SUNNSY

CHINA SHANSHUI CEMENT GROUP LIMITED
中國山水水泥集團有限公司

(於開曼群島註冊成立的有限公司)

(股份代號：691)

發行美元優先票據的建議

本公司建議開始國際發售票據，並將由二零一五年三月二日或前後起，開始向亞洲及歐洲的機構投資者進行一連串的路演簡介會。現建議本公司若干在中國境外組建的附屬公司按優先償還的基準為票據提供擔保。中銀國際、瑞信及摩根士丹利已獲委任為聯席全球協調人、聯席牽頭經辦人兼聯席賬簿管理人。根據證券法S規例，票據將僅向美國境外的人士提呈發售。本公司將就票據發行建議向若干機構投資者提供本集團最新的企業及財務資料，包括但不限於最新的風險因素、本公司業務說明、管理層對財務狀況及經營業績的討論與分析、業務策略、關聯方交易及其他重大債項、管理層及主要股東的說明。其中部份資料從未公開。本公告隨附該等近期資料（其中部份資料從未公開）的節錄，且在本公司向機構投資者發放時，該等資料亦差不多同時會在本公司網站*www.shanshuigroup.com*登載。

票據定價，包括本金總額、發售價及息率，將由聯席牽頭經辦人通過入標定價方式釐定。票據條款一經落實，聯席牽頭經辦人及本公司等將訂立《購買協議》和其他附屬文件。

本公司目前擬將票據發行建議所得資金用作本集團現有債券的再融資。本公司有可能因應日後出現的事件或發展而重新調配所得資金。

本公司將向聯交所申請批准票據的上市及買賣(票據將以債券形式僅向專業投資者發行)。本公司已就票據上市接獲聯交所發出的上市資格確認函。票據獲聯交所接納並不應視為票據或本公司價值的象徵。

於本公告日期,由於並無訂立有關票據發行建議的具約束力協議,故票據發行建議可能會或可能不會完成。票據發行建議的完成須視乎市況及投資者興趣而定。投資者及本公司股東在買賣本公司證券時,務請審慎行事。倘《購買協議》獲簽署,則本公司將就票據發行建議刊發進一步公告。

票據發行建議

引言

本公司建議開始國際發售票據,並將由二零一五年三月二日或前後起,開始向亞洲及歐洲的機構投資者進行一連串的路演簡介會。現建議本公司若干在中國境外組建的附屬公司按優先償還的基準為票據提供擔保。中銀國際、瑞信及摩根士丹利已獲委任為聯席全球協調人、聯席牽頭經辦人兼聯席賬簿管理人。根據證券法S規例,票據將僅向美國境外的人士提呈發售。本公司不會在香港向公眾人士要約出售票據,亦不會向本公司任何關連人士配售票據。

本公司將就票據發行建議向若干機構投資者提供本集團最新的企業及財務資料,包括但不限於最新的風險因素、本公司業務説明、管理層對財務狀況及經營業績的討論與分析、業務策略、關聯方交易及其他重大債項、管理層及主要股東的説明。其中部份資料從未公開。本公告隨附該等近期資料(其中部份資料從未公開)的節錄,且在本公司向機構投資者發放時,該等資料亦差不多同時會在本公司網站*www.shanshuigroup.com*登載。

建議票據的定價,包括本金總額、發售價及息率,將由聯席牽頭經辦人通過入標定價方式釐定。票據條款一經落實,聯席牽頭經辦人及本公司等將訂立《購買協議》和其他附屬文件,而聯席牽頭經辦人將根據該等文件成為票據的初步買家。

進行票據發行建議的理由

本集團是中國以水泥生產力計最大規模的熟料水泥生產商之一，在其主要市場山東遼寧兩省享有優越市場地位。本公司利用其穩固的競爭優勢及強大政府支持，把握山西、內蒙和新疆的良好發展機會，通過實質業務發展與併購交易，迅速在該等地區建立市場地位。本集團利用新型乾法生產技術生產不同等級的水泥產品出售，主要產品包括生產熟料，即生產水泥的主要成份。本集團亦生產和銷售其他產品，如混凝土。本集團在二零一一年、二零一二年、二零一三年及截至二零一四年十月三十一日止十個月的水泥產品銷量分別為47,900,000噸、47,800,000噸、53,400,000噸及46,200,000噸。本集團生產的熟料雖有大部份用作自身的水泥生產，但在二零一一年、二零一二年、二零一三年及截至二零一四年十月三十一日止十個月亦向對外客戶分別銷售7,000,000噸、9,000,000噸、9,200,000噸及8,100,000噸熟料。

本公司擬將發售票據所得資金用作本集團現有債券的再融資。

然而，本公司將視乎日後出現的事件發展，例如整體市況、市場對本集團產品的需求、水泥業前景，以及本集團經營業務所在城市的社會狀況、政治狀況、經濟狀況與監管環境的變化，與本集團的資金需求和可動用的融通資金的變化，而以有別於上述的方式使用所得資金淨額。

上市

本公司將向聯交所申請批准票據的上市及買賣（票據將以債券形式僅向專業投資者發行）。本公司已就票據上市接獲聯交所發出的上市資格確認函。票據獲聯交所接納並不應視為票據或本公司價值的象徵。

一般資料

於本公告日期，由於並無訂立有關票據發行建議的具約束力協議，故票據發行建議可能會或可能不會完成。票據發行建議的完成須視乎市況及投資者興趣而定。投資者及本公司股東在買賣本公司證券時，務請審慎行事。倘《購買協議》獲簽署，則本公司將就票據發行建議刊發進一步公告。

進一步公告

票據的條款及條件（包括但不限於本金總額、發售價及息率）現仍在釐定中並或有所變動。一旦票據的條款及條件獲最終確定，本公司將就票據發行建議刊發進一步公告。

釋義

於本公告內，除文義另有所指外，下列詞彙具有以下涵義：

「董事會」	指	本公司董事會
「中銀國際」	指	中銀國際亞洲有限公司，為票據發行建議的聯席全球協調人、聯席牽頭經辦人兼聯席賬簿管理人之一
「瑞信」	指	Credit Suisse Securities (Europe) Limited，為票據發行建議的聯席全球協調人、聯席牽頭經辦人兼聯席賬簿管理人之一
「中國」	指	中華人民共和國，就本公告而言，除文義另有規定外，不包括香港、中國澳門特別行政區及台灣
「本公司」	指	中國山水水泥集團有限公司，一家於開曼群島註冊成立的有限公司，其股份在聯交所主板上市
「關連人士」	指	具有上市規則所賦予的涵義
「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
「聯席牽頭經辦人」	指	中銀國際、瑞信及摩根士丹利
「上市規則」	指	聯交所證券上市規則
「摩根士丹利」	指	Morgan Stanley & Co. International plc，為票據發行建議的聯席全球協調人、聯席牽頭經辦人兼聯席賬簿管理人之一
「票據」	指	本公司將予發行的優先票據
「發售價」	指	票據的最終售價

「票據發行建議」	指	本公司進行票據的國際發售
「《購買協議》」	指	建議將由(其中包括)本公司、聯席牽頭經辦人及擔保人(定義見《購買協議》)就票據發行建議而訂立的有關認購票據的協議
「證券法」	指	一九三三年美國證券法,經修訂
「聯交所」	指	香港聯合交易所有限公司

承董事會命
中國山水水泥集團有限公司
主席
張斌

香港,二零一五年二月二十七日

於本公告日期,本公司董事會包括三名執行董事,即張斌先生(主席兼總經理)、張才奎先生及李長虹先生;一名非執行董事,即肖瑜先生;以及三名獨立非執行董事,即王堅先生、侯懷亮先生及吳曉雲女士。

Extract of Operating and Financial Data of China Shanshui Cement Group Limited (As at 27 February 2015)

RISKS RELATING TO OUR BUSINESS

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

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

We have historically benefited from the high economic growth in Shandong and Liaoning provinces. For the year ended December 31, 2014, according to the Shandong Provincial Bureau of Statistics and the Liaoning Provincial Bureau of Statistics, the GDP in Shandong province and Liaoning province increased by 8.6% and 5.6%, respectively, compared with 2013. The FAI in Shandong province and Liaoning province also increased by 17.7% and 15.0% in 2013, respectively, compared with 2012. As a result of the economic growth in Shandong and Liaoning provinces, the demand for construction materials, including cement, grew rapidly. Meanwhile, as a result of the PRC government's mandate to phase out obsolete production facilities, the number of cement products suppliers decreased significantly. The fast growth of the economy and the construction industry, particularly government infrastructure projects, and decreased number of cement products suppliers in the market, have been the main drivers of the growth of the cement industry in Shandong and Liaoning provinces and the growth of our business.

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

We may face difficulties in integrating acquired businesses with our own, and may not realize the anticipated benefits from the acquired businesses or our strategic investments.

In 2012 and 2013 and the ten months ended October 31, 2014, we acquired equity interests in seven entities engaged in the cement business in Shandong province, Liaoning province, Shanxi province and Shaanxi province, four entities engaged in both cement and clinker businesses, and four entities engaged in concrete business, and we may make similar acquisitions in the future to take advantage of the industry consolidation trend and acquisition opportunities. The identification and completion of such acquisitions depend on various factors, including satisfactory completion of due diligence, negotiation of definitive agreements and our ability to compete with other entities to acquire attractive targets. There 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.

We may also experience difficulties in integrating the acquired businesses, and their personnel and products, with those of ours due to differences in our respective business cultures or other factors. Our management's time and attention may as a result be diverted from other business concerns, and we may experience difficulties in retaining key employees and customers of the acquired businesses or strategic investments. In addition, we may incur higher capital expenditure and integration costs than we initially anticipated during the integration process. Our acquisitions or strategic investments may also result in the incurrence or assumption of debt or other liabilities and the amortization of expenses related to goodwill and other intangible assets, which could have a material adverse effect on our results of operations and financial condition. Failure to realize the anticipated benefits of our acquisitions and strategic investments may materially and adversely affect our business, results of operations and financial condition.

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

We have in the past expanded, and may expand in the future, our operations and markets through acquisitions and strategic investments. The identification and completion of such acquisitions and investments are dependent upon various factors, including satisfactory completion of due diligence, negotiation of definitive agreements and our ability to compete with other entities to acquire attractive targets. We might not be able to identify and acquire appropriate acquisition targets on commercially acceptable terms, or at all, might not have sufficient capital to fund such acquisitions or investments. Failure in identifying and acquiring suitable acquisition targets or making strategic investments in the future could adversely affect our growth.

Our products are commodity-like, which are subject to significant changes in supply and demand and price fluctuations, and any substantial or extended decrease in the selling prices of our products would have a material adverse effect on us.

Cement products are commodity-like and competition among producers is based largely on price. Prices are often subject to material changes in response to relatively minor fluctuations in supply and demand, general economic conditions and other market conditions beyond our control. Increases in the production capacity of industry participants tend to create an oversupply, leading to an imbalance between supply and demand, which may have a negative impact on product prices. Currently, there continues to be significant excess supply of cement products in China which has led to increased price competition and depressed average selling prices in the past few years.

The selling prices of our products have decreased in recent years. The average unit selling price per ton of our cement products was RMB294.6, RMB277.2, RMB249.9 (US$40.9) and RMB237.8 (US$38.9) for the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2014, respectively, and the average unit selling price per ton of our clinker products was RMB269.5, RMB211.0, RMB195.3 (US$32.0) and RMB196.0 (US$32.1), respectively, during the same periods. Since October 31, 2014, the average selling prices of our cement and clinker products have further decreased, negatively impacting our revenues. Many factors, however, could cause these prices to further decrease, some of which are beyond our control, including the level of demand and supply in our primary markets, the nature and extent of governmental regulation and taxation, the number and strength of our competitors, the availability, proximity and capacity of transportation facilities, and general economic conditions. Accordingly, the average unit selling prices of our products might continue to decrease. Any substantial or prolonged decrease in the selling prices of our products may materially and adversely affect our liquidity, business, results of operations and financial condition.

Our profitability and results of operations are subject to fluctuations in the supply and costs of raw materials, coal and power, and we may be unable to pass on cost increases to our customers.

The costs of limestone, coal and power account for a substantial portion of our production costs. For the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2013 and 2014, the aggregate costs of raw materials, coal and power represented 77.5%, 75.8%, 74.1%, 75.6% and 74.6%, respectively, of our total cost of sales. See "Business – Raw Materials, Coal and Power."

We rely on third party suppliers and our own limestone mines for the supply of limestone. For the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2014, we sourced 45.1%, 46.2%, 45.6% and 44.9% of our limestone supply from third party suppliers. In recent years, we have experienced a significant increase in limestone prices purchased externally caused by the closure of small-scale limestone processing plants mandated by the PRC government. Our unit purchase price of limestone increased from RMB13.5 per ton in 2011 to RMB14.9 (US$2.4) per ton in 2013 and further to RMB16.6 (US$2.7) per ton in the ten months ended October 31, 2014. As a result, we used a greater amount of our own limestone mine reserves in 2013 than in previous years to support our production. Meanwhile, our mining rights to our limestone mines are subject to various conditions and national and local government regulations. Our mining rights are valid for a period of 1 to 40 years and generally renewable upon expiration. As of October 31, 2014, the ownership certificates for certain limestone mining rights with a carrying amount of RMB111.3 million (US$18.2 million) have not been obtained. We could be ordered by the relevant authorities to cease excavation of the mines pending obtaining ownership certificates, which could disrupt our operations. We could also be subject to fines and required to disgorge profits obtained from the relevant mines. Our mining rights to our limestone mines could be revoked or not renewed upon expiration, or significant restrictions on the usage of the rights could be imposed on us. In addition, we might not be able to acquire additional limestone reserves and obtain relevant mining rights. If our raw materials and energy costs continue to increase and if we are unable to fully pass on any increased costs to our customers, our profitability and results of operations may be materially adversely affected.

The cement industry is capital intensive, and we may not be able to obtain additional financing to support our growth.

The cement industry is highly capital intensive. We require a substantial amount of capital to build our production facilities, purchase production equipment, develop and implement new technologies in our new and existing facilities and undertake business acquisitions. For the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2013 and 2014, our capital expenditures, as represented by payment for purchase of fixed assets, payment for purchase of intangible assets and acquisition of subsidiaries, net of cash acquired, were RMB3,409.4 million, RMB4,379.9 million, RMB4,155.1 million (US$679.8 million), RMB3,793.2 million and RMB1,801.8 million (US$294.8 million), respectively, accounting for 20.2%, 27.1%, 25.1%, 27.0% and 13.3% of our revenue for the same periods. Such amounts exceeded our net cash generated from operating activities 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, private equity funds, joint venture partners and other strategic investors. We may also consider raising funds through additional debt or equity offerings. Our ability to obtain external financing and the cost of such financing are subject to uncertainties, including our future financial and cash flow conditions and results of operations, general economic and capital market conditions, the cement industry conditions, credit availability from financial institutions, investors' confidence in our company and the legal environment in China.

We recorded net current assets of RMB208.3 million as of December 31, 2011, while we recorded net current liabilities of RMB1,213.4 million, RMB4,803.1 million (US$785.8 million) and RMB3,379.7 million (US$552.9 million) as of December 31, 2012 and 2013 and October 31, 2014, respectively. We may further record net current liabilities in future periods as we continue to expand and make significant capital investments. Our net current liabilities position exposes us to liquidity risks. Our future liquidity, the payment of trade and other payables and the repayment of our debt obligations when they become due will depend primarily on our ability to maintain adequate cash inflows from operating activities. External sources of financing might not be available on reasonable terms or at all, to fund our existing operations and business expansion. Failure to obtain such financing may force us to delay our expansion plans, downsize or abandon our expansion plans, which may materially and adversely affect our business, financial condition, results of operations and prospects.

Our financial performance and operating results could be materially and adversely affected by our indebtedness, and we may be exposed to liquidity risk.

We have historically relied on both short-term and long-term borrowings to fund a portion of our capital requirements, and expect to continue to do so. As of December 31, 2011, 2012 and 2013 and October 31, 2014, we had total debt (including bank loans, other borrowings and long-term bonds) of RMB11,465.5 million, RMB13,466.4 million, RMB16,489.8 million (US$2,697.8 million) and RMB17,160.9 million (US$2,807.6 million), respectively, and we had net current liabilities (total current liabilities minus total current assets) of RMB1,213.4 million, RMB4,803.1 million (US$785.8 million) and RMB3,379.7 million (US$552.9 million), respectively, as of December 31, 2012 and 2013 and October 31, 2014, respectively. Our gearing ratios (net debt divided by net capital) as of December 31, 2011, 2012 and 2013 and October 31, 2014 were 50.9%, 56.9%, 60.4% and 60.1%, respectively.

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

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

We have historically repaid the short-term loans and the portions due within one year of our long-term loans by rolling over the loans on an annual basis. We might not be able to continue to roll over our bank loans when they become due. We may not have sufficient funds available to repay our borrowings, particularly our short-term borrowings, upon maturity. Failure to service our debt could result in the imposition of penalties, including increases in rates of interest that we pay on our debt and legal actions against us by our creditors, as well as trigger cross-defaults under our other debt instruments, including the Notes, and may negatively impact our business operations.

Our bank borrowings from certain PRC banks require our subsidiaries to maintain certain financial ratios and conditions of assets related to cement operations. For details of these ratios and conditions, see "Description of Other Material Indebtedness." If we breach any of these terms, the loans will become repayable on demand.

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

As of October 31, 2014, we had total debt of RMB17,160.9 million (US$2,807.6 million), a substantial portion of which has floating interest rates linked to, among others, the benchmark rates of the PBOC and the London Interbank Offered Rate ("LIBOR"). A material increase in the reference rates during the term of our relevant loan facilities or when our current loan facilities become due could increase our finance costs and adversely affect our results of operations.

We rely on our key management personnel.

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

We, our management and/or our shareholders may become involved in legal and other proceedings from time to time, any of which may materially and adversely affect our business, liquidity, financial position, results of operations or cash flow.

We, our management and/or our shareholders have in the past, and may in the future, become involved in disputes with various parties, including our own employees, which may lead to legal or other proceedings and may result in substantial costs and diversion of resources and management's attention. In particular, on October 30, 2014, six individual minority shareholders (the "Plaintiff Shareholders") of China Shanshui Investment Company Limited ("Shanshui Investment"), our substantial shareholder, instituted a proceeding against, among other defendants, us and CNBM in the High Court of Hong Kong seeking an order to, among other things, set aside a subscription agreement under which CNBM subscribed for 563,190,040 of our ordinary shares, or approximately 16.67% of our enlarged share capital for approximately HK$1,547 million. On January 23, 2015, the Plaintiff Shareholders further filed a statement of claim in the High Court of Hong Kong seeking to set aside such subscription agreement and the subscription of shares on the basis of various allegations, including allegations of breach of fiduciary duties on the part of Mr. Caikui Zhang, our executive director, and Mr. Bin Zhang, our chairman, executive director and general manager, and conspiracy with CNBM to injure Shanshui Investment by unlawful means. We are currently seeking legal advice on the proceeding and the appropriate course of action in respect of the proceeding. While we intend to defend the proceedings vigorously and our board of directors maintains that the subscription agreement and the subscription of shares by CNBM are valid and binding among the parties thereto, there are no assurances as to the outcome of the proceeding. If the High Court of Hong Kong rules in favour of the Plaintiff Shareholders in terms of the relief sought by the Plaintiff Shareholders in this proceeding, the subscription agreement and CNBM's subscription of our ordinary shares may be set aside and the proceeds we received thereunder may be returned to CNBM. As a result, any anticipated benefit arising from the CNBM investment may not be realized.

In addition, since November 2013, through written letters and petitions to certain PRC government departments, some of our employees and former employees have, among other things, alleged certain wrongdoings by Mr. Caikui Zhang as trustee of trusts through which such employees hold shares in Shanshui Investment (the "Trusts"). See "Substantial Shareholders". Certain legal proceedings were also instituted in the High Court of Hong Kong in the second half of 2014 by such employees against Mr. Caikui Zhang, seeking, among other things, the return by Mr. Caikui Zhang of the shares in Shanshui Investment to them. Mr. Caikui Zhang has applied to the High Court of Hong Kong for, among other things, stay of proceedings on jurisdictional grounds and setting aside the orders for substituted service. On August 22, 2014, Mr. Caikui Zhang also received a letter from a Hong Kong law firm representing 761 employees or former employees of our company stating certain allegations on his exercise of powers in his capacity as the trustee of the Trusts. We are not a direct party to such disputes or legal proceedings and, as such, we have no control over the handling or outcome of these disputes or legal proceedings and cannot assess the merits of the claims. Mr. Caikui Zhang may cease at any time to be the trustee of the Trusts as a result of such ongoing disputes or legal proceedings. If Mr. Caikui Zhang ceases to be the trustee of the Trusts or if the Trusts are terminated and/or dissolved as a result of such ongoing disputes and legal proceedings, the voting power of Mr. Caikui Zhang in our company will fall below 25.0%, causing a change of control under the 2016 Notes and the 2017 Notes, which will require us to offer to purchase the 2016 Notes and the 2017 Notes at 101% of their principal amount plus accrued interest. See "Description of other Material Indebtedness – 8.5% Senior Notes due 2016 and 10.50% Senior Notes due 2017".

If we are ordered to return the proceeds of the CNBM investment or if the holders of the 2016 Notes and the 2017 Notes require us to repurchase all such Notes, we may not have enough available funds or may not be able to secure sufficient financing to do so. Even if we do have enough available funds, such funds will not otherwise be available for use in our business. Our failure to comply with any judgment or order for payment or to make the offer to purchase or purchase the 2016 Notes and 2017 Notes would constitute an event of default under the Notes, the 2016 Notes and the 2017 Notes, which may, in turn, constitute an event of default under other indebtedness of our company or our subsidiaries, any of which could cause our obligations under the Notes, the 2016 Notes and the 2017 Notes and such other indebtedness to be accelerated after any applicable notice or grace periods. Any of the foregoing may have material adverse effect on our business, financial position or results of operations and/or our ability to make payments on the Notes.

Further, on February 11, 2015, certain individual minority shareholders of Shanshui Investment issued an originating summons for leave to be granted by the High Court of Hong Kong to bring derivative action for and on behalf of Shanshui Investment against, among others, us. If leave is granted by the High Court of Hong Kong, such individual minority shareholders of Shanshui Investment intend to apply for an injunction for and on behalf of Shanshui Investment seeking, amongst others, an order to restrain us from (i) issuing any new shares pursuant to the exercise of the options under the share option scheme of our company adopted on June 14, 2008; and (ii) holding the extraordinary general meeting. Notice of the extraordinary general meeting to be held on March 20, 2015 was given by us as contained in our circular dated February 27, 2015. The court hearings in respect of the abovementioned proceedings and application will take place in March 2015 before the date of the extraordinary general meeting. As the case is currently at a preliminary stage, we are unable to assess the effect of the case on our company.

We have been subject to administrative penalties by local tax authorities for certain tax non-compliances. Also, third parties that are found to be liable to us may not have resources to compensate us for the costs and damages we incurred. We have not currently made any provisions or reserves in connection with any legal proceedings, and there is no assurance that the ultimate outcome of our legal proceedings would not, individually or in aggregate, have a material adverse effect on our business, liquidity, financial position, results of operations or cash flow.

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

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

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

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

Our operations are subject to environmental laws and regulations.

Our operations are subject to various national and regional laws and regulations relating to environmental protection. These include provisions for prevention and treatment of noise, water, soil and air pollution and other industrial pollution. Some of our subsidiaries have not obtained the environmental permits and approvals or some are still in the process of applying for environmental permits, approvals or acceptance of environmental protection. Failure to comply with these laws and regulations could result in legal proceedings, the assessment of damages or imposition of fines or penalties against us, suspension of production or cessation of operations. Certain of our subsidiaries were fined or ordered to suspend production by the local authority of environmental protection for their failure to obtain requisite environmental permits and approvals or to comply with applicable environmental laws or standards. The implementation of more stringent laws and regulations, or stricter interpretation of the existing laws and regulations, may require us to incur additional compliance costs, which may adversely affect our profitability and results of operations.

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

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

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

We usually experience a reduction in sales during the first half of each year. Our sales volume of cement products in the first half of 2011, 2012 and 2013 accounted for 47%, 44% and 43%, respectively, of our total sales volume of cement products in 2011, 2012 and 2013. Demand for our products is seasonal because climatic conditions, such as cold weather, snow and heavy or sustained rainfall, adversely affect the amount of activity in the construction industry, which in turn decreases demand for and sales of our products. In addition, there is reduced construction activity during the Chinese New Year holiday period, which normally falls within the first quarter of each year. As a result of the seasonal fluctuations, our interim results may not be indicative of our business and financial performance for a full year.

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

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

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

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

Shandong Shanshui, one of our subsidiaries in the PRC, is one of 12 national cement producers that are entitled to government support in the form of priority with respect to project approvals, land use right grants and credit approvals when undertaking mergers, acquisitions and project investments. The PRC government is also currently offering VAT refunds and enterprise income tax exemptions to cement producers that use a certain level of recycled materials, such as slag and fly ash. In the ten months ended October 31, 2014, VAT refunds from selling cement products produced using recycled materials represented 12.8% of our profit before taxation. In November 2014, the State Council and the Ministry of Finance decided to comprehensively streamline and standardize all existing preferential tax policies. Accordingly, local governments can no longer formulate any tax preferential policies unless it has the tax administration power under the relevant tax laws and regulations, and specific tax preferential policies may not be provided for in any laws, regulations, rules, development plans and regional policies without the approval of the State Council. In particular, local governments are strictly prohibited to sell the land use rights at a preferential or nil price or transfer state-owned assets, equity interests in state-owned enterprise and mineral products as well as other state-owned resources at an unreasonably low price. Implementation of all preferential policies in violation of laws and regulations of issued by the central government must cease and be repealed. In addition, any preferential policies that comply with the relevant requirements must be reported by the provincial government to the Ministry of Finance and then approved by the State Council. We might not be able to continue to enjoy such preferential treatments, incentives and favorable support on the same terms, or at all. Unfavorable changes in such preferential treatments, incentives or support could adversely affect our business, results of operations and financial condition.

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

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

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

We produce and sell a wide variety of cement products with different specifications and formulations. Although cement products must pass applicable industry tests and comply with contractual specifications and regulatory requirements, product claims could be brought against us. If such claims are brought against us, they may adversely affect the reputation of our brand our business, results of operations and financial condition.

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

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

Our assets, operations, customers and suppliers are principally located in Shandong and Liaoning provinces. If floods or other natural disasters occur in Shandong province or Liaoning province, our business, results of operations and financial condition may be materially and adversely affected.

Negative news articles or press reports may adversely affect our reputation.

Negative news articles or press reports regarding our business have been published in the past and may be published in the future. Such negative exposure may adversely affect our reputation. For example, there were press articles published on September 22, 2014 (the "Articles") alleging, among other things, irregularities in our tendering procedures in respect of certain purchase and construction projects of our company.

We subsequently conducted internal investigation with respect to the allegations made in the Articles. We have enhanced our investors relations function and improved our emergency public relations reaction to news articles or press reports since then. However, we have no control over the publication of such and other news articles or press reports, which may reflect negatively on our business and operations. We cannot assure you that press articles similar to the Articles will not be published in the future by third parties. As a result, the Articles or any other articles or reprints may adversely affect our reputation and our financial performance and the price of our securities, including our debt securities and shares, may be adversely affected. We make no representation as to the accuracy, appropriateness or reliability of the information included in articles or reports not approved by us.

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

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

We may be held liable by the authorities if any of our contractors fail to comply with relevant PRC laws and regulations and we may be subject to fine or other penalties, which may negatively and adversely affect our results of operation and financial performance.

We have not obtained legal title to some of the properties we occupy and certain of our properties are subject to title encumbrances.

We have not obtained land use rights and building ownership certificates relating to some of the properties we occupy. Some of our subsidiaries have entered into land transfer agreements but have not obtained the land use right certificates and some subsidiaries are in the process of applying for the land use right certificates. In addition, some of our properties are subject to encumbrances, mortgages and other security interests or claims or third-party rights that are incurred by the subsidiaries in the ordinary course of business. If any ownership dispute or claim regarding such properties occurs, or we do not obtain the land use rights certificates for such properties and do not secure alternative and comparable sites and properties at reasonable costs or at all, our operating rights and production in connection with these properties may be adversely affected, which could in turn materially and adversely affect our business, results of operations and financial condition. In addition, we could be subject to claims for compensation with respect to any actual or alleged illegal or unauthorized use of land or buildings owned by third parties.

We lease certain properties for our production. Most of the landlords of such properties did not provide us with legal title certificates to the leased properties when we signed the lease contracts. Some of our subsidiaries lease land from the local village committees mainly to store raw materials and cement products and for office use, on which no production activities or production facilities are situated. Some subsidiaries occupy parcels of land allocated by the local government. It is uncertain if we are able to continue to use or occupy such land in the future if the nature of such land is not changed to state-owned transferred land. We are not aware of any sanction, claim, or investigation being contemplated by the competent government authorities. However, due to the discretionary nature of regulatory enforcement in China, we cannot be certain that such action could not and will not be taken. We cannot assure you that if title to and/or other legal status of the properties we leased or occupied were challenged by the competent government authorities or any third party, the landlords' ability to perform their obligations under their leases with us would not be materially adversely affected and our business operations would not be disrupted.

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

Some of our subsidiaries are in the process of applying for or renewing certain licenses, permits and approvals for their business, production or construction projects. We are currently applying for 5 construction land planning permits, 10 construction project planning permits, 17 construction commencement permits, 7 completion acceptance permits and industrial products production permits for 7 production lines of our various products. A failure to obtain these licenses or permits could subject us to suspension of production, fines, penalties and/or sanctions for the operations. We could be required to cease production at other facilities by the relevant local authority or subject to fines due to the lack of all production licenses, permits and approvals. If we are required to cease production, we will not be able to use the facilities and will suffer financial losses.

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

Our internal control system is essential to the integrity of our business, results of operations and reputation. To help us address prior deficiencies and weaknesses in our internal control over financial reporting, we engaged an independent internal control consulting firm in connection with our initial public offering on the Hong Kong Stock Exchange in 2008 to review our key business and management processes and to assist us in establishing and improving relevant internal control processes and developing related organizational structures and systems. With the assistance of this consulting firm, we have established various plans and procedures that we believe will allow us to remedy our prior internal control deficiencies and weaknesses. In particular, we have provided and are continuing to provide further training to our financial and accounting staff to enhance their knowledge of IFRS and improve our overall corporate governance. However, we could experience similar or other deficiencies or weaknesses in our internal control over financial reporting. If we fail to maintain effective internal control over financial reporting, our business, results of operations and reputation may be materially and adversely affected. Our efforts to improve our internal control over financial reporting have also required, and may in the future continue to require, increased costs and significant management time and commitment.

The labor contract law and other labor laws and regulations in the PRC may adversely affect our business and profitability.

The labor contract law imposes requirements on employers in relation to entering into fixed term employment contracts, the hiring of temporary employees and dismissing employees. In addition, employees who have continuously worked for more than one year are entitled to a paid holiday ranging from 5 to 15 days, depending on their length of service. Employees who agree to waive part or all of their holiday entitlement at the request of their employers must be compensated with three times their normal daily salaries for each day of holiday being waived. In addition, in accordance with relevant PRC labor laws and regulations, we are required to contribute to a number of employee social insurance schemes including medical, maternity, work-related injury, unemployment and pension insurance, and to the employee housing provident fund. In the past, we had certain disputes with some employees of our subsidiaries on social insurance, labor relationship, compensations and other issues related. We cannot assure you that any disputes, work stoppages or strikes will not arise in the future. Increases in our labor costs and future disputes with our employees could have material adverse effect on our business, financial conditions or results of operations.

We may incur significant costs due to future changes in the PRC labor laws or regulations. Any failure to comply with such labor laws or regulations may result in penalties, revocation of permits or licenses for our operations or litigations, and as a result, 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 the downturn in the global or Chinese economy.

Because we derive substantially all of our revenues from China, our results of operations are materially affected by economic conditions, in particular the construction and infrastructure sectors in China, which are in turn affected by global economic conditions.

Although the global economy has been recovering slowly from the 2008 financial crisis, it is uncertain whether such recovery is stable or sustainable. More recently, rising government deficits and debt levels across the globe together with a wave of downgrading of sovereign debt in major Western economies have caused turmoil in the global financial markets. China's economy has also faced challenges. While China's economy has grown significantly in the past 30 years, there is no assurance that such growth can be sustained. The global economic slowdown, continued weakness in the United States economy and the sovereign debt crisis in Europe have collectively added downward pressure to China's economic growth. China's real GDP growth rate declined from 9.3% in 2011 to 7.4% in 2014. If the economic recovery slows down or economic conditions deteriorate, our business, results of operations and financial condition may be materially and adversely affected.

Moreover, a slowdown in the global or Chinese economy or the recurrence of any financial disruptions may have a material and adverse impact on financings available to us. Any financial turmoil affecting the financial markets and banking system may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all. Our business, results of operations and prospects could be materially and adversely affected by the global economic downturn and the slowdown of the Chinese economy.

RISKS RELATING TO CHINA'S CEMENT INDUSTRY

Evolving standards and regulations could make our products obsolete, which would have a material adverse effect on our business, financial condition and results of operations.

Our cement products are subject to evolving government regulations and industry standards. We might be required to adhere to new and more stringent standards or regulations in the future as the PRC government continues to improve the standards governing the production and sales of cement products to enhance environment protection and curb the overcapacity issue of the cement industry. If our products do not satisfy the higher standards adopted by the PRC government, some or all of our products may become obsolete. For example, in October 2013, the State Council issued the Guidance Opinion on Resolving the Excessive Overcapacity Issue (《關於化解產能嚴重過剩矛盾的指導意見》), which aimed to phase-out 100 million tons of cement (including clinker and grinding) capacity by the end of 2015 and to abolish low grade (32.5) composite cement as soon as possible. We derived 35.8%, 37.1%, 32.4% and 31.7% of our revenues from sales of low grade (32.5) composite cement in 2011, 2012 and 2013 and the ten months ended October 31, 2014, respectively. If we fail to develop high-end products to replace low grade cement products as they become obsolete, our business, financial condition and results of operations would be material affected.

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

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

In order to engage in cement production, we are required to maintain certain licenses and permits such as the cement production permit and the production safety permit in China. In addition, our products are also required to meet certain standards stipulated by various PRC government authorities. For example, the Standardization Administration of China issued the GB175-2007 standards that govern certain aspects of the production and sales of cement products. All cement producers in the PRC must comply with these standards, and cement products that fail to meet the relevant quality standards may not be sold in the PRC. These standards provide strict guidelines regarding the composition and technical specifications for cement products. They also standardize the testing methods for cement products and the types of packaging permitted. Should there be any change to the existing requirements or new requirements applicable to our cement products, we may incur additional compliance costs and we might not successfully obtain such licenses, permits or approvals in a timely manner, or at all. If we are not able to meet all the licensing conditions and regulatory requirements, our business, financial condition and results of operations could be adversely and materially affected.

The cement industry has traditionally been subject to government control at the policy level in terms of production method and volume, product mix and environmental protection. While the PRC government's current policies in respect of the domestic cement industry are generally market oriented, the PRC government still closely monitors the development of the cement industry and may from time to time regulate the industry through new regulations and policies. For example, according to the Notice Regarding Replacement of Obsolete Cement Production Capability issued by NDRC in 2007, local governments are required to gradually phase out cement producers with annual output of less than 200,000 tons and those with production methods that are less environmentally friendly. In addition, according to the State Council's Notice Approving the NDRC's Guidelines on Redundant Construction, Curbing

Overcapacity in Certain Industries and the Healthy Development of Industries promulgated in 2009, the industrial policies on the cement industry in the PRC are, among others, to strictly control newly added cement capacities and phase out obsolete cement production capacity. For instance, newly constructed projects' heat consumption of cement and clinker burning should be lower than 105 kg of standard coal/ton of clinker and the comprehensive power consumption for cement should be lower than 90KWh/ton of cement; the limestone reserve life must be more than 30 years; and the density of waste gas and dust content must be lower than 50 mg/m^3.

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

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

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

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

As an industry that generates significant levels of pollution and consumes large amounts of energy, the cement industry is subject to national and local environmental protection and energy conservation laws and regulations. As the production of cement is regarded as one of the major sources of pollution in the PRC, the PRC government has adopted a series of environmental policies to reduce the adverse effects of the cement industry on the environment, such as the requirement to use the more environmentally friendly NSP production technology. Governmental requirements that affect our operations include those relating to noise, soil, air quality, solid waste management, and waste-water treatment. In addition, the PRC government has adopted energy saving policies specifically for the cement industry. On November 25, 2010, the MIIT issued the Guidelines on Energy Saving and Emission Reduction of the Cement Industry, which aims to conserve energy and reduce the emissions resulting from cement production. Failure to comply with these policies and regulations may result in the assessment of damages or imposition of penalties, fines, administrative sanctions, proceedings and/or suspension of production or cessation of our operations or revocation of our licenses or permits to conduct our business. On December 27, 2013, the Ministry of Environmental Protection issued the Announcement on the Release of Four National Standards for the Emission (Control) of Pollutants, which became effective on March 1, 2014, to adopt the Emission Standard for Air Pollutants of Cement Industry (水泥工業大氣污染物排放標準) (GB 4915-2013) and the Control Standard for Collaborative Disposal of Solid Wastes of Cement Kiln (水泥窯協同處置固體廢物污染控制標準) (GB 30485-2013). With the increasing awareness of environmental protection and energy conservation issues, we anticipate that the PRC regulatory framework will become increasingly stringent. The implementation of more stringent laws and regulations or stricter interpretation of the existing laws and regulations may require us to incur additional compliance costs. For example, we were asked to limit production in order to reduce pollutant emissions. We might not be able to comply with any additional regulations, or enhanced implementation of existing regulations, on a cost-effective basis, or at all. In such circumstances, our business, financial condition and results of operations could be adversely and materially affected.

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

We are required to comply with the applicable production safety standards in relation to our production processes. Our production plants and facilities are subject to regular inspections by the regulatory authorities for compliance with the Safe Production Law of the PRC, amended by the Standing Committee of the NPC on August 31, 2014 and became effective on December 1, 2014. Furthermore, under the PRC Labor Law and the PRC Law on the Prevention and Treatment of Occupational Diseases, we must ensure that our facilities comply with PRC standards and requirements on occupational safety and health conditions for employees. We could be subject to fines and required to cease operation if we fail to comply with PRC standards and requirements on safety and health. We also provide our employees with labor safety training, protective tools and facilities, and regular health examinations for those who may be exposed to risks of occupational hazards. Nevertheless, failure to meet the relevant legal requirements on production safety and labor safety could subject us to warnings from relevant governmental authorities, governmental orders to rectify such non-compliance within a specified time frame and maximum fines of up to RMB20 million per incident. We may also be required to suspend our production temporarily or cease our operations permanently for significant non-compliance, which may have a material adverse effect on our reputation, business, financial condition and results of operations.

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

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

We operate in a competitive market and face intense competition from other cement producers.

China's cement industry is highly competitive and extremely fragmented, with 3,840 cement producers in 2013 according to the China Cement Association. We expect that competition will increase as a result of increasing consolidation in the cement industry. Our major competitors are national players that have a presence in Shandong and Liaoning provinces, as well as smaller scale regional cement producers in the individual markets in which we compete. Some of our current and potential competitors may have financial and technological support from well-established international players, better brand recognition in local markets, better pricing or greater financial, distribution, technical or marketing resources than we do. Companies in these markets often employ aggressive pricing strategies to gain market share. In addition, there has been a trend towards industry consolidation among cement producers for the past several years and we expect this trend towards industry consolidation to continue, which may result in larger and potentially stronger competitors in the markets where we operate. If we cannot compete effectively on the basis of, among other things, product quality, variety of product offerings, technology, location of production facilities, access to resources, sales and marketing network and brand image, we may not be able to maintain our leading market position and the same level of profitability in the future in light of the highly competitive market environment.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

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

Substantially all of our assets are located in the PRC, and all of our revenue is derived from within the PRC. Accordingly, our results of operations, financial condition and prospects are significantly subject to the economic, political and legal developments of the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including:

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

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

The PRC economy has been transitioning from a planned economy to a market-oriented economy. For the past two decades, the PRC government has implemented economic reform measures emphasizing the utilization of market forces in the development of the PRC economy. Although we believe these reforms will have a positive effect on our overall and long-term development, changes in the PRC's economic, political and social conditions, laws, regulations and government policies could have a material and adverse effect on our current or future business, results of operations or financial condition.

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

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

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

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

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

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

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

The PRC's State Administration of Foreign Exchange ("SAFE") has promulgated several regulations, including the Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles, or Circular No. 37, issued on July 4, 2014, which require PRC residents and PRC corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment activities.

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

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

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

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

Substantially all of our revenue is denominated in Renminbi and must be converted to pay dividends or make other payments in freely convertible currencies. The value of RMB against other foreign currencies is subject to changes in the PRC government's policies and international economic and political developments. Under the current unified floating exchange rate system, the conversion of RMB into foreign currencies, including Hong Kong and U.S. dollars, is based on rates set by the PBOC, which are quoted daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. With effect from July 21, 2005, the PRC government reformed the exchange rate regime by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. As a result, the RMB appreciated against the Hong Kong and U.S. dollars by approximately 2% on the same date. In September 2005, the PRC government widened the daily trading band for RMB against non-U.S. dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system. The floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar was expanded from 0.3% to 0.5% around the central parity rate, effective in May 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 23.9% from July 21, 2005 to March 30, 2012. Any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenues, earnings and financial condition, and the value of any dividends payable to us by our PRC subsidiaries. For example, an appreciation of the Renminbi against the U.S. dollar would make any new Renminbi denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into Renminbi for such purposes.

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

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

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

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

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

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

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

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

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

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

SELECTED FINANCIAL INFORMATION AND OTHER DATA

You should read the following selected financial information and other data together with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Our historical consolidated financial information and other data as at and for each of the years ended December 31, 2011, 2012 and 2013 set forth below have been derived from our audited consolidated financial statements as at and for the years ended December 31, 2012 and 2013, which have been audited by KPMG, Certified Public Accountants, Hong Kong. Our historical consolidated financial information and other data as at and for the ten months ended October 31, 2013 and 2014 have been derived from our unaudited consolidated financial statements as at and for the ten months ended October 31, 2014, which have been reviewed by KPMG in accordance with the Hong Kong Standard on Review Engagements 2410. We prepare and present our consolidated financial statements in accordance with IFRS.

	For the year ended December 31,				For the ten months ended October 31,		
	2011	2012	2013		2013	2014	
	RMB	RMB	RMB	US$	RMB	RMB	US$
				(in millions)			
Consolidated income statement data:							
Revenue	16,862.0	16,161.0	16,535.2	2,705.2	14,027.3	13,591.2	2,223.5
Cost of sales	(11,782.9)	(12,049.7)	(12,706.0)	(2,078.7)	(10,599.7)	(10,632.2)	(1,739.4)
Gross profit	5,079.1	4,111.3	3,829.2	626.5	3,427.6	2,959.0	484.1
Other revenue	225.6	270.5	263.4	43.1	184.3	183.3	30.0
Other net (expenses)/income	(43.1)	18.4	34.6	5.7	(4.5)	(32.4)	(5.3)
Selling and marketing expenses	(309.3)	(390.6)	(477.6)	(78.1)	(374.7)	(430.6)	(70.4)
Administrative expenses	(1,095.8)	(910.4)	(1,092.4)	(178.7)	(907.6)	(1,005.2)	(164.5)
Profit from operations	3,856.5	3,099.2	2,557.2	418.4	2,325.1	1,674.1	273.9
Finance costs	(619.6)	(925.4)	(967.7)	(158.3)	(811.8)	(959.2)	(156.9)
Share of profits less losses of an associate	17.1	31.1	24.4	4.0	34.9	22.3	3.6
Profit before taxation	3,254.0	2,204.9	1,613.9	264.0	1,548.2	737.2	120.6
Income tax	(942.3)	(601.2)	(539.2)	(88.2)	(492.0)	(329.8)	(54.0)
Profit for the year/period	2,311.7	1,603.7	1,074.7	175.8	1,056.2	407.4	66.6
Attributable to:							
Equity shareholders of the company	2,225.3	1,518.5	1,016.7	166.3	991.2	427.9	70.0
Non-controlling interests	86.4	85.2	58.0	9.5	65.0	(20.5)	(3.4)

	As of December 31,				As of October 31,	
	2011	2012	2013		2014	
	RMB	RMB	RMB	US$	RMB	US$
	(in millions)					
Consolidated statement of financial condition data:						
Non-current assets	16,791.9	21,725.7	24,992.3	4,088.8	26,323.7	4,306.6
Current assets	8,289.8	6,307.7	7,244.1	1,185.1	7,988.0	1,306.9
Current liabilities	8,081.5	7,521.1	12,047.2	1,970.9	11,367.6	1,859.8
Net current assets/(liabilities)	208.3	(1,213.4)	(4,803.1)	(785.8)	(3,379.7)	(552.9)
Total assets less current liabilities	17,000.2	20,512.3	20,189.2	3,303.0	22,944.1	3,753.7
Non-current liabilities	8,833.5	11,115.8	10,222.5	1,672.4	12,701.0	2,077.9
Net assets	8,166.7	9,396.5	9,966.7	1,630.6	10,243.1	1,675.8
Capital and reserves	7,709.0	8,650.8	9,246.0	1,512.7	9,436.4	1,543.8
Total equity attributable to equity shareholders of the company	7,709.0	8,650.8	9,246.0	1,512.7	9,436.4	1,543.8
Non-controlling interest	457.7	745.7	720.8	117.9	806.7	132.0
Total equity	8,166.7	9,396.5	9,966.7	1,630.6	10,243.1	1,675.8

	For the year ended December 31,				For the ten months ended October 31,		
	2011	2012	2013		2013	2014	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in millions)						
Consolidated statement of cash flow data:							
Net cash flows generated from operating activities	1,549.3	1,930.1	1,924.8	314.9	1,891.6	1,769.4	289.5
Net cash flows used in investing activities	(3,370.7)	(4,339.9)	(4,395.3)	(719.1)	(4,089.3)	(1,781.7)	(291.5)
Net cash flows generated from financing activities	3,686.9	485.3	2,665.5	436.1	2,580.5	444.4	72.7
Net increase/(decrease) in cash and cash equivalents	1,865.5	(1,924.5)	195.0	31.9	382.8	432.1	70.7
Cash and cash equivalents at the beginning of the year/period	1,144.7	3,008.2	1,083.2	177.2	1,083.2	1,277.4	209.0
Effect of foreign exchange rate changes	(2.0)	(0.5)	(0.8)	(0.1)	(0.7)	0.7	0.1
Cash and cash equivalents at the end of the year/period	3,008.2	1,083.2	1,277.4	209.0	1,465.3	1,710.2	279.8

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

	For the year ended December 31,				For the ten months ended October 31,		
	2011	2012	2013		2013	2014	
Sales volume							
Cement (thousands tons)	47,943	47,834	53,422		45,755	46,226	
Clinker (thousands tons)	7,000	9,024	9,218		7,666	8,092	
Concrete (thousands m^3)	937	1,661	2,864		2,118	2,877	
Average unit selling price	**RMB**	**RMB**	**RMB**	**US$**	**RMB**	**RMB**	**US$**
Cement (per ton)	294.6	277.2	249.9	40.9	251.1	237.8	38.9
Clinker (per ton)	269.5	211.0	195.3	32.0	193.8	196.0	32.1
Concrete (per cubic meter)	258.9	280.0	296.7	48.5	292.8	300.1	49.1

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

	For the year ended December 31,				For the ten months ended October 31,		
	2011	2012	2013		2013	2014	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in millions, except percentages and ratios)						
Other financial data:							
EBITDA[1]	4,801.4	4,264.4	3,798.7	621.5	3,339.5	2,809.6	459.6
EBITDA margin[2]	28.5%	26.4%	23.0%	23.0%	23.8%	20.7%	20.7%
EBITDA/gross interest expense[3]	7.7	4.3	3.6	3.6	3.8	2.7	2.7
Total debt[4]/EBITDA	2.4	3.2	4.3	4.3	–	5.2	5.2

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

	For the year ended December 31,				For the ten months ended October 31,		
	2011	2012	2013		2013	2014	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in millions)						
Profit for the year/period	2,311.7	1,603.7	1,074.7	175.8	1,056.2	407.4	66.6
Add:							
Amortization	118.9	147.5	126.6	20.7	110.5	103.2	16.9
Depreciation	808.9	986.6	1,090.5	178.4	868.9	1,010.0	165.2
Finance costs	619.6	925.4	967.7	158.3	811.8	959.2	156.9
Income tax expense	942.3	601.2	539.2	88.2	492.0	329.8	54.0
EBITDA	4,801.4	4,264.4	3,798.7	621.5	3,339.5	2,809.6	459.6

(2) EBITDA margin means EBITDA divided by revenue.

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

(4) Total debt includes bank loans, other borrowings and long-term bonds.

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

OVERVIEW

We are one of the largest producers of clinker and cement in China, as measured by cement production capacity, and enjoy dominant market positions in our key markets in Shandong and Liaoning provinces. Leveraging our well-established competitive strengths and strong government support, we have taken advantage of the considerable growth opportunities in Shanxi province, Inner Mongolia and Xinjiang, and have established our presence in these regions through organic growth and acquisitions.

We produce and sell various grades of cement products using advanced NSP (new suspension preheater) production technology. Our principal products also include clinker, a key intermediary component of cement. We also produce and sell other products, such as concrete. Our sales volume of cement products were 47.9 million tons, 47.8 million tons, 53.4 million tons and 46.2 million tons in 2011, 2012 and 2013 and the ten months ended October 31, 2014, respectively. While most of the clinker we produced was used in our cement production, we also sold 7.0 million tons, 9.0 million tons, 9.2 million tons and 8.1 million tons of clinker to external customers in 2011, 2012 and 2013 and the ten months ended October 31, 2014, respectively. In 2011, 2012 and 2013 and the ten months ended October 31, 2014, we sold approximately 0.9 million m^3, 1.7 million m^3, 2.9 million m^3 and 2.9 million m^3 of concrete products, respectively. In 2011, 2012 and 2013 and the ten months ended October 31, 2014, the average unit selling price per ton of our cement products was RMB294.6, RMB277.2, RMB249.9 (US$40.9) and RMB237.8 (US$38.9), respectively. The average unit selling price per ton of our clinker was RMB269.5, RMB211.0, RMB195.3 (US$32.0) and RMB196.0 (US$32.1), respectively, and the average unit selling price per cubic meter of our concrete products was RMB258.9, RMB280.0, RMB296.7 (US$48.5) and RMB300.1 (US$49.1), respectively, during the same periods.

Our production facilities are principally located in Shandong province, Liaoning province, the eastern part of Inner Mongolia, Shanxi province and Kashi region in Xinjiang. Our clinker production facilities are located near our limestone mines. Each clinker facility usually supplies several of our cement grinding stations that are strategically located in close proximity to our end-markets and customers. This layout of our production facilities enables us to minimize our logistics and transportation costs and to broaden our market coverage. As of October 31, 2014, we had a total annual production capacity (including production lines in test run) of 100.6 million tons of cement and 48.9 million tons of clinker, representing an increase of 6.4 million tons of cement and 3.5 million tons of clinker from December 31, 2013. As of October 31, 2014, our total annual production capacity of cement and clinker reached 58.0 million tons and 26.2 million tons, respectively, in Shandong province, 26.7 million tons and 14.6 million tons, respectively, in Northeastern China, including both Liaoning province and Inner Mongolia, 11.9 million tons and 6.6 million tons, respectively, in Shanxi region, and 4.0 million tons and 1.6 million tons, respectively, in Xinjiang. In addition, the total annual production capacity of our concrete products in Shandong province reached 17.2 million m^3.

In 2011, 2012 and 2013, our revenue was RMB16,862.0 million, RMB16,161.0 million, RMB16,535.2 million (US$2,705.2 million), and our profit for the year was RMB2,311.7 million, RMB1,603.7 million, RMB1,074.7 million (US$175.8 million), respectively. In the ten months ended October 31, 2013 and 2014, our revenue was RMB14,027.3 million and RMB13,591.2 million (US$2,223.5 million), respectively, and our profit for the period was RMB1,056.2 million and RMB407.4 million (US$66.6 million), respectively.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

We derive substantially all of our revenue from sales in China. Accordingly, the economic growth in China, particularly in the areas in which we operate, has a direct impact on virtually all aspects of our operations, including the level of demand for our products, the availability and prices of raw materials we use, costs of coal and power and our other operating expenses. In particular, demand for our cement and clinker products is sensitive to the level of construction activities in China. The growth of FAI has led to a significant increase in the demand for building materials, including cement. From 2009 to 2013, China's FAI increased from RMB22,459.9 billion to RMB44,707.4 billion, according to China Statistical Yearbook, representing a CAGR of 18.8%. China's cement consumption during the last decade also experienced a notable expansion driven by building and civil engineering construction activities. As a leading cement producer in China, we believe we are well-positioned to capture the growth opportunities in China's construction industry.

Our results of operations are directly affected by demand for our products in our primary markets, namely Shandong and Liaoning provinces. Rapid economic growth in Shandong province and Liaoning province in recent years has created increasing demand for cement products. As a result, our production and sales volumes of cement products increased over the past few years. We sold 47.9 million tons, 47.8 million tons, 53.4 million tons, 46.2 million tons of cement products, respectively, in 2011, 2012 and 2013 and the ten months ended October 31, 2014 and sold 7.0 million tons, 9.0 million tons, 9.2 million tons and 8.1 million tons of clinker products, respectively, during the same periods.

PRC Government Policies

Changes in PRC government policies regarding the domestic cement industry may also have a direct impact on our business. In recent years, the PRC government has been implementing a series of policies intended to promote the consolidation of the cement industry and the use of more environmentally friendly production techniques, such as rotary kilns using NSP technology. In response to increasing concerns regarding environmental problems in China, the PRC government has implemented various environmental regulations to reduce dust emissions and noise pollution from cement production and accelerate elimination of obsolete capacities. For example, the MIIT mandates the phasing out of certain number of obsolete production facilities each year. On July 18, August 26 and September 9, 2013, the MIIT announced three lists of cement companies to be phased out by the end of 2013, respectively. The lists include 27 companies in Shandong province, two companies in Liaoning province, 21 companies in Shanxi province, 13 companies in Shaanxi province and 16 companies in Xinjiang.

These efforts have resulted in the increased use of rotary kilns and NSP technology and decreases in energy consumption, production costs and environmental pollution. Recent improvements in related technologies have increased energy savings and environmentally friendly production process, reducing energy consumption in the cement and clinker production processes. The PRC government also provides tax subsidies for sales of cement products that use recycled materials. We received such tax subsidies in the amounts of RMB138.9 million, RMB135.0 million, RMB145.3 million (US$23.8 million), RMB96.5 million and RMB94.0 million (US$15.4 million), respectively, in 2011, 2012 and 2013 and the ten months ended October 31, 2013 and 2014. We also receive local government grants from relevant PRC authorities for environmental protecting incentives and subsidies granted by local governments to newly established enterprises as a means to attract investment. We received such local government grants in the amounts of RMB36.3 million, RMB74.8 million, RMB59.6 million (US$9.8 million), RMB41.6 million and RMB21.1 million (US$3.5 million), respectively, in 2011, 2012 and 2013 and the ten months ended October 31, 2013 and 2014. The PRC authorities adjust the amounts available for such government grants depending on their budgets from time to time.

In addition, PRC government policies in other industries have an indirect impact on our business. The PRC government from time to time issues new industry policies to adjust the level of investment in infrastructure projects and real estate development using both economic incentives and disincentives and administrative means. Policy changes over the industries in which our customers operate may affect our customers and thereby affect our business. For example, in June 2013, the State Council approved the

National Expressway Network Plan, according to which the national expressway network will reach 400,000 km by the end of 2030. Also, the PRC government made a commitment in the Government Work Report, released in March 2014, to commence the construction of seven million low-cost housing in 2014. The significant increase in government investment infrastructure projects and real estate has increased demand for cement products, benefiting large cement manufacturers like us.

Pricing of Our Products

Competition and demand in our primary markets significantly affect the pricing of our products. We believe the cement industry in China is localized in nature, with a maximum economically feasible product transportation radius of approximately 300 kilometers, subject to topographic conditions. Due to industry recognition of the high quality of our products and our famous "Shanshui Dongyue" brand name, we believe that our cement and clinker products usually enjoy price premiums over products sold by our competitors in the same geographic region. The average unit selling price per ton of our cement products was RMB294.6, RMB277.2, RMB249.9 (US$40.9) and RMB237.8 (US$38.9) in 2011, 2012 and 2013 and the ten months ended October 31, 2014, respectively, the average unit selling price per ton of our clinker was RMB269.5, RMB211.0, RMB195.3 (US$32.0) and RMB196.0 (US$32.1), respectively, and the average unit selling price per cubic meter of our concrete products was RMB258.9, RMB280.0, RMB296.7 (US$48.5) and RMB300.1 (US$49.1), respectively, during the same periods. In the ten months ended October 31, 2014, the average unit selling price per ton of our cement products in Shandong province, Northeastern China, Shanxi province and Xinjiang was RMB236.3 (US$38.7), RMB248.1 (US$40.6), RMB203.6 (US$33.3) and RMB240.8 (US$39.4), respectively. Since October 31, 2014, the average selling prices of our cement and clinker products have further decreased, which negatively affected our revenues.

Costs of Raw Materials, Coal and Power

The costs of raw materials, coal and power accounted for 34.7%, 25.3% and 14.6%, respectively, of our total cost of sales in the ten months ended October 31, 2014. Fluctuations in price for coal have a direct impact on our results of operations. The price of coal has been declining since 2011 due to reduced demand as a result of the economic downturn. Our unit purchase price per ton of coal was RMB753.5, RMB650.4, RMB573.9 (US$93.9) and RMB533 (US$87.2) in 2011, 2012 and 2013 and the ten months ended October 31, 2014, respectively.

However, limestone prices have increased in recent years. Our unit purchase price of limestone increased from RMB13.5 per ton in 2011 to RMB14.9 (US$2.4) per ton in 2013 and further to RMB16.6 (US$2.7) per ton in the ten months ended October 31, 2014. Power prices remained stable in 2011, 2012 and 2013 and the ten months ended October 31, 2014. Our average power purchase price per KWh was RMB0.58, RMB0.56, RMB0.60 (US$0.1) and RMB0.55 (US$0.09), respectively. In order to reduce our power costs, we have constructed 37 RHR (residual heat recovery) generators as of October 31, 2014. In 2011, 2012 and 2013 and the ten months ended October 31, 2014, the output of our residual heat power generation was 1,031 million KWh, 1,021 million KWh, 1,105 million KWh and 991 million KWh, respectively.

Scale of Operations

We have expanded our business and operations significantly during the past several years through acquisitions of cement producers and construction of production facilities. Since 2009, we have expanded our operations to Inner Mongolia, Shanxi province and Xinjiang, and are expanding into other locations. In the ten months ended October 31, 2014, we also constructed three clinker production lines and four cement grinding lines. Our annual production capacity of cement products was 84.2 million tons, 89.6 million tons, 94.2 million tons and 100.6 million tons as of December 31, 2011, 2012 and 2013 and October 31, 2014, respectively, and our annual production capacity of clinker was 37.4 million tons, 39.0 million tons, 45.4 million tons and 48.9 million tons, respectively, as of the same dates. We intend to expand vertically by acquiring projects in the upstream production process, including suppliers of raw materials, and improve the structure of our business. As a result of such expansion, our capital expenditures, financing needs, depreciation and amortization costs as well as impairment charges related to our various acquisitions and operating expenses have increased accordingly.

Seasonality

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

SELECTED INCOME STATEMENT LINE ITEMS

Revenue

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

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

	For the year ended December 31,							For the ten months ended October 31,				
	2011		2012		2013			2013		2014		
	RMB	% of Revenue	RMB	% of Revenue	RMB	US$	% of Revenue	RMB	% of Revenue	RMB	US$	% of Revenue
	(in millions, except percentages)											
Revenue												
Sales of cement ...	14,123.9	83.8%	13,261.6	82.1%	13,348.9	2,183.9	80.7%	11,487.9	81.9%	10,990.0	1,798.0	80.9%
Sales of clinker ...	1,886.6	11.2%	1,904.4	11.8%	1,800.3	294.5	10.9%	1,486.0	10.6%	1,585.7	259.4	11.6%
Sales of concrete..	242.6	1.4%	465.2	2.9%	850.0	139.1	5.1%	620.2	4.4%	863.3	141.2	6.4%
Sales of other products and services(1).......	608.9	3.6%	529.8	3.2%	536.0	87.7	3.3%	433.2	3.1%	152.2	24.9	1.1%
Total	16,862.0	100%	16,161.0	100%	16,535.2	2,705.2	100%	14,027.3	100%	13,591.2	2,223.5	100%

Note:

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

Our revenue in a given period is affected primarily by the sales volumes of our products in the period and the average unit selling prices of our products. The sales volume of our cement products slightly decreased from 2011 to 2012 but increased from 2012 to 2013. The sales volume of our clinker products increased from 2011 to 2012 and from 2012 to 2013. The sales volumes of both cement and clinker products increased in the ten months ended October 31, 2014 compared with the corresponding period in 2013. Our average unit selling prices of both cement and clinker products decreased from 2011 to 2013. Our average unit selling price of cement products decreased in the ten months ended October 31, 2014, compared with the corresponding period in 2013, but our average unit selling price of clinker products slightly increased during the same periods. Since October 31, 2014, the average selling prices of our cement and clinker products have further decreased, which negatively affected our revenues. Sales of cement and clinker products are typically made through short-term agreements with pricing terms negotiated based on the prevailing market prices.

Cost of Sales

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

	For the year ended December 31,							For the ten months ended October 31,				
	2011		2012		2013			2013		2014		
	RMB	% of Revenue	RMB	% of Revenue	RMB	US$	% of Revenue	RMB	% of Revenue	RMB	US$	% of Revenue
	(in millions, except percentages)											
Cost of sales												
Raw materials	3,572.2	21.2%	3,791.8	23.5%	4,222.2	690.8	25.5%	3,781.6	27.0%	3,685.5	603.0	27.1%
Coal	3,861.3	22.9%	3,516.2	21.8%	3,326.1	544.2	20.1%	2,726.7	19.4%	2,689.6	440.0	19.8%
Power	1,699.7	10.1%	1,830.2	11.3%	1,863.4	304.9	11.3%	1,509.9	10.8%	1,555.5	254.4	11.4%
Depreciation and amortization	778.1	4.6%	958.0	5.9%	1,016.0	166.2	6.1%	835.1	6.0%	928.9	152.0	6.8%
Others	1,871.6	11.1%	1,953.5	12.1%	2,278.3	372.6	13.8%	1,746.4	12.4%	1,772.7	290.0	13.1%
Total	11,782.9	69.9%	12,049.7	74.6%	12,706.0	2,078.7	76.8%	10,599.7	75.6%	10,632.2	1,739.4	78.2%

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

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

Other Revenue

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

	For the year ended December 31,				For the ten months ended October 31,		
	2011	2012	2013		2013	2014	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in millions)						
Other revenue							
Interest income	33.8	43.8	40.5	6.6	32.1	44.0	7.2
Government grants	175.2	209.8	204.9	33.5	138.1	115.1	18.8
Amortization of deferred income	16.6	16.9	16.9	2.8	14.1	12.4	2.0
Dividend income from listed securities	–	–	1.1	0.2	–	0.3	0.05
Others	–	–	–	–	–	11.5	1.9
Total	225.6	270.5	263.4	43.1	184.3	183.3	30.0

Other revenue increased from RMB225.6 million in 2011 to RMB270.5 million in 2012 but decreased to RMB263.4 million (US$43.1 million) in 2013, primarily reflecting the increases in government grants and interest income on bank deposits in 2012 and the decreases in government grants and interest income on bank deposits in 2013. Other revenue decreased from RMB184.3 million in the ten months ended October 31, 2013 to RMB183.3 million (US$30.0 million) in the ten months ended October 31, 2014, primarily due to a decrease in government grants. Government grants consist of (1) VAT refunds for sales of certain types of cement products that use recycled materials and (2) local government subsidies that represent various subsidies granted by local governments to newly established enterprises as a means to attract investment. VAT refunds amounted to RMB138.9 million, RMB135.0 million, RMB145.3 million (US$23.8 million), RMB96.5 million and RMB94.0 million (US$15.4 million) in 2011, 2012 and 2013 and the ten months ended October 31, 2013 and 2014, respectively, and local government subsidies amounted to RMB36.3 million, RMB74.8 million, RMB59.6 million (US$9.8 million), RMB41.6 million and RMB21.1 million (US$3.5 million), respectively, during the same periods. There are no unfulfilled conditions and contingencies relating to such local government subsidies.

Other Net Income/Expenses

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

	For the year ended December 31,				For the ten months ended October 31,		
	2011	2012	2013		2013	2014	
	RMB	RMB	RMB	US$	RMB	RMB	US$
				(in millions)			
Other net income/expenses							
Debt restructuring gain	–	42.6	–	–	–	–	–
Net (loss)/gain from disposal of fixed assets	(13.6)	(3.6)	(9.1)	(1.5)	(23.1)	1.7	0.3
Net foreign exchange (loss)/gain	54.2	(10.5)	63.9	10.4	47.1	(21.8)	(3.6)
Impairment losses on fixed assets	(7.8)	–	(10.0)	(1.6)	(10.0)	(0.0)	(0.0)
Impairment losses on other long-term assets	(66.9)	–	–	–	–	–	–
Donations	(11.8)	(11.3)	(8.8)	(1.4)	(7.4)	(6.5)	(1.1)
Penalty expenses	(5.2)	1.0	–	–	–	–	–
Others[1]	8.0	0.2	(1.4)	(0.2)	(11.1)	(5.8)	(0.9)
Total	(43.1)	18.4	34.6	5.7	(4.5)	(32.4)	(5.3)

Note:

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

We recorded other net expenses of RMB43.1 million in 2011, other net income of RMB18.4 million, RMB34.6 million (US$5.7 million), and other net expenses of RMB4.5 million and RMB32.4 million (US$5.3 million) in 2012 and 2013 and the ten months ended October 31, 2013 and 2014, respectively. We had debt restructuring gain of RMB42.6 million in 2012, which resulted from debt restructuring between lenders and government whereby repayment of certain of our loans was waived. We had impairment losses on fixed assets of RMB7.8 million in 2011, primarily due to the phasing out of a clinker production line, and RMB10.0 million (US$1.6 million) in 2013, which was primarily attributable to the impairment provisions for the obsolete cement production line of Taiyuan Shanshui. The impairment losses on other long-term assets of RMB66.9 million in 2011 were primarily attributable to a provision for impairment on certain services provided by a third party that were no longer required and the underlying service contracts were terminated in 2011, which was RMB66.9 million in 2011.

Operating Expenses

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

	For the year ended December 31,							For the ten months ended October 31,				
	2011		2012		2013			2013		2014		
	RMB	% of Revenue	RMB	% of Revenue	RMB	US$	% of Revenue	RMB	% of Revenue	RMB	US$	% of Revenue
	(in millions, except percentages)											
Operating expenses												
Selling and marketing expenses	309.3	1.8%	390.6	2.4%	477.6	78.1	2.9%	374.7	2.7%	430.6	70.4	3.2%
Administrative expenses	1,095.8	6.5%	910.4	5.6%	1,092.4	178.7	6.6%	907.6	6.5%	1,005.2	164.5	7.4%
Total	1,405.1	8.3%	1,301.0	8.0%	1,570.0	256.8	9.5%	1,282.3	9.2%	1,435.8	234.9	10.6%

Selling and marketing expenses

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

	For the year ended December 31,				For the ten months ended October 31,		
	2011	2012	2013		2013	2014	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in millions)						
Selling and marketing expenses							
Salary and employee benefits	101.7	111.7	132.3	21.6	158.5	182.2	29.8
Transportation expenses	50.9	82.2	144.2	23.6	115.0	146.5	24.0
Handling charges	42.9	–	–	–	–	–	–
Entertainment expenses	23.8	–	–	–	–	–	–
Ship docking charges	23.5	23.4	28.0	4.6	25.1	27.2	4.4
Materials consumption	14.5	8.1	9.1	1.5	7.3	6.9	1.1
Depreciation and amortization	6.6	7.4	8.0	1.3	6.6	6.8	1.1
Advertising expenses	5.1	6.4	4.7	0.8	3.6	4.7	0.8
Others[(1)]	40.3	151.4	151.3	24.8	58.6	56.3	9.2
Total	309.3	390.6	477.6	78.1	374.7	430.6	70.4

Note:

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

Administrative Expenses

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

	For the year ended December 31,				For the ten months ended October 31,		
	2011	2012	2013		2013	2014	
	RMB	RMB	RMB	US$	RMB	RMB	US$
				(in millions)			
Administrative expenses							
Salary and employee benefits	468.2	399.1	446.4	73.0	357.0	402.9	65.9
Audit and consulting expenses	50.2	33.2	29.0	4.7	19.3	25.1	4.1
Other taxes and charges	92.2	106.7	120.7	19.7	100.6	102.7	16.8
Depreciation and amortization	102.1	131.2	187.3	30.6	166.9	171.3	28.0
Office expenses	31.4	28.8	33.7	5.5	27.4	25.7	4.2
Wastewater treatment costs	28.4	31.0	37.0	6.1	29.1	39.1	6.4
Others(1)	323.3	180.4	238.3	39.1	207.3	238.4	39.0
Total	1,095.8	910.4	1,092.4	178.7	907.6	1,005.2	164.5

Note:

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

Finance Costs

Finance costs primarily consist of interest expenses on the senior notes we issued in 2011 and 2012, corporate bonds, borrowings from banks and other financial institutions and bank charges.

Share of Profits less Losses of an Associate

Share of profit less losses of an associate increased from RMB17.1 million in 2011 to RMB31.1 million in 2012, primarily attributable to the increased return on investment derived from Dong'e Shanshui, due to Dong'e Shanshui's profit growth. Share of profit less losses of an associate decreased from RMB31.1 million in 2012 to RMB24.4 million (US$4.0 million) in 2013 attributable to the decreased return on investment derived from Dong'e Shanshui, due to a decrease in Dong'e Shanshui's profit. Share of profit less losses of an associate decreased from RMB34.9 million in the ten months ended October 31, 2013 to RMB22.3 million (US$3.6 million) in the ten months ended October 31, 2014.

Income Tax

Income tax expenses primarily consist of provision for PRC current and deferred income tax expenses. Our company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Cayman Islands currently have no form of income, corporate or capital gains tax. Our wholly owned subsidiaries, China Shanshui (Hong Kong) and Pioneer Cement, are subject to Hong Kong profits tax at the rate of 16.5% on profits derived in Hong Kong. In 2011, 2012 and 2013 and the ten months ended October 31, 2014, we did not make any provisions for Hong Kong profits tax as these two subsidiaries did not derive any assessable profits in Hong Kong. Our subsidiaries incorporated in the PRC are subject to PRC enterprise income tax. See "– Taxation."

TAXATION

PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles and tax laws and regulations. The EIT Law, which became effective on January 1, 2008, consolidates the previous two separate tax regimes for domestic enterprises and foreign-invested enterprises and imposes a unified enterprise income tax rate of 25% for both types of enterprises. Under the EIT Law, enterprises that previously enjoyed a preferential tax rate prior to January 1, 2008 are gradually transitioning to the new tax rate over five years from January 1, 2008. Enterprises that previously enjoyed a fixed period of tax exemption and reduction have continued to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment had not commenced due to lack of profit, such preferential tax treatment commenced from January 1, 2008.

Under the previous tax regime, Shandong Shanshui, Anqiu Shanshui and Pingyin Shanshui, being foreign-invested enterprises incorporated prior to March 16, 2007, were exempted from enterprise income tax for their first two years of profitable operations (2006 and 2007) and enjoyed a 50% tax reduction for the following three years (2008 to 2010). Continental (Shandong) Cement Mining, Continental (Shandong) Cement Products Manufacturing and Continental (Shandong) Cement did not have any taxable profits in 2008, 2009 and 2010 and therefore were not subject to enterprise income tax during these years. Under the EIT Law, these three entities, as foreign-invested enterprises, were exempted from enterprise income tax in 2008 and 2009, and have been and will be subject to a 12.5% tax rate from 2010 to 2012 and will be subject to a 25% tax rate from 2013 onwards. Our other subsidiaries in the PRC have been subject to a 25% tax rate from 2008. Our effective tax rate was 29.0%, 27.3%, 33.4%, 31.8% and 44.7%, respectively, in 2011, 2012 and 2013 and the ten months ended October 31, 2013 and 2014. Our effective tax rate was more than 25% in 2011, primarily because losses of our subsidiaries organized in the form of foreign-invested enterprises may not be deducted from the taxable income of our subsidiaries organized in the form of domestic enterprises. Accordingly, certain expenses could not be deducted from our pre-tax income.

Under the EIT Law, enterprises are classified as either resident enterprises or non-resident enterprises. A resident enterprise refers to an enterprise that is incorporated under PRC law, or under the law of a jurisdiction outside the PRC with its *de facto* management organization located within the PRC. Under the EIT Law, "*de facto* management organization" is defined as the organization of an enterprise through which substantial and comprehensive management and control over the production and business operations, personnel, accounting and properties of the enterprise are exercised. Non-resident enterprise refers to an enterprise that is incorporated under the law of a jurisdiction outside the PRC with its *de facto* management organization located outside of the PRC, but which either has set up institutions or establishments in the PRC or has income originating from the PRC.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overhead and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal. Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The estimated useful lives of property, plant and equipment are as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as interest expense capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Interest-bearing borrowings

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

Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overhead based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Goodwill

Goodwill represents the excess of (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of our previously held equity interest in the acquiree over (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date. When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase. Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment. On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Intangible assets (other than goodwill)

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

Amortization for intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use. The estimated useful lives are as follows:

Limestone mining rights	1-40 years
Customer relationships	5 years
Trademarks	5-10 years
Software and others	3-10 years

Both the period and method of amortization are reviewed annually. Intangible assets are not amortized while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

Taxation

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to business combinations or items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits; that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized. The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, we control the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future. The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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

OUR RESULTS OF OPERATIONS

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

	For the year ended December 31,				For the ten months ended October 31,		
	2011	2012	2013		2013	2014	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in millions)						
Revenue	16,862.0	16,161.0	16,535.2	2,705.2	14,027.3	13,591.2	2,223.5
Cost of sales	(11,782.9)	(12,049.7)	(12,706.0)	(2,078.7)	(10,599.7)	(10,632.2)	(1,739.4)
Gross profit	5,079.1	4,111.3	3,829.2	626.5	3,427.6	2,959.0	484.1
Other revenue	225.6	270.5	263.4	43.1	184.3	183.3	30.0
Other net (expenses)/ income	(43.1)	18.4	34.6	5.7	(4.5)	(32.4)	(5.3)
Selling and marketing expenses	(309.3)	(390.6)	(477.6)	(78.1)	(374.7)	(430.6)	(70.4)
Administrative expenses	(1,095.8)	(910.4)	(1,092.4)	(178.7)	(907.6)	(1,005.2)	(164.5)
Profit from operations	3,856.5	3,099.2	2,557.2	418.4	2,325.1	1,674.1	273.9
Finance costs	(619.6)	(925.4)	(967.7)	(158.3)	(811.8)	(959.2)	(156.9)
Share of profits less losses of an associate	17.1	31.1	24.4	4.0	34.9	22.3	3.6
Profit before taxation	3,254.0	2,204.9	1,613.9	264.0	1,548.2	737.2	120.6
Income tax	(942.3)	(601.2)	(539.2)	(88.2)	(492.0)	(329.8)	(54.0)
Profit for the year	2,311.7	1,603.7	1,074.7	175.8	1,056.2	407.4	66.6
Attributable to:							
Equity shareholders of the company	2,225.3	1,518.5	1,016.7	166.3	991.2	427.9	70.0
Non-controlling interests	86.4	85.2	58.0	9.5	65.0	(20.5)	(3.4)

SEGMENT INFORMATION

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

	For the year ended December 31,							For the ten months ended October 31,				
	2011		2012		2013			2013		2014		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
	(in millions, except percentages)											
Revenue from external customers												
Shandong province	12,844.8	76.2	10,692.4	66.2	10,853.4	1,775.6	65.6	8,818.4	62.9	8,828.8	1,444.4	65.0
Northeastern China	3,904.6	23.2	4,677.0	28.9	4,553.5	745.0	27.5	4,237.2	30.2	3,775.2	617.6	27.8
Shanxi province	112.6	0.6	706.6	4.4	838.5	137.2	5.1	705.6	5.0	683.3	111.8	5.0
Xinjiang Region	–	–	85.0	0.5	289.8	47.4	1.8	266.1	1.9	303.9	49.7	2.2
	16,862.0	100.0	16,161.0	100	16,535.2	2,705.2	100	14,027.3	100	13,591.2	2,223.5	100
Inter-segment revenue												
Shandong province	23.9	81.6	96.0	100	152.6	25.0	100	123.1	100	49.0	8.0	100
Northeastern China	5.4	18.4	–	–	–	–	–	–	–	–	–	–
Shanxi province	–	–	–	–	–	–	–	–	–	–	–	–
Xinjiang Region	–	–	–	–	–	–	–	–	–	–	–	–
	29.3	100	96.0	100	152.6	25.0	100	123.1	100	49.0	8.0	100
Reportable segment revenue												
Shandong province	12,868.7	76.2	10,788.4	66.4	11,006.0	1,800.6	66.0	8,941.5	63.2	8,877.8	1,452.4	65.1
Northeastern China	3,910.0	23.1	4,677.0	28.8	4,553.5	745.0	27.3	4,237.2	29.9	3,775.2	617.6	27.7
Shanxi province	112.6	0.7	706.6	4.3	838.5	137.2	5.0	705.6	5.0	683.3	111.8	5.0
Xinjiang Region	–	–	85.0	0.5	289.8	47.4	1.7	266.1	1.9	303.9	49.7	2.2
	16,891.3	100	16,257.0	100	16,687.8	2,730.2	100	14,150.4	100	13,640.2	2,231.5	100
Reportable segment profit/(loss) (adjusted profit/ (loss) before taxation)[(1)]												
Shandong province	3,618.6	87.2	2,352.3	74.8	1,937.7	317.0	76.0	1,635.6	70.2	1,360.9	222.6	81.9
Northeastern China	550.8	13.3	760.9	24.2	614.0	100.5	24.1	672.3	28.9	352.2	57.6	21.2
Shanxi province	(19.7)	(0.5)	48.9	1.6	(4.7)	(0.8)	(0.2)	11.0	0.5	(67.4)	(11.0)	(4.1)
Xinjiang Region	–	–	(17.3)	(0.6)	3.5	0.6	0.1	10.9	0.4	16.4	2.7	1.0
	4,149.7	100	3,144.8	100	2,550.5	417.3	100	2,329.8	100	1,662.1	271.9	100

Note:

(1) The measure used for reporting segment profit is "adjusted profit before taxation". To arrive at adjusted profit before taxation, the profits are further adjusted for items not specifically attributed to an individual reportable segment, such as share of profits less losses of an associate, directors' remuneration, auditors' remuneration, finance costs in relation to unallocated bank borrowings and other head office or corporate administration expenses. In addition to receiving segment information concerning adjusted profit before taxation, management is provided with segment information concerning revenue, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortization and impairment losses and additions to non-current segment assets used by the segments in their operations.

TEN MONTHS ENDED OCTOBER 31, 2014 COMPARED WITH TEN MONTHS ENDED OCTOBER 31, 2013

Revenue

Our revenue decreased by RMB436.1 million, or 3.1%, from RMB14,027.3 million in ten months ended October 31, 2013 to RMB13,591.2 million (US$2,223.5 million) in ten months ended October 31, 2014, primarily due to a decrease in revenue derived from sales of cement.

Our revenue from sales of cement products amounted to RMB10,990.0 million (US$1,798.0 million) in the ten months ended October 31, 2014, which represented a decrease of RMB497.9 million, or 4.3%, from RMB11,487.9 million in the ten months ended October 31, 2013, primarily due to the decrease in unit selling price. Our sales volume of cement products increased slightly by 0.4 million tons from 45.8 million tons in the ten months ended October 31, 2013 to 46.2 million tons in the ten months ended October 31, 2014, primarily due to an increase in our production capacity. The average unit selling price of our cement products decreased by 5.3% from RMB251.1 per ton in the ten months ended October 31, 2013 to RMB237.8 (US$38.9) per ton in the ten months ended October 31, 2014, primarily due to a slowdown of the overall economy in China and a decrease in demand for infrastructure construction projects in the Northeastern China.

Our revenue from sales of clinker totaled RMB1,585.7 million (US$259.4 million) in the ten months ended October 31, 2014, representing an increase of RMB99.7 million, or 6.7%, from RMB1,486.0 million in the ten months ended October 31, 2013, primarily due to the increases in sales volume and average unit selling price. Our sales volume of clinker increased by 5.2% from 7.7 million tons in the ten months ended October 31, 2013 to 8.1 million tons in the ten months ended October 31, 2014, mainly due to increases in our production capacity and our export of clinker products. The average unit selling price of clinker increased by 1.1% from RMB193.8 per ton in the ten months ended October 31, 2013 to RMB196.0(US$32.1) per ton in the ten months ended October 31, 2014, primarily because of a higher selling price for the clinker products we sold offshore.

Our revenue from sales of concrete products and other products and services, including sales of pipes and bubble bricks as well as provision of transportation service and equipment installation services, totaled RMB1,015.5 million (US$166.1 million) in the ten months ended October 31, 2014, representing a decrease of RMB37.9 million, or 3.6%, from RMB1,053.4 million the ten months ended October 31, 2013, primarily reflecting a decrease of RMB281.0 million in sales of other products and services, partially offset by an increase of RMB243.1 million in sales of concrete products.

Cost of sales

Our cost of sales increased by RMB32.5 million, or 0.3%, from RMB10,599.7 million in the ten months ended October 31, 2013 to RMB10,632.2 million (US$1,739.4 million) in the ten months ended October 31, 2014, primarily due to an increase of RMB93.8 million in depreciation and amortization. Our cost of sales as a percentage of revenue increased from 75.6% in the ten months ended October 31, 2013 to 78.2% in the ten months ended October 31, 2014. Our cost of raw materials as a percentage of cost of sales decreased from 35.7% in the ten months ended October 31, 2013 to 34.7% in the ten months ended October 31, 2014, primarily due to the decrease in oil prices and increased efficiency in our unified procurement procedure. Our cost of coal as a percentage of cost of sales slightly decreased from 25.7% in the ten months ended October 31, 2013 to 25.3% in the ten months ended October 31, 2014, primarily due to a decrease in coal prices. Our average purchase price of coal decreased from RMB576 per ton in the ten months ended October 31, 2013 to RMB533 (US$87.2) per ton in the ten months ended October 31, 2014. Our cost of power as a percentage of cost of sales increased from 14.2% in the ten months ended October 31, 2013 to 14.6% in the ten months ended October 31, 2014, primarily due to an increase in the purchase price of power. Depreciation and amortization as a percentage of cost of sales increased from 7.9% to 8.7% in the ten months ended October 31, 2013 and 2014, primarily due to the completion of most of our production facilities in Shanxi province, which do not have a direct bearing on production capacity.

Gross profit

As a result of the foregoing, our gross profit decreased by RMB468.6 million, or 13.7%, from RMB3,427.6 million in the ten months ended October 31, 2013 to RMB2,959.0 million (US$484.1 million) in the ten months ended October 31, 2014. Gross profit margin decreased from 24.4% in ten months ended October 31, 2013 to 21.8% in the ten months ended October 31, 2014.

Other revenue

Other revenue remained stable at RMB184.3 million in the ten months ended October 31, 2013 and RMB183.3 million (US$30.0 million) in the ten months ended October 31, 2014.

Selling and marketing expenses

Selling and marketing expenses increased by RMB55.9 million, or 14.9%, from RMB374.7 million in the ten months ended October 31, 2013 to RMB430.6 million (US$70.4 million) in the ten months ended October 31, 2014. Salary and employee benefits increased by RMB23.7 million from RMB158.5 million in the ten months ended October 31, 2013 to RMB182.2 million (US$29.8 million) in the ten months ended October 31, 2014, primarily due to an increase in the number of our employees and an increase in the base rate for insurance premiums that we are required to pay for our employees under PRC law. Transportation expenses increased by RMB31.5 million from RMB115.0 million in the ten months ended October 31, 2013 to RMB146.5 million (US$24.0 million) in the ten months ended October 31, 2014, primarily due to an increase in our sales to foreign countries. Selling and marketing expenses accounted for 2.7% and 3.2% of our revenue in the ten months ended October 31, 2013 and 2014, respectively.

Administrative expenses

Administrative expenses increased by RMB97.6 million, or 10.8%, from RMB907.6 million in the ten months ended October 31, 2013 to RMB1,005.2 million (US$164.5 million) in the ten months ended October 31, 2014, primarily due to an increase in employee's salaries and benefits. Employees' salaries and benefits increased by RMB45.9 million from RMB357.0 million in the ten months ended October 31, 2013 to RMB402.9 million (US$65.9 million) in the ten months ended October 31, 2014, primarily due to an increase in the number of our employees and an increase in the base rate for insurance premiums that we are required to pay for our employees under PRC law. The number of our employees increased from 22,219 as of October 31, 2013 to 23,529 as of October 31, 2014. Audit and consulting expenses increased by RMB5.8 million from RMB19.3 million in the ten months ended October 31, 2013 to RMB25.1 million (US$4.1 million) in the ten months ended October 31, 2014, primarily because of the higher audit fees charged by our accountants. Other taxes and charges increased by RMB2.1 million from RMB100.6 million in the ten months ended October 31, 2013 to RMB102.7 million (US$16.8 million) in the ten months ended October 31, 2014, primarily due to the increase in land use tax in Shandong province. Depreciation and amortization increased by RMB4.4 million from RMB166.9 million in the ten months ended October 31, 2013 to RMB171.3 million (US$28.0 million) in the ten months ended October 31, 2014, primarily reflecting the expansion of our production facilities. Our administrative expenses accounted for 6.5% and 7.4% of our revenue in the ten months ended October 31, 2013 and 2014, respectively.

Profit from operations

As a result of the foregoing, our profit from operations decreased by RMB650.0 million, or 28.0%, from RMB2,325.1 million in the ten months ended October 31, 2013 to RMB1,674.1 million (US$273.9 million) in the ten months ended October 31, 2014.

Finance costs

Finance costs increased by RMB147.4 million, or 18.2%, from RMB811.8 million in the ten months ended October 31, 2013 to RMB959.2 million (US$156.9 million) in the ten months ended October 31, 2014, primarily due to an increase in our borrowings. The proportion of finance costs to revenue increased from 5.8% in the ten months ended October 31, 2013 to 7.1% in the ten months ended October 31, 2014.

Profit before taxation

As a result of the foregoing, our profit before taxation decreased by RMB811.0 million, or 52.4%, from RMB1,548.2 million in the ten months ended October 31, 2013 to RMB737.2 million (US$120.6 million) in the ten months ended October 31, 2014.

Income tax

Income tax expenses decreased by RMB162.2 million, or 33.0%, from RMB492.0 million in the ten months ended October 31, 2013 to RMB329.8 million (US$54.0 million) in the ten months ended October 31, 2014, primarily due to the decrease in our profits before tax. Our effective tax rate was 31.8% and 44.7% in the ten months ended October 31, 2013 and 2014, respectively.

Profit for the period

As a result of the foregoing, our profit for the year decreased by RMB648.8 million, or 61.4%, from RMB1,056.2 million in the ten months ended October 31, 2013 to RMB407.4 million (US$66.6 million) in the ten months ended October 31, 2014. Our profit margin decreased from 7.5% in the ten months ended October 31, 2013 to 3.0% in the ten months ended October 31, 2014.

YEAR ENDED DECEMBER 31, 2013 COMPARED WITH YEAR ENDED DECEMBER 31, 2012

Revenue

Our revenue increased by RMB374.2 million, or 2.3%, from RMB16,161.0 million in 2012 to RMB16,535.2 million (US$2,705.2 million) in 2013, primarily due to increase in the sales revenue of our concrete products.

Our revenue from sales of cement products amounted to RMB13,348.9 million (US$2,183.9 million) in 2013, which represented an increase of RMB87.3 million, or 0.7%, from 2012, primarily due to increases in our sales volume of cement products, partially offset by the decrease in the average selling price of cement products. Our sales volume of cement products increased by 5.6 million tons from 47.8 million tons in 2012 to 53.4 million tons in 2013, primarily due to our expanded operation and increased demand. The average unit selling price of our cement products decreased by 9.8% from RMB277.2 per ton in 2012 to RMB249.9 (US$40.9) per ton in 2013, primarily due to increased price competition in the cement market.

Our revenue from sales of clinker totaled RMB1,800.3 million (US$294.5 million) in 2013, representing a decrease of RMB104.1 million, or 5.5%, from 2012, primarily due to a decrease in the average unit selling price of clinker, partially offset by the increase in sales volume of clinker. Our sales volume of clinker increased by 2.2% from 9.0 million tons in 2012 to 9.2 million tons in 2013, mainly due to increased consumption of clinker in Shanxi province. The average unit selling price of clinker decreased by 7.4% from RMB211.0 per ton in 2012 to RMB195.3 (US$32.0) per ton in 2013, primarily due to decreased demand and increased price competition in the cement market.

Our revenue from sales of concrete and other products and services, including sales of concrete, pipes and bubble bricks as well as provision of transportation service and equipment installation services, totaled RMB1,386.0 million (US$226.8 million) in 2013, representing an increase of RMB391.0 million from 2012, primarily reflecting increased sales volume and average unit selling price of our concrete products.

Cost of sales

Our cost of sales increased by RMB656.3 million, or 5.4%, from RMB12,049.7 million in 2012 to RMB12,706.0 million (US$2,078.7 million) in 2013, primarily due to increased sales volumes of our products. Our cost of sales as a percentage of revenue increased from 74.6% in 2012 to 76.8% in 2013. Our cost of raw materials as a percentage of cost of sales increased from 31.5% in 2012 to 33.2% in 2013, primarily due to an increase in the purchase prices of raw materials including fly ash, blast furnace slag and limestone. Our cost of coal as a percentage of cost of sales decreased from 29.2% in 2012 to 26.2% in 2013, primarily due to a decrease in coal prices. Our average purchase price of coal decreased from RMB650.4 per ton in 2012 to RMB573.9 (US$93.9) per ton in 2013. Our cost of power as a percentage of cost of sales decreased from 15.2% in 2012 to 14.7% in 2013, primarily due to an increase in the output of residual heat power generation and a slight decrease in the unit power consumption for clinker production. Depreciation and amortization as a percentage of cost of sales remained stable at 8.0% in 2012 and 2013.

Gross profit

As a result of the foregoing, our gross profit decreased by RMB282.1 million, or 6.9%, from RMB4,111.3 million in 2012 to RMB3,829.2 million (US$626.5 million) in 2013. Gross profit margin decreased from 25.4% in 2012 to 23.2% in 2013.

Other revenue

Other revenue decreased by RMB7.1 million, or 2.6%, from RMB270.5 million in 2012 to RMB263.4 million (US$43.1 million) in 2013, primarily due to decreased government grants and interest income on bank deposits.

Selling and marketing expenses

Selling and marketing expenses increased by RMB87.0 million, or 22.3%, from RMB390.6 million in 2012 to RMB477.6 million (US$78.1 million) in 2013. Salary and employee benefits increased by RMB20.6 million from RMB111.7 million in 2012 to RMB132.3 million (US$21.6 million) in 2013, primarily due to increased commissions reflecting higher sales volume of our products. Transportation expenses increased by RMB62.0 million from RMB82.2 million in 2012 to RMB144.2 million (US$23.6 million) in 2013, primarily due to increases in our sales volume to customers who were not located in proximity to our production facilities. Selling and marketing expenses accounted for 2.4% and 2.9% of our revenue in 2012 and in 2013, respectively.

Administrative expenses

Administrative expenses increased by RMB182.0 million, or 20.0%, from RMB910.4 million in 2012 to RMB1,092.4 million (US$178.7 million) in 2013, primarily due to increases in employees' salaries and benefits. Employees' salaries and benefits increased by RMB47.7 million from RMB399.1 million in 2012 to RMB446.4 million (US$73.0 million) in 2013, primarily due to the rise in salaries and other labor costs. The number of our employees increased from 21,576 as of December 31, 2012 to 22,170 as of December 31, 2013. Audit and consulting expenses decreased by RMB4.2 million from RMB33.2 million in 2012 to RMB29.0 million (US$4.7 million) in 2013, primarily because we had less acquisition activities and notes issuances in 2013. Other taxes and charges increased by RMB13.5 million from RMB106.7 million in 2012 to RMB120.7 million (US$19.7 million) in 2013, primarily due to property tax paid by our acquired subsidiaries. Depreciation and amortization increased by RMB56.1 million from RMB131.2 million in 2012 to RMB187.3 million (US$30.6 million) in 2013, primarily reflecting increased amortization charges as a result of the increased amount of assets due to our acquisitions. Our administrative expenses accounted for 5.6% and 6.6% of our revenue in 2012 and 2013, respectively.

Profit from operations

As a result of the foregoing, our profit from operations decreased by RMB542.0 million, or 17.5%, from RMB3,099.2 million in 2012 to RMB2,557.2 million (US$418.4 million) in 2013.

Finance costs

Finance costs increased by RMB42.3 million, or 4.6%, from RMB925.4 million in 2012 to RMB967.7 million (US$158.3 million) in 2013, primarily due to increases in our borrowings in 2013. The proportion of finance costs to revenue increased from 5.7% in 2012 to 5.9% in 2013.

Profit before taxation

As a result of the foregoing, our profit before taxation decreased by RMB591.0 million, or 26.8%, from RMB2,204.9 million in 2012 to RMB1,613.9 million (US$264.0 million) in 2013.

Income tax

Income tax expenses decreased by RMB62.0 million, or 10.3%, from RMB601.2 million in 2012 to RMB539.2 million (US$88.2 million) in 2013, primarily due to the decrease in our profits before tax. Our effective tax rate was 27.3% in 2012 and 33.4% in 2013.

Profit for the year

As a result of the foregoing, our profit for the year decreased by RMB529.0 million, or 33.0%, from RMB1,603.7 million in 2012 to RMB1,074.7 million (US$175.8 million) in 2013. Our profit margin decreased from 9.9% in 2012 to 6.5% in 2013.

YEAR ENDED DECEMBER 31, 2012 COMPARED WITH YEAR ENDED DECEMBER 31, 2011

Revenue

Our revenue decreased by RMB701.0 million, or 4.2%, from RMB16,862.0 million in 2011 to RMB16,161.0 million in 2012, primarily due to decreases in revenue derived from sales of cement.

Our revenue from sales of cement products amounted to RMB13,261.6 million in 2012, which represented an decrease of RMB862.3 million, or 6.1%, from 2011, primarily due to decreased and average unit selling price and cement sales volume. Our sales volume of cement products decreased by 0.2% from 47.9 million tons in 2011 to 47.8 million tons in 2012, primarily due to decreased demand from infrastructure construction projects. The average unit selling price of our cement products decreased by 5.9% from RMB294.6 per ton in 2011 to RMB277.2 per ton in 2012, primarily due to decreased demand for our products and increased supply in the cement market in Shandong.

Our revenue from sales of clinker totaled RMB1,904.4 million in 2012, representing an increase of RMB17.8 million, or 0.9%, from 2011, primarily due to increased sales volume, partially offset by the decrease in average selling price of clinker. Our sales volume of clinker increased by 28.6% from 7.0 million tons in 2011 to 9.0 million tons in 2012, mainly due to the increase in external sales of clinker products. The average unit selling price of clinker decreased by 21.7% from RMB269.5 per ton in 2011 to RMB211.0 per ton in 2012, primarily due to increased supply in the Shandong clinker market.

Our revenue from sales of concrete and other products and services, including sales of concrete, pipes and bubble bricks as well as provision of transportation service and equipment installation services, totaled RMB995.0 million in 2012, representing an increase of RMB143.5 million from 2011, primarily reflecting increased sales of concrete, partially offset by decreased sales of pipes and bubble bricks.

Cost of sales

Our cost of sales increased by RMB266.8 million, or 2.3%, from RMB11,782.9 million in 2011 to RMB12,049.7 million in 2012, primarily due to increases in costs of raw materials, coal and power resulting from increases in sales volumes of our clinker products. Our cost of sales as a percentage of revenue increased from 69.9% in 2011 to 74.6% in 2012. Our cost of raw materials as a percentage of cost of sales increased from 30.3% in 2011 to 31.5% in 2012, due to the increase in the purchase prices of raw materials. Our cost of coal as a percentage of cost of sales decreased from 32.8% in 2011 to 29.2% in 2012, primarily due to the decrease in the purchase price of coal. Our average purchase price of coal decreased from RMB753.5 per ton in 2011 to RMB650.4 per ton in 2012. Our cost of power as a percentage of cost of sales increased from 14.4% in 2011 to 15.2% in 2012, primarily reflecting the increased consumption of power as a result of increased production capacity. Depreciation and amortization as a percentage of cost of sales increased from 6.6% in 2011 to 8.0% in 2012, primarily reflecting an increase in our acquisition of new production facilities which do not have a direct bearing on capacity increase.

Gross profit

As a result of the foregoing, our gross profit decreased by RMB967.8 million, or 19.1%, from RMB5,079.1 million in 2011 to RMB4,111.3 million in 2012. Gross profit margin decreased from 30.1% in 2011 to 25.4% in 2012.

Other revenue

Other revenue increased by RMB44.9 million, or 19.9%, from RMB225.6 million in 2011 to RMB270.5 million in 2012, primarily because of increases in government grants and interest income in 2012.

Selling and marketing expenses

Selling and marketing expenses increased by RMB81.3 million, or 26.3%, from RMB309.3 million in 2011 to RMB390.6 million in 2012. Salary and employee benefits increased by RMB10.3 million from RMB101.7 million in 2011 to RMB112.0 million in 2012, primarily due to the increase in bonus paid to our employees as a result of an increase in our sales volume. Transportation expenses increased by RMB39.3 million from RMB50.9 million in 2011 to RMB82.2 million in 2012, primarily due to several newly signed agreements with our largest customers or for government-sponsored projects, under which we are responsible for the transportation expenses. The proportion of selling and marketing expenses as a percentage of revenue increased from 1.8% in 2011 to 2.4% in 2012, primarily due to the decrease in our revenues.

Administrative expenses

Administrative expenses decreased by RMB185.4 million, or 16.9%, from RMB1,095.8 million in 2011 to RMB910.4 million in 2012, primarily due to a decrease in provision for impairment losses. Salaries and benefits decreased by RMB69.1 million from RMB468.2 million in 2011 to RMB399.1 million in 2012, primarily due to the decrease in bonus paid to our employees. The number of our employees increased from 16,637 as of December 31, 2011 to 21,567 as of December 31, 2012. Audit and consulting expenses decreased by RMB17.0 million from RMB50.2 million in 2011 to RMB33.2 million in 2012, primarily because of our reduced demand of consulting services. Other taxes and charges increased by RMB14.5 million from RMB92.2 million in 2011 to RMB106.7 million in 2012, primarily due to the expansion in the scale of our business. Depreciation and amortization increased by RMB29.1 million from RMB102.1 million in 2011 to RMB131.2 million in 2012, primarily reflecting our expansion in scale and the commencement of operation of newly built production lines. Our administrative expenses accounted for 6.5% and 5.6% of our revenue in 2011 and 2012, respectively.

Profit from operations

As a result of the foregoing, our profit from operations decreased by RMB757.3 million, or 19.6%, from RMB3,856.5 million in 2011 to RMB3,099.2 million in 2012.

Finance costs

Finance costs increased by RMB305.8 million, or 49.4%, from RMB619.6 million in 2011 to RMB925.4 million in 2012, primarily due to increases in our borrowings. The proportion of finance costs to revenue increased from 3.7% in 2011 to 5.7% in 2012.

Profit before taxation

As a result of the foregoing, our profit before taxation decreased by RMB1,049.1 million, or 32.2%, from RMB3,254.0 million in 2011 to RMB2,204.9 million in 2012.

Income tax

Income tax expenses decreased by RMB341.1 million, or 36.2%, from RMB942.3 million in 2011 to RMB601.2 million in 2012, primarily due to the decrease in our profits before tax. Our effective tax rate was 29.0% in 2011 and 27.3% in 2012.

Profit for the year

As a result of the foregoing, our profit for the year decreased by RMB708.0 million, or 30.6%, from RMB2,311.7 million in 2011 to RMB1,603.7 million in 2012. Our profit margin decreased from 13.7% in 2011 to 9.9% in 2012.

LIQUIDITY AND CAPITAL RESOURCES

We fund our working capital needs, including capital expenditures associated with our investments in the construction of and acquisition of cement and clinker production lines, through a variety of sources, including cash inflows from operations, short-term and long-term bank loans, related-party advances and issuances of senior notes and corporate bonds.

As of December 31, 2013 and October 31, 2014, we had cash and cash equivalents of RMB1,277.4 million (US$209.0 million) and RMB1,710.2 million (US$279.8 million), respectively.

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

	For the year ended December 31,				For the ten months ended October 31,		
	2011	2012	2013		2013	2014	
	RMB	RMB	RMB	US$	RMB	RMB	US$
				(in millions)			
Net cash flows generated from operating activities	1,549.3	1,930.1	1,924.8	314.9	1,891.6	1,769.4	289.5
Net cash flows used in investing activities	(3,370.7)	(4,339.9)	(4,395.3)	(719.1)	(4,089.3)	(1,781.7)	(291.5)
Net cash flows generated from financing activities	3,686.9	485.3	2,665.5	436.1	2,580.5	444.4	72.7
Cash and cash equivalents at the end of the period	3,008.2	1,083.2	1,277.4	209.0	1,465.3	1,710.2	279.8

Net cash generated from operating activities

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

Our net cash generated from operating activities was RMB1,769.4 million (US$289.5 million) in the ten months ended October 31, 2014, resulting from cash generated from operating activities of RMB2,193.8 million (US$358.9 million), partially offset by income tax paid of RMB424.4 million (US$69.4 million). Cash generated from operating activities primarily included profit before taxation of RMB737.2 million (US$120.6 million), as adjusted for non-cash items and the effects of changes in working capital. Adjustments for non-cash items primarily included depreciation of RMB1,010.0 million

(US$165.2 million) and finance costs of RMB907.6 million (US$148.5 million). Changes in working capital primarily consisted of an increase of RMB644.4 million (US$105.4 million) in trade and bills payable and a decrease of RMB243.0 million (US$39.8 million) in other receivables and prepayments, partially offset by an increase of RMB620.0 million (US$101.4 million) in accounts receivable. The increase in trade and bills payable was mainly attributable to our increased purchase of raw materials on credit. The decrease in other receivables and prepayments was primarily because of our enhanced prepayment approval procedure and accelerated collection of other receivables. The increase in accounts receivable was due to the increased number of government projects undertaken, resulting in increases in sales on credit as well as increases in the sales of concrete products.

Our net cash generated from operating activities was RMB1,924.8 million (US$314.9 million) in 2013, resulting from cash generated from operating activities of RMB3,410.7 million (US$558.0 million), partially offset by interest paid of RMB821.4 million (US$134.4 million) and income tax paid of RMB664.5 million (US$108.7 million). Our cash generated from operating activities primarily included profit before taxation of RMB1,613.9 million (US$264.0 million), as adjusted for non-cash items and the effects of changes in working capital. Adjustments for non-cash items primarily included depreciation of RMB1,090.5 million (US$178.4 million) and finance costs of RMB967.7 million (US$158.3 million). Changes in working capital primarily consisted of an increase of RMB331.9 million (US$54.3 million) in trade and bills receivables, an increase of RMB167.0 million (US$27.3 million) in inventories and a decrease of RMB92.4 million (US$15.1 million) in other payables and accrued expenses, partially offset by an increase of RMB297.4 million (US$48.7 million) in trade and bills payable. The increase in trade and bills receivables was primarily due to increases in sales on credits and our increased sales of clinker products. The increase in inventories was mainly attributable to our increased clinker inventory resulting from our increase in production capacity. The decrease in other payables and accrued expenses was primarily due to payment for our acquisition activities in 2013. The increase in trade and bills payable was due to our increased purchase of raw materials on credit.

Our net cash generated from operating activities was RMB1,930.1 million in 2012, resulting from cash generated from operating activities of RMB3,633.4 million, partially offset by interest paid of RMB856.8 million and income tax paid of RMB846.5 million. Cash generated from operating activities primarily included profit before taxation of RMB2,204.9 million, as adjusted for non-cash items and the effects of changes in working capital. Adjustments for non-cash items primarily included depreciation of RMB986.6 million and finance costs of RMB925.4 million. Changes in working capital primarily consisted of a decrease of RMB1,021.9 million in other payables and accrued expenses and a decrease of RMB390.8 million in trade and bills payable, partially offset by a decrease of RMB451.4 million in other receivables and prepayments and a decrease of RMB324.7 million in inventories. The decrease in other payables and accrued expenses was primarily attributable to the maturity of consideration payment for our acquisition activities and increase in salaries and employee benefits. The decrease in trade and bills payable was primarily due to a decrease in deposits as a result of our decreased sales volumes. The decrease in other receivables and prepayments was due to reduced prepayments and accelerated collection of other receivables as a result of our enhanced cash management. The decrease in inventories was as a result of our strengthened inventory management policies.

Our net cash generated from operating activities was RMB1,549.3 million in 2011, resulting from cash generated from operating activities of RMB2,853.0 million, partially offset by interest paid of RMB489.4 million and income tax paid of RMB814.3 million. Cash generated from operating activities primarily included profit before taxation of RMB3,254.0 million, as adjusted for non-cash items and the effects of changes in working capital. Adjustments for non-cash items primarily included depreciation of RMB808.9 million and finance costs of RMB619.6 million. Changes in working capital primarily consisted of an increase of RMB771.6 million in inventories, an increase of RMB592.2 million in trade and bills receivables, an increase of RMB532.1 million in other receivables and prepayments and a decrease of RMB224.9 million in other payables and accrued expenses, partially offset by an increase of RMB140.9 million in trade and bills payable. The increase in inventories was mainly attributable to our increased clinker inventory resulting from our change in sales strategy to reduce the external sales of clinker in our key markets during the off-peak season in winter. The increase in trade and bills receivables was primarily due to the RMB503.5 million increase in bills receivables, because our customers used bills to pay for our products before delivery. The increase in other receivables and prepayments was mainly due to an increase in dues from third parties as deposits to potential acquisition targets. The decrease in other payables and accrued expenses was due to our increased payment of payables. The increase in trade and bills payable was primarily due to the expansion in the scale of our business and due to our increased purchase of raw materials on credit.

Net cash used in investing activities

Our net cash used in investing activities was RMB1,781.7 million (US$291.5 million) in the ten months ended October 31, 2014, primarily including RMB1,665.4 million (US$272.5 million) used for purchase of long-term assets and RMB136.3 million (US$22.3 million) for our acquisition of subsidiaries, net of cash acquired. Cash outflow for purchase of long-term assets primarily relates to the construction of production facilities in Shanxi province and our acquisition activities.

Our net cash used in investing activities was RMB4,395.3 million (US$719.1 million) in 2013, primarily including RMB3,580.8 million (US$585.8 million) used for purchase of fixed assets and intangible assets and RMB574.4 million (US$94.0 million) for our acquisitions of subsidiaries, net of cash acquired. Cash outflow for acquisition of fixed assets amounted to RMB3,496.0 million (US$572.0 million), primarily relating to capital expenditures attributable to our technological upgrade and purchase of property, plant and equipment. Cash outflow for acquisition of intangible assets amounted to RMB84.8 million (US$13.9 million), primarily relating to payments for limestone mining rights.

Our net cash used in investing activities was RMB4,339.9 million in 2012, primarily including RMB3,232.3 million used for purchase of fixed assets and intangible assets and RMB1,147.6 million for our acquisitions of subsidiaries, net of cash acquired. Cash outflow for acquisition of fixed assets amounted to RMB3,051.5 million, primarily relating to capital expenditures attributable to construction of new product lines. Cash outflow for acquisition of intangible assets amounted to RMB180.8 million, primarily relating to payments for limestone mining rights.

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

Net cash generated from financing activities

Our net cash generated from financing activities was RMB444.4 million (US$72.7 million) in the ten months ended October 31, 2014, primarily including proceeds of RMB2,165.0 million (US$354.2 million) from new loans and borrowings and proceeds of RMB2,478.7 million (US$405.5 million) from issuance of long-term bonds, partially offset by the repayment of long-term bonds of RMB2,366.4 million (US$387.1 million) and the repayment of loans and borrowings of RMB1,652.2 million (US$270.3 million).

Our net cash generated from financing activities was RMB2,665.5 million (US$436.1 million) in 2013, primarily including proceeds of RMB5,479.1 million (US$896.4 million) from new loans and borrowings and proceeds of RMB1,783.8 million (US$291.8 million) from the issuances of senior notes and corporate bonds, partially offset by the repayment of borrowings of RMB4,009.5 million (US$656.0 million) and dividend distributions of RMB570.0 million (US$93.3 million) to our shareholders.

Our net cash generated from financing activities was RMB485.3 million in 2012, primarily including proceeds of RMB3,356.5 million from new loans and borrowings and proceeds of RMB2,454.3 million from the issuance of corporate bonds, partially offset by the repayment of borrowings of RMB4,765.8 million and dividend distributions of RMB573.3 million to our shareholders.

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

CAPITAL EXPENDITURES

Our capital expenditures primarily comprised expenditures for plants, buildings, equipment, land use rights, construction in progress, intangible assets (primarily mining rights) and acquisition of subsidiaries. Our capital expenditures, as represented by payment for purchase of fixed assets, payment for purchase of intangible assets and acquisitions of subsidiaries, net of cash acquired, were approximately RMB3,409.4 million, RMB4,379.9 million, RMB4,155.1 million (US$679.8 million), RMB3,793.2 million and RMB1,801.8 million (US$294.8 million) in 2011, 2012 and 2013 and the ten months ended October 31, 2013 and 2014, respectively. In the ten months ended October 31, 2014, four clinker production lines and four cement grinding lines were in construction in Shandong province, Shanxi province and the Northeastern China. Our annual production capacity of cement products was 84.2 million tons, 89.6 million tons, 94.2 million tons and 100.6 million tons as of December 31, 2011, 2012 and 2013 and October 31, 2014, respectively, and our annual production capacity of clinker was 37.4 million tons, 39.0 million tons, 45.4 million tons and 48.9 million tons, respectively, as of the same dates. We plan to further expand our annual production capacity of cement products to approximately 111.6 million tons and our annual production capacity of clinker to 54.2 million tons by the end of 2015. In addition, we intend to expand vertically by acquiring projects in the upstream production process, including suppliers of raw materials.

CONTRACTUAL COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

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

	As of October 31, 2014	
	RMB	US$
	(in millions)	
Authorized and contracted for:		
Acquisitions of fixed assets	613.0	100.3
Acquisitions of subsidiaries	–	–
Authorized but not contracted for:		
Acquisitions of fixed assets	451.9	73.9
Total	1,064.9	174.2

Operating lease commitments

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

	As of October 31, 2014	
	RMB	US$
	(in millions)	
Payable:		
Within 1 year	17.8	2.9
After 1 year but within 2 years	17.0	2.8
After 2 years but within 5 years	48.7	8.0
After 5 years	93.0	15.2
Total	176.5	28.9

Contingent liabilities

We had no material contingent liabilities as October 31, 2014.

INDEBTEDNESS

We have financed a significant portion of our operations through loans from commercial banks and other financial institutions, related-party advances and the issuance of debt securities. The table below sets forth our short-term and long-term borrowings as of October 31, 2014.

	As of October 31, 2014	
	RMB	US$
	(in millions)	
Short-term bank loans	2,499.8	409.0
Current portion of other borrowings	2,548.9	417.0
Current portion of long-term bonds	–	–
Total Short-term debt	5,048.7	826.0
Long-term bank loans	2,941.2	481.2
Other borrowings less current portion	32.0	5.2
Long-term bonds less current portion	9,139.0	1,495.2
Notes offered hereby	–	–
Total long-term debt	12,112.2	1,981.6
Total debt	17,160.9	2,807.6
Cash and cash equivalents	1,710.2	279.8
Net debt	15,450.7	2,527.8
Equity:		
Share capital	193.2	31.6
Reserves	9,243.2	1,512.2
Non-controlling interests	806.7	132.0
Total equity	10,243.1	1,675.8
Net capitalization	25,693.7	4,203.6
Total capitalization	27,404.0	4,483.4

The table below sets forth our indebtedness repayment obligations as of October 31, 2014.

	Payment due by period									
	Total		Within 1 year		After 1 year but within 2 years		After 2 years but within 5 years		After 5 years	
	RMB	US$	RMB	US$	RMB	US$	RMB	US$	RMB	US$
	(in millions)									
Bank loans	5,441.0	890.2	2,499.8	409.0	1,637.7	267.9	1,223.7	200.2	79.8	13.1
Other borrowings ..	2,580.9	422.2	2,548.9	417.0	26.7	4.4	3.2	0.5	2.1	0.3
Long-term bonds...	9,139.0	1,495.2	0	0	4,225.0	691.2	4,914.0	803.9	0	0
Total...............	17,160.9	2,807.6	5,048.7	826.0	5,889.4	963.5	6,140.9	1,004.7	81.9	13.4

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any outstanding off-balance sheet arrangements.

INFLATION

Inflation in China has not materially impacted our results of operations. According to the PRC National Bureau of Statistics, the change in the consumer price index in China was 5.4%, 2.6%, 2.6% and 1.3% in 2011, 2012 and 2013 and the ten months ended October 31, 2014, respectively.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Our financial statements are expressed in Renminbi and our functional currency for operations in the PRC is the Renminbi. The change in value of the Renminbi against the U.S. dollar, Hong Kong dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the current policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. As of October 31, 2014, this change in policy has resulted in an approximately 29.5% appreciation of the Renminbi against the U.S. dollar since the date of its announcement. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in more volatile changes in the exchange rate of the Renminbi against the U.S. dollar.

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

Interest Rate Risk

Our exposure to interest rate risk primarily arises from our interest-bearing borrowings and our corporate bonds. Borrowings issued at variable rates and at fixed rates and our corporate bonds issued at a fixed rate expose us to cash flow interest rate risk and fair value interest rate risk, respectively. Based on our year-end 2013 variable rate debt levels of bank balances, we estimate that a 100 basis point change in interests rates of our floating rate bank and other borrowings, with all other variables held constant, would have resulted in a decrease or an increase in profit after taxation for 2013 of RMB22.5 million (US$3.7 million). We do not intend to engage in the trading of financial derivatives for the sole purpose of profit making. Our future interest income may be lower than expected due to changes in market interest rates.

Credit Risk

Our credit risk is primarily attributable to trade and bills receivables. In respect of trade and bills receivable for sales of cement, clinker and bubble bricks, we generally require full payment upon delivery of goods and perform credit evaluation only when customers require credit. In respect of trade and bills receivables for sales of pipes and concrete, we allow a credit period ranging from 90 days to 180 days and perform credit evaluation on customers requiring credit over a certain amount. However, we generally do not require collateral from customers on credit. Our exposure to credit risk is influenced by the individual characteristics of each customer rather than the industry or country in which the customers operate. Therefore, significant concentrations of credit risk primarily arise when we have significant exposure to individual customers. As of October 31, 2014, 2.2% and 8.3% of the total trade and bills receivable were due from our largest customer and our five largest customers, respectively.

OVERVIEW

We are one of the largest producers of clinker and cement in China, as measured by cement production capacity, and enjoy dominant market positions in our key markets in Shandong and Liaoning provinces. Leveraging our well-established competitive strengths and strong government support, we have taken advantage of the considerable growth opportunities in Shanxi province, Inner Mongolia and Xinjiang, and have established our presence in these regions through organic growth and acquisitions.

We produce and sell various grades of cement products using advanced NSP (new suspension preheater) production technology. Our principal products also include clinker, a key intermediary component of cement. We also produce and sell other products, such as concrete. Our sales volume of cement products were 47.9 million tons, 47.8 million tons, 53.4 million tons and 46.2 million tons in 2011, 2012 and 2013 and the ten months ended October 31, 2014, respectively. While most of the clinker we produced was used in our cement production, we also sold 7.0 million tons, 9.0 million tons, 9.2 million tons and 8.1 million tons of clinker to external customers in 2011, 2012 and 2013 and the ten months ended October 31, 2014, respectively. In 2011, 2012 and 2013 and the ten months ended October 31, 2014, we sold approximately 0.9 million m^3, 1.7 million m^3, 2.9 million m^3 and 2.9 million m^3 of concrete products, respectively. In 2011, 2012 and 2013 and the ten months ended October 31, 2014, the average unit selling price per ton of our cement products was RMB294.6, RMB277.2, RMB249.9 (US$40.9) and RMB237.8 (US$38.9), respectively. The average unit selling price per ton of our clinker was RMB269.5, RMB211.0, RMB195.3 (US$32.0) and RMB196.0 (US$32.1), respectively, and the average unit selling price per cubic meter of our concrete products was RMB258.9, RMB280.0, RMB296.7 (US$48.5) and RMB300.1 (US$49.1), respectively, during the same periods.

Our products are primarily provided to our customers under the “Shanshui Dongyue” brand name (山水東岳), which was honored with the “Famous Trademark of Shandong Province” award in 2008. In 2010, we were awarded the “Quality Award by the Governor of Shandong” and recognized by the Ministry of Railways as the only construction material company with the award for “Beijing-Shanghai High-Speed Rail Best Supplier.” Our continuous outstanding performance has won our company several awards and positive feedback from investors and the market. In the “Top 100 Hong Kong Stocks” survey jointly organized by Hong Kong financial media company Finet Group Limited and Chinese portal Tencent Net, we were ranked as a “Top 100 Hong Kong Listed Company” and “Top Ten Net Profit Growth” in 2012 as well as “Top Ten Overall Strength” among mid-cap companies in 2013. The International Alternative Investment Review (IAIR) named us the “Best Company for Leadership” in China’s construction and building materials sector in 2013 and 2014. We also won the “2014 Best Investment Value Award for Listed Companies” organized by several professional financial services organizations operating in Hong Kong, Singapore, Beijing and Shanghai.

Our production facilities are principally located in Shandong province, Liaoning province, the eastern part of Inner Mongolia, Shanxi province and Kashi region in Xinjiang. Our clinker production facilities are located near our limestone mines. Each clinker facility usually supplies several of our cement grinding stations that are strategically located in close proximity to our end-markets and customers. This layout of our production facilities enables us to minimize our logistics and transportation costs and to broaden our market coverage. As of October 31, 2014, we had a total annual production capacity (including production lines in test run) of 100.6 million tons of cement and 48.9 million tons of clinker, representing an increase of 6.4 million tons of cement and 3.5 million tons of clinker from December 31, 2013. As of October 31, 2014, our total annual production capacity of cement and clinker reached 58.0 million tons and 26.2 million tons, respectively, in Shandong province, 26.7 million tons and 14.6 million tons, respectively, in Northeastern China, including both Liaoning province and Inner Mongolia, 11.9 million tons and 6.6 million tons, respectively, in Shanxi region, and 4.0 million tons and 1.6 million tons, respectively, in Xinjiang. In addition, the total annual production capacity of our concrete products in Shandong province reached 17.2 million m^3.

In 2011, 2012 and 2013, our revenue was RMB16,862.0 million, RMB16,161.0 million, RMB16,535.2 million (US$2,705.2 million), and our profit for the year was RMB2,311.7 million, RMB1,603.7 million, RMB1,074.7 million (US$175.8 million), respectively. In the ten months ended October 31, 2013 and 2014, our revenue was RMB14,027.3 million and RMB13,591.2 million (US$2,223.5 million), respectively, and our profit for the period was RMB1,056.2 million and RMB407.4 million (US$66.6 million), respectively.

COMPETITIVE STRENGTHS

We are a leading cement player in China, with a dominant market position in key target markets in Shandong and Liaoning provinces and market recognition of our product quality, invested by three shareholders that have cement business.

According to the China Cement Association, we were ranked the sixth largest clinker producer in China as of December 31, 2013, as measured by clinker production capacity, and one of the "Top Ten Listed Chinese Cement Companies by Overall Strength" in 2014. In terms of clinker production volume, we maintained market shares of 32% and 21% in Shandong and Liaoning provinces, respectively, in the ten months ended October 31, 2014. Further, as of the date hereof, three of our top four shareholders are companies that have cement business, namely Asia Cement Corporation, China National Building Material Company Limited and Tianrui (International) Holding Company Limited, which hold a beneficial interest of 20.90%, 16.67% and 10.51% in our shares, respectively. Together with Shanshui Investment, our top four shareholders hold an aggregate beneficial interest of 73.17% in our shares. In response to national policies, we have endeavored to develop and produce high grade cement and have established a recognized brand, "Shanshui Dongyue" (山水東岳), by implementing national quality assurance standards, standardizing quality control thresholds at different stages of our production process and managing and implementing real-time quality control by our professional technicians. "Shanshui Dongyue" has been a long well-regarded brand and was honored with the "Famous Trademark of Shandong Province" award as early as in 2008. In 2010, we were awarded the "Quality Award by the Governor of Shandong" and recognized by the Ministry of Railways as the only construction material company with the award for "Beijing-Shanghai High-Speed Rail Best Supplier." Because of the high-quality products we consistently supply, our products are widely used in various key construction projects, such as Delongyan Railway Passenger Special Line, Jidong Highway, Weiri High-Speed Connecting Lines, Yanlian Rail, Shijiazhuang-Jinan Railway Passenger Special Line, Qinglian Railway Tenth Section and Ling Xiu City in Shandong province, Beijing-Shenyang Railway Passenger Special Line and Wanda Plaza in Shandong province, Shenjiami Highway in Shanxi province and ArTashi Hydropower Station and Kalabeili Hydropower Station in Xinjiang and a number of New Rural Construction projects in Shandong, Henan and Liaoning provinces in China. We believe that our dominant market position in our key markets in Shandong and Liaoning provinces as well as industry recognition for the high quality of our products, enable us to generally achieve favorable pricing for our cement, clinker and concrete products, typically at a premium over products sold by our competitors. As a result, we can also attract key customers, such as Shandong Luxin High-Technology Company, China Railway Eighth Group and China Railway 14th Construction Bureau, in our core markets in Shandong and Liaoning provinces.

Our excellent performance through the years has won us awards and recognition from the market. In the "Top 100 Hong Kong Stocks" survey jointly organized by Hong Kong financial media company Finet Group Limited and Chinese portal Tencent Net, we were ranked as a "Top 100 Hong Kong Listed Company" and "Top Ten Net Profit Growth" in 2012 as well as "Top Ten Overall Strength" among mid-cap companies in 2013. The International Alternative Investment Review (IAIR) named us the "Best Company for Leadership" in China's construction and building materials sector in 2013 and 2014. We also won the "2014 Best Investment Value Award for Listed Companies" organized by several professional financial services organizations operating in Hong Kong, Singapore, Beijing and Shanghai.

As a result of improving supply in a disciplined manner in our target markets, we are better positioned to benefit from the improved demand-supply dynamics, and to capture the long-term opportunities from the growth in infrastructure projects and the construction industry.

In recent years, the PRC government has promulgated numerous policies to address the overcapacity issues and the high market fragmentation in the cement industry. As a large-scale leading cement player in China with the capability of meeting stringent environmental regulation requirements and producing high grade cement, we are well positioned to benefit from these policies which aim at enhancing market supply in a disciplined manner. For example, in July 2013, the State Council implemented a differentiated financing policy for industries with overcapacity, including the cement industry, to provide credit support to large-scale enterprises in their consolidation efforts, while strictly controlling borrowing to obsolete production facilities. In October 2013, the State Council issued the Guidance Opinion on Resolving the Excessive Overcapacity Issue (《關於化解產能嚴重過剩矛盾的指導意見》), which proposed to strictly prohibit the construction of new cement capacity and eliminate obsolete capacity. Such guidance also aimed to phase-out 100 million tons of cement (including clinker and grinding) capacity by the end of 2015 and to abolish low grade (32.5) composite cement as soon as possible. In late December, 2013, the Emission Standard for Air Pollutants of the Cement Industry (水泥工業大氣污染物排放標準), promulgated by the Ministry of Environmental Protection and became effective in 2014, is regarded as the strictest environmental protection standard in the cement industry to date and its implementation will accelerate the elimination of obsolete production capacity and promote the reorganization and consolidation in the cement industry. On December 10, 2014, the Standardization Administration of China announced that it would eliminate the standards for low grade (32.5) composite cement on December 1, 2015, which will lower the overall cement production volume by decreasing the clinker-to-cement ratio and eliminate those cement plants without capability of producing high grade cement, mainly operated by small cement companies. As a result of the above policies, investments in the cement industry have continuously decreased since 2011. In 2013, investments in the cement production decreased by 6.5%, clearly indicating a slowdown in the sector capacity additions. It is therefore expected that the clinker and cement industry will not experience a large increase in capacity after 2015, particularly in our target markets in Shandong and Liaoning provinces, where the supply has already been in a disciplined manner. The cement capacity elimination targets were fulfilled in each year since 2011. Over 90 million tons of obsolete production capacity have been eliminated since 2006 in Shandong province and over 38 million tons since 2008 in Liaoning province. Shandong and Liaoning provinces have eliminated all production lines with vertical kilns, which helped alleviate overcapacity. We expect the clinker production capacity in Shandong and Liaoning provinces will remain stable, instead of experiencing growth, after 2015, which will help to strengthen our leading market position in Shandong and Liaoning provinces. We believe the disciplined market condition will enhance with the continual decreased investments in production capacity, further elimination of obsolete production capacity and increase in the market consolidation level, which will benefit the long-term development of the industry and the consolidation of our leading position as a large, well-known cement producer.

On the demand side, one objective of the PRC government's "Twelfth Five-Year Plan," released in 2011, and its economic stimulus package under the plan, is to foster growth at an accelerated pace in Northwestern China. In addition, the PRC government has pledged to invest RMB4,000 billion in water conservation from 2011 to 2020, which is expected to increase the demand for cement in China. In addition, according to the Central Urbanization Work Conference held in December 2013, China's new focus on urbanization will be on developing urban clusters in central, western and northeastern China through the orderly integration of rural migrants, deepening the redevelopment of urban slums, enhancing the construction of major infrastructure projects in central and western China, and guiding the migration of industries. In addition, since October 2014, the NDRC has approved 27 projects, with an approximate total investment amount of RMB1,200 billion, in our core business markets. The demand for cement products remains stable in Shandong and Liaoning provinces. Large projects currently under construction in Shandong province include Delongyan Railway Passenger Special Line, Jidong Highway, Weiri High-Speed Connecting Lines, Yanlian Rail, Shijiazhuang-Jinan Railway Passenger Special Line and Qinglian Railway Tenth Section, and large projects in the pipeline in Liaoning province include Beijing-Shenyang Railway Passenger Special Line. In 2014, Shandong and Liaoning provinces proposed to invest RMB56.5 billion and RMB44 billion in transportation infrastructure construction, respectively. In addition, we expect large projects in the pipeline in our target markets to include the Qinglian Railway tender project and Huangda Railway in Shandong province, expansion of railway between Jinzhou Port and Baiyinhua in Liaoning Province, Southern Inner Mongolia Railway, Changlin High-Speed Rail and Taijiao High-Speed Rail in Shanxi province and the Civilian Prosperity and Housing Project in Kashi Prefecture. These government measures are expected to stimulate economic development in these areas, which are also our target markets, creating high demand of our products for infrastructure and construction projects and presenting ample opportunities for our growth.

As one of the twelve large-scale enterprises named in the joint notice by the NDRC, the Ministry of Land and Resources and the PBOC to receive government support in the form of priority with respect to project approvals, land use right grants and credit approvals, we are well positioned to take advantage of the PRC government's previous and future economic policies. We expect that the continual improvement of supply in a disciplined manner in the cement industry will enhance our market position and strengthen our market dominance, and enable us to capitalize on the growth in infrastructure projects and the construction industries.

We have improved our financial metrics through prudent capital expenditure management and diversified sources of funding.

We have implemented prudent financial management and have access to diversified domestic and overseas sources of funding. We emphasize cost management and proactively enhance the cost-competitiveness of each individual business unit to increase our profitability. We strictly control our capital expenditures to improve our leverage ratio. We have changed the focus of our investment strategy from rapid expansion and capturing market share, to optimizing and upgrading existing production capacity to enhance our leading market position. We do not expect to engage in large acquisition or build new manufacturing facilities in the near future. Our planned capital expenditures in the next three years will not exceed RMB4.5 billion in the aggregate, representing a significant decrease from RMB4.4 billion and RMB4.2 billion (US$0.7 billion) in 2012 and 2013 and an estimated RMB2.1 billion (US$0.3 billion) in 2014. The reduced capital expenditure will improve our cash flow and liquidity position in the next few years.

To secure financing for our sustainable development, we have accessed diversified sources and types of financing, using an opportunistic combination of debt and equity, indirect and direct financing, and long-term and short-term debts. In terms of equity financing, on November 3, 2014, CNBM, a state-owned enterprise and a market leader, completed its subscription of 563,190,040 of our newly issued ordinary shares, or approximately 16.67% of the post-subscription share capital at a consideration of HK$1,560 million (US$201 million). CNBM's investment has also improved our financial metrics related to leverage and liquidity.

CNBM is a central enterprise under direct supervision of the SASAC and a leading building materials company in China with significant operations in the cement, lightweight building materials, glass fiber and composite materials and engineering services businesses. Our cooperation with CNBM, will also potentially generate synergies in various aspects of our businesses, including but not limited to industrial technology, business operation, energy-saving and emission-reduction, and project management, which we believe will further enlarge and enhance our market share. In terms of debt financing, we use bank loans and note issuances to supplement our working capital for manufacturing and repay maturing debt. Our good credit have enabled us to maintain good cooperative relationships with domestic and overseas banks and secure financing to meet the needs of our businesses. As of October 31, 2014, we have a total bank credit limit of RMB8.4 billion (US$1.4 billion), of which RMB2.9 billion (US$0.5 billion) remained unutilized. Our borrowings in China are primary medium to long term working capital loans. We intend to refinance our existing debt through issuing overseas bonds to extend the average maturity profile of our borrowings and alleviate the pressure on our liquidity. In addition, we have also issued short-term corporate bonds to supplement our liquidity and reduce our financing costs.

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

We strategically deploy our production facilities along the Shandong Jiaoji railway in order to capture the opportunities for the production and sales of our products presented in the surrounding economically advanced regions. Also, all of our clinker production facilities are located near limestone mines, serving a network of cement grinding stations that are strategically located in proximity to our target end-markets, thereby minimizing transportation costs. We have abundant limestone reserves which we believe is sufficient to provide for at least 30 years for our planned production as a result of our stringent investment strategy. We only acquire clinker production capacities that come with or construct green field clinker production capacities after acquiring limestone reserves that fulfill our production needs for at least 30 years, as required by the PRC government's policy. We have also carefully planned our capacity expansion in order to achieve balanced cement and clinker production capacities to maximize our profits. This balance helps us ensure sufficient production of clinker for our internal use to avoid extra costs procuring clinker externally, while having sufficient cement production to absorb our clinker production to avoid excessive external sales of lower-margin clinker products. We have also gradually increased the centralization of procurement of key raw materials, especially coal. We conduct centralized procurement, select credit-worthy suppliers with proven track records and build long-term cooperative relationships with them in order to ensure the quality and quantity of our supplies as well as increase our bargaining power in procurement and pricing. In addition, we enhance our inventory management of the raw materials to take full advantage of low prices during the off-peak demand season. Coal is used during our clinker production process and constitutes the largest cost component of our production. We maintain long-term relationships with large coal suppliers to ensure a stable supply. Our top ten coal suppliers, who in aggregate provided approximately 73% of our coal supplies in 2013, had supplied coal to us for at least one year, with some supplying us for over three years. Furthermore, we have our own industrial design department to optimize our production technologies based on our practical operating experience, which provides us with substantial cost savings related to construction and operation. All our clinker production lines are equipped with residual heat recovery systems which has helped reduce external power consumption. In 2011, 2012 and 2013 and the ten months ended October 31, 2014, the output of our residual heat power generation reached 1,031 million KWh, 1,021 million KWh, 1,105 million KWh and 991 million KWh, respectively, and our total power costs savings amounted to RMB401.3 million, RMB344.3 million, RMB453.0 million (US$74.1 million) and RMB289.1 million (US$47.3 million), respectively.

We have an extensive sales network to cover a broad and diverse customer base.

Our extensive sales network and effective management enable us to optimize regional market penetration. We have an extensive direct sales network that is segmented into four geographical groups, Shandong, Northeastern China, Shanxi and Xinjiang. As of October 31, 2014, the Shandong network covered 120 counties and districts in Shandong province, certain areas in Hebei, Henan, Jiangsu and Anhui provinces and Tianjin with 46 regional sales branches, 110 local sales offices and over 1,100 third-party sales outlets. As of October 31, 2014, the Northeastern China network covered 114 cities, counties and districts in Liaoning province and Inner Mongolia with 21 regional sales branches, 40 local sales offices and approximately 702 third-party sales outlets. As of October 31, 2014, the Shanxi network covered eight counties and districts in Shanxi province with 13 regional sales branches, 20 local sales offices and approximately 300 third-party sales outlets. As of October 31, 2014, the Kashi network covered eight counties and districts in Xinjiang with three regional sales branches, five local sales offices and approximately 106 third-party sales outlets. As of October 31, 2014, we had 1,847 direct sales personnel, who are responsible for marketing and selling our products in their assigned areas and providing after-sales support to our customers. The four networks combined had 83 regional sales branches, 175 local sales offices and approximately 2,208 third-party sales outlets. All of our regional sales branches and local sales offices are centrally managed by the sales department in our headquarters in Jinan, Shandong province, while our direct sales personnel are divided into teams to cover different customer groups in urban areas. Our sales coverage of rural customers is primarily achieved through partnerships with third-party sales outlets at which we sell our products to end-users. Moreover, we have a broad and diversified customer base, which in turn expands the use of our products. As a result, our products are widely used in various kinds of projects, including railways, highways, water conservancy projects, commercial real estate and housing projects. We believe our extensive sales network enables us to cover a broad and diverse customer base and our well-established sales network in rural areas, in particular, enables us to benefit from the government's policy of "Bring building materials to the rural area."

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

Our senior management team has an average of over 20 years of experience working in the PRC cement industry and considerable financial and business management expertise. For example, Mr. Bin Zhang, our chairman, executive director and general manager, has over ten years of industry experience and is responsible for managing our daily operations and spearheading our capital market initiatives. Mr. Caikui Zhang, our executive director, has over 45 years of industry experience as chairperson of several industry committees, such as the Jinan Municipal Bureau of Building Materials. Other members of our senior management team also have significant experience in key aspects of our operations, including production management, sales and distribution, research and development and logistics. Over the years, our senior management has delivered professional operational performance and helped us to achieve significant growth. Since March 5, 2012, we have been included in the Hang Seng Mainland 100 index by the Hong Kong Stock Exchange, symbolizing the capital market's recognition of our financial strength and market position.

STRATEGY

We intend to become the leading cement producer in north of Yangtze River through the following strategies:

Stabilize price, align with government policies and focus on customer segmentation, in order to increase sales volume.

In a low-price environment, increasing sales volume is an important means to maintain our profitability. Starting from our Shandong market, we plan to further enhance our customer information system, fully leverage our competitive advantages from our sales network and our direct sales model, and improve customer service in all phases of the sale process, so as to increase sales volume based on a stable price. As the PRC government plans to eliminate the low grade (32.5) composite cement by the end of 2015, we will enhance our efforts to develop high-end products such as high grade cement and concrete products, in order to increase our competitiveness and profitability and capitalize on our competitive edge in comprehensive production system and process. In addition, we plan to timely guide our regional branches to make proactive adjustments to the production and sales of our products to help balance the supply and demand dynamics so as to stabilize prices and, as a result, maintain our profitability. The fact that we are also one of the major clinker suppliers in these markets provides us additional leverage in responding to the supply and demand dynamics not only at the end product level, but also at the raw materials level. We believe this strategy can help maintain and stabilize our long-term profitability and is also aligned with the PRC government's industry policies. In addition, we will strive to enhance our "Shanshui" brand to achieve sales premium and further increase our profitability.

Strictly control cost and implement regional and benchmark management to enhance competitiveness.

We will sustain a stable growth in our financial performance by implementing a comprehensive and all-encompassing monitoring of our core business regions such as Shandong, Liaoning and Shanxi provinces. We will use benchmark management as the primary tool to assess technical (such as coal consumption, power consumption and maintenance expense) and profit indicators to enhance internal control management and execution efficiency and increase market bargaining power. We have formulated detailed internal management and operational procedures. Our operations in Shandong province is managed through nine regions and our sourcing and procurement department has implemented standardized bidding procedures and a comprehensive "group-region-subsidiary" three-level procurement management system to enhance our operational efficiency and market competitiveness. In addition, we will continue to deepen benchmark management of our production process, and encourage our subsidiaries to be introspective on further means of reducing cost by reduce coal and power consumption through various reforms and greater cross communications and education. We endeavor to reduce production cost by increasing research and development efforts to enhance production process technology, and actively seeking cheaper, substitute raw materials.

Implement regular assessment and differentiated responsive policies to mitigate operational risks.

We will make our production and operation decision-making more scientific and effective, improve our financial performance and mitigate operational risks by focusing on comprehensive budget management. We will enhance the analysis, execution, monitoring and appraisal of monthly production and operating budgets, and establish an appraisal mechanism that provides for appraisals and evaluations on periodic basis, such as every day, every week, every ten days and every month, so as to strengthen the use of financial information in the course of production and operations. We also plan to further monitor our bidding process, and using our existing centralized procurement and supply platform to bulk purchase raw materials, coal and general inventory to decrease our procurement costs. In addition, we will implement comprehensive financial budget management focusing on treasury management to increase capital efficiency and enhance control over operations.

Adapt to market conditions, enhance quality and efficiency, optimize strategic deployment and vertically integrate to others of the value chain.

The overcapacity and intense competition in the cement industry will likely continue in the short term. We will adapt to the government policies on the cement industry by enhancing strategic research on our existing markets. Our growth strategy will change from simply expanding production capacity to upgrading existing facilities to improve our overall competitiveness. In addition, as the market consolidation trend develops from intense competition to horizontal alliances, we will embark on strategic collaborations to better penetrate regional markets. We will increase our investment in research and development on aspects of transforming and upgrading the cement industry, such as energy-saving and environmental protection, and build up our technological and human resources as the cornerstone of our overall competitive edge in the future. Leveraging the favorable environment created by government policies supporting the extension of the whole industry chain and comprehensive utilization of resources, we plan to accelerate our vertical integration strategy. Based on prudent investigation and research, we intend to enhance our vertical integration by acquiring upstream raw material suppliers in order to accelerate diversifying our product offerings such as concrete and aggregate. We also plan to develop downstream products to extend our reach to the lowest end of the value chain. Our long-term goal is to become the one-stop provider of all necessary building materials to our customers in order to maximize our profit.

RECENT DEVELOPMENTS

Investment by CNBM

On November 3, 2014, the CNBM, a state-owned enterprise and a market leader, completed its subscription of 563,190,040 of our newly issued ordinary shares, or approximately 16.67% of the post-subscription share capital, at a consideration of HK$1,560 million (US$201 million). CNBM's investment has improved our financial metrics related to leverage and liquidity. CNBM is a leading building materials company in China with significant operations in the cement, lightweight building materials, glass fiber and composite materials and engineering services businesses. Our cooperation with CNBM will also potentially generate synergies in various aspects of our businesses, including but not limited to industrial technology, business operation, energy-saving and emission-reduction, and project management, which we believe will further enlarge and enhance our market share.

Completion of Construction of Production Facility in Shanxi Province

We have completed the construction of eight out of ten of our production facilities in Shanxi province. As of October 31, 2014, we had a total production capacity of 11.9 million tons of cement and 6.6 million tons of clinker in Shanxi province. We expect that the completion of construction of production facilities in Shanxi province will reduce our capital expenditures in the future.

Repayment of IFC Loans

Four of our subsidiaries entered into loan agreements with IFC totaling US$50 million in 2009. Under the loan agreements, as amended, the loans bear interest at LIBOR plus 4.75% per annum and are repayable semi-annually from 2010 to 2015. In addition, another two of our subsidiaries entered into loan agreements with IFC, totaling US$50 million in 2006. Under the loan agreements, as amended, the loans bear interest at LIBOR plus 4.0% per annum and are repayable semi-annually from 2008 to 2014 and are secured by certain properties, plant and equipment. These loans are guaranteed by us. We have repaid all of these IFC loans in December 2014.

OUR PRODUCTS

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

	Year ended December 31,							Ten months ended October 31,				
	2011		2012		2013			2013		2014		
	RMB	% of Revenue	RMB	% of Revenue	RMB	US$	% of Revenue	RMB	% of Revenue	RMB	US$	% of Revenue
	(in millions, except percentage)											
Revenue												
Sales of cement	14,123.9	83.8%	13,261.6	82.1%	13,348.9	2,183.9	80.7%	11,487.9	81.9%	10,990.0	1,798.0	80.9%
Sales of clinker	1,886.6	11.2%	1,904.4	11.8%	1,800.3	294.5	10.9%	1,486.0	10.6%	1,585.7	259.4	11.6%
Sales of concrete	242.6	1.4%	465.2	2.9%	850.0	139.1	5.1%	620.2	4.4%	863.3	141.2	6.4%
Sales of other products(1)	608.9	3.6%	529.8	3.2%	536.0	87.7	3.3%	433.2	3.1%	152.2	24.9	1.1%
Total	16,862.0	100.0%	16,161.0	100.0%	16,535.2	2,705.2	100.0%	14,027.3	100.0%	13,591.2	2,223.5	100.0%

Note:

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

Our sales volume of clinker was 7.0 million tons, 9.0 million tons, 9.2 million tons and 8.1 million tons in 2011, 2012 and 2013 and the ten months ended October 31, 2014, respectively, and our sales volume of cement products was 47.9 million tons, 47.8 million tons, 53.4 million tons and 46.2 million tons, respectively, during the same periods.

The following table sets forth the average selling prices of our cement products by region for the periods indicated.

	For the year ended December 31,				For the ten months ended October 31,		
	2011	2012	2013		2013	2014	
	RMB	RMB	RMB	US$	RMB	RMB	US$
Shandong province	299.0	268.3	243.9	39.9	244.3	236.3	38.7
Northeastern China	282.7	303.8	270.3	44.2	270.9	248.1	40.6
Shanxi province	298.3	239.9	218.9	35.8	221.1	203.6	33.3
Xinjiang Region	–	200.0	226.8	37.1	226.1	240.8	39.4

Cement is produced by blending gypsum, blast furnace slag or other additives with clinker. We currently produce and sell a variety of cement products, which are mainly used for real property construction and infrastructure projects. Our cement products are classified into high grade products and low grade products.

High grade cement products, such as PO52.5R, PO42.5R and PO42.5, refer to products with compressive strength greater than or equal to 42.5 MPa. They are generally applied in major construction projects with special requirements, such as bridges, roads, high-rise buildings and high performance concrete, and projects where a high initial level of strength is required. Low grade cement products, such as low grade (32.5R) composite cement and low grade (32.5) composite cement, are applied in general industrial construction such as production of surface, underground and underwater concrete as well as reinforced concrete, pre-stressed concrete structures and commercial concrete products.

Driven by the demand for high grade cement as a result of the government's substantial investment in infrastructure projects and our expanded market coverage of other areas of China, the sales volume of high grade cement increased by 66.9% in the ten months ended October 31, 2014 as compared to 66.5% in 2013. The table below sets forth the sales volume and revenues of our high grade and low grade cement products for the periods indicated.

	Year ended December 31,				Ten months ended October 31,		
	2011	2012	2013		2013	2014	
Sales Volume (in millions of tons)							
High grade cement products ..	29.3	29.5	35.5		29.2	30.9	
Low grade cement products…	18.6	18.3	17.9		16.5	15.3	
Revenues	**RMB**	**RMB**	**RMB**	**US$**	**RMB**	**RMB**	**US$**
				(in millions)			
High grade cement products ..	9,061.5	8,346.9	9,020.4	1,475.8	7,489.1	7,509.2	1,228.5
Low grade cement products…	5,062.5	4,914.7	4,328.5	708.2	3,998.7	3,480.8	569.5

We also produce clinker, a key intermediary component in the production of cement, from limestone through a rotary kiln process, primarily for use in making our cement products. To fully utilize our clinker production capacity, we also sell a portion of our clinker to external customers.

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

PRODUCTION

Production Facilities

Our production facilities are principally located in Shandong region, Liaoning region, the eastern part of Inner Mongolia, Shanxi region and Kashi region in Xinjiang. As of October 31, 2014, we had a total production capacity (including production lines in test run) of 100.6 million tons of cement and 48.9 million tons of clinker. As of October 31, 2014, our total production capacity of cement and clinker in Shandong province reached 58.0 million tons per year and 26.2 million tons per year, respectively, our total production capacity of cement and clinker in Liaoning province and Inner Mongolia reached 26.7 million tons per year and 14.6 million tons per year, respectively, our total production capacity of cement and clinker in Shanxi province reached 11.9 million tons per year and 6.6 million tons per year, respectively, and our cement and clinker capacity in Xinjiang reached 4.0 million tons per year and 1.6 million tons per year, respectively. We have 75, 35, 15, 14 and 4 cement grinding production lines in Shandong region, Liaoning region, Inner Mongolia, Shanxi region and Xinjiang, respectively.

We carefully select the locations of our production facilities to lower transportation costs. All of our clinker production lines are located near our limestone mines and serve a network of cement grinding stations that are strategically located in proximity to our end markets. Due to the bulky nature of cement, we have established our clinker and cement production facilities based on a "hub-and-spoke" model. Our clinker production facilities are located near our limestone mines, which supply to several of our cement grinding stations that are strategically located in close proximity to our end-markets and customers. This layout of our production facilities enables us to minimize our logistics and transportation costs, and to broaden our market coverage. Our transportation costs consist of the costs relating to transportation of limestone from limestone mines to clinker production facilities, transportation of clinker from clinker production facilities to cement grinding stations and transportation of cement from cement grinding stations to end markets. Since the input-output ratio for limestone to clinker is approximately 1.3:1, the input-output ratio for clinker to low grade (32.5) cement is approximately 1:1.7, and the input-output ratio for clinker to high grade (42.5) cement is approximately 1:1.3, the layout of our facilities is designed to minimize the total transportation costs by relying on a more extended transportation radius for clinker rather than for limestone or cement.

The table below sets forth our production capacity and total number of production lines as of December 31, 2011, 2012 and 2013 and October 31, 2013 and 2014 and production volumes for clinker and cement for the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2013 and 2014:

	As of and for the year ended December 31,			As of and for the ten months ended October 31,	
	2011	2012	2013	2013	2014
Clinker					
Total capacity (in millions of tons) ..	37.4	39.0	45.4	45.4	48.9
Total production lines	36	38	43	43	46
Total production volumes (in millions of tons)	36.8	37.8	41.6	34.4	36.8
Cement					
Total capacity (in millions of tons) ..	84.2	89.6	94.2	94.2	100.6
Total production lines	128	132	137	137	143
Total production volumes (in millions of tons)	48.1	48.5	54.1	46.4	47.0

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

Location	Annual clinker production capacity[(1)] for the year ended December 31,			Annual clinker production capacity[(1)] for the ten months ended October 31,		Production volume for the year ended December 31,			Production volume for the ten months ended October 31,	
	2011	2012	2013	2013	2014	2011	2012	2013	2013	2014
	(in millions of tons)									
Shandong region	23.5	23.5	26.2	26.2	26.2	27.7	25.0	27.7	22.5	24.1
Liaoning region	7.8	7.8	7.8	7.8	9.1	6.0	7.0	7.0	6.0	6.2
Inner Mongolia......	3.2	3.2	3.2	3.2	5.5	3.0	3.0	3.0	2.4	3.0
Shanxi region	2.9	2.9	6.6	6.6	6.6	0.1	2.0	2.7	2.5	2.7
Xinjiang region	–	1.6	1.6	1.6	1.6	–	–	–	1.0	0.9
Total	37.4	39.0	45.4	45.4	48.9	36.8	37.8	41.6	34.4	36.8

Note:

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

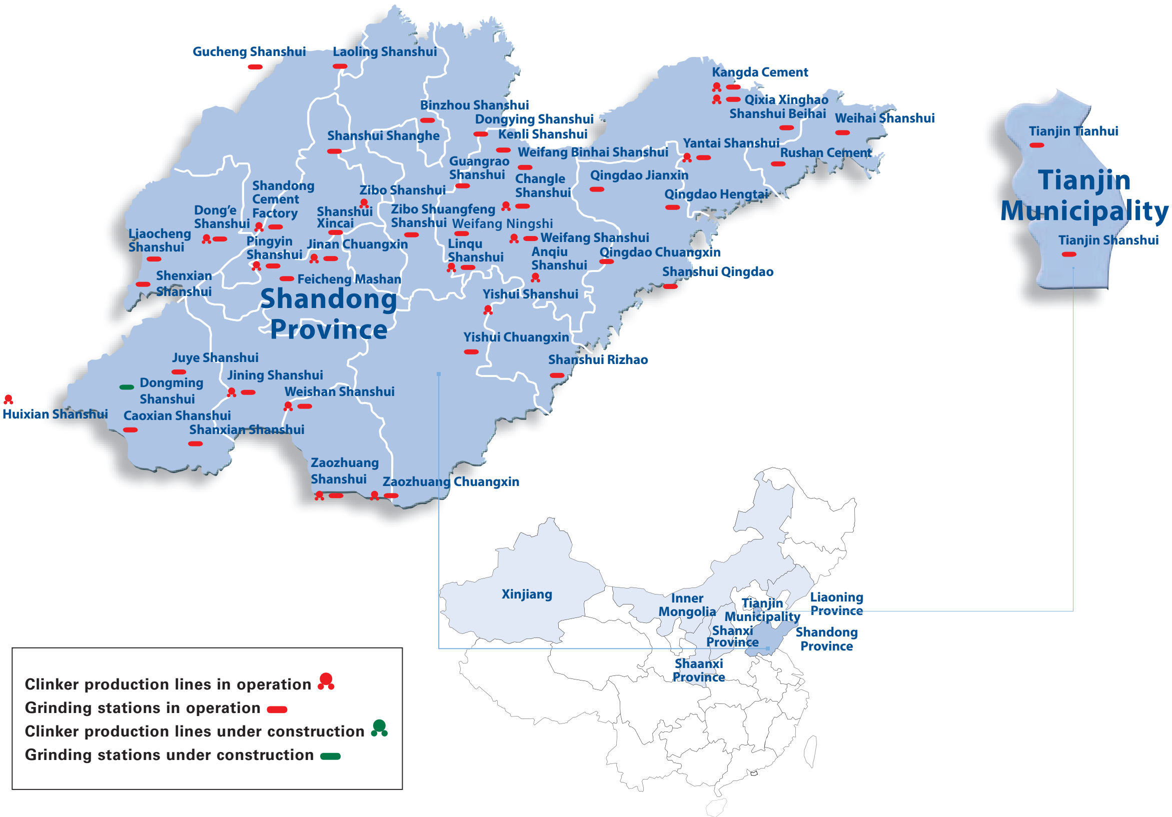
The table below sets forth the annual production capacity and production volume of the cement production lines in each area in which we operate.

Location	Annual cement production capacity[(1)] for the year ended December 31,			Annual cement production capacity[(1)] for the ten months ended October 31,		Production volume for the year ended December 31,			Production volume for the ten months ended October 31,	
	2011	2012	2013	2013	2014	2011	2012	2013	2013	2014
	(in millions of tons)									
Shandong region	53.8	55.4	57.0	57.0	58.0	35.1	30.8	33.9	27.7	28.5
Liaoning region	17.9	17.9	17.9	17.9	17.9	8.9	11.3	11.3	10.3	9.5
Inner Mongolia......	8.0	8.8	8.8	8.8	8.8	3.8	4.0	4.5	4.4	4.8
Shanxi region	4.5	5.5	7.5	7.5	11.9	0.3	2.4	3.1	2.8	2.9
Xinjiang region	–	2.0	3.0	3.0	4.0	–	–	1.3	1.2	1.2
Total	84.2	89.6	94.2	94.2	100.6	48.1	48.5	54.1	46.4	46.9

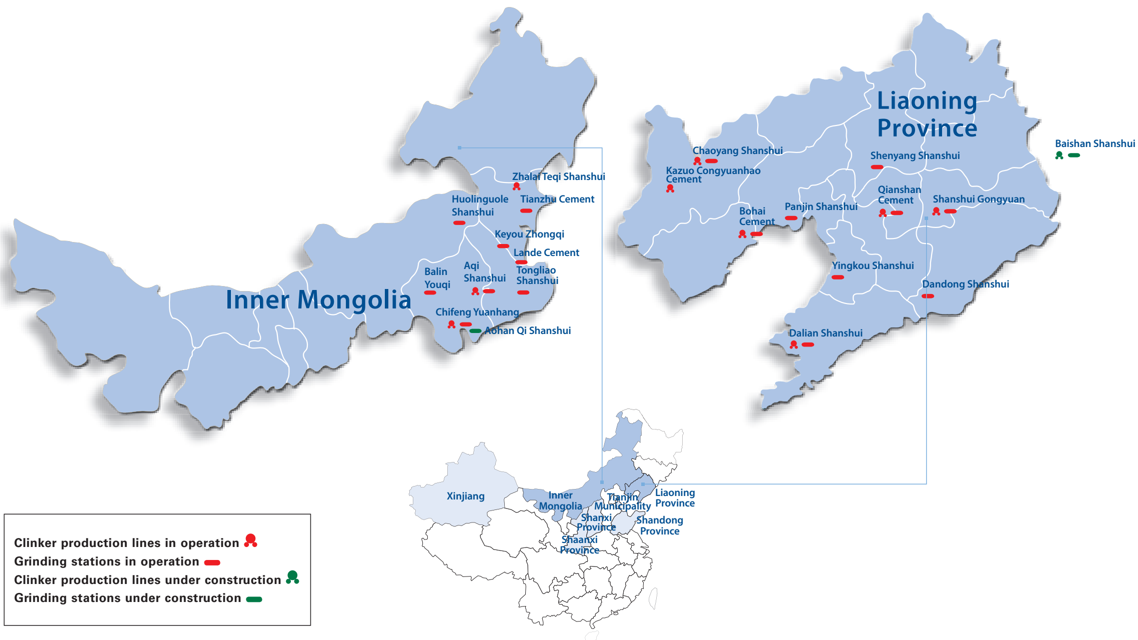
Note:

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

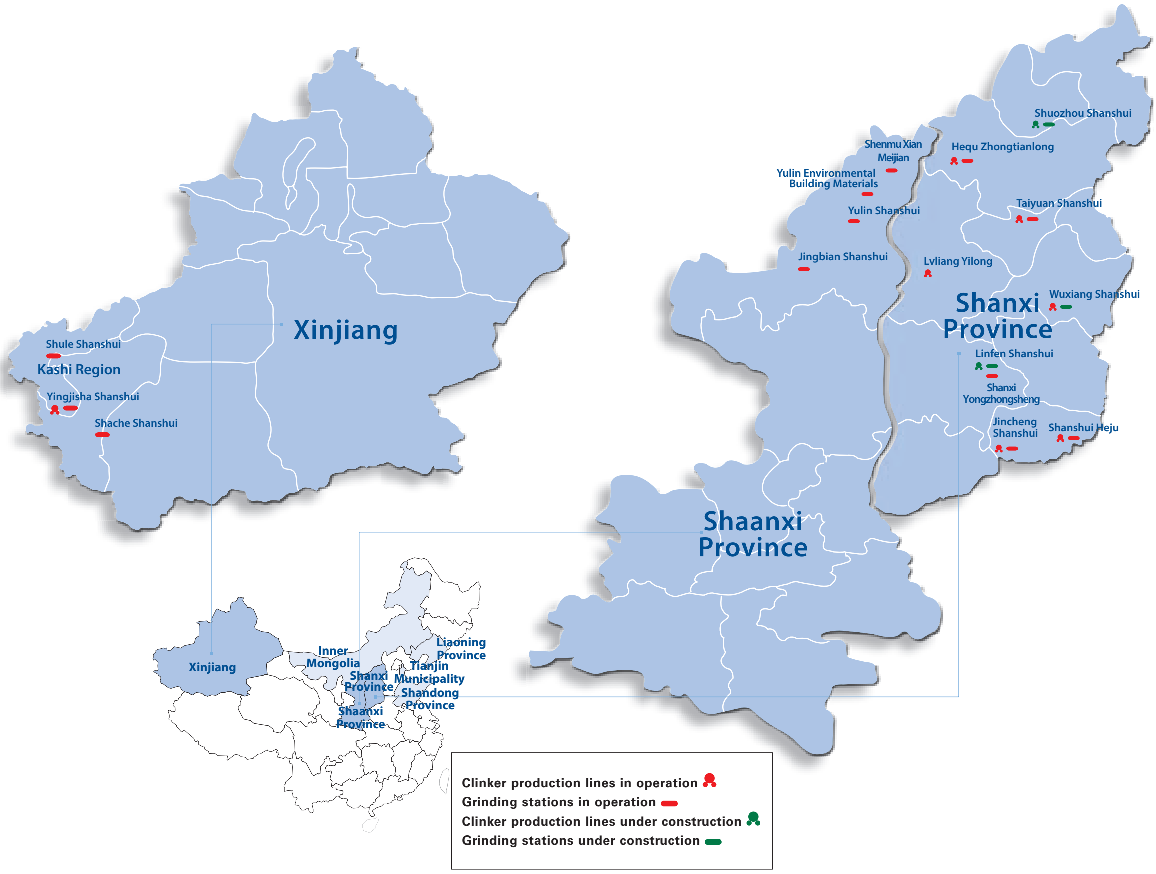
The map below indicates the locations of our major production facilities (including projects under construction) in Shandong region as of October 31, 2014:



The map below indicates the locations of our major production facilities (including projects under construction) in Northeastern China as of October 31, 2014:



The map below indicates the locations of our major production facilities (including projects under construction) in Xinjiang and Shanxi region as of October 31, 2014:



All of our existing clinker lines are using automated NSP and equipped with residual heat generation and Distributed Control System, an advanced process control system that significantly improves our production efficiency by reducing labor costs associated with our production. In addition, facilities equipped with NSP technology discharge lower levels of harmful emissions than facilities that employ non-NSP technology. As a result, our NSP technology is supported by PRC government policies intended to reduce industrial waste and pollution. In both the Notice Regarding Replacement of Obsolete Cement Production Capability issued on February 18, 2007 and Policies on the Development of the Cement Industry issued on October 17, 2006, the NDRC mandated that all production facilities using less-advanced technologies, including dry hollow kilns and wet kilns, should be replaced. In September 2013, the State Council issued the Action Plan for the Elimination and Control of Air Pollution to promote cleaner production and strengthen review of the environmental standards of cement manufacturers. Also, in 2013, the Ministry of Environmental Protection of China released the Standard for Emission of Air Pollutants for Cement Industry to establish a more stringent environmental protection standard for cement production.

According to the MIIT, a total of 105.8 million tons of obsolete cement production capacity was phased out in 2013. According to Shandong Economic and Information Technology Committee, approximately 6.8 million ton of obsolete cement production capacity was phased out in Shandong province as of December 31, 2013.

Planned Capacity Expansion

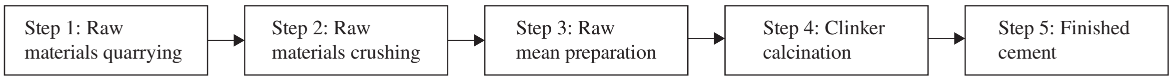
We plan to further expand our production capacity in a prudent manner through the construction of new production facilities. For instance, four cement grinding production lines and four clinker production line are in construction in Shandong province, Shanxi province and the Northeastern China.

The following table sets forth our planned number of production lines, production capacity and production commencement date by products for 2015.

Products	Planned Number of Production Lines	Planned Production Capacity	Anticipated Commencement Date
Clinker........................	4	5.3 million tons	By the end of 2015
Cement	9	11.0 million tons	By the end of 2015
Concrete......................	3	3.0 million tons	By the end of 2015

Production Process

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



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

Quality Control

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

Production Management and Inventory Control

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

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

RAW MATERIALS, COAL AND POWER

In 2011, 2012 and 2013 and the ten months ended October 31, 2013 and 2014, purchases of raw materials, coal and power from our five largest suppliers accounted for 9.4%, 5.3%, 15.4%, 12.2% and 17.2% of our total cost of sales, respectively, and purchases from our largest supplier accounted for 2.9%, 1.2%, 4.8%, 4.6% and 6.5% of our total cost of sales, respectively.

Raw Materials

The principal raw material for the production of clinker and cement is limestone. Other raw materials include clay, shale, pyrite cinder, sandstone and gypsum. Our raw materials costs accounted for 30.3%, 31.5%, 33.2%, 35.7% and 34.7% of our total cost of sales for the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2013 and 2014, respectively.

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

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

In order to diversify our limestone supply, capitalize on regional price discrepancies and preserve our own limestone reserves, we source a significant portion of the limestone used for our cement production from outside suppliers and expect to continue to do so in the near future. We sourced approximately 45.1%, 46.2%, 45.6% and 44.9% of our limestone supply from outside suppliers in 2011, 2012 and 2013 and the ten months ended October 31, 2014, respectively. We typically enter into supply contracts whose terms may vary from six months to three years with pricing terms that are negotiated based on market prices.

Coal

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

Coal constituted approximately 32.8%, 29.2%, 26.2%, 25.7% and 25.3% of our total cost of sales for the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2013 and 2014, respectively. Our coal consumption was 144 kg, 140 kg, 137 kg, 137 kg and 137 kg of coal per ton of clinker in 2011, 2012 and 2013 and the ten months ended October 31, 2013 and 2014, respectively. See "Risk Factors – Risks Relating to Our Business – Our profitability and results of operations are subject to fluctuations in the supply and costs of raw materials, coal and Power, and we may be unable to pass on cost increases to our customers."

Power

Power constituted 14.4%, 15.2%, 14.7%, 14.2% and 14.6% of our total cost of sales for the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2013 and 2014, respectively. We have not in the past experienced any disruption of our operations due to insufficient supply of power and do not anticipate any significant interruption in power supply that would have a material impact on our business. However, we have experienced increases in power prices in recent years caused by surging coal prices. We are typically required to prepay for our power expenses at the beginning of each month based on estimates and settle the balance at the beginning of the next month based on actual expenses incurred.

We have adopted RHR technology for all of our clinker production facilities. RHR generators collect residual heat from the clinker production process to generate power that can be re-utilized for clinker production. The average costs of power produced through these generators was approximately RMB0.18 (US$0.03) per KWh in the ten months ended October 31, 2014, significantly lower than our average power purchase price of RMB0.55 per KWh during the same period. Using RHR technology, we increased our output of residual heat power generation, producing 1,031 million Kwh, 1,021 million Kwh, 1,105 million Kwh and 991 million Kwh in 2011, 2012 and 2013 and the ten months ended October 31, 2014, respectively.

SALES AND MARKETING

Sales Network

In 2011, 2012 and 2013 and the ten months ended October 31, 2014, the substantial majority of our products were sold to customers in Shandong province. We also sold a small portion of our products to customers located in relatively close proximity to our cement production facilities, including those in Henan province, Hebei province, Inner Mongolia and Tianjin city.

We sell our products directly in China to end-users through our extensive sales network that is segmented into four geographical groups, Shandong, Northeastern China, Shanxi and Xinjiang. As of October 31, 2014, the Shandong network covered 120 counties and districts in Shandong province, certain areas in Hebei, Henan, Jiangsu and Anhui provinces and Tianjin with 46 regional sales branches, 110 local sales offices and over 1,100 third-party sales outlets. As of October 31, 2014, the Northeastern China network covered 114 cities, counties and districts in Liaoning province and Inner Mongolia with 21 regional sales branches, 40 local sales offices and approximately 702 third-party sales outlets. As of October 31, 2014, the Shanxi network covered eight counties and districts in Shanxi province with 13 regional sales branches, 20 local sales offices and approximately 300 third-party sales outlets. As of October 31, 2014, the Kashi network covered eight counties and districts in Xinjiang with three regional sales branches, five local sales offices and approximately 106 third-party sales outlets. All of our regional sales branches and local sales offices are centrally managed by the sales department in our headquarters in Jinan. Our direct sales personnel are divided into teams to cover different customer groups in urban areas. Our sales coverage of rural customers is primarily achieved through our third-party sales outlets at which we sell our products to end-users. As of October 31, 2014, we had 1,847 direct sales personnel, who are responsible for marketing and selling our products in their assigned areas and providing after-sales support to our customers. They also collect customer feedback and market data by visiting customers on a regular basis. Our direct sales personnel are required to meet monthly and annual sales targets, and we provide sales commission to those who meet or exceed the targets. We closely monitor the sales performance of our sales personnel to avoid the overstating of sales through a network-based data management system that generates and maintains detailed records of each sale upon receipt of payments from our customers. We regularly check the accuracy of the records generated by the data management system based on original documentation for each sale, including the receipts of payments.

Our sales to rural customers are primarily conducted through our sales outlets, most of which are retail shops of construction materials located in rural areas. We commenced establishing our business relationships with these retail outlets since 2005. As of October 31, 2014, we had approximately 2,208 third-party sales outlets and 175 local sales offices. We sell our products directly to these sales outlets, which then resell our products to end-users located in rural areas. These sales outlets are owned and operated by various independent parties. We provide these sales outlets the right to market and sell our cement products in their respective geographic region and forbid them to sell cement products other than ours. Our products are sold to these sales outlets at the same price with products sold through our direct sales channel. We do not provide any credit sales to, or allow any return of our products from, these sales outlets. We typically enter into sales agreements with these sales outlets on an annual basis. We do not have minimum purchase amount set up for these sales outlets. As an incentive to increase the sales volume of our cement products, we provide sales commission to the sales outlets based on their sales volumes. The sales outlets are typically responsible for taking delivery of our products at our production facilities and the associated delivery costs. We are not responsible for any expenses incurred by these sales outlets. Our direct sales personnel closely supervise and monitor the activities of these sales outlets and their compliance with our guidelines and policies, including requiring them to maintain detailed records of the sales of our cement products on a daily basis, checking the accuracy of such records based on original documentation for each sale on a weekly basis, investigating any non-compliance on a monthly basis and determining appropriate penalties based on our guidelines and policies. We have not discovered in the past any material non-compliance by these sales outlets with our guidelines and policies. We are entitled to impose monetary penalties on these sales outlets for non-compliance, such as selling cement products of our competitors. In the case of serious non-compliance, we are entitled to terminate our sales agreements with the sales outlets.

Customers

Our cement products are primarily sold to contractors or sub-contractors of construction and infrastructure projects, ready-mixed concrete stations, real estate developers and rural customers. Our clinker customers are primarily cement grinding plants. Our products are also used in key national infrastructure projects such as Beijing-Shanghai high-speed railway, Central Railway and Qingdao Bridge. In the ten months ended October 31, 2014, revenue derived from our five and the ten largest customers accounted for 3% and 4% of our total revenue, respectively, and revenue derived from our largest customer accounted for 1% of our total revenue during the same period.

Pricing

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

Transportation

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

RESEARCH AND DEVELOPMENT

Our research and development efforts concentrate on designing production facilities and lowering production costs. Our ability to design production facilities and production process have significantly lowered our production costs. We have a research and development center at our headquarters in Jinan, which employed 43 research and development personnel as of October 31, 2014, the majority of whom have undergraduate or higher degrees. We also cooperate with education or research institutions to develop technology in our production process and facilities and recruit talent.

INTELLECTUAL PROPERTY

We rely on a combination of patents, trademarks, domain name registrations and contractual restrictions to establish and protect our intellectual property rights. We sell most of our products under the "Shanshui Dongyue" (山水東岳) and "Shanshui Gongyuan" brand names. We have also registered our corporate logo " " in Hong Kong. As of October 31, 2014, we have been granted eleven patents by the State Intellectual Property Office of China. All of our patents relate to process technologies used in our production.

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

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

COMPETITION

China's cement industry is highly competitive and extremely fragmented, with 3,840 cement producers as recorded on December 31, 2013, according to the China Cement Association. On July 18, August 26 and September 9, 2013, the MIIT announced three lists of cement companies to be phased out by the end of 2013, respectively. The lists include 27 companies in Shandong province, two companies in Liaoning province, 21 companies in Shanxi province, 13 companies in Shaanxi province and 16 companies in Xinjiang. Due to cement's low value-to-weight ratio, the cement industry is localized in nature, with a maximum economically feasible product transportation radius of 300 kilometers. Therefore, we primarily compete against those companies with a presence in or near Shandong and Liaoning provinces. Our major competitors include China United Cement Company Limited in Shandong province and Jidong Cement Company Limited in Liaoning province. We also compete with a large number of small-scale regional cement producers in the low grade cement product markets in Shandong and Liaoning provinces. We compete primarily on the basis of product quality, variety of product offerings, technology, location of production facilities, access to resources, sales and marketing network and brand image. In the ten months ended October 31, 2014, we maintained 32% and 21% market shares in the Shandong province and Liaoning province, respectively, as measured by production volume of clinker. In such new markets we are developing as Inner Mongolia and Xinjiang, we believe we are the pioneer and are subject to less intense competition as opposed to Shandong and Liaoning provinces. Moreover, in line with the state policy of phasing out outdated enterprises and encouraging industry consolidation initiated by large enterprises, the entry barrier has grown higher for new market entrants.

EMPLOYEES

As of December 31, 2011, 2012 and 2013 and October 31, 2014, we had 16,637, 21,576, 22,170 and 23,529 employees, respectively. The following table sets forth the number of our full-time employees by function as of October 31, 2014.

Employee Type	Number of Employees
Production	15,426
Sales	1,847
Technical	329
Finance	820
Administrative and management	2,941
Others[1]	2,166
Total	23,529

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

The aggregate remuneration of our employees for the ten months ended October 31, 2014 amounted to RMB1,207.0 million (US$197.5 million). In the ten months ended October 31, 2014, we made social security payments for our employees in the amount of RMB233.4 million (US$38.2 million). We are required to make contributions to the housing provident fund for employees based on a certain percentage of their salaries pursuant to the relevant regulations of the PRC government. Except for this, we have no other obligation nor any plan for providing housing benefits to the staff. In the ten months ended October 31, 2014, we made total contributions of RMB20.8 million (US$3.4 million) to the housing provident fund.

OCCUPATIONAL HEALTH AND SAFETY

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

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

SOCIAL INSURANCE

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

INSURANCE

We maintain an all-risks property insurance policy covering our equipment and facilities for loss due to fire or natural disasters, excluding earthquakes and floods. In 2014, the maximum coverage of this insurance was RMB25,889.0 million (US$4,235.5 million). We also maintain public liability insurance, profit loss insurance, machinery break-down insurance and product liability insurance. For the ten months ended October 31, 2014, we paid an aggregate insurance premium of RMB6.3 million (US$1.0 million). We do not maintain key employee insurance. We believe our insurance coverage is customary and standard with respect to type and scope of coverage for companies of comparable size in comparable industries in China.

ENVIRONMENTAL COMPLIANCE

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

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

Based on the legal opinion of our PRC legal advisers, we have complied with the relevant environmental rules and regulations and have obtained requisite environmental permits and approvals for our production, except for 12 subsidiaries, which are in the process of applying for environmental permits and approvals. In 2011, 2012 and 2013 and the ten months ended October 31, 2014, our annual expenses for complying with applicable environmental laws and regulations, including water treatment costs, amounted to RMB28.4 million, RMB9.2 million, RMB90.0 million (US$14.7 million) and RMB40.5 million (US$6.6 million), respectively. As the PRC environmental protection regulations continue to evolve, we may be required to make significant expenditures to upgrade our production facilities to comply with environmental regulations that may be adopted or imposed in the future.

MINING RIGHTS

We have obtained limestone mining rights from the relevant land bureaus. These mining rights are valid for a period of 1 to 40 years and generally renewable upon expiration. The limestone mines are located in Shandong, Liaoning and Shanxi provinces and Inner Mongolia. As of October 31, 2014, the ownership certificates for certain limestone mining rights with a carrying amount of RMB111.3 million (US$18.2 million) have not been obtained. To the extent we are ordered by the relevant authorities to cease excavation of the mines pending ownership certificates, we may be subject to fines and disgorge profits obtained from the relevant mines.

PROPERTY

Our headquarters are located in Jinan, Shandong province. We both own, meaning we own the relevant land use rights, and lease properties for our business operations, with the exception of some properties of our subsidiaries for which land use rights certificates have not been obtained or are in the process of application. See "Risk Factors – Risks Relating to Our Business – We have not obtained legal title to some of the properties we occupy and certain of our leased properties may be subject to title encumbrances."

LEGAL AND ADMINISTRATIVE PROCEEDINGS

From time to time, we may be involved in legal proceedings, investigations and claims, both as plaintiff and as defendant, that arise in the ordinary course of our business. On October 30, 2014, the Plaintiff Shareholders of Shanshui Investment, our substantial shareholder, instituted a proceeding against, among other defendants, us and CNBM in the High Court of Hong Kong seeking an order to, among other things, set aside a subscription agreement under which CNBM subscribed for 563,190,040 of our ordinary shares, or approximately 16.67% of our enlarged share capital for approximately HK$1,547 million. On January 23, 2015, the Plaintiff Shareholders further filed a statement of claim in the High Court of Hong Kong seeking to set aside such subscription agreement and the subscription of shares on the basis of various allegations, including allegations of breach of fiduciary duties on the part of Mr. Caikui Zhang, our executive director, and Mr. Bin Zhang, our chairman, executive director and general manager, and conspiracy with CNBM to injure Shanshui Investment by unlawful means. We are currently seeking legal advice on the proceeding and the appropriate course of action in respect of the proceeding. While we intend to defend the proceedings vigorously and our board of directors maintains that the subscription agreement and the subscription of shares by CNBM are valid and binding among the parties thereto, there are no assurances as to the outcome of the proceeding. If the High Court of Hong Kong rules in favour of the Plaintiff Shareholders in terms of the relief sought by the Plaintiff Shareholders in this proceeding, the subscription agreement and CNBM's subscription of our ordinary shares may be set aside and the proceeds we received thereunder may be returned to CNBM. As a result, any anticipated benefit arising from the CNBM investment may not be realized. The case is currently pending.

In addition, since November 2013, through written letters and petitions to certain PRC government departments, some of our employees and former employees have, among other things, alleged certain wrongdoings by Mr. Caikui Zhang as trustee of the Trusts. See "Substantial Shareholders". Certain legal proceedings were also instituted in the High Court of Hong Kong in the second half of 2014 by such employees against Mr. Caikui Zhang, seeking, among other things, the return by Mr. Caikui Zhang of the shares in Shanshui Investment to them. Mr. Caikui Zhang has applied to the High Court of Hong Kong for, among other things, stay of proceedings on jurisdictional grounds and setting aside the orders for substituted service. On August 22, 2014, Mr. Caikui Zhang also received a letter from a Hong Kong law firm representing 761 employees or former employees of our company stating certain allegations on his exercise of powers in his capacity as the trustee of the Trusts. We are not a direct party to such disputes or legal proceedings and, as such, we have no control over the handling or outcome of these disputes or legal proceedings and cannot assess the merits of the claims. Mr. Caikui Zhang may cease at any time to be the trustee of the Trusts as a result of such ongoing disputes or legal proceedings. If Mr. Caikui Zhang ceases to be the trustee of the Trusts or if the Trusts are terminated and/or dissolved as a result of such ongoing disputes and legal proceedings, the voting power of Mr. Caikui Zhang in our company will fall below 25.0%, causing a change of control under the 2016 Notes and the 2017 Notes, which will require us to offer to purchase the 2016 Notes and the 2017 Notes at 101% of their principal amount plus accrued interest. See "Description of other Material Indebtedness – 8.5% Senior Notes due 2016 and 10.50% Senior Notes due 2017". Mr. Zhang is currently seeking legal advice in respect of these allegations.

On February 11, 2015, certain individual minority shareholders of Shanshui Investment issued an originating summons for leave to be granted by the High Court of Hong Kong to bring derivative action for and on behalf of Shanshui Investment against, among others, us. If leave is granted by the High Court of Hong Kong, such individual minority shareholders of Shanshui Investment intend to apply for an injunction for and on behalf of Shanshui Investment seeking, amongst others, an order to restrain us from (i) issuing any new shares pursuant to the exercise of the options under the share option scheme of our company adopted on June 14, 2008; and (ii) holding the extraordinary general meeting. Notice of the extraordinary general meeting to be held on March 20, 2015 was given by us as contained in our circular dated February 27, 2015. The court hearings in respect of the abovementioned proceedings and application will take place in March 2015 before the date of the extraordinary general meeting. As the case is currently at a preliminary stage, we are unable to assess the effect of the case on our company.

We believe the ultimate outcome of our legal proceedings would not, individually or in aggregate, have a material adverse effect on our financial position, results of operations or cash flow. However, there can be no assurance that we will not be involved in a larger number of proceedings or that the ultimate outcome of these proceedings will, individually or in the aggregate, not materially and adversely affect our business, liquidity, financial position, results of operations or cash flow.

MANAGEMENT

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

Name	Age	Position
Bin Zhang (張斌)	35	Chairman, Executive Director, General Manager and Joint Company Secretary
Caikui Zhang (張才奎)......................	63	Executive Director
Cheung Hung Li (李長虹)................	64	Executive Director, Joint Company Secretary and Qualified Accountant
Yu Xiao (肖瑜)................................	88	Non-Executive Director
Jian Wang (王堅)..............................	59	Independent Non-Executive Director
Huailiang Hou (侯懷亮)....................	71	Independent Non-Executive Director
Xiaoyun Wu (吳曉雲).......................	59	Independent Non-Executive Director

DIRECTORS

Executive Directors

Bin Zhang (張斌), has served as our chairman of our board, executive director and general manager since March 2013. He is in charge of the management of our daily production and operation as well as our operation in capital markets. Mr. Zhang joined us in March 2006. He worked at Sinoma International Engineering Company Limited from December 2004 to March 2006. After joining us, Mr. Zhang has been responsible for the preparatory work of our listing on the Hong Kong Stock Exchange in 2008, establishing our sourcing and supply center, overseeing our department of securities affairs, legal affairs, the sourcing and supply center and internal audit, and concurrently held the position as the General Manager of Pingyin Branch Corporation. Mr. Zhang graduated from Shandong University of Science and Technology in July 2003. He graduated from the Business Administration Faculty of Nankai University in September 2008 with a Master's degree.

Caikui Zhang (張才奎), has served as our executive director since July 2008. Mr. Zhang has 45 years of experience in the cement industry, and was appointed as the head of Shandong Cement Plant (the predecessor of Shandong Cement Factory Co., Ltd.) in 1990. He joined us in 1990 and has been the Executive Director and General Manager of Shandong Shanshui since August 2001. Over the years, Mr. Zhang has won a number of honorary titles, including Head of the Jinan Municipal Bureau (Association) of Building Materials ("Jinan Building Materials Bureau") from November 1995 to August 2004; Deputy Head of the China Cement Association since October 2002 and Vice President of China Building Materials Federation since June 2007. He was a deputy to the Tenth, Eleventh and Twelfth National People's Congress and a member of the Jinan Municipal Party Committee. He graduated from the Nankai University with a Master's degree in Business Administration in December 2005. Mr. Zhang Caikui is the father of Mr. Zhang Bin, our chairman of the board, executive director and general manager.

Cheung Hung Li (李長虹), joined us in 2006 and has served as our executive director, joint company secretary and qualified accountant since August 2013. He is responsible for overseeing the information disclosure of our company due to our listing on the Hong Kong Stock Exchange, managing our investor relationship and our operation in capital markets. Mr. Li has over 30 years of experience in corporate governance, accounting and finance. Prior to joining us, Mr. Li held various positions with a number of companies, including listed companies in Hong Kong such as the subsidiaries of Royal Dutch Shell Group in China and Hong Kong, Neo-Neon Holdings Limited and Top Form International Limited. Mr. Li holds a master's degree in business administration jointly granted by the Business School of the University of Manchester and the University of Wales. Mr. Li is a fellow member of both Institute of Chartered Secretaries & Administrators and The Hong Kong Institute of Chartered Secretaries. He is also a fellow member of both the Hong Kong Institute of Certified Public Accountants, the Association of International Accountants in England and a member of Society of Registered Financial Planners in Hong Kong.

Non-Executive Directors

Mr. Yu Xiao (肖瑜), has been our senior financial adviser since May 2013. Mr. Xiao has over 60 years of financial experience. He had served as a division chief and a chief accountant at our Department of Finance of Shandong Province from 1948 to 1995. During the period from 1996 to 2002, he was a financial adviser to Shandong Shengli Company Limited, a company listed on the Shenzhen Stock Exchange. From 1998 to 2003, he served as an independent director of Shandong Xinhua Pharmaceutical Company Limited, a company listed on the Shenzhen Stock Exchange. Mr. Xiao joined us in April 2004. Mr. Xiao is a senior expert in the financial field and enjoys special government allowances assessed by the State Council. He has won various recognitions and awards from the Shandong Provincial Government. Mr. Xiao graduated from Shandong Provincial Commercial College in 1949 majoring in cost accounting.

Independent Non-Executive Directors

Mr. Jian Wang (王堅), joined us in 2008 and has served as our independent non-executive director since June 2008. Mr. Wang is a senior accountant and a certified public accountant in China. From 1996 to 2000, he was the chief accountant of Shandong Shengli Company Limited, a company listed on the Shenzhen Stock Exchange. From 2000 to 2003, he was the deputy general manager of Shandong Shengli. In May 2003, Mr. Wang resigned from Shandong Shengli and joined Qilu Real Estate Company Limited, a private company, and was appointed as its general manager. Mr. Wang was appointed as a Director of Shandong Shengli Company Limited in May 2012.

Mr. Huailiang Hou (侯懷亮), joined us in 2013 and has served as our independent non-executive director since August 2013. Mr. Hou has over 40 years of experience in corporate management, is currently an independent director of Sinotruk Group Jinan Truck Co., LTD, a company listed on the Shenzhen Stock Exchange. Prior to joining us, Mr. Hou had served as a deputy factory head and factory head of Jinan Zhangqiu Electrical and Mechanical Plant from 1968 to 1983. Mr. Hou also had served as a standing committee member and deputy-secretary of County Committee of Zhangqiu, Jinan from 1984 to 1986. He also held the positions of vice-director and deputy-secretary of party committee of Committee for Economic Affairs in Jinan from 1987 to 2001. He has been the chairman of Jinan Enterprises Confederation since 2001. Mr. Hou graduated from Shandong Industrial College (currently known as Shandong University) with a bachelor's degree majoring in mechanical engineering and manufacturing in 1968.

Ms. Xiaoyun Wu (吳曉雲), joined us in 2014 and has served as our independent non-executive director since May 2014. She also currently serves as is a professor of the University of Nankai. Ms. Wu had also served as the associate professor of the Department of Trade and Economics of the Tianjin University of Finance and Economics from 1993 to 1994. Ms. Wu has also served various roles in the University of Nankai, which include the professor of the Business School since 1998, the instructor for master's degree students from 1998 to 2003, and the deputy head of the Department of Marketing from 1998 to 2007. Ms. Wu is currently an instructor for the Ph.D. candidates of the University of Nankai, the head of the Institute for International Business of the University of Nankai, as well as the director of the Global Marketing Research Center of the Business School of the University of Nankai. Ms. Wu was appointed as an independent director of Dongguan Kingsun Optoelectronic Co., Ltd., a company listed on the Shenzhen Stock Exchange from 2007 to 2013. Ms. Wu has numerous publications on global corporate marketing, her specializations, and various academic papers published in well-known management periodicals and journals in China. Her publications and works received numerous recognitions and awards from the Ministry of Education of the People's Republic of China, Tianjin Municipal People's Government and the University of Nankai. Ms. Wu has also been a member of executive council of the Marketing Research Association for Colleges and Universities in China and a council member of China Marketing Association since 1987.

EXECUTIVE OFFICERS

Mr. Qinghuai Sui (隋清懷), joined us in 2001 and has been our deputy general manager since March 2013, primarily responsible for our sales and marketing. Mr. Sui has over 30 years of production and sales experience in cement industry. Mr. Sui has started his career since 1982 and he was appointed the positions as Division Head and Deputy General Manager of Weifang Cement Plant. In December 2001, he was appointed as the Deputy General Manager of Sales Department in Weifang Shanshui Cement Company Limited, our subsidiary. In December 2009, he was appointed as the General Manager of Sales Department in Shanxi Shanshui. In December 2010, Mr. Sui was appointed as the Assistant of our General Manager.

Mr. Guang Tian (田光), has served as our deputy general manager since January 2011, primarily responsible for our strategic development. Mr. Tian has 18 years of experience in cement industry as well as working in and management experiences of several cement companies. Mr. Tian joined Shandong Cement Plant in October 1998 and he was appointed as the general manger of Jinan Shiji Chuangxin Cement Company Limited, our subsidiary, in October 2002. In March 2004, he was appointed as the general manager of Zibo Shanshui Cement Company Limited, our subsidiary. In January 2011, Mr. Tian was appointed as our deputy general manager. Mr. Tian graduated from the Shandong Building Construction College with a bachelor's degree in building construction in July 1996.

Mr. Zhihai Yu (于志海), has served as deputy general manager of our company and Shandong Shanshui Machinery Company Limited ("Shanshui Machinery"), primarily responsible for the management and decision making of Shanshui Machinery. Mr. Yu has started his career since 1974 and he was appointed the positions as deputy division head, division head, plant manager assistant, department head, assistant plant manager and deputy plant manager of Jinan First Machine Tool Plant. He was appointed the positions as general manager, deputy secretary of Party's Committee, secretary of Party's Committee, chairman and general manager of restructured Jinan First Machine Tool Group Company Limited from 1996 to 2010. In July 2011, Mr. Yu joined us and was appointed as general manager of Shanshui Machinery. In March 2013, Mr. Yu was appointed as our deputy general manager.

Joint Company Secretaries and Qualified Accountant

Mr. Cheung Hung Li (李長虹), is one of our joint company secretary and the qualified accountant. See "– Directors – Executive Directors" above for his biographical details.

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Executive Committee

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

Nomination Committee

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

Service Contracts of Directors

Mr. Bin Zhang, being our executive director, has entered into a service contract with our company for a term of three years commencing on September 10, 2013. Under these service contracts, Bin Zhang receives an annual salary (including any director's fees) of RMB3 million (US$0.5 million) (such annual salary is subject to annual review by the board and the remuneration committee). The amount of his management bonus is calculated with reference to the pre-set performance target as our board of directors may approve and shall be equal to 10% of the excess of our net profits over the pre-set performance target in any given year. Mr. Zhang's remuneration (including any bonus) is determined by our board of directors with reference to his performance, position and duties in our company.

Mr. Caikui Zhang, being our executive director, has entered into a service contract with our company on March 21, 2014 for a term of three years commencing on July 1, 2014, subject to termination before expiry by either party by giving not less than three months' notice in writing to the other, provided that such termination shall not occur during the first 12 months of the contract. Under the service contract, Mr. Caikui Zhang will be entitled to receive an annual salary (including any director's fees) of RMB5 million (US$0.8 million), and such annual salary is subject to annual review by the board and the remuneration committee.

Mr. Cheung Hung Li, being our executive director, has entered in a service contract with our company for a term of three years commencing on August 23, 2013, subject to retirement by rotation and re-election in accordance with the Articles of Association of our company. Under the service contract, Mr. Cheung Hung Li will receive an annual salary (including any director's fees) of RMB1.2 million (US$0.2 million), and such annual salary is subject to annual review by the board and the remuneration committee. Mr. Cheung Hung Li's remuneration is determined with reference to his performance, position and duties our company.

Such executive director shall abstain from voting, and not be counted in the quorum, in respect of any resolution of the board approving the determination of the salary, bonus and other benefits payable to him.

Mr. Yu Xiao, being our non-executive director, has entered into a letter of appointment with us on May 24, 2013. Such letter of appointment is for an initial term of one year commencing from May 24, 2013, and thereafter shall be renewed for a maximum of three years provided it can be terminated by either party by giving at least one month's notice in writing. Mr. Yu Xiao will not receive any director's fees from us.

Mr. Jian Wang, being independent non-executive directors, has entered into a letter of appointment with us on March 25, 2011. Such letter of appointment is for an initial term of one year commencing from July 1, 2011, and thereafter shall be renewed for a maximum of three years provided it can be terminated by either party by giving at least one month's notice in writing. and the annual fee for Mr. Jian Wang is RMB100,000 (US$16,360).

Mr. Huailiang Hou, being our independent non-executive director, has entered into a letter of appointment with us. Such letter of appointment is for an initial term of one year commencing from August 23, 2013, and thereafter shall be renewed for a maximum of three years provided it can be terminated by either party by giving at least one month's notice in writing. Mr. Huailiang Hou will not receive any remuneration from us. Except as discussed above, none of our directors has or is proposed to enter into any service contract with our company, including our subsidiaries.

Ms. Xiaoyun Wu, being our independent non-executive director, has entered into a letter of appointment with us on May 16, 2014. The appointment of Ms. Wu is for initial an term of one year commencing from May 16, 2014, and shall continue thereafter subject to a maximum of three years unless terminated by the Company or the Director giving at least one month's notice in writing. The annual director's fee for Ms. Wu is RMB100,000.

COMPENSATION OF DIRECTORS

Our chairman, executive directors, non-executive directors and independent non-executive directors received aggregate remuneration, comprising salaries, allowances and other benefits, bonuses and contributions to defined contribution retirement plans, from us of approximately RMB3,500,000 (US$572,606.5), RMB200,000 (US$32,720.4) and RMB110,000 (US$17,996.2) for the ten months ended October 31, 2014, respectively. Our chairman received aggregate remuneration from us of approximately RMB148.9 million, RMB5.0 million, RMB3.1 million (US$0.5 million), RMB0.2 million and RMB0.4 million (US$0.1 million) in 2011, 2012, 2013 and the ten months ended October 31, 2013 and 2014, respectively.

SHARE OPTION SCHEME

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

Type of Grantee	Date of grant	Number of underlying shares	Vesting period	Exercise Price	Exercised during 2011	Lapsed during 2011	Cancelled during 2011	Expired during 2011
Bin Zhang.......	May 25, 2011	5 million	Nil	HK$7.9	Nil	Nil	Nil	Nil
LI Cheung Hung	May 25, 2011	0.2 million	Nil	HK$7.9	Nil	Nil	Nil	Nil
Xiao Yu..........	May 25, 2011	0.1 million	Nil	HK$7.9	Nil	Nil	Nil	Nil
Employees.......	May 25, 2011	2.3 million	Nil	HK$7.9	Nil	Nil	Nil	Nil

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

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

The maximum number of shares that may be issued pursuant to the exercise of the options granted under the Share Option Scheme on May 25, 2011 is 7,300,000 shares, representing approximately 0.22% of our share capital in issue 3,379,140,240 shares as of December 31, 2014.

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

SUBSTANTIAL SHAREHOLDERS

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

Name	Capacity	Number of shares held	Percentage of our company's issued share capital[1]	Long/Short position
Shanshui Investment[2]	Beneficial Owner	847,908,316	25.09	Long
Asia Cement Corporation[3]	Interests of corporations controlled by substantial shareholder	426,383,000	12.62	Long
	Beneficial Owner	279,870,500	8.28	Long
China National Building Material Company Limited	Beneficial Owner	563,190,040	16.67	Long
Tianrui (International) Holding Company Limited	Beneficial Owner	355,287,000	10.51	Long

Notes:

(1) Calculated based on 3,379,140,240 shares issued as of the date hereof.

(2) The 847,908,316 shares were held by Shanshui Investment. Shanshui Investment is held as to approximately 81.74% by Mr. Caikui Zhang as discretionary trustee of the Zhang Trust and the Li Trust, whose beneficiaries include employees of our company. These employees include our current and former employees who had contributed capital in Shandong Shanshui through an employee stock option plan established in 2001 (the "PRC Employee Stock Ownership Plan"). The PRC Employee Stock Ownership Plan terminated following our corporate reorganization when Shandong Shanshui became a wholly foreign-owned enterprise in 2005, and the Zhang Trust and the Li Trust (the "Trusts") were set up to enable the substance of the PRC Employee Stock Ownership Plan to be reflected and continued. Mr. Caikui Zhang as the discretionary trustee may vote and administer the shares of Shanshui Investment for the benefit of the relevant beneficiaries as mentioned above. As Mr. Caikui Zhang is in control of more than 50% of the shares of Shanshui Investment as discretionary trustee, he is deemed under the SFO to be interested in all the shares in our company registered in the name of Shanshui Investment. The remaining 18.26% in Shanshui Investment is held as to approximately 4.35% by Mr. Yuchuan Yu, as to approximately 4.18% by Mr. Chengtian Dong, as to approximately 3.05% by Mr. Liping Zhao, as to approximately 2.77% by Mr. Yongkui Zhao, as to approximately 1.56% by Mr. Jingtian Mi, as to approximately 1.53% by Mr. Maohuan Li and as to approximately 0.82% by Mr. Yongping Wang. These individuals are current or former directors or executive officers of our company. See "Risk Factors – Risk Relating to Our Business – We, our management and/or our shareholders may become involved in legal and other proceedings from time to time, any of which may materially and adversely affect our business, liquidity, financial position, results of operations or cash flows."

(3) Held by Asia Cement Corporation and its affiliates.

RELATED PARTY TRANSACTIONS

The following is a summary of material transactions we have engaged in with our direct and indirect shareholders, affiliates of our shareholders and other related parties, including those in which we or our management has a significant equity interest. We believe each of these arrangements as described below have been entered into on arm's length terms or on terms that we believe have been at least as favorable to us as similar transactions with non-related parties. For a further discussion of related party transactions, see note 37 to our audited consolidated financial statements for the years ended December 31, 2011, 2012 and 2013 and note 24 to our consolidated financial statements for the ten months ended October 31, 2014.

SALES AND PURCHASE OF GOODS AND SERVICES WITH RELATED PARTIES

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

In 2011, 2012 and 2013 and the ten months ended October 31, 2014, we had sales of coal to Dong'e Shanshui Dongchang Cement Co. Ltd. ("Dong'e Shanshui"), an associate company, of RMB43.9 million, RMB41.1 million, RMB30.5 million (US$5.0 million) and RMB4.6 million (US$0.8 million), respectively. We also had purchases of clinker from Dong'e Shanshui of RMB34.7 million, RMB2.6 million, RMB23.4 million (US$3.8 million) and RMB2.0 million (US$0.3 million), respectively, during the same periods. As of December 31, 2011, 2012 and 2013 and October 31, 2014, we had accounts receivable of RMB3.2 million, RMB4.3 million, RMB8.8 million (US$1.4 million) and nil, respectively, due from Dong'e Shanshui, advances to supplier for Dong'e Shanshui in an amount of RMB1.0 million, RMB0.9 million, RMB5,000 (US$818) and RMB14,000 (US$2,290.4), respectively, and advances to customers for Dong'e Shanshui in an amount of RMB0.1 million, RMB0.1 million, RMB0.1 million (US$16,360.2) and RMB0.7 million (US$0.1 million), respectively. As of December 31, 2013 and October 31, 2014, we had accounts payable due to Dong'e Shanshui of RMB29,000 (US$4,744) and nil, respectively.

OTHER TRANSACTIONS WITH RELATED PARTIES

In 2011, 2012 and 2013 and the ten months ended October 31, 2014, we made advances of RMB34,000, RMB2,000, RMB20,000 (US$3,272) and nil, respectively, to Shanshui Investment.

As of December 31, 2011, 2012 and 2013 and October 31, 2014, we had receivables from Jinan Shanshui Group Property Development Co. Ltd. as a result of advances of RMB1.3 million, RMB1.3 million, RMB1.3 million (US$0.2 million) and RMB1.3 million (US$0.2 million), respectively, we made to a third party, who was our customer, for Jinan Shanshui Group Property Development Co. Ltd.

In 2011, 2012 and 2013 and the ten months ended October 31, 2014, we made loans to Dong'e Shanshui. The loans bear interest at one-year PRC PBOC bank loan interest rate, which was 6.1%, 6.15%, 6.00% and 6.00%, for 2011, 2012 and 2013 and the ten months ended October 31, 2014, respectively. As of December 31, 2011, these loans had a total principal amount of RMB63.6 million and the interests were RMB6.1 million. As of October 31, 2014, these loans had a total principal amount of RMB60.6 million (US$9.9 million).

In 2013, we received loans from Jinan Shanshui Lixin Investment Development Co., Ltd. ("Lixin Investment"), a company under common control of one of our ultimate shareholders. The loans bear interest at one-year PRC PBOC bank loan interest rate of 6.65%. As of December 31, 2013 and October 31, 2014, the loans had a total principal amount of RMB65.0 million (US$10.6 million) and RMB15.5 million (US$2.5 million), respectively.

KEY MANAGEMENT COMPENSATION

See "Management – Compensation of Directors."

AMOUNTS DUE FROM/TO RELATED PARTIES

As of December 31, 2011, 2012 and 2013 and October 31, 2014, other receivables due from related parties were RMB2.0 million, RMB2.0 million, RMB2.0 million (US$0.3 million) and RMB2.0 million (US$0.3 million), respectively.

As of December 31, 2011, 2012 and 2013 and October 31, 2014, other payable due to related parties were RMB702,000, RMB30,000, RMB46.6 million (US$7.6 million) and RMB15.5 million (US$2.5 million), respectively.

As of December 31, 2011 and 2012, loans due to IFC were RMB331.2 million and RMB229.7 million, respectively.

As of December 31, 2011, 2012 and 2013, other financial assets due from Dong'e Shanshui were RMB88.6 million, RMB66.2 million and RMB61.2 million (US$10.0 million), respectively.

As of December 31, 2013 and October 31, 2014, dividends receivable due from Dong'e Shanshui were RMB20.1 million (US$3.3 million) and nil, respectively.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

TERM LOAN AGREEMENTS

Certain of our PRC subsidiaries have entered into term loan agreements with various PRC financial institutions, including China Merchant Bank, China Construction Bank, China Development Bank, Agricultural Bank, Industrial and Commercial Bank of China, Minsheng Bank, Bank of China, Liaoyang Bank, Guangfa Bank, Qilu Bank, China Construction Bank (Asia). These loans have terms ranging from approximately six months to 15 years. As of October 31, 2014, we had bank facilities of RMB8,421.6 million (US$1,377.8 million) under these short-term and long-term bank loans, of which RMB2,895.5 million (US$473.7 million) was outstanding.

Interest

The principal amounts outstanding under the term loans generally bear interest at floating rates calculated by reference to the relevant bank's benchmark interest rate per annum, which in turn is generally linked to the PBOC-published rates. Floating interest rates are generally subject to review by the banks monthly, quarterly or annually, or simultaneously with the adjustment of the PBOC-published rate. Interest payments are generally payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of October 31, 2014, the interest rates on the aggregate outstanding amount of our term loans ranged from 3.77% to 10.5% per annum.

Covenants

Under these term loans, many of our PRC subsidiary borrowers have agreed, among other things, not to take the following actions without first notifying the lender or obtaining the lenders' prior consent:

- issue any bonds;
- dispose of or create encumbrances on all or substantially all of their property or assets;
- grant guarantees to any third parties or pledge or mortgage their material assets that may adversely affect their ability to repay their loans;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions, transfer of shares and reorganizations;
- make any investment;
- suspend business for rectification or apply for winding-up or insolvency; or
- reduce their registered capital.

Under several term loans, certain of our PRC subsidiaries have agreed not to distribute dividends to their shareholders or repay shareholder loans without written consent of the lenders or before having fully repaid the term loans.

Financial Covenants

Under our loan agreements with Industrial and Commercial Bank of China, China Development Bank and Bank of China, certain of our PRC subsidiaries have agreed to comply with financial covenants, including in connection with the ratios of total liabilities to total assets, contingent liabilities to total equity attributable to shareholders and current assets to current liabilities. As of October 31, 2014, RMB530 million (US$86.7 million) was outstanding under these loan agreements. One of our subsidiaries did not meet one of its covenants in its loan agreement in the first half of 2014. As of the date hereof, we have repaid this loan. We will continue to improve our financial metrics and compliance through product capital expenditure management and diversified sources or funding.

Events of Default

The term loans contain certain customary events of default, including cross-default, insolvency and breaches of the terms of the loan agreements. The lenders are entitled to terminate their respective agreements or demand immediate repayment of loans upon the occurrence of an event of default.

Guarantee and Security

We and certain of our PRC subsidiaries have entered into guarantee agreements with lenders in connection with certain loans pursuant to which we and our subsidiaries have agreed to guarantee liabilities in the subsidiary borrowers under these loans. In addition, certain of our PRC subsidiaries agreed to lenders to provide security interests over their assets in connection with their loans. These assets include properties, plant and equipment.

CORPORATE BONDS ISSUED BY SHANDONG SHANSHUI

Shandong Shanshui issued domestic corporate bonds in the form of medium term notes in a principal amount of RMB1.8 billion (US$294.5 million), RMB1 billion (US$163.6 million), RMB300 million (US$49.1 million) and RMB1.2 billion (US$196.3 million) in January 2013, February 2014, March 2014, May 2014, respectively. The tenor of the bonds is three years, bearing a fixed interest rate of 5.44% per annum for the bonds issued in January 2013, 6.10% for the bonds issued in February 2014, 6.60% for the bonds issued in March 2014 and 6.20% for the bonds issued in May 2014, with interest payable annually.

8.5% SENIOR NOTES DUE 2016

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

Guarantee

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

Interest

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

Maturity and Redemption

The maturity date of the 2016 Notes is May 25, 2016. At any time on or after May 25, 2014, we may redeem the 2016 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth in the table below if redeemed during each 12-month period beginning on May 25 of the year indicated below, plus any accrued and unpaid interest to the redemption date:

Period	Redemption Price
2014	104.25%
2015 and thereafter	102.125%

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

10.50% SENIOR NOTES DUE 2017

Our US$400 million aggregate principal amount of 10.50% Senior Notes due 2017 (the "2017 Notes") are our senior obligations and rank at least equally in right of payment with all our other unsecured, unsubordinated indebtedness, subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law. A total of US$400 million principal amount of the 2017 Notes is outstanding.

Guarantee

Our obligations under the 2017 Notes are guaranteed by our existing subsidiaries other than those incorporated or organized in the PRC. The guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, we may, subject to certain conditions, incur additional indebtedness that would be incurred on an equal and ratable basis with the 2017 Notes and related guarantees.

Interest

The 2017 Notes bear interest at 10.50% annually, payable semi-annually in arrears.

Maturity and Redemption

The maturity date of the 2017 Notes is April 27, 2017. At any time on or after April 27, 2015, we may redeem the 2017 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth in the table below if redeemed during each 12-month period beginning on April 27 of the year indicated below, plus any accrued and unpaid interest to the redemption date:

Period	Redemption Price
2015	105.25%
2016	102.625%

Additionally, if we or a guarantor of the 2017 Notes becomes obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the 2017 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2017 Notes, plus any accrued and unpaid interest, subject to certain exceptions.