutants discharged under normal operating conditions. They are also required to provide relevant technical information about how to prevent and control atmospheric pollution. The PRC government has implemented a system on levying fees for discharging pollutants into the atmosphere based on the type and quantity of pollutants discharged. The standards on levying pollution discharge fees that the government put in place have been based on the requirements for strengthening the prevention and control of atmospheric pollution as well as the national economic and technological conditions.

According to the Law on Prevention and Control of Environmental Pollution Caused by Solid Waste of the PRC (中華人民共和國固體廢物污染環境防治法) amended on December 29, 2004 and with effect from April 1, 2005, enterprises producing industrial solid wastes should form and improve an accountability system in preventing and controlling environmental pollution, and adopt measures to prevent and control such wastes from polluting the environment. The State has implemented a reporting and registration system for industrial solid pollutants. In accordance with the relevant requirements, units producing industrial solid pollutants must provide relevant information to the local environmental protection administrative department in charge which is above county level, where such information includes the type, quantity, flow, storage and treatment of the industrial solid wastes.

Under the Law on Prevention and Control of Environmental Noise Pollution of the PRC (中華人民共和國環境噪聲污染防治法), effective from March 1, 1997, industrial enterprises producing environmental noise pollution as a result of using their fixed facilities in industrial production must report to the local environmental protection administrative department in charge in relation to their facilities that produce noise pollution by category, quantity, and noise pollution level under normal operating conditions as well as the conditions of their noise pollution preventive facilities. They should also provide technical information about how to prevent and control noise pollution. Units producing environmental noise pollution should adopt remedial measures and pay discharge fees for exceeding the standards according to the PRC regulations.

According to the Opinion on the Enforcement of the Environmental Protection Laws and Prevention of Credit Risk (關於落實環保政策法規防範信貸風險的意見) promulgated by State Administration for Environmental Protection, the PBOC, and the China Banking Regulatory Commission (中國銀行業監督管理委員會) on July 12, 2007, the following irregularities will be addressed in accordance with the law: commencement of construction without approval or without approval by an authority at an appropriate level, failure to complete any environmental protection facilities at the same time as the production facility is completed, and commencement of operations without passing environmental examination. The above irregularities will be reported to the local people's banks, banking regulatory department and financial institutions. The financial institutions shall, on the basis of the administrative provisions of the State on environmental protection in respect of construction projects and the information disclosed by the environmental protection authority, conduct their examination and approval, disbursement, and supervision and administration of loans stringently. No credit in whatever form shall be granted to any project which has not passed the environmental assessment examination, or the environmental protection facilities of which have not passed the pre-approval inspection. Environmental authorities at all levels shall sanction enterprises in accordance with the law if they have conducted any of the following: excessive discharge of pollutants, excessive total discharge level, discharge of pollutants without obtaining the necessary permits in accordance with the law, discharges in breach of the levels allowed by the license or failure to restore the damaged environment within a prescribed timeframe. These breaches will be reported to the local people's banks, banking regulatory department and financial institutions. The financial institutions at all levels, when

examining enterprises' application for working capital loans, shall act on the information provided by the environmental protection departments, strengthen the management of credit and take measures to control stringently any lending of loans to enterprises which are in violation of the environmental laws, so as to safeguard against credit risks.

### **Environmental Impact Assessment**

Pursuant to the Administrative Regulations for the Environmental Protection of Construction Projects (建設項目環境保護管理條例) promulgated by the State Council on November 29, 1998 and took effect on the same day, and the Administrative Measures for the Examination and Approval of Environmental Protection Facilities of Construction Projects (建設項目竣工環境保護驗收管理辦法) promulgated by State Administration for Environmental Protection on December 27, 2001 with effect from February 1, 2002, and the Environmental Impact Assessment Law of the People's Republic of China (中華人民共和國環境影響評價法) promulgated by the Standing Committee of the National People's Congress on October 28, 2002 and took effect on September 1, 2003, enterprises are required to engage institutions with corresponding environmental impact assessment qualifications to provide environmental impact assessment services and reports for submission to the competent environmental protection approval administration. Construction work may only be commenced after such an assessment is submitted to and approved by the environmental protection administrative authority. The construction of pollution prevention and control facilities in a construction project must be designed and commenced simultaneously with the main facility. Pollution prevention and control facilities shall not be put to use until the approval, upon inspection, by the original environmental protection authority which had approved the environmental impact assessment report. An enterprise which fails to submit assessment documents on the environmental impact of a construction project in accordance with the law or which commences construction work without permission will be ordered to cease construction and go through formalities retrospectively within a prescribed timeframe. If the enterprise fails to go through the formalities retrospectively, the enterprise and the person with direct responsibilities are subject to fines or administrative penalties.

Pursuant to the Classification of Construction Project Lists for Environmental Impact Assessments (建設項目環境影響評價分類管理名錄) promulgated by the Ministry of Environmental Protection on September 2, 2008 and effective on October 1, 2008, cement manufacturers shall prepare an environmental impact report to fully evaluate the relevant impact their operations have on the environment, as cement manufacturing may cause significant impact to the environment. We are required to conduct an environmental impact assessment on our cement production projects, and obtain approval from the competent environment protection authorities.

## MANAGEMENT

### DIRECTORS

Our board currently consists of eight directors, comprising four executive directors, one non-executive director and three independent non-executive directors. The powers and duties of our board include convening general meetings and reporting our board's work at our shareholders' meetings, determining our business and investment plans, preparing our annual financial budgets and final reports; formulating proposals for profit distributions, recovery of losses and for the increase or reduction of our registered capital, as well as exercising other powers, functions and duties conferred by our memorandum and articles of association. We have entered into service contracts with each of our executive directors and non-executive director. We have also entered into letters of appointment with each of our independent non-executive directors.

The following table sets forth certain information concerning our directors.

| Name                                  | Age | Position   |
|---------------------------------------|-----|--|
| Mr. Zhang Jimin (張繼民) . . . . .       | 56  | Chairman, Executive Director and Chief Executive Officer |
| Mr. Wang Jianli (王建禮) . . . . .       | 47  | Executive Director and Chief Engineer                    |
| Ms. Low Po Ling (羅寶玲) . . . . .       | 35  | Executive Director and Chief Financial Officer           |
| Mr. Tian Zhenjun (田振軍) . . . . .      | 50  | Executive Director and Deputy Chief Executive Officer    |
| Mr. Ma Zhaoyang (馬朝陽) . . . . .       | 42  | Non-executive Director                                   |
| Mr. Lee Kong Wai Conway (李港衛) . . . . | 56  | Independent non-executive Director                       |
| Mr. Wong Kun Kau (黃灌球) . . . . .      | 50  | Independent non-executive Director                       |
| Mr. Tam King Ching Kenny (譚競正) . . .  | 61  | Independent non-executive Director                       |

### Executive Directors

**Mr. Zhang Jimin (張繼民)**, age 56, is the chairman, executive director and chief executive officer of our Company. He was appointed an executive director of our Company on October 27, 2006. He is also our chief executive officer. Mr. Zhang is the founder of our Group and is also a director of a number of our subsidiaries including West China BVI, Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Xiushan Yaobai, Xi'an Yaobai and Longqiao Yaobai. He is responsible mainly for our overall strategy planning and investment decisions. Mr. Zhang has approximately 25 years of experience in the cement industry. He served as the factory manager of Shaanxi Province Pucheng County Hanjing Town Second Cement Factory (陝西省蒲城縣罕井鎮第二水泥廠), a collectively-owned enterprise established by the Pucheng County Hanjing Town Commune (蒲城縣罕井鎮人民政府), a PRC local-level government from 1985 to December 1990. Since December 1990, Mr. Zhang served as the manager of Pucheng County Hanjing Town Cement Factory (蒲城縣罕井鎮水泥廠), a collectively-owned enterprise established by the Pucheng County Hanjing Town Commune (蒲城縣罕井鎮人民政府) and which was then succeeded by Pucheng Yaobai and continued with such positions in Shaanxi Yaobai. Mr. Zhang actively participated in various cement technologies development projects and during 1992 to 1994, he led the development of low heat slag cement and moderate-heat Portland cement, which won the Second Grade Science and Technology Progress Prize issued by the Shaanxi Province government. Mr. Zhang has also assumed several social positions, such as being the chairman of Shaanxi Province Cement Association (陝西省水泥協會), an industry association jointly established by the Raw Materials Division of the Industry and Information Technology Department of Shaanxi Province (陝西省工業和信息化廳原材料處) and various cement production enterprises in Shaanxi, since December 2009. As the chairman of Shaanxi Province Cement Association (陝西省水泥協會), Mr.



Zhang is mainly responsible for promoting the information exchange of the cement enterprises in Shaanxi, leading the association to establish and perfect the self-regulatory regime of the cement industry, maintain fair market competition, providing technology and human resources and assisting the Shaanxi Province government to regulate the cement industry in Shaanxi province. Mr. Zhang is also a representative of Xi'an City of the 11th Standing Committee of Shaanxi Provincial People's Congress (陝西省第十一屆人民代表大會常務委員會西安市代表) who participates in the plenary sessions of the 11th Standing Committee of Shaanxi Provincial People's Congress for discussion and approval of various matters such as politics, economics in relation to Shaanxi province. Through these social positions, Mr. Zhang is able to maintain close contact with the industry partners and the local government so as to keep abreast of the latest development of the cement industry and government policies. Mr. Zhang received professional training course in economic management from Peking University (北京大學) in July 2001.

**Mr. Wang Jianli (王建禮)**, age 47, is an executive director of our Company. He is also our chief engineer and director of a number of our subsidiaries including Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai, Mianxian Yaobai and Xixiang Yaobai. He was appointed an executive director of our Company on November 2, 2006. He is responsible mainly for our overall production management, technology quality assurance, safety, environmental protection, efficiency management and project management. Mr. Wang graduated from Xi'an University of Technology (西安理工大學) (formerly known as Shaanxi College of Machinery (陝西機械學院)) with a bachelor's degree in engineering in December 1990. Mr. Wang has more than 28 years of experience in the cement industry. He worked at the Shaanxi Design & Research Institute of Building Materials (陝西省建築材料工業設計研究院), an integrated research institute supervised by the Science and Technology Department of Shaanxi Province (陝西省科技廳) and specializing in the scientific research and designing of construction materials, from December 1982 to February 2002 with a range of positions including technician, assistant engineer, engineer, senior engineer, deputy director of design institute, director of design institute and assistant to the dean; and he had been engaged in the design and technical management of cement plants during such period. He has been in his current position at Shaanxi Yaobai since March 2002 and was in charge of design and construction of our various cement production lines at Pucheng, Lantian, Xunyang and Yangxian and through such engagement, he accumulated valuable management experience and technical knowledge. Mr. Wang has also published some thesis in cement industry journals, for example, "Microstructure and chemical composition of ferrous micro-bead separated from fly ash (粉煤灰中磁珠的微觀結構及化學組成)" in the cement industry journal Mining Research and Development (礦業研究與開發) and "Characteristics of ultra-fine flyash and hydration in cement paste (超細粉煤灰及其在水泥淨漿中的水化特徵研究)" and "Influence of particle pattern and gradation on the water dosage of fly ash cement (顆粒形貌及粒級對粉煤灰水泥需水量影響的試驗研究)" in the cement industry journal Concrete (混凝土).

**Ms. Low Po Ling (羅寶玲)**, age 35, is an executive director of our Company. She was appointed an executive director of our Company on October 20, 2008. She is also our chief financial officer and a director of our subsidiary, Shaanxi Yaobai. She is responsible mainly for supervising our corporate finance, audit, securities and information dissemination. Ms. Low graduated from Systematic Business Training Centre in 1995. Before joining us, Ms. Low worked in Malaysia, Singapore and the United Kingdom. She was an associate consultant of PricewaterhouseCoopers Consulting Sdn Bhd, an accounting firm in Malaysia between May 1998 and May 1999. From November 2000 to January 2003, she worked as an audit assistant with Tan Choon Chye & Co., a CPA firm. In January 2003, Ms. Low joined BDO International, a CPA firm in Singapore as a senior auditor. Between January 2005 and May 2006, she was with BDO London as a consultant. She then joined PKF (UK) LLP, an accounting and business consulting firm in London and worked as a corporate finance executive until March 2007. From April 2007 to

December 2008, Ms. Low served as an associate director of Goldenway Capital and Chang'an Capital, an investment company before joining our Group. Ms. Low is a fellow member of the Association of Chartered Certified Accountants (ACCA). Ms. Low has more than 10 years of experience in audit practice and corporate finance.

**Mr. Tian Zhenjun (田振軍)**, age 50, is an executive director of our Company. He was appointed an executive director of our Company on May 17, 2010. He is also our deputy chief executive officer and is responsible for our overall administrative, human resources and operational management. Mr. Tian is a director of a number of our subsidiaries including Shaanxi Yaobai, Lantian Yaobai and Ankang Yaobai. Mr. Tian has received an undergraduate degree in accountancy from Shaanxi Finance & Economy College (陝西財經學院) in December 2001. From August 1988 to August 1998, Mr. Tian served as the accounting manager of Pucheng County Coal Mine (蒲城縣煤礦), a local state-owned enterprise. He joined Shaanxi Yaobai in September 1998 and has held several positions in our Group, including general accountant, director of the finance department, assistant general manager and sales manager. Mr. Tian became a certified accountant in the PRC in October 1994.

### **Non-executive Director**

**Mr. Ma Zhaoyang (馬朝陽)**, age 42, was appointed a non-executive director of our Company on July 29, 2010. Mr. Ma received a master's degree in management from Northwestern Polytechnic University (西北工業大學) in May 1998. Mr. Ma has been a professor of management at Northwestern Polytechnic University in Shaanxi, China since 1996. In view of his academic knowledge and extensive experience in strategic planning, Mr. Ma Zhaoyang was appointed a non-executive director of our Company and assumes an advisory role with us in respect of the overall strategic planning and operation of our business. Mr. Ma has been the chairman and director of Sino Vanadium Inc., a vanadium mining company listed on the TSX Venture Exchange in Canada since June 2009. He has also been a non-executive director of Taihua PLC, a pharmaceutical company listed on the London Stock Exchange, where he assumes an advisory role since December 2006. He is currently and has been an independent non-executive director of Xi'an Kaiyuan Holding Group Co., Ltd. (西安開元控股集團股份有限公司), a company listed on the Shenzhen Stock Exchange which is principally engaged in department store retail businesses and where he has assumed an advisory role since May 2006.

### **Independent non-executive Directors**

**Mr. Lee Kong Wai Conway (李港衛)**, age 56, was appointed an independent non-executive director of our Company on July 29, 2010. Mr. Lee received a bachelor's degree in arts from Kingston University (formerly known as Kingston Polytechnic) in London in July 1980 and further obtained his postgraduate diploma in business from Curtin University of Technology in Australia in February 1988. Mr. Lee served as a partner of Ernst & Young over the past 29 years and held key leadership positions in the development of such firm in China. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Registered Accountants. Mr. Lee currently also serves as an independent non-executive director of China Taiping Insurance Holdings Company Limited and Chaowei Power Holdings Limited, companies listed on the Main Board of The Stock Exchange of Hong Kong Limited since October 2009 and July 2010, respectively, and Sino Vanadium Inc., a company listed on the TSX Venture Exchange in Canada since October 2009. Mr. Lee was appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province in China since 2007.

**Mr. Wong Kun Kau (黃灌球)**, age 50, was appointed an independent non-executive director of our Company on July 29, 2010. Mr. Wong received a bachelor's degree in social sciences from the University of Hong Kong in November 1982. He has 28 years of experience in fund management, securities broking and corporate financing involving securities origination, underwriting and placing of equities and equity-linked products, mergers and acquisitions, corporate restructuring and reorganizations and other general corporate advisory activities. Mr. Wong has extensive experience in the Greater China region markets. He is the founder and currently the managing partner of Bull Capital Partners Ltd, a direct investment fund management company. Before founding Bull Capital Partners Ltd., Mr. Wong was the head of investment banking (Asia) of BNP Paribas Capital (Asia Pacific) Limited from 2002 to 2007.

**Mr. Tam King Ching Kenny (譚競正)**, age 61, was appointed an independent non-executive director of our Company on July 29, 2010. Mr. Tam received a bachelor's degree in commerce from the Concordia University in November 1975. He is a practising Certified Public Accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Tam is serving as a member of the Ethics Committee and Practice Review committee in the Hong Kong Institute of Certified Public Accountants. He is also a past president of The Society of Chinese Accountants and Auditors. Mr. Tam also serves as an independent non-executive director of five other listed companies on the Main Board of The Stock Exchange of Hong Kong Limited, namely, Kingmaker Footwear Holdings Limited, CCT Telecom Holdings Limited, Shougang Concord Grand (Group) Limited, Starlite Holdings Limited and Van Shung Chong Holdings Limited since May 1994, December 1999, February 1996, July 2004 and September 2004, respectively, and a listed company on the GEM board of The Stock Exchange of Hong Kong Limited, namely, North Asia Strategic Holdings Limited, since September 2004. He was also an independent non-executive director of King Stone Energy Group Limited (formerly known as Yun Sky Chemical (International) Holdings Limited), a listed company on the Main Board of The Stock Exchange of Hong Kong Limited, during the period from August 2005 to September 2008.

Although Mr. Tam has been appointed an independent non-executive director of six other listed companies, Mr. Tam is of the view that he can allocate sufficient time to serve as an independent non-executive director and our Company is also satisfied that Mr. Tam can devote sufficient time to perform his duties as an independent non-executive director.

## SENIOR MANAGEMENT

The following table sets forth certain information concerning our other senior management members.

| Name                             | Age | Position  |
|----------------------------------|-----|---|
| Mr. Chen Zhixin (陳志信) . . . . .  | 50  | General Manager of Ankang Yaobai  |
| Mr. Li Wenyu (李文育) . . . . .     | 50  | General Manager of Longqiao Yaobai  |
| Mr. Tian Maoyuan (田茂遠) . . . . . | 45  | General Sales Manager   |
| Mr. Li Yongji (李永繼) . . . . .    | 32  | Strategic Planning Director and Secretary to the board of directors of Shaanxi Yaobai |
| Mr. Lian Jie (連杰) . . . . .      | 41  | General Manager of Xiushan Yaobai   |
| Ms. Tang Huiqin (唐會芹) . . . . .  | 42  | Head of internal audit department   |
| Mr. Sin Lik Man (洗力文) . . . . .  | 32  | Company Secretary   |

**Mr. Chen Zhixin (陳志信)**, age 50, is the general manager of Ankang Yaobai. Mr. Chen is also a director of a number of our subsidiaries including Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai and Xiushan Yaobai. Mr. Chen received an undergraduate degree in commanding communications from the PLA Commanding Communications Academy (中國人民解放軍通信指揮學院) in July 2000. From February 1978 to December 2002, Mr. Chen worked for the army of the PRC. From December 2002 to September 2005, he worked as vice general manager of the Shaanxi West Cyber Information Co. Ltd. (陝西西部數通電訊資訊有限公司). Mr. Chen joined Shaanxi Yaobai in September 2005 and has held several positions in our Group including assistant to the general manager of Shaanxi Yaobai, vice general manager of Shaanxi Yaobai, general manager of a branch office of Shaanxi Yaobai and general manager of Ankang Yaobai.

**Mr. Li Wenyu (李文育)**, age 50, is the general manager of Longqiao Yaobai and is responsible for the overall management of Longqiao Yaobai. He is also a director of Shaanxi Yaobai and Longqiao Yaobai. Mr. Li received professional training in business operations from Northwest University of China (西北大學) in March 2003. Mr. Li served as the director of supply and marketing division of Pucheng Shangwang Construction Material Co., Ltd. (蒲城縣上王建材廠) from February 1993 to October 1997 and has been involved in the building materials industry for approximately 17 years. In 1997, Mr. Li joined Shaanxi Yaobai and has held several positions in our Group including head officer of general logistics department, sales manager and general manager of Hanzhong Yaobai, Mianxian Yaobai and Xixiang Yaobai.

**Mr. Tian Maoyuan (田茂遠)**, age 45, is our general sales manager and is responsible for sales and marketing of our products. Mr. Tian is also a director of a number of our subsidiaries including Shaanxi Yaobai, Hanzhong Yaobai, Mianxian Yaobai and Xixiang Yaobai. Mr. Tian received a bachelor's degree and a MBA from Northwestern Polytechnic University (西北工業大學) in July 1988 and December 2005, respectively. From August 1988 to August 2008, Mr. Tian worked for Xi'an Electric Switch Electric Co., Ltd. (西安西電開關電氣有限公司), a subsidiary of China XD Group (中國西電集團), in a range of positions including deputy director of the manufacture institute, deputy director of the sale and service department, deputy director and director of the isolating switch institute and assistant to the general manager. Mr. Tian joined us in 2008 and has held several positions in our Group including vice president of our Company, head officer of the administration department, general manager of a branch office of Shaanxi Yaobai and sales manager.

**Mr. Li Yongji (李永繼)**, age 32, is the strategic planning director and secretary to the board of directors of Shaanxi Yaobai. He is responsible for our strategic planning of the development and public relations. Mr. Li is also a director of Xi'an Yaobai and Longqiao Yaobai. Mr. Li received a diploma in accounting from Xi'an Jiaotong University (西安交通大學) in December 2004. Mr. Li joined us in August 2002 and has worked in several departments of our Group including finance department, Lantian project department, and investment and development department. Mr. Li obtained the certificate for medium level accountant (中級會計師) issued by the Ministry of Finance of the PRC (中華人民共和國財政部) in May 2005 and became a certified tax planner in the PRC in March 2009.

**Mr. Lian Jie (連杰)**, age 41, is a director and the general manager of Xiushan Yaobai and is responsible for the overall management of Xiushan Yaobai. Mr. Lian received an undergraduate degree in accounting from Shaanxi Economics and Trade Institute (陝西經貿管理學院, formerly known as Shaanxi College of Industry and Commerce (陝西工商學院)) in July 1995 and a bachelor's degree in accounting from Central Broadcasting and Television University (中央廣播電視大學) in June 2005. Prior to joining us, Mr. Lian worked as the deputy general manager of Shaanxi Xiushan Cement (Group) Co., Ltd. (陝西秀山水泥(集團)有限公司), the predecessor of Xiushan Yaobai, from January 2006 to July 2009 and as a director of the finance department of Shaanxi Xiushan Cement (Group) Co., Ltd. (陝西秀山水泥(集團)有限公司) from March 2005 to

December 2005. Mr. Lian joined us in August 2009 as executive vice general manager of Xiushan Yaobai and is currently the general manager of Xiushan Yaobai. Mr. Lian obtained the certificate for medium level accountant (中級會計師) issued by the Ministry of Finance of the PRC (中華人民共和國財政部) in May 2002.

**Ms. Tang Huiqin (唐會芹)**, age 42, is the head of internal audit department of our Company and she joined us in November, 2004. Ms. Tang has approximately 19 years of experience in accounting and internal audit. Between July 1991 and October 2004, Ms. Tang worked at Shaanxi Shaanhua Company Fufei Factory (陝西陝化股份公司復肥廠) and served as a vice manager, responsible for financial reporting, costing and internal auditing. From November 2004 to December 2007, she served various positions in Shaanxi Yaobai, such as head of internal audit department of Pucheng branch office, deputy financial controller, head of internal control, deputy general manager and head of audit department, responsible for audit and internal control of Shaanxi Yaobai. She received a Master's degree of Business Administration from School of Economics and Management, Northwestern University (西北大學經濟管理學院) in the PRC in 2005. She also obtained the senior accountant certificate awarded by the Human Resources Bureau of Shaanxi Province in October 2007 and became a certified tax planner in the PRC in March 2009.

**Mr. Sin Lik Man (洗力文)**, age 32, is the company secretary of our Company and he joined us on May 17, 2010. Mr. Sin received a bachelor's degree of Business Administration, with a major in accounting from the Hong Kong University of Science and Technology in November 2000 and further received a master's degree in accounting from Curtin University of Science and Technology, Australia in April 2007. Mr. Sin is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a fellow member of the Association of Chartered Certified Accountants (ACCA). Mr. Sin possesses about 10 years of experience in financial control, corporate finance, capital market relations, corporate governance and compliance, and company secretarial practice through his past working history which enabled him to discharge the functions as a company secretary of our Company. Before joining us, Mr. Sin worked as a senior finance manager of a subsidiary and an associated company of Norstar Founders Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, from April 2006 to May 2010 and was responsible for the management of the overall corporate finance and treasury functions, providing technical support on the financial control and corporate governance issues of the company. From May 2003 to September 2005, Mr. Sin served as an accounting services officer of HSBC International Trustee Limited, responsible for preparing the financial accounts, and internal audit officer of Delta Asia Financial Group, responsible for performing the internal audit and preparing internal audit report. Mr. Sin was a staff accountant of Ernst & Young from September 2000 to April 2003, responsible for reviewing accounting and internal control system, auditing financial accounts and preparing audited financial statements.

## **COMPANY SECRETARY**

Mr. Sin Lik Man is a member of our senior management and the company secretary of our Company. Please refer to his biography under the paragraph headed “— Senior Management” above.

## **BOARD COMMITTEES**

### **Audit Committee**

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The audit committee currently consists of three

independent non-executive directors, being Mr. Lee Kong Wai Conway, Mr. Tam King Ching Kenny and Mr. Wong Kun Kau, with Mr. Lee Kong Wai Conway serving as chairman of the audit committee. Mr. Lee Kong Wai Conway has the appropriate professional qualification as set out in Rule 3.10(2) of the Listing Rules.

The primary duties of the audit committee are to assist our board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by our board.

#### **Remuneration Committee**

We have established a remuneration committee with written terms of reference in compliance with paragraph B1 of the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The remuneration committee currently consists of two independent non-executive directors, being Mr. Tam King Ching Kenny and Mr. Wong Kun Kau and one executive director, being Mr. Zhang, with Mr. Zhang serving as chairman of the remuneration committee.

The primary duties of the remuneration committee are to establish and review the policy and structure of the remuneration for directors and senior management.

#### **Nomination Committee**

We have established a nomination committee with written terms of reference as recommended under the Code on Corporate Governance Practices, set out in Appendix 14 to the Listing Rules. The nomination committee currently consists of two independent non-executive directors, being Mr. Lee Kong Wai Conway and Mr. Tam King Ching Kenny, and one executive director, being Mr. Zhang, with Mr. Zhang serving as chairman of the committee.

The primary functions of the nomination committee are to make recommendations to our board regarding the appointment of members of our board.

#### **Risk Assessment Committee**

We have established a risk assessment committee with written terms of reference. The risk assessment committee currently consists of 23 members including, among others, all our executive directors, namely Mr. Zhang, Mr. Wang Jianli, Ms. Low Po Ling and Mr. Tian Zhenjun, our company secretary, Mr. Sin Lik Man, and each of our senior management disclosed in the section headed "Management", namely Mr. Chen Zhixin, Mr. Li Wenyu, Mr. Tian Maoyuan, Mr. Li Yongji, Mr. Lian Jie and Ms. Tang Huiqin, with Mr. Zhang serving as the chairman of the committee.

The primary functions of the risk assessment committee are to identify risk areas and formulate action plans for each department of our Group to execute.

### **COMPENSATION OF DIRECTORS AND MANAGEMENT**

We have established a remuneration committee to determine the remuneration of our directors and senior management from time to time. Our remuneration policy is to provide remuneration packages, in terms of basic salary, short term bonuses and long term rewards such as options, so as to attract and retain top quality staff. Our remuneration committee reviews such packages annually, or when the occasion requires. Our executive directors, who are also our employees, receive compensation in the form of salaries, bonuses and other allowances. The aggregate amount of remuneration (including fees, salaries and discretionary bonuses) which we paid to our directors for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 were approximately RMB4.5 million, RMB8.0 million, RMB4.7 million and RMB2.9 million, respectively.

The aggregate amount of remuneration (including fees, salaries and discretionary bonuses) which were paid by our Group to the five highest paid individuals, including our directors, during the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 were approximately RMB4.5 million, RMB7.9 million, RMB4.7 million and RMB2.7 million, respectively.

We paid no remuneration to our directors or the five highest paid individuals as an inducement to join or upon joining us or as compensation for loss of office, apart from severance of six months salary paid to two departed British directors related to our IPO, in respect of the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010. Further, none of our directors had waived any remuneration during the same period.

Save as disclosed above, no other payments including contributions to pension schemes have been paid or are payable, in respect of the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, by us or any of our subsidiaries to our directors, and no payments were made during the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010 by us to any of our directors as an inducement to join or upon joining us.

## PRINCIPAL SHAREHOLDERS

As of December 31, 2010, according to the register we maintain in accordance with Section 336 of the Securities and Futures Ordinance, the following parties were directly or indirectly interested in 5% or more of our issued share capital.<sup>(1)</sup>

| Name                                  | Nature of interest                   | Number of<br>shares held | Percentage of<br>shareholding in<br>our Company |
|---------------------------------------|--------------------------------------|--------------------------|---|
| Asia Gain <sup>(2)</sup> . . . . .    | Beneficial owner                     | 1,738,873,900            | 40.91%  |
| Zhang Jimin <sup>(2)</sup> . . . . .  | Interest of a controlled corporation | 1,738,873,900            | 40.91%  |
| Techno Faith <sup>(3)</sup> . . . . . | Beneficial owner                     | 213,679,950              | 5.03%   |
| Ma Zhaoyang <sup>(3)</sup> . . . . .  | Interest of a controlled corporation | 213,679,950              | 5.03%   |

*Notes:*

- (1) All interest in these shares are long positions
- (2) Asia Gain is beneficially and wholly-owned by Zhang Jimin.
- (3) Techno Faith is beneficially and wholly-owned by Ma Zhaoyang.



## RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

On December 28, 2009, Shaanxi Yaobai entered into a joint venture agreement with Shaanxi Danshui in relation to the establishment of Longqiao Yaobai. Pursuant to the joint venture agreement, Shaanxi Danshui advanced to Longqiao Yaobai, a non-wholly owned subsidiary of our Company, an unsecured interest-free shareholder's loan in the amount of RMB140,320,900 (the "Loan"). The Loan is repayable as to 50% on or before June 30, 2010 and the remaining 50% on or before June 30, 2011. On January 1, 2010, Longqiao Yaobai entered into a supplementary agreement with Shaanxi Danshui, pursuant to which the repayment date of the Loan was extended to December 31, 2011. As of the date of this document, the outstanding amount owed to Shaanxi Danshui amounted to approximately RMB0.08 million. No security over our assets has been granted in respect of the Loan.

The Loan constituted financial assistance provided by a connected person of our Company for the benefit of our Group and fall within the exemption under Rule 14A.65(4) of the Listing Rules for the following reasons:

- (i) the financial assistance provided for the benefit of our Group was unsecured and interest free, which represented better terms than normal commercial terms; and
- (ii) no security over the assets of our Group has been granted in respect of such financial assistance.

As the Loan was provided by Shaanxi Danshui for the benefit of our Group on normal commercial terms (or better to our Group) where no security over the assets of our Group is granted in respect of the Loan, the Loan is exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules. See also "Business — Recent Acquisitions." On January 10, 2011, we acquired the remaining equity interest of Longqiao Yaobai from the previous shareholders of Shaanxi Danshui, as a result of which we now own a 100% interest in Longqiao Yaobai. Accordingly Shaanxi Danshui is no longer a connected person of our Company under the Listing Rules.

## DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing business operations and to finance our working capital requirements, we have borrowed money or incurred indebtedness from various banks. As of September 30, 2010, our total borrowings amounted to RMB941.3 million (US\$140.7 million). Since September 30, 2010, the Company has incurred additional indebtedness pursuant to the ICBC Bridge Loan as described below. We set forth below a summary of the material terms and conditions of these loans and other indebtedness.

### PRC LOAN AGREEMENTS

#### Bilateral Bank Loan Agreements

Shaanxi Yaobai has entered into bilateral loan agreements with a number of PRC banks, namely the Agricultural Bank of China (collectively, the “ABC Loans”), the Bank of China (the “BOC Loan”) and the Xi’an City Commercial Bank (the “Xian Commercial Bank Loan”). These loans are typically used to satisfy our working capital requirements and are repayable within one year.

#### *Interest*

The ABC Loans bear a floating rate interest calculated by reference to the PBOC’s benchmark interest rate per annum. Floating interest rates generally are subject to review monthly. Interest payments under the ABC Loan are payable monthly and must be made on each payment date as provided in the loan agreement. Any overdue amount under the ABC Loans will be subject to a penalty interest accruing from the due date up to the date of actual payment at a rate of 30% above the benchmark interest rate per annum. Any portion of the loan which is not used for the prescribed purpose will be subject to a penalty interest at a rate of 50% above the benchmark interest rate per annum.

The principal amounts outstanding under the BOC Loan and the Xi’an Commercial Bank Loan bear interest at a fixed rate of 5.31% per annum and 0.508875% per month, respectively. Interest payments under the BOC Loan is payable quarterly and interest payments under the Xi’an Commercial Bank Loan is payable monthly. Any overdue amount under the BOC Loan and Xi’an Commercial Bank Loan will be subject to a penalty interest accruing from the due date up to the date of actual payment at a rate of 30% and 50%, respectively, above the benchmark interest rate per annum. Any portion of the loans which is not used for prescribed purposes will be subject to a penalty interest at a rate of 100% above the benchmark interest rate per annum under both loans.

#### *Covenants*

Under these PRC bank loans, Shaanxi Yaobai has agreed, among other things, not to take the following actions without first notifying the lender and/or obtaining the lenders’ prior consent:

- create encumbrances on any part of properties or assets or deal with assets in a way that may adversely affect its ability to repay its loans;
- grant guarantees to any third parties that may adversely affect its ability to repay its loans;
- application for bankruptcy, liquidation and dissolution proceedings;
- transfer part or all of the liabilities under the loans to a third party; and
- prepay the loan.

### ***Guarantee and security***

Certain of our PRC subsidiaries have entered into guarantee and security agreements with the lenders in connection with the bank loan agreements, pursuant to which the borrower and its subsidiaries have provided guarantees and security including land use rights and fixed assets such as plant and equipment of such PRC subsidiaries or our other PRC subsidiaries.

### **Credit Suisse Syndicated Loan**

On November 30, 2009, Shaanxi Yaobai entered into a loan agreement with a syndicate of financial institutions led by Credit Suisse, Shanghai Branch Xi'an City Commercial Bank and Standard Chartered Bank (China) Limited for a loan of RMB330.0 million to satisfy its working capital requirements.

### ***Interest and maturity***

This loan is for a period of 36 months from the drawdown date and will be repaid in 10 installments at three-month intervals. The interest rate is 110% of the base rate for RMB-denominated loans for terms between one and three years as quoted by the PBOC. As of the date of this document, we have drawn down the entire amount and approximately RMB264 million (US\$39.5 million) was outstanding under this syndicated loan.

### ***Guarantees and security***

In connection with the Credit Suisse Syndicated Loan, our wholly owned PRC subsidiaries, Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai and Mianxian Yaobai (collectively, the "PRC guarantors") entered into guarantee agreements with the lenders to guarantee the obligations of Shaanxi Yaobai under this loan. In addition, Shaanxi Yaobai also pledged shares of the four PRC guarantors and Ankang Yaobai and Hanzhong Yaobai provided mortgages over their equipment, land and building to secure their obligations under the loan.

### ***Covenants***

Shaanxi Yaobai has agreed to the following financial covenants under the loan agreement:

- maintain a ratio of total borrowings to EBITDA of no more than 2.5:1 at or prior to June 30, 2010 and 2.01:1 thereafter;
- maintain a ratio of EBITDA to fixed charges of no less than 5;
- maintain a ratio of total borrowings to total capitalization of no more than 55% on or prior to December 31, 2009 and 45% thereafter;
- maintain a ratio of total indebtedness to total assets of no more than 50% on or prior to December 31, 2010 and 40% thereafter;
- incur capital expenditures of no more than RMB700 million for the year ended December 31, 2009, no more than RMB200 million for the six months ended June 30, 2010, no more than RMB450 million for the year ended December 31, 2010 and no more than RMB200 million during each of the two years ended December 31, 2011 and 2012.

On December 29, 2010, we entered into an amendment agreement to remove the capital expenditures limit effective from January 1, 2010.

In addition to the above financial covenants, each of the Shaanxi Yaobai and the PRC guarantors also agreed, among other things, subject to certain exceptions, not to take the following actions without prior written approval of the lenders whose share of commitments exceeds 50% of the total commitments if there is no loan outstanding or whose share in the outstanding loans exceeds 50% of the total then outstanding loans:

- create any liens or encumbrance on the assets;
- extend any credit or guarantee the indebtedness of any third parties;
- sell, lease, transfer or otherwise dispose of any assets, except for any such disposal of any asset of RMB1 million or less undertaken in the ordinary course of business at arm's length;
- invest in any business which is not related to its main business;
- acquire any business which is not related to its main business or in which it will not have control;
- merge with any person if as a result of such merger, it will not have control in any successor entity; or
- materially change its main business.

As Shaanxi Yaobai increased its capital expenditures in 2010 in connection with the construction of production facilities, the total amount of the capital expenditures it incurred in the four months ended April 30, 2010 was RMB374.8 million, which exceeded the RMB200 million limit prescribed in this loan agreement for the six months ended June 30, 2010. In addition, based on Shaanxi Yaobai's unaudited consolidated management accounts as of June 30, 2010, the ratio of total indebtedness to total assets exceeded the 50% limit applicable for the six months ended June 30, 2010. The facility agent representing the lenders had granted Shaanxi Yaobai a waiver with respect to these two covenants for the four months and six months ended April 30, 2010 and June 30, 2010, respectively. Under the waiver, Shaanxi Yaobai is not required to comply with these two financial covenants until after June 30, 2011. As a result of such waiver, it is not, as of the date of this document, in breach of the two financial covenants under the loan agreement. See "Risk Factors — Risks Relating to Our Business — Our level of indebtedness and our net current liabilities position expose us to liquidity risks" and "Any breach of financial covenants under our loan agreement could adversely affect our business, financial condition and result of operations."

#### ***Dividend restriction***

Shaanxi Yaobai agreed under the Credit Suisse Syndicated Loan not to make dividend distributions if the amount of such dividends will exceed the distributable profits as reflected in the audited financial information for the latest fiscal year, which distributable profits shall not include any accumulated profits from prior fiscal years.

### **OFFSHORE LOAN AGREEMENT**

#### **ICBC Bridge Loan Agreement**

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

### ***Interest***

Interest payable under the ICBC Bridge Loan will be accrued on the principal amount of the ICBC Bridge Loan at LIBOR plus 4% per annum, unless the ICBC Bridge Loan is extended beyond its initial term, in which case the interest payable will be accrued at LIBOR plus 5.50% per annum.

### ***Repayment, maturity and prepayment***

The ICBC Bridge Loan matures in June 2011, and the Company is required to repay the ICBC Bridge Loan in a lump sum amount on the maturity date. However, with prior notice to the Lender, the Company may extend the maturity date by a further six months to December 2011.

Pursuant to the ICBC Bridge Loan Agreement, the Company may voluntarily prepay the entire or any part of the ICBC Bridge Loan at any time after one month from the date of the ICBC Bridge Loan Agreement by giving six days' prior written notice to the Lender, provided any prepayment made is not less than a minimum amount of US\$5 million and is made on the last day of an interest period as agreed between the parties thereto. The Company is required to notify the Lender immediately if the Company raises any funds in the equity or debt market through incurring any financial indebtedness, which includes borrowing money, entry into any credit facility, issuance of debt instrument and entry into any finance or capital lease. The Company is also required to repay all outstanding amounts under the ICBC Bridge Loan within five business days of any successful capital raising.

### ***Collateral***

The ICBC Bridge Loan is secured by (i) an equity pledge over Shaanxi Yaobai provided by Faithful Alliance; and (ii) a share mortgage over the shares in Faithful Alliance executed by West China BVI. In addition, Mr. Zhang Jimin has provided a personal guarantee in favor of the Lender, as guarantor to the ICBC Bridge Loan. Share certificates with respect to 1,000,000 shares in the issued capital of the Company held by Asia Gain were also delivered to the Lender under a custody arrangement.

### ***Covenants***

Pursuant to the ICBC Bridge Loan Agreement, the Company agreed to the following financial covenants:

- the consolidated tangible net worth shall not be less than RMB2,500,000,000;
- the ratio of the consolidated borrowings to the consolidated tangible net worth shall not be more than 2.00:1; and
- the ratio of the consolidated borrowings at the end of a relevant period to the consolidated EBITDA for that relevant period (meaning each period of 12 months ending on the last day of our financial year and each period of 12 months ending on the last day of the first half of our financial year) shall not be more than 5.00:1.

In addition to the financial covenants, the Company agreed to certain non-financial covenants including the following:

- the Company shall not create or permit to subsist any security interest over any of our assets, except for certain security already existing as of the date of the ICBC Bridge Loan Agreement;
- the Company shall not sell, lease, transfer or otherwise dispose of any asset, except in certain limited circumstances as permitted by the ICBC Bridge Loan Agreement;

- the Company shall not substantially change the nature of our business from that carried on at the date of the ICBC Bridge Loan Agreement;
- the Company shall not acquire any company, business, assets or undertaking or make any investment, except in certain limited circumstances as permitted by the ICBC Bridge Loan Agreement;
- the Company shall not make any loan, grant any credit or give any guarantee or indemnity for the benefit of any person, except in certain limited circumstances as permitted by the ICBC Bridge Loan Agreement; and
- the Company shall not incur any financial indebtedness, except for any such indebtedness incurred under the ICBC Bridge Loan Agreement and any new proceeds raised for the purpose of repaying the outstanding amounts under the ICBC Bridge Loan.

### *Events of default*

Under the ICBC Bridge Loan Agreement, events of default include any non-payment of any outstanding amount under the ICBC Bridge Loan, non-compliance with financial covenants, insolvency or bankruptcy, cessation of our main business and change of control with respect to our subsidiary guarantors. In addition, any non-payment of financial indebtedness by any member of our Group, any cancellation, suspension of credit facility or acceleration of repayment as a result of an event of default under any financing document entered into by a member of our Group is considered an event of cross default under the ICBC Bridge Loan Agreement, unless the aggregate amount of indebtedness in question is less than US\$1 million.